

CITY OF LORENZO, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED MARCH 31, 2008

CITY OF LORENZO  
Lorenzo, Texas

ANNUAL FINANCIAL REPORT  
For the Year Ended March 31, 2008

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CITY OF LORENZO  
Lorenzo, Texas

ANNUAL FINANCIAL REPORT  
For the Year Ended March 31, 2008

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*INTRODUCTORY SECTION*

CITY OF LORENZO  
Lorenzo, Texas

MARCH 31, 2008

CITY COUNCIL

Lester Bownds	Mayor
Jody Curbo	Mayor Pro-Tem
Charles Cate	Member
Cheryl Birdwell	Member
Ruben Garcia	Member
D'Ann Schoepf	Member

ADMINISTRATIVE STAFF

Jim Lively	City Administrator
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*FINANCIAL SECTION*

# Terry & King, CPAs, P.C.

4216 102<sup>nd</sup>  
P.O. Box 93550  
Lubbock, TX 79493-3550

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Ryan R. King, CPA

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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, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's 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, 2008, 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.

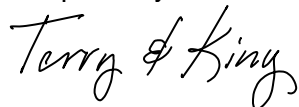


In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2008 on our consideration of the City of Lorenzo's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and 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 the 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the City of Lorenzo's basic financial statements. The accompanying other supplementary information listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

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

Terry & King, CPAs, P.C.  
June 6, 2008

## **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, 2008. 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 \$35,358 or approximately 2%, net assets of our governmental activities increased by \$215,576 or 26%.
- During the year, the City had expenses that were \$212,637 less than the \$611,770 generated in tax and other revenues for governmental programs.
- In the City's business type activities, revenues increased \$11,859 to \$380,710 (or 3%) while operating expenses decreased \$16,121 to \$342,413 (4%).
- The General Fund reported a deficit this year of \$186.
- The resources available for appropriation were \$7,099 more 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 \$19,030.

### **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 and sewer 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 \$ 2,598,164. 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.



Net assets of the City's governmental activities increased 26% (\$1,054,275 compared to \$838,699). 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 \$168,177 at March 31, 2007 to \$169,866 at the end of this year. Net assets of the City's business-type activities increased by 2%, from \$1,508,531 to \$1,543,889.

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

	Governmental Activities			Business-type Activities			Total		
	2008	2007	Percentage Change	2008	2007	Percentage Change	2008	2007	Percentage Change
<b>Program Revenues:</b>									
Charges for Services	28,618	54,517	-48%	372,909	360,141	4%	401,527	414,658	-3%
Operating Grants	3,193	504,312	-99%	-	-	0%	3,193	504,312	-99%
Capital Grants	270,750	80,905	235%	-	-	0%	270,750	80,905	235%
<b>General Revenues:</b>									
Property Taxes	133,291	128,681	4%	-	-	0%	133,291	128,681	4%
Nonproperty Taxes	61,177	62,679	-2%	-	-	0%	61,177	62,679	-2%
Investment Earnings	5,735	5,025	14%	7,801	8,710	-10%	13,536	13,735	-1%
Other	109,006	87,475	25%	-	-	0%	109,006	87,475	25%
	<u>611,770</u>	<u>923,594</u>	<u>-34%</u>	<u>380,710</u>	<u>368,851</u>	<u>3%</u>	<u>992,480</u>	<u>1,292,445</u>	<u>-23%</u>
<b>Expenses:</b>									
General Administration	101,856	106,407	-4%	-	-	0%	101,856	106,407	-4%
Public Safety	178,145	161,083	11%	-	-	0%	178,145	161,083	11%
Streets and Service	97,512	77,152	26%	-	-	0%	97,512	77,152	26%
Health and Welfare	16,409	26,224	-37%	-	-	0%	16,409	26,224	-37%
Community Center	3,369	1,869	80%	-	-	0%	3,369	1,869	80%
Cemetery	1,842	4,197	-56%	-	-	0%	1,842	4,197	-56%
Homes for Citizens	-	506,960	-100%	-	-	0%	-	506,960	-100%
Utilities	-	-	0%	342,413	358,534	-4%	342,413	358,534	-4%
	<u>399,133</u>	<u>883,892</u>	<u>-55%</u>	<u>342,413</u>	<u>358,534</u>	<u>-4%</u>	<u>741,546</u>	<u>1,242,426</u>	<u>-40%</u>
<b>Excess (Deficiency) Before</b>									
Other Resources, Uses & Transfers	212,637	39,702	436%	38,297	10,317	271%	250,934	50,019	402%
Other Resources (Uses)	-	-	0%	-	-	0%	-	-	0%
Transfers In (Out)	2,939	(5,521)	-153%	(2,939)	5,521	-153%	-	-	0%
<b>Increase (Decrease) in Net Assets</b>	<u>215,576</u>	<u>34,181</u>	<u>531%</u>	<u>35,358</u>	<u>15,838</u>	<u>-123%</u>	<u>250,934</u>	<u>50,019</u>	<u>402%</u>
<b>Net Assets, Beginning</b>	<u>838,699</u>	<u>804,518</u>	<u>4%</u>	<u>1,508,531</u>	<u>1,492,693</u>	<u>1%</u>	<u>2,347,230</u>	<u>2,297,211</u>	<u>2%</u>
<b>Net Assets, Ending</b>	<u>1,054,275</u>	<u>838,699</u>	<u>26%</u>	<u>1,543,889</u>	<u>1,508,531</u>	<u>2%</u>	<u>2,598,164</u>	<u>2,347,230</u>	<u>11%</u>

The City's total revenues were \$992,480. A significant portion, 38%, of the City's total revenue comes from the water and sewer operations. Revenues available to fund governmental activities consist of property taxes (22%), non-property taxes (10%), charges for services (5%), operating grants (1%), capital grants (44%) and other (18%).

The total cost of all programs and services was \$741,546; 46% of these costs were for utilities production and administration expenses. Expenses for governmental activities consisted of costs for general administration (26%), public safety (45%), streets and services (24%), health and welfare (4%), and other (1%).

### **Governmental Activities**

Revenues for the City's governmental activities decreased approximately 34% as a result of grant revenues received in the prior year, while total expenses decreased approximately 55% as a result of grant expenditures in the prior year.

- Property tax rates increased slightly to \$0.5502 per \$100 from \$0.5473 per \$100. The ad valorem tax levy for the previous fiscal year was \$129,319, compared to \$132,671 for the current year. Total tax collections increased 3%, from \$123,870 in the prior year to \$127,967.
- The cost of all *governmental* activities this year was \$399,133. As shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through tax collections was \$133,291 because some of the costs were paid by those who directly benefited from the programs (\$28,618), operating grants (\$3,193), capital grants (\$270,750), or by nonproperty taxes (\$61,177).

### **Business-type Activities**

Revenues of the City's business-type activities (see table A-2) increased by 3% (\$380,710 from \$368,851) and expenses *decreased* by 4%.

**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 \$143,717, which is a decrease from the prior year’s total of \$143,903. The following items effecting fund balance should be noted:

- Revenues were less than expenditures in the prior fiscal year of \$11,078 prior to transfers. In the current fiscal year, expenditures exceeded revenues by \$3,125 prior to transfers.
- Revenues increased \$182,658 in the General Fund. The City’s grant revenue increased \$180,602 in the General Fund. State grants were \$63,243 less than the prior year, but federal grants increased \$243,845.
- Expenditures increased \$187,841 in the General Fund primarily as a result of increased capital expenditures of grant revenues and increased payroll expenditures.

**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 \$19,030 less than the final budget amounts. Revenues were \$7,099 more than the final budget amounts.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal year 2008, the City had \$5,883,290 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 \$332,779 over last year.

Table A-3  
Fixed Assets

Governmental Activities:	Balance <u>04-01-07</u>	<u>Additions</u>	Deletions/ <u>Reclassifications</u>	Balance <u>03-31-08</u>
Land	\$ 13,275	-	-	13,275
Infrastructure	1,503,241	-	-	1,503,241
Buildings& Improvements	914,360	-	-	914,360
Furniture & Equipment	490,545	296,200	-	786,745
Accumulated Depreciation	<u>(2,244,886)</u>	<u>( 85,050)</u>	-	<u>(2,329,936)</u>
Net Capital Assets	<u>\$ 676,535</u>	<u>\$ 211,150</u>	<u>\$ -</u>	<u>\$ 887,685</u>

Business-Type Activities:	Balance 04-01-07	Additions	Deletions/ Reclassifications	Balance 03-31-08
Land	\$ 2,260	-	-	2,260
Buildings& Improvements	14,843	-	-	14,843
Furniture & Equipment	84,069	-	-	84,069
Water System	1,133,431	36,579	-	1,170,010
Sewer System	1,394,487	-	-	1,394,487
Accumulated Depreciation	( 815,755)	( 51,665)	-	( 867,420)
Net Capital Assets	<u>\$ 1,813,335</u>	<u>\$ ( 15,086)</u>	<u>\$ -</u>	<u>\$ 1,798,249</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, 2008 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Note: Fire Department	\$ 4,310	\$ -	\$ 1,034	\$ 3,276	\$ 1,060
Note: Backhoe	6,810	-	6,810	-	-
Bonds: Series 1972	14,000	-	2,000	12,000	3,000
Bonds: Series 1999	520,000	-	30,000	490,000	30,000

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 2009 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, 2009 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, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
Cash in Bank	\$ 121,182	\$ 78,152	\$ 199,334
Temporary Investments	35,021	143,663	178,684
Accounts Receivable, net	5,615	35,467	41,082
Taxes Receivable, net	20,534	-	20,534
Due from Other Governments	3,647	-	3,647
Inventories	-	13,500	13,500
Capital Assets:			
Land	13,275	2,260	15,535
Infrastructure, net	106,267	-	106,267
Buildings & Improvements, net	390,366	-	390,366
Furniture & Equipment, net	377,777	1,795,990	2,173,767
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 1,073,684</u></b>	<b><u>\$ 2,069,032</u></b>	<b><u>\$ 3,142,716</u></b>
<b>LIABILITIES:</b>			
Current Liabilities:			
Accounts Payable	\$ 16,133	\$ 4,085	\$ 20,218
Current Portion - Notes Payable	1,060	-	1,060
Current Portion - Bonds Payable	-	33,000	33,000
Noncurrent Liabilities			
Notes Payable	2,216	-	2,216
Bonds Payable	-	469,000	469,000
Customer Deposits	-	19,058	19,058
<b><u>Total Liabilities</u></b>	<b><u>\$ 19,409</u></b>	<b><u>\$ 525,143</u></b>	<b><u>\$ 544,552</u></b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 884,409	\$ 1,296,250	\$ 2,180,659
Unrestricted	169,866	247,639	417,505
<b><u>Total Net Assets</u></b>	<b><u>\$ 1,054,275</u></b>	<b><u>\$ 1,543,889</u></b>	<b><u>\$ 2,598,164</u></b>
<b><u>TOTAL LIABILITIES AND NET ASSETS</u></b>	<b><u>\$ 1,073,684</u></b>	<b><u>\$ 2,069,032</u></b>	<b><u>\$ 3,142,716</u></b>

The accompanying notes are an integral part of this statement.

CITY OF LORENZO  
Lorenzo, Texas  
STATEMENT OF ACTIVITIES  
Year Ended March 31, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Government Activities:							
General Administration	\$ 101,856	\$ 6,474	\$ -	\$ -	\$ (95,382)	-	(95,382)
Public Safety	178,145	2,375	3,193	270,750	98,173	-	98,173
Streets and Service	97,512	-	-	-	(97,512)	-	(97,512)
Health and Welfare	16,409	16,839	-	-	430	-	430
Community Center	3,369	2,930	-	-	(439)	-	(439)
Cemetery	1,842	-	-	-	(1,842)	-	(1,842)
Homes for Citizens	-	-	-	-	-	-	-
<u>Total Government Activities</u>	<u>399,133</u>	<u>28,618</u>	<u>3,193</u>	<u>270,750</u>	<u>(96,572)</u>	<u>-</u>	<u>(96,572)</u>
Business-type Activities							
Utility Fund	<u>342,413</u>	<u>372,909</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,496</u>	<u>30,496</u>
<u>Total Primary Government</u>	<u>741,546</u>	<u>401,527</u>	<u>3,193</u>	<u>270,750</u>	<u>(96,572)</u>	<u>30,496</u>	<u>(66,076)</u>
General Revenues:							
Property Taxes, Levied for General Purposes					133,291	-	133,291
Nonproperty Taxes					61,177	-	61,177
Fines & Forfeits					102,557	-	102,557
Investment Earnings					5,735	7,801	13,536
Miscellaneous					6,449	-	6,449
Transfers					2,939	(2,939)	-
<u>Total General Revenue</u>					<u>312,148</u>	<u>4,862</u>	<u>317,010</u>
Change in Net Assets					215,576	35,358	250,934
Net Assets -- Beginning					838,699	1,508,531	2,347,230
Net Assets -- Ending					<u>\$ 1,054,275</u>	<u>\$ 1,543,889</u>	<u>\$ 2,598,164</u>

The accompanying notes are an integral part of this statement.

CITY OF LORENZO  
Lorenzo, Texas

BALANCE SHEET -- GOVERNMENTAL FUNDS  
March 31, 2008

	General Fund	Total Governmental Funds
<b>ASSETS</b>		
Cash	\$ 121,182	\$ 121,182
Time Deposits & Savings	35,021	35,021
Taxes Receivable, net	20,534	20,534
Accounts Receivable, net	5,615	5,615
Due from Other Governments	<u>3,647</u>	<u>3,647</u>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 185,999</u></b>	<b><u>\$ 185,999</u></b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts Payable	\$ 16,133	\$ 16,133
Deferred Revenues	<u>26,149</u>	<u>26,149</u>
<b><u>Total Liabilities</u></b>	<b><u>42,282</u></b>	<b><u>42,282</u></b>
<b>FUND EQUITIES</b>		
Fund Balance-Undesignated	<u>143,717</u>	<u>143,717</u>
<b><u>Total Fund Equities</u></b>	<b><u>143,717</u></b>	<b><u>143,717</u></b>
<b><u>TOTAL LIABILITIES &amp; FUND EQUITIES</u></b>	<b><u>\$ 185,999</u></b>	<b><u>\$ 185,999</u></b>

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, 2008

Total Fund Balances -- Governmental Funds Balance Sheet	\$ 143,717
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	26,149
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	887,685
Some liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds	<u>(3,276)</u>
Net Assets of Governmental Activities -- Statement of Net Assets	<u>\$ 1,054,275</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, 2008

	General Fund	Total Governmental Funds
	<u>          </u>	<u>          </u>
REVENUES:		
Property Taxes (Including Penalty & Interest)	\$ 131,415	\$ 131,415
Nonproperty Taxes	61,177	61,177
Fines & Forfeits	102,557	102,557
Fees & Services	19,214	19,214
Interest	5,735	5,735
Rents	9,404	9,404
Local Grants	-	-
State Grants	3,193	3,193
Federal Grants	270,750	270,750
Miscellaneous	6,449	6,449
<u>Total Revenues</u>	<u>609,894</u>	<u>609,894</u>
EXPENDITURES		
Current		
General Administration	79,858	79,858
Public Safety	139,584	139,584
Streets & Service	76,438	76,438
Health & Welfare	12,865	12,865
Community Center	3,369	3,369
Cemetery	1,842	1,842
Water Facilities	-	-
Homes for Citizens	-	-
Principal on Long-Term Debt	2,737	2,737
Interest on Long-Term Debt	126	126
Capital Outlay	296,200	296,200
<u>Total Expenditures</u>	<u>613,019</u>	<u>613,019</u>
Excess of Revenues Over (Under) Expenditures	(3,125)	(3,125)
OTHER FINANCING SOURCES (USES)		
Transfers In	2,939	2,939
Transfers Out	-	-
<u>Total Other Sources (Uses)</u>	<u>2,939</u>	<u>2,939</u>
Excess of Revenues & Other Financing Sources Over (Under) Expenditures & Other Financing Uses	(186)	(186)
Fund Balance--Beginning of Year	<u>143,903</u>	<u>143,903</u>
<u>Fund Balance--End of Year</u>	<u>\$ 143,717</u>	<u>\$ 143,717</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, 2008

Net Change in Fund Balances -- Total Governmental Funds	\$ (186)
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.	296,200
The depreciation of capital assets is not reported in the funds. This is the amount of current depreciation on these assets.	(85,050)
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.	1,876
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>2,736</u>
Change in Net Assets -- Statement of Activities	<u><u>\$ 215,576</u></u>

The accompanying notes are an integral part of this statement.

CITY OF LORENZO  
Lorenzo, Texas

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
March 31, 2008

	<u>Business-Type Activities-- Utility Fund</u>
<b>ASSETS</b>	
<u>Current Assets:</u>	
Cash	\$ 78,152
Time Deposits & Savings	143,663
Accounts Receivable, net	35,467
Inventories	13,500
<u>Total Current Assets</u>	<u>270,782</u>
<u>Fixed Assets:</u>	
Land	2,260
Utility Systems & Equipment, net	1,795,990
<u>Total Fixed Assets</u>	<u>1,798,250</u>
<u><b>TOTAL ASSETS</b></u>	<u><b>\$ 2,069,032</b></u>
 <b>LIABILITIES &amp; EQUITY</b>	
<u>Current Liabilities</u>	
Accounts Payable	\$ 4,085
Current Portion - Bonds Payable	33,000
<u>Noncurrent Liabilities:</u>	
Bonds Payable	469,000
Customer Deposits	19,058
<u>Total Other Liabilities</u>	<u>525,143</u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	1,296,250
Unrestricted	247,639
<u>Total Net Assets</u>	<u>1,543,889</u>
<u><b>TOTAL LIABILITIES &amp; NET ASSETS</b></u>	<u><b>\$ 2,069,032</b></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, 2008

	<u>Business-Type Activities-- Utility Fund</u>
<u>Operating Revenues</u>	
Sales	\$ 372,394
Tap Fees	515
<u>Total Operating Revenues</u>	<u>372,909</u>
<u>Operating Expenses</u>	
Cost of Sales	94,050
Salaries	64,789
Payroll Taxes	7,734
Retirement Costs	971
Health Insurance	8,627
Computer Supplies & Expense	-
Depreciation	51,665
Dues & Education	-
Insurance	8,700
Lab Fees	3,732
Mosquito & Pest Control	4,760
Office Supplies & Expense	7,363
Professional Fees	5,625
Repairs & Supplies	14,036
Utilities & Telephone	13,523
Vehicle Expense	3,342
Water Distribution & Sewer Plant Expense	28,991
Miscellaneous	3,665
<u>Total Operating Expenses</u>	<u>321,573</u>
<u>Operating Income (Loss) Before</u>	
<u>Non-Operating Revenues (Expenses)</u>	51,336
<u>Non-Operating Revenues (Expenses)</u>	
Interest Revenue	7,801
Interest Expense	(20,840)
Transfers In (Out)	(2,939)
<u>Total Non-Operating Revenues (Expenses)</u>	<u>(15,978)</u>
Net Income (Loss)	35,358
<b>NET ASSETS</b>	
Net Assets, Beginning of Year	<u>1,508,531</u>
Net Assets, End of Year	<u>1,543,889</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, 2008

	<u>Business-type Activities Enterprise Funds</u>
	<u>Water &amp; Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Customers	\$ 364,226
Payments to Suppliers	(183,927)
Payments to Employees	(82,121)
Net Cash Provided by Operating Activities	<u>98,178</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers From Other Funds	(2,939)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Revenue	7,801
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Additions to Fixed Assets	(36,580)
Principal Payments on Notes and Bonds	(37,108)
Interest Paid on Notes and Bonds	(20,840)
Net Cash (used) by Capital and Related Financing Activities	<u>(94,528)</u>
Net Increase in Cash and Cash Equivalents	\$ 8,512
Balances--Beginning of the Year	<u>213,303</u>
Balances--End of the Year	<u>\$ 221,815</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 51,336
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	51,665
Change in assets and liabilities:	
Receivables, net	(12,110)
Accounts and other payables	3,860
Customer Deposits	3,427
Net Cash Provided by Operating Activities	<u>\$ 98,178</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, 2008

	<u>AGENCY FUNDS</u>
ASSETS:	
Cash and Cash Equivalents	<u>\$ 12,330</u>
 TOTAL ASSETS	 <u><u>\$ 12,330</u></u>
 LIABILITIES:	
Due to Others	<u>\$ 12,330</u>
 TOTAL LIABILITIES	 <u><u>\$ 12,330</u></u>

The accompanying notes are an integral part of this statement.

CITY OF LORENZO  
Lorenzo, Texas

NOTES TO FINANCIAL STATEMENTS  
March 31, 2008

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  
March 31, 2008

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  
March 31, 2008

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 1<sup>st</sup> 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 1<sup>st</sup> of the year following the year in which imposed. On January 1<sup>st</sup> 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, 2008, the amount deemed uncollectible by this estimate was \$34,064. 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  
March 31, 2008

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  
March 31, 2008

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, 2008, the carrying amount of the City's deposits (cash, certificates of deposit, and interest bearing savings accounts included in temporary investments) was \$390,348 and the bank balance was \$388,805. 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, 2008 included certificates of deposit in the amount of \$178,684.

CITY OF LORENZO  
Lorenzo, Texas

NOTES TO FINANCIAL STATEMENTS  
March 31, 2008

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  
March 31, 2008

Note D: Capital Assets

Governmental Activities:

	Balance <u>04-01-07</u>	<u>Additions</u>	Deletions/ <u>Reclassifications</u>	Balance <u>03-31-08</u>
Land	\$ 13,275	-	-	13,275
Infrastructure	1,503,241	-	-	1,503,241
Buildings & Improvements	914,360	-	-	914,360
Furniture & Equipment	<u>490,545</u>	<u>296,200</u>	<u>-</u>	<u>786,745</u>
Total Capital Assets	<u>\$ 2,921,421</u>	<u>\$ 296,200</u>	<u>\$ -</u>	<u>\$ 3,217,621</u>

	Balance <u>04-01-07</u>	<u>Additions</u>	Deletions/ <u>Reclassifications</u>	Balance <u>03-31-08</u>
<u>Less Accumulated Depreciation:</u>				
Infrastructure	1,384,652	12,321	-	1,396,973
Buildings & Improvements	512,339	11,656	-	523,995
Furniture & Equipment	<u>347,895</u>	<u>61,073</u>	<u>-</u>	<u>408,968</u>
Total Accumulated Depreciation	<u>\$ 2,244,886</u>	<u>\$ 85,050</u>	<u>-</u>	<u>\$ 2,329,936</u>
Net Capital Assets	<u>\$ 676,535</u>	<u>\$ 211,150</u>	<u>\$ -</u>	<u>\$ 887,685</u>

Business-Type Activities:

	Balance <u>04-01-07</u>	<u>Additions</u>	Deletions/ <u>Reclassifications</u>	Balance <u>03-31-08</u>
Land	\$ 2,260	-	-	2,260
Buildings	14,843	-	-	14,843
Furniture & Equipment	<u>2,611,987</u>	<u>36,579</u>	<u>-</u>	<u>2,648,566</u>
Total Capital Assets	<u>\$ 2,629,090</u>	<u>\$ 36,579</u>	<u>\$ -</u>	<u>\$ 2,665,669</u>

CITY OF LORENZO  
Lorenzo, Texas

NOTES TO FINANCIAL STATEMENTS  
March 31, 2008

Note D: Capital Assets (continued)

	<u>Balance</u> <u>04-01-07</u>	<u>Additions</u>	<u>Deletions/</u> <u>Reclassifications</u>	<u>Balance</u> <u>03-31-08</u>
<u>Less Accumulated</u> <u>Depreciation:</u>				
Buildings	\$ 14,843	-	-	14,843
Furniture & Equipment	<u>800,911</u>	<u>51,665</u>	<u>-</u>	<u>852,576</u>
Net Capital Assets	<u>\$ 1,813,336</u>	<u>\$ (15,086)</u>	<u>\$ -</u>	<u>\$ 1,798,250</u>

Depreciation was charged to functions as follows:

General Administration	\$ 21,999
Public Safety	38,451
Streets & Services	21,056
Health & Welfare	3,544
Water & Sewer	<u>51,665</u>
Total Depreciation	<u>\$136,715</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.

The City also entered into a loan agreement for financing the acquisition of a backhoe in October of 2004. This was recorded at present value of the future minimum payments at the date of inception.

Current requirements for principal and interest expenditures for these obligations are accounted for in the General Fund. Changes in these long-term obligations for the year ended March 31, 2008 are 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	\$ 4,310	\$ -	\$ 1,034	\$ 3,276	\$ 1,060
Note: Backhoe	<u>1,703</u>	<u>-</u>	<u>1,703</u>	<u>-</u>	<u>-</u>
<u>Totals</u>	<u>\$ 6,013</u>	<u>\$ -</u>	<u>\$ 2,737</u>	<u>\$ 3,276</u>	<u>\$ 1,060</u>

CITY OF LORENZO  
Lorenzo, Texas

NOTES TO FINANCIAL STATEMENTS  
March 31, 2008

Note E: Notes Payable (Continued)

Debt Service Requirements

Year Ending March 31,	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2009	\$ 1,060	\$ 83	\$ 1,143
2010	1,087	56	1,143
2011	<u>1,129</u>	<u>29</u>	<u>1,158</u>
<u>Totals</u>	<u>\$ 3,276</u>	<u>\$ 168</u>	<u>\$ 3,444</u>

Business-Type Activities:

Amounts <u>Business-Type Activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Note: Backhoe	<u>\$ 5,108</u>	<u>\$ -</u>	<u>\$ 5,108</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF LORENZO  
Lorenzo, Texas

NOTES TO FINANCIAL STATEMENTS  
March 31, 2008

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>
2009	\$ 30,000	\$ 19,060	\$ 49,060
2010	35,000	17,921	52,921
2011	35,000	16,661	51,661
2012	35,000	15,366	50,366
Thereafter	<u>355,000</u>	<u>62,850</u>	<u>417,850</u>
<u>Totals</u>	<u>\$ 490,000</u>	<u>\$ 131,858</u>	<u>\$ 621,858</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, 2008, \$48,000 of the Issue had been retired leaving a balance of \$12,000 outstanding.

Annual requirements to amortize 1972 bonds outstanding at March 31, 2007 are as follows:

<u>Year Ending 3-31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 3,000	\$ 600	\$ 3,600
2010	3,000	450	3,450
2011	3,000	300	3,300
2012	<u>3,000</u>	<u>150</u>	<u>3,150</u>
<u>Totals</u>	<u>\$ 12,000</u>	<u>\$ 1,500</u>	<u>\$ 13,500</u>

Changes in bonds payable are as follows:

	<u>Beginning Balance 04/01/07</u>	<u>Proceeds</u>	<u>Retirements</u>	<u>Ending Balance 03/31/08</u>
Rev. Bonds	\$ 14,000	\$ -	\$ 2,000	\$ 12,000
Series 1999	<u>520,000</u>	<u>-</u>	<u>30,000</u>	<u>490,000</u>
<u>Totals</u>	<u>\$ 534,000</u>	<u>\$ -</u>	<u>\$ 32,000</u>	<u>\$ 502,000</u>

CITY OF LORENZO  
Lorenzo, Texas

NOTES TO FINANCIAL STATEMENTS  
March 31, 2008

Note F: Pension Plan

The City of Lorenzo provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, defined contribution plan in the state-wide Texas Municipal Retirement System (TMRS), one of over 500 administered by TMRS, an agent multiple employer public employee retirement system.

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 (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant another type of monetary credit referred to as an updated service credit which is a 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 percentage had always been in existence and if the employee's salary had always been the average of his salary for the last three years. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions and the employer-financed monetary credits with interest were used to purchase an annuity.

The contribution rate for employees is 5%. Under the state law governing TMRS, the City contribution rate is determined annually by the actuary. Under the state law governing TMRS, the City contribution rate is determined annually by the actuary. Part of the contribution rate (the normal cost) is to fund the currently accruing monetary credits. With the other part (the prior service contribution rate) calculated as a level of payroll needed to amortize the unfunded actuarial liability over the remainder of the plan's amortization period.

Note G: Litigation

There was no litigation pending or in progress against the City at March 31, 2008.

*REQUIRED SUPPLEMENTARY INFORMATION*

CITY OF LORENZO  
Lorenzo, Texas

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
For the Year Ended March 31, 2008

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues</u>			
Property Taxes (Including Penalty and Interest)	\$ 137,000	\$ 131,415	\$ (5,585)
Nonproperty Taxes	63,000	61,177	(1,823)
Fines & Forfeits	93,500	102,557	9,057
Fees & Services	21,000	19,214	(1,786)
Interest	1,145	5,735	4,590
Rents	7,000	9,404	2,404
State Grants	3,400	3,193	(207)
Federal Grants	270,750	270,750	-
Miscellaneous	6,000	6,449	449
<u>Total Revenues</u>	<u>602,795</u>	<u>609,894</u>	<u>7,099</u>
<u>Expenditures</u>			
Current			
General Administration	80,307	79,858	449
Public Safety	149,107	139,584	9,523
Streets & Service	81,467	76,438	5,029
Health & Welfare	14,415	12,865	1,550
Community Center	5,000	3,369	1,631
Cemetary	2,650	1,842	808
Principal on Long-Term Debt	2,740	2,737	3
Interest on Long-Term Debt	163	126	37
Capital Outlay	296,200	296,200	-
<u>Total Expenditures</u>	<u>632,049</u>	<u>613,019</u>	<u>19,030</u>
<u>Other Financing Sources (Uses)</u>			
Transfers In	30,000	2,939	(27,061)
Transfers Out	-	-	-
<u>Total Other Financing Sources (Uses)</u>	<u>30,000</u>	<u>2,939</u>	<u>(27,061)</u>
<u>Excess of Revenues and Other Sources</u>			
<u>Over (Under) Expenditures and Other Uses</u>	746	(186)	(932)
Fund Balance, Beginning of Year	143,903	143,903	-
<u>Fund Balance, End of Year</u>	<u>\$ 144,649</u>	<u>\$ 143,717</u>	<u>\$ (932)</u>

*OTHER SUPPLEMENTARY INFORMATION*

CITY OF LORENZO  
Lorenzo, Texas

SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
For the Year Ended March 31, 2008

Years Ended March 31	Tax Rate Per \$100 Value	Assessed/Appraised Value for Tax Purposes	Balance 04/01/07	Add: Current Levy	Less: Collections	Total Year's Adjustments	Balance 03/31/08
1999 and Prior	\$ --	\$ --	\$ 11,115	-	\$ 926	\$(321)	\$ 9,868
2000	0.5762	16,378,610	1,362	-	88	-	1,274
2001	0.5137	18,818,278	1,639	-	69	-	1,570
2002	0.5163	19,535,154	2,107	-	363	(2)	1,742
2003	0.5163	20,185,357	2,953	-	472	-	2,481
2004	0.5409	19,913,293	3,660	-	497	-	3,163
2005	0.5409	20,444,635	4,399	-	613	(30)	3,756
2006	0.5709	20,854,616	6,760	-	1,829	-	4,931
2007	0.5473	23,628,540	16,824	-	8,924	(65)	7,835
2008	0.5502	24,113,232	-	132,671	114,186	(507)	17,978
<b>Totals</b>			\$ 50,819	\$ 132,671	\$ 127,967	\$(925)	\$ 54,598

# Terry & King, CPAs, P.C.

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Ryan R. King, CPA

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

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## 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, 2008, which collectively comprise the City of Lorenzo's basic financial statements and have issued our report thereon dated June 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our 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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.



Independent Auditors' Report  
Page 2

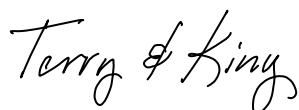
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City 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 6, 2008

CITY OF LORENZO  
Lorenzo, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended March 31, 2008

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, 2008

<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, 2007

Not Applicable – None Required