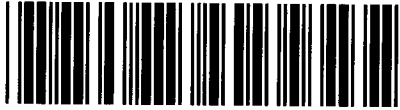


Control Number: 42962



Item Number: 17

Addendum StartPage: 0

House Bill (HB) 1600 and Senate Bill (SB) 567 83rd
Legislature, Regular Session, transferred the functions
relating to the economic regulation of water and sewer
utilities from the TCEQ to the PUC effective
September 1, 2014

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ANNUAL FINANCIAL REPORT

CITY OF LYFORD, TEXAS

September 30, 2001

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TEXAS NATURAL RESOURCE
CONSERVATION COMMISSION
UTILITIES AND DISTRICTS

17



City of Lyford, Texas
ANNUAL FINANCIAL REPORT
September 30, 2001

CITY OFFICIALS

Mayor

Lisandro Ramon

Commissioner and Mayor Pro-Tem

Mary Q. Mata

Commissioners

Maggie Quilantan
Frank Salinas
Jose G. (Wally) Solis
Connie Vera

City Secretary/Finance Director

Lydia Moreno



City of Lyford, Texas
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FINANCIAL SECTION

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CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



LONG CHILTON, LLP

A PARTNERSHIP OF PROFESSIONAL CORPORATIONS AND INDIVIDUALS

Members - Division of Firms,
American Institute of CPAs

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of the City Commission
City of Lyford, Texas

We have audited the accompanying general purpose financial statements of the City of Lyford, Texas (the "City") as of and for the year ended September 30, 2001, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Lyford, Texas, as of September 30, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2002 on our consideration of City of Lyford, Texas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the City taken as a whole. The accompanying combining financial statements and supplemental information listed in the table of contents, including the schedule of expenditures of federal awards, are presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the general purpose financial statements. Such information except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the general purpose financial statements, and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
May 6, 2002

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**GENERAL PURPOSE
FINANCIAL STATEMENTS**

City of Lyford, Texas
COMBINED BALANCE SHEET -
ALL FUND TYPES AND ACCOUNT GROUPS
September 30, 2001

(With comparative totals for September 30, 2000)

	Governmental Fund Types		Proprietary Fund Types
	General	Special Revenue	Enterprise
ASSETS AND OTHER DEBITS			
Cash and cash equivalents	\$ 90,543	\$ 3,264	\$ 73,575
Restricted cash	9,644	-	55
Investments	567,000	-	562,211
Restricted investments	-	-	37,789
Receivables			
Property taxes, net of allowance	60,748	-	-
Nonproperty taxes	8,787	-	-
Services, net	-	-	39,752
Other	15,365	-	5,499
Due from other governments	553	135,558	-
Due from other funds	-	-	31,105
Inventory	-	-	4,621
Prepaid expenditures/expenses	2,078	-	-
Fixed assets, net	-	-	1,485,158
Water rights	-	-	115,545
Total assets	<u>\$ 754,718</u>	<u>\$ 138,822</u>	<u>\$2,355,310</u>
LIABILITIES			
Account payable	\$ 5,223	\$ 135,533	\$ 11,840
Accrued expenses/expenditures and other liabilities	209	843	559
Due to other governments	664	-	1,705
Due to other funds	30,677	428	-
Deferred revenues	64,286	2,018	-
Current portion of long-term debt	-	-	9,945
Payable from restricted assets	-	-	12,844
Revenue bonds payable	-	-	100,000
Total liabilities	<u>101,059</u>	<u>138,822</u>	<u>136,893</u>
FUND EQUITY AND OTHER CREDITS			
Contributed capital	10,000	-	2,791,649
Investments in general fixed assets	-	-	-
Unreserved retained earnings (deficit)	-	-	(573,232)
Fund Balance			
Reserved for prepaid expenditures	2,078	-	-
Unreserved, undesignated	641,581	-	-
Total fund equity and other credits	<u>653,659</u>	<u>-</u>	<u>2,218,417</u>
 Total liabilities, fund equity and other credits	 <u>\$ 754,718</u>	 <u>\$ 138,822</u>	 <u>\$2,355,310</u>

The accompanying notes are an integral part of these financial statements.

Account Group	Totals	
	(Memorandum Only)	
	2001	2000
General Fixed Assets		
\$ -	\$ 167,382	\$ 188,432
-	9,699	4,771
-	1,129,211	983,361
-	37,789	43,639
-	60,748	64,985
-	8,787	6,912
-	39,752	33,396
-	20,864	16,770
-	136,111	4,466
-	31,105	33,135
-	4,621	6,768
-	2,078	5,828
2,457,961	3,943,119	3,399,987
-	115,545	115,545
<u>\$2,457,961</u>	<u>\$5,706,811</u>	<u>\$4,907,995</u>
\$ -	\$ 152,596	\$ 8,744
-	1,611	4,134
-	2,369	2,795
-	31,105	33,135
-	66,304	71,957
-	9,945	2,500
-	12,844	19,839
-	100,000	110,000
-	376,774	253,104
-	2,801,649	2,801,649
2,457,961	2,457,961	1,782,417
-	(573,232)	(479,105)
-	2,078	5,828
-	641,581	544,102
<u>2,457,961</u>	<u>5,330,037</u>	<u>4,654,891</u>
<u>\$2,457,961</u>	<u>\$5,706,811</u>	<u>\$4,907,995</u>

**COMBINED STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES**

For the Year Ended September 30, 2001

(With comparative totals for the fiscal year ended September 30, 2000)

			<u>Totals</u>	
			(Memorandum Only)	
	<u>General</u>	<u>Special Revenue</u>	<u>2001</u>	<u>2000</u>
Revenues				
Property taxes	\$ 154,334	\$ -	\$ 154,334	\$ 131,340
Nonproperty taxes	86,931	-	86,931	77,994
Intergovernmental	-	702,335	702,335	52,999
Fines and forfeits	18,715	-	18,715	68,649
Miscellaneous	<u>69,651</u>	<u>-</u>	<u>69,651</u>	<u>131,486</u>
Total revenues	329,631	702,335	1,031,966	462,468
Expenditures				
Current				
General Government	107,739	12,468	120,207	116,882
Public Safety	35,340	-	35,340	117,858
Highways and streets	91,823	-	91,823	91,400
Capital Outlay	<u>1,000</u>	<u>689,867</u>	<u>690,867</u>	<u>14,160</u>
Total expenditures	235,902	702,335	938,237	340,300
Excess (deficiency) of revenues over (under) expenditures	93,729	-	93,729	122,168
Other financing sources (uses)				
Operating transfers in (out)	-	-	-	60,384
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing sources (uses)	93,729	-	93,729	182,552
Fund balance, beginning of year	<u>559,930</u>	<u>-</u>	<u>559,930</u>	<u>377,378</u>
Fund balance, end of year	<u>\$653,659</u>	<u>-</u>	<u>\$ 653,659</u>	<u>\$559,930</u>

The accompanying notes are an integral part of these financial statements.

**COMBINED STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS)
AND ACTUAL - ALL GOVERNMENTAL FUND TYPES**

For the Year Ended September 30, 2001

	General Fund		Variance
	Budget	Actual	Favorable (Unfavorable)
Revenues			
Property taxes	\$ 139,265	\$ 154,334	\$ 15,069
Nonproperty taxes	69,000	86,931	17,931
Fines and forfeits	18,000	18,715	715
Miscellaneous	30,500	69,651	39,151
Total revenues	256,765	329,631	72,866
Expenditures			
Current			
General government	133,594	107,739	25,855
Public safety	33,150	35,340	(2,190)
Highways and streets	89,021	91,823	(2,802)
Capital outlay	1,000	1,000	-
Total expenditures	256,765	235,902	20,863
Excess (deficiency) of revenues over (under expenditures)	-	93,729	93,729
Other financing sources (uses)			
Operating transfers in (out)	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing sources (uses)	-	93,729	93,729
Fund balance, beginning of year	559,930	559,930	-
Fund balance, end of year	\$ 559,930	\$ 653,659	\$ 93,729

The accompanying notes are an integral part of these financial statements.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
RETAINED EARNINGS (DEFICIT) - ALL PROPRIETARY FUND TYPES**

For the Year Ended September 30, 2001

(With Comparative Totals for the Year Ended September 30, 2000)

	<u>Proprietary Fund Type Enterprise</u>	2000 Total (Memorandum Only)
Operating revenues		
Water, sewer and garbage - user charges	\$ 360,982	\$ 362,564
Water and sewer connection charges	7,500	3,440
Other Income	<u>860</u>	<u>1,877</u>
Total operating revenues	369,342	367,881
Operating expenses		
Personal services	151,184	150,817
Contracted services	31,963	12,946
Materials and supplies	118,181	109,840
Other expenses	45,584	32,762
Depreciation	<u>142,654</u>	<u>134,655</u>
Total operating expenses	<u>489,566</u>	<u>441,020</u>
Operating income (loss)	(120,224)	(73,139)
Nonoperating revenues (expenses)		
Investment income	31,847	28,114
Interest expense	<u>(5,750)</u>	<u>(6,250)</u>
Total nonoperating revenues (expenses)	26,097	21,864
Income (loss) before operating transfers	(94,127)	(51,275)
Other financing sources (uses)		
Operating transfers in	-	-
Operating transfers (out)	<u>-</u>	<u>(60,384)</u>
	-	(60,384)
NET INCOME (LOSS)	(94,127)	(111,659)
Retained earnings (deficit) - beginning of year	<u>(479,105)</u>	<u>(367,446)</u>
Retained earnings (deficit) - end of year	<u>\$ (573,232)</u>	<u>\$ (479,105)</u>

The accompanying notes are an integral part of these financial statements.

City of Lyford, Texas
STATEMENT OF CASH FLOWS -
ALL PROPRIETARY FUND TYPES
For the Year Ended September 30, 2001

Exhibit 5

(With Comparative Totals for the Year Ended September 30, 2000)

	Proprietary Fund Type <u>Enterprise</u>	2000 Total (Memorandum Only) <u>Only</u>
Cash flows from operating activities	\$(120,224)	\$(73,139)
Operating income (loss)		
Adjustments to reconcile net income from operations to net cash from operating activities		
Depreciation	142,654	134,655
(Increase) decrease in receivables	(8,350)	(4,088)
(Increase) decrease in inventory	2,147	1,961
(Increase) decrease in due from other funds	2,030	(6,511)
Increase (decrease) in accounts payable	7,907	(7,614)
Increase (decrease) in accrued expenses and other liabilities	(2,077)	(216)
Increase (decrease) in due to state	<u>343</u>	<u>(12)</u>
Net cash provided by operating activities	24,430	45,036
Cash flows from noncapital financing activities		
Operating transfers in (out)	<u>-</u>	<u>(60,384)</u>
Net cash used by noncapital financing activities	-	(60,384)
Cash flows from capital and related financing activities		
Increase (decrease) in meter deposits	450	(463)
Proceeds of capital grants	-	37,800
Purchase/construction of fixed assets	(10,242)	(70,443)
Principal paid on long-term debt	(10,000)	(10,000)
Interest paid on long-term debt	<u>(5,750)</u>	<u>(6,250)</u>
Net cash used by capital and related financing activities	(25,542)	(49,356)
Cash flows investing activities		
Purchases of investments	(600,000)	(600,000)
Proceeds from maturity of investments	600,000	633,000
Investment income received	<u>31,847</u>	<u>21,984</u>
Net cash provided (used) by investing activities	<u>31,847</u>	<u>54,984</u>
Net increase (decrease) in cash and cash equivalents	30,735	(9,720)
Cash and cash equivalents - beginning of year	<u>42,895</u>	<u>52,615</u>
Cash and cash equivalents - end of year	<u>\$ 73,630</u>	<u>\$ 42,895</u>

The accompanying notes are an integral part of these financial statements.

City of Lyford, Texas
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2001

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lyford, Texas complies with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The following significant accounting policies were applied in the preparation of the accompanying financial statements:

1. Reporting Entity

The accompanying financial statements present the City's primary government and a component unit, the Lyford Volunteer Fire Department. The criteria for including organizations within the City's reporting entity, as set forth in NCGA Statement No. 3, "Defining the Reporting Entity", primarily include the degree of oversight responsibility maintained by the City Commission. Examples of oversight responsibility include financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The services provided by the Lyford Volunteer Fire Department primarily benefit the City. Based upon the reporting guidelines above, their financial information is blended into the City's primary government, specifically the general fund.

2. Fund Accounting

The accounts of the City are organized into funds and account groups, each of which is considered to be a separate accounting entity. The major fund categories and account groups are:

Governmental Fund Types

Governmental funds are accounted for using the current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available resources during a given period.

Proprietary Fund Type

Proprietary funds are accounted for using the economic resources measurement focus; the accounting objectives are a determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its balance sheets. Proprietary fund equity is segregated into contributed capital and retained earnings.

Fiduciary Fund Types

Fiduciary funds account for assets held by the City in a trustee or agency capacity. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Pension trust funds are accounted for in essentially the same manner as proprietary funds. Agency funds are custodial in nature and do not involve measurement of results of operations. The City does not utilize any fiduciary fund types.

City of Lyford, Texas
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2001

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounts Groups

The account groups are used to account for fixed assets and long-term liabilities which are not accounted for in the respective governmental funds.

3. Basis of Accounting

Modified Accrual Basis of Accounting

The City uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "*measurable and available*". Measurable means the amount can be determined. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Accrual Basis of Accounting

The accrual basis of accounting is used in proprietary fund types. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred.

4. Budgets and Budgetary Accounting

The City Secretary submits an annual budget to the Mayor and City Commission in accordance with state and local requirements. In September, the City Commission adopts an annual fiscal year appropriated budget for the general fund. Once approved, the City Commission may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. The general fund budget is presented on the modified accrual basis of accounting.

Legally authorized budgets are prepared for the special revenue funds on a project basis. Expenditures for these funds are controlled on a project basis and are carried forward each year until the project is completed or the grant award has been expended.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by account which constitutes the legal level of control. Expenditures may not exceed appropriations at this level. All budget revisions are subject to final review by the City Commission. Revisions to the budget were made throughout the year.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City.

City of Lyford, Texas
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2001

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Assets, Liabilities and Equity

a. Cash and Cash Equivalents

The City considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

b. Investments

In accordance with provisions of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools," investments are reported at fair value which is determined by market value. Certificates of deposits are reported at carrying amount which reasonably estimates fair value.

c. Restricted Cash and Investments

Restricted cash consists of amounts received for bond reserves.

d. Allowance for Uncollectible Accounts

The City calculates its allowances for uncollectible accounts using historical collection data, specific account analysis and management's judgment.

e. Inventories

Inventories in proprietary funds are recorded at the lower of cost or market on a first-in, first-out basis.

f. Prepaid Items

Expenditures made to third party vendors for goods and services that will benefit periods beyond September 30, 2001 are recorded as prepaid items.

g. Fixed Assets, Depreciation and Amortization

Property, plant and equipment of all funds are stated at historical cost. Donated fixed assets are stated at their fair market value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Governmental fund fixed assets are recorded in the General Fixed Assets Account Group and are not depreciated. The City has elected to report public domain or infrastructure fixed assets that are immovable and of value only to the City government. Proprietary fund fixed assets are recorded and depreciated using the straight-line method. Estimated useful lives, in years, for depreciable assets are as follows:

Building and site improvements	10-35 years
System equipment	10-35 years
Vehicles and mobile equipment	5-10 years

City of Lyford, Texas
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2001

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

h. Due from and to Other Funds

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. The receivables and payables are classified as "Due from Other Funds" or "Due to Other Funds" on the balance sheet.

i. Compensated Absences

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Generally, after one year of service, employees are entitled to all accrued vacation leave upon termination.

Compensated absences for sick leave do not vest and accordingly, employees can only be paid sick leave when sick. Since the employee's accumulated rights to receive compensation for future absences is contingent upon the absences being caused by future illnesses and such amounts cannot be reasonably estimated, a liability for unused sick leave has not been recorded.

The estimated portion of the liability for vested vacation benefits is not material to the City. Thus, no liability has been recognized.

j. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term liabilities, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

k. Fund Equity

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers, other governments, or other funds. Reserves represent those portions of fund equity not appropriate for expenditure or are legally segregated for a specific future use. The purpose for each is indicated by the account title on the face of the balance sheet.

l. Deficit Retained Earnings

The enterprise (water and sewer) fund's deficit balance in retained earnings of \$573,232 is the result of charges for services inadequate to cover expenses including depreciation over an extended period of time. The City is considering methods to eliminate this deficit, but has not formalized any plans.

City of Lyford, Texas
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2001

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

m. *Interfund Transactions*

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditure or expenses initially made from it that are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as a reduction of expenditures or expenses in the fund that is reimbursed.

All other interfund transactions except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

n. *Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

o. *Memorandum Only - Total Columns*

Total columns on the general purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in cash flows in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

p. *Comparative Data*

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the government's financial position and operations. However, comparative data have not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand. Certain reclassifications have been made to the prior year comparative totals to conform to the current year presentation.

NOTE B - DEPOSITS AND INVESTMENTS

It is the City's policy to be 100% secured by collateral valued at market less the amount of Federal Deposit Insurance Corporation insurance. The City's deposits and investments are categorized to give an indication of the level of risk assumed by the City at September 30, 2001. The categories are described as follows:

City of Lyford, Texas
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2001

NOTE B - DEPOSITS AND INVESTMENTS - Continued

- Category 1: Insured or collateralized with securities held by the entity or by its agent in the entity's name.
Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
Category 3: Uncollateralized

	Bank	FDIC	Collateral Pledged By Category			Carrying
	<u>Balance</u>	<u>Insurance</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>
Texas State Bank	<u>\$1,596,294</u>	<u>\$100,000</u>	<u>\$ -</u>	<u>\$1,595,000</u>	<u>\$ -</u>	<u>\$1,343,832</u>

The carrying amount of \$1,343,832 consists of general fund, special revenue funds and enterprise fund cash and investment balances (including restricted accounts) but does not include petty cash of \$250.

The City's cash deposits at September 30, 2001 were entirely covered by FDIC insurance or pledged collateral. However, during the year ended September 30, 2001 these deposits were not entirely covered by FDIC insurance or pledged collateral held by the City's agent bank.

Statutes authorize the City to invest in obligations of the U. S. Treasury or the State of Texas, certain U. S. agencies, certificates of deposit, certain municipal securities, repurchase agreements, common trust funds and other investments specifically allowed by Chapter 2256 Public Funds Investment and Chapter 2257 Collateral for Public Funds of the Government Code.

The City's investments at September 30, 2001, consisted of certificates of deposit with a carrying amount and market value of \$1,167,000. The carrying amount in the financial statements is the market value and includes investments and restricted investments in the general and enterprise funds.

Similar to cash deposits, investments held at a financial institution can be categorized according to three levels of risk. These three levels of risk are:

- Category 1: Investments that are insured, registered or held by the entity or by its agent in the entity's name.
Category 2: Investments that are uninsured and unregistered held by the counterparty's trust department of agent in the entity's name,
Category 3: Uninsured and unregistered investments held by the counterparty, its trust department or its agent, but not in the entity's name.

Based on these three levels of risk, all of the City's investments are classified as category 1.

City of Lyford, Texas
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2001

NOTE C - PROPERTY TAXES RECEIVABLE AND PROPERTY TAX CALENDAR

Property taxes are levied as of October 1 on property values assessed as of December 31 of the prior calendar year. The tax levy is billed on October 1 and mailed prior to the end of October. Property taxes attach as an enforceable lien on property as of January 1 following the levy date. The taxes become delinquent as of February 1 and penalties and interest are assessed by the City on taxes paid after that date.

The City's property taxes are recognized as revenue when levied to the extent that they result in current receivables. An allowance for uncollectible taxes is recorded based upon historical experience in collecting property taxes. Delinquent tax payments, received throughout the year, are recognized as revenue in the year they are received.

Property taxes receivable less allowance for doubtful accounts at September 30, 2001 are:

Gross property taxes receivable	\$68,622
Less: allowance for doubtful accounts	<u>(7,874)</u>
Net property taxes receivable	<u>\$60,748</u>

NOTE D - SERVICE RECEIVABLES

Service receivables consist of uncollected amounts billed to customers for utility (garbage, water and sewer) services. At September 30, 2001, service receivables, less an allowance for doubtful accounts, were:

Gross receivable	\$56,224
Allowance for doubtful accounts	<u>(16,472)</u>
Net service receivables	<u>\$39,752</u>

NOTE E - RESTRICTED ASSETS

Certain enterprise fund assets are restricted for debt service requirements on revenue bonds. The ordinance authorizing the issuance of the 1972 Waterworks and Sewer System Bonds requires a debt service fund and a reserve fund be established. The debt service fund received allocations of net revenue monthly in an amount sufficient to pay the next maturing principal and interest payment. The reserve fund for these revenue bonds requires a balance of \$25,000. The debt service and reserve fund requirements for these bond issues have not been fulfilled.

Restricted assets consist of the following:

1972 Waterworks and Sewer System Revenue Bonds - interest and sinking	\$ 55
1972 Waterworks and Sewer System Revenue Bonds - reserve	<u>25,000</u>
	<u>\$25,055</u>

City of Lyford, Texas
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2001

NOTE F - PROPERTY AND EQUIPMENT, NET

The following is a summary of changes in the general fixed assets account group during the year:

	October 1, <u>2000</u>	<u>Additions</u>	<u>Deletions</u>	September 30, <u>2001</u>
Land, buildings and improvements	\$ 252,281	\$ 200	\$ -	\$ 252,481
Streets, curbs and gutters	1,103,696	-	-	1,103,696
Sports complex	149,551	-	-	149,551
Machinery and equipment				
Fire department	81,542	600	-	82,142
Police department	49,140	-	(18,100)	31,040
Municipal court equipment	-	600	-	600
Office	20,808	1,177	-	21,985
General	112,399	1,200	-	113,599
Construction in progress	<u>13,000</u>	<u>689,867</u>	<u>-</u>	<u>702,867</u>
Total general fixed assets	<u>\$1,782,417</u>	<u>\$693,644</u>	<u>\$(18,100)</u>	<u>\$2,457,961</u>

*During the year ended September 30, 2001, the City adjusted its investment in general fixed assets by approximately \$14,323 based on a comparison of physical inventory to the subsidiary listing. Comparisons were made at the department level and any non-existent assets were removed from the subsidiary listing and value adjustments were made and reflected as a current year adjustment of general fixed assets.

The gross amount of assets in the balance sheet recorded under capital leases by major classes according to nature and function is not known.

The following is a summary of property and equipment recorded in the City's proprietary fund at September 30:

Water system	\$1,629,352
Sewer system	1,349,853
Vehicles	76,856
Mobile equipment	<u>23,867</u>
	3,079,928
Accumulated depreciation	<u>(1,594,770)</u>
Net property, plant & equipment	<u>\$1,485,158</u>

Construction in progress at September 30, 2001 is comprised of the following:

<u>Contractor</u>	<u>Estimated Project Costs</u>	<u>Expended Through 9/30/01</u>	<u>Amount Committed</u>
TDCP #720479 - Street, Water and Sewer Improvements	\$ 257,587	\$178,162	\$ 79,425
TDCP #721461 - Lift Station Project	270,240	-	270,240
USDA Rural Development - Wastewater Expansion	<u>881,008</u>	<u>417,446</u>	<u>463,562</u>
	<u>1,408,835</u>	<u>595,608</u>	<u>813,227</u>

City of Lyford, Texas
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2001

NOTE F - PROPERTY AND EQUIPMENT, NET - Continued

<u>Engineers</u>	Estimated <u>Project Costs</u>	Expended Through <u>9/30/01</u>	Amount <u>Committed</u>
TDCP #720479 - Street, Water and Sewer Improvements	\$ 34,000	\$ 21,105	\$ 12,895
TDCP #721461 - Lift Station Project	25,000	14,625	10,375
USDA Rural Development - Wastewater Expansion	<u>85,231</u>	<u>71,529</u>	<u>13,702</u>
	<u>144,231</u>	<u>107,259</u>	<u>36,972</u>
	<u>\$1,553,066</u>	<u>\$702,867</u>	<u>\$850,199</u>

NOTE G - INTERFUND RECEIVABLES AND PAYABLES

Receivables and payables within the funds of the City at September 30, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Enterprise	General	
Water and Sewer	General	\$ 30,677
Enterprise	Special Revenue	
Water and Sewer	TCDP #720479 - Street, Drainage, and Sewer Improvements	72
Water and Sewer	TCDP #721461 - Lift Station	100
Water and Sewer	USDA Wastewater Expansion	<u>256</u>
		<u>\$ 31,105</u>

NOTE H - DEFERRED REVENUES

The City records net tax levies initially as deferred revenue and converts those deferrals to realized revenue when the taxes are collected. The City had the following deferred revenues at September 30, 2001:

	<u>General Fund</u>	Special Revenue <u>Fund</u>	<u>Total</u>
Net unrealized property taxes	\$60,748	\$ -	\$60,748
Partial property tax payments	3,538	-	3,538
Grant revenues	<u>-</u>	<u>2,018</u>	<u>2,018</u>
Total deferred revenues	<u>\$64,286</u>	<u>\$ 2,018</u>	<u>\$66,304</u>

NOTE I - PAYABLE FROM RESTRICTED ASSETS

Payables from restricted assets at September 30, consist of the following:

Revenue bonds payable	\$ 55
Meter deposits	<u>12,789</u>
	<u>\$12,844</u>

City of Lyford, Texas
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2001

NOTE J - LONG-TERM DEBT

General Long-Term Debt

General obligation bonds, issued by the City for various improvements, are approved by the voters. These bonds are backed by the full faith and credit of the City.

Revenue Bonds

Revenue bonds outstanding consist of debt issued by the proprietary fund which is payable solely from the revenues of the fund. Revenue bonds are collateralized primarily by the respective facilities and revenues derived from them. The bond indentures contain requirements for annual debt service and flow of funds through the various restricted accounts. The City is in compliance with all significant requirements of the bond covenants. These bonds are payable to U. S. Department of Agriculture (FHA).

Conduit Debt

The City entered into a contract with the Texas Department of Commerce to construct a building to support the expanding operation of Indiana Knitwear Corporation. The contract provided a grant of \$13,000 and a maximum loan of \$487,000. The noninterest bearing loan is payable over a maximum of 240 months from the lease income from Indiana Knitwear Corporation. The loan constitutes indebtedness and pledge of the faith and credit of the City in that the City is responsible for repayment of the loan. However, the City holds the deed for the leased property and may sell or lease the property subsequent to any default by the Corporation. The balance of the loan at September 30, 2001 was \$315,453.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended September 30:

<u>Description and purpose</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance 10/1/00</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 9/30/01</u>
Enterprise Fund Debt						
Series 1972-B Waterworks and Sewer System Revenue Bonds						
original amount \$330,000	1/1/2012	5%	<u>\$120,000</u>	<u>\$ -</u>	<u>\$10,000</u>	<u>\$110,000</u>

The annual debt service requirements, including principal and interest, for long-term debt as of September 30, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 10,000	\$ 5,250	\$ 15,250
2003	10,000	4,750	14,750
2004	10,000	4,250	14,250
2005	10,000	3,750	13,750
2006	10,000	3,250	13,250
Subsequent	<u>60,000</u>	<u>9,000</u>	<u>69,000</u>
	<u>\$110,000</u>	<u>\$30,250</u>	<u>\$140,250</u>

City of Lyford, Texas
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2001

NOTE K - FUND EQUITY

Contributed capital is recorded in the general fund and the enterprise fund. The \$10,000 in the general fund results from contributed capital in prior years from the Lyford Volunteer Fire Department. The contributed capital in the enterprise fund arises from asset additions funded by federal grants over a period of years.

Retained earnings (deficit) in the water and sewer fund results in part from the depreciation on assets recorded through contributed capital. Because this is an enterprise fund, depreciation is recognized on all the assets utilized by the fund. The depreciation expense on these contributed assets over the years has significantly contributed to the fund's retained earnings (deficit).

NOTE L - MAJOR CUSTOMERS

For the year ended September 30, 2001, the City did not have charges to one customer which represented in excess of 10% of Water and Sewer fund revenues.

NOTE M - SEGMENT INFORMATION - ENTERPRISE FUND

The City maintains an enterprise fund of the primary government which is intended to be self-supporting through user fees charged for water, sewer and garbage services to the public. Financial segment information as of and for the year ended September 30, 2001, is presented below.

Operating revenues	\$ 369,342
Depreciation	142,654
Operating income (loss)	(117,825)
Operating grants, entitlements, and shared revenues	-
Operating interfund transfers in (out)	-
Net income (loss)	(91,728)
Current capital contributions	-
Fixed asset additions	10,242
Net working capital	730,558
Total assets	2,357,712
Long-term liabilities payable from operating revenues	100,000
Total equity	2,220,816

City of Lyford, Texas
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2001

NOTE N - PARTICIPATION IN PUBLIC ENTITY RISK POOL

The City's workers' compensation, liability and property insurance coverage are obtained through Texas Municipal League Intergovernmental Risk Pool (TML Pool). The TML Pool was established by the various political subdivisions in Texas to provide self-insurance for its members and to obtain lower costs for insurance. Losses under \$1,000,000 for workers' compensation and liability and losses under \$250,000 for property that are incurred by TML members are paid with TML Pool funds. Claims in excess of these limits are paid under terms of insurance policies obtained by the TML Pool. TML Pool members pay annual contributions to obtain the insurance. Annual contribution rates are determined by the TML Pool Board or by the State Board of Insurance of Texas. Such rates are estimated to include all claims expected to occur during the policy period, including claims incurred but not reported. The TML has established claims reserves for each of the types of insurance offered. Thus, although the TML Pool is a self-insured risk pool, members are not contingently liable for claims filed above the amount of the fixed annual contributions. If losses incurred are significantly higher than actuarially estimated, the TML Pool adjusts the contributed rate for subsequent years. Members are also entitled to returns of contributions if actual results are more favorable than estimated.

For the year ended September 30, 2001, the City contributed \$4,945 for its workers' compensation coverage and \$24,343 for its property and liability coverage through TML.

NOTE O - COMMITMENTS AND CONTINGENCIES

The City has potential construction commitments in connection with two grants with USDA Rural Development.

The City participates in a number of grant programs funded by State and Federal Agencies. These programs are subject to compliance audits by the grantor agencies or their representatives.

Audits of all of these programs including the year ended September 30, 2001 have not been conducted. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

In addition, at September 30, 2001, the City was a defendant in various litigation as to which the ultimate resolution and possibility of any unfavorable outcome is not yet determinable. At the present time, the City does not anticipate any material losses as a result of these lawsuits.

NOTE P - DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

City of Lyford, Texas
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2001

NOTE P - DEFERRED COMPENSATION PLAN - Continued

In prior years, the Internal Revenue Code specified that the plan's assets were the property of the City of Lyford until paid or made available to participants, subject only on an equal basis to the claims of the City's general creditors. A 1996 federal law now requires all assets and income of Internal Revenue Section 457 deferred compensation plans to be held in trust, custodial accounts, or annuity contracts for the exclusive benefit of the participants and their beneficiaries.

Assets of the City's plan are administered by private corporations under contract with the City. The private administrators have amended the plans to comply with the new federal law. Consequently, the plan's assets and liabilities are not reported in the City's financial statements.

NOTE Q - LEGAL COMPLIANCE

Expenditures exceeded final amended budget amounts for the year in the following accounts:

General government	
Equipment maintenance	\$ 1,240
City engineer	1,400
Records consultants	895
Contract services	63
Public safety	
Volunteer fire department	
Office supplies	1,096
Uniforms	807
Municipal court	10,153
Highways and streets	
Salaries	10,220

NOTE R - PENDING GASB STATEMENTS

At September 30, 2001, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the City of Lyford, Texas. The statements, which might impact City of Lyford, Texas, are as followed:

No. 34, *Basic Financial Statements and Management Discussion and Analysis - For State and Local Governments*, issued June 2000, will be effective for the City of Lyford, Texas, based on its revenues, for the fiscal year ending September 30, 2004. Statement No. 34, summarized below, imposes new standards for financial reporting. Management has not yet completed their assessment of this statement, however, it will have a material effect on the overall financial statement presentation for City of Lyford, Texas.

City of Lyford, Texas
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2001

NOTE R - PENDING GASB STATEMENTS - Continued

The new financial statement guidelines embodied in Statement 34 are the culmination of many years of study and deliberation by the GASB. For the first time, financial managers will be required to share their insights in a management's discussion and analysis (MD&A) that gives readers an analysis of the government's overall financial position and results of the previous year's operations.

Financial statements will be presented under a dual perspective - a government-wide perspective (new) and a fund level perspective. For the first time, the annual report will include government-wide financial statements prepared using full accrual accounting for the government's activities, not just those that cover costs by charging a fee for services, as was previously required. Governments will report all capital assets, including infrastructure, in a government-wide statement of net assets and will report depreciation expense, the cost of using up capital assets, in the statement of activities. Infrastructure assets will be reported, but may not be required to be depreciated under certain circumstances. The net assets of a government will be broken down into three categories: invested in capital assets, net of related debt; restricted; and unrestricted. A statement of activities will be presented in at least the same level of detail provided in the governmental fund statements; generally, expenses and program revenues by function. Program expenses will include all direct expenses; governments that allocate overhead and other indirect expenses to individual programs will show the allocation in a separate column. Special and extraordinary items will be reported separately from other revenues and expenses. This way, users will see if the government's conventional, recurring revenues and expenses balanced.

Statement 34 requires governments to continue to present fund level financial statements with information about funds. The focus of these fund-based statements has been sharpened, however, by requiring governments to report information about their most important or major funds (those whose revenues, expenditures/expenses, assets or liabilities are at least 10 percent of the total for their fund category or type (governmental or enterprise) and at least 5 percent of the aggregate amount for all governmental and enterprise funds), including a government's general fund. Fund-based statements for governmental activities (generally, those supported by tax revenues) will continue to report the flow of current financial resources (generally, cash and other assets that can easily be converted to cash).

To help users understand and assess the relationship between fund-based and government-wide financial statements, governments will present a summary reconciliation that will show the interplay between the two types of statements. Governments will continue to provide budgetary comparison information in their annual reports - as required supplementary information. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, amends Statement No. 21, *Accounting for Escheat Property*, and Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*.

The amendments to Statement 21 are necessary because of the changes to the fiduciary fund structure required by Statement 34. Generally, escheat property that was reported in an expendable trust fund in the previous model should be reported in a private-purpose trust fund under Statement 34. This Statement explains the effects of that change.

The amendments to Statement 34 either (1) clarify certain provisions that, in retrospect, may not be sufficiently clear for consistent application or (2) modify other provisions that the Board believes may have unintended consequences in some circumstances.

City of Lyford, Texas
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2001

NOTE R - PENDING GASB STATEMENTS - Continued

The provisions *clarified* by this Statement include:

- *MD&A requirements.* Governments should confine the topics discussed in MD&A to those listed in paragraph 11 of Statement 34, rather than consider those topics as "minimum requirements."
- *Modified approach.* Adopting the modified approach for infrastructure assets that have previously been depreciated is considered a change in an accounting estimate. The effect of the change is accounted for prospectively, rather than as a restatement of prior periods.
- *Program revenue classifications.* Fines and forfeitures should be included in the broad charges for services category. Also, additional guidance is provided to aid in determining to which function certain program revenues pertain.
- *Major fund criteria.* Major fund reporting requirements apply to a governmental or enterprise fund if the same element (for example, revenues) exceeds both the 10 and 5 percent criteria.

Modifications to the requirements of Statement 34 include:

- Eliminating the requirement to capitalize construction-period interest for governmental activities.
- Changing the minimum level of detail required for business-type activities in the statement of activities from *segments to different identifiable activities*.

The provisions of this Statement should be simultaneously implemented with Statement 34. For governments that implemented Statement 34 prior to the issuance of this Statement, this Statement's requirements are effective for financial statements for periods beginning after June 15, 2000.

No. 38, *Certain Financial Statement Note Disclosures* modifies, establishes, and rescinds certain financial statement disclosure requirements.

Existing disclosure requirements are modified to include the following:

- a. Descriptions of the activities accounted for in the major funds, internal service fund type, and fiduciary fund types.
- b. The length of time used to define available for purposes of revenue recognition in the governmental fund financial statements.
- c. Actions taken to address significant violations of finance-related legal or contractual provisions.
- d. Debt service requirements to maturity, separately identifying principal and interest for each of the subsequent five years and in five-year increments thereafter.
- e. Obligations under leases for each of the five subsequent years and in five-year increments thereafter.

City of Lyford, Texas
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2001

NOTE R - PENDING GASB STATEMENTS - Continued

g. For interfund balances, amounts due from other funds by individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund type; the purpose for those balances; and amounts that are not expected to be repaid within one year.

Governments should provide the following additional note disclosures:

- a. Interest requirements for variable-rate debt computed using the rate effective at year-end
- b. Terms of interest rate changes for variable-rate debt
- c. Details about major components of receivable and payable balances when obscured by aggregation and identification of receivable balances not expected to be collected within one year.
- d. For interfund transfers, amounts transferred from other funds by individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund type; a general description of the principal purposes of interfund transfers; and purposes for and amounts of certain transfers.

This Statement rescinds the requirement in National Council of Governmental Accounting Statement 1, *Governmental Accounting and Financial Reporting Principles*, to disclose the accounting policy for encumbrances.

The provisions of this Statement are generally effective when the provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, are required to be implemented, except that requirements related to short-term debt, receivable and payable balances, interfund balances, and interfund transfers may be implemented one year later by phase 1 governments. Earlier application is encouraged.

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**COMBINING STATEMENTS
AND
BUDGET COMPARISONS**

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SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

The City of Lyford, Texas has the following Special Revenue Funds:

TCDP #715192 - Willacy Apparel (Indiana Knitware) Grant
TCDP #720479 - Street, Drainage and Sewer Improvements Grant
TCDP #72146 - Lift Station Project
USDA - Rural Development Wastewater Expansion Grant

City of Lyford, Texas
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
September 30, 2001

(With Comparative Totals as of September 30, 2000)

	TCDP #715192 Willacy Apparel (Indiana Knitware) <u>Grant</u>	TCDP #720479 Street, Water and Sewer Improvements <u>Grant</u>	TCDP #721461 Lift Station Project <u></u>
ASSETS AND OTHER DEBITS			
Cash	\$ 843	\$ 72	\$ 75
Due from other governments	<u>-</u>	<u>-</u>	<u>25</u>
Total assets and other debits	<u>\$ 843</u>	<u>\$ 72</u>	<u>\$ 100</u>
LIABILITIES			
Account payable	\$ -	\$ -	\$ -
Accrued expenses/expenditures and other liabilities	843	-	-
Due to other funds	-	72	100
Deferred revenues	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	843	72	100
FUND EQUITY			
Unreserved, undesignated	<u>-</u>	<u>-</u>	<u>-</u>
Total fund equity	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities and fund equity	<u>\$ 843</u>	<u>\$ 72</u>	<u>\$ 100</u>

The accompanying notes are an integral part of these financial statements.

USDA Rural Developmt Wastewater Expansion Grant	Totals (Memorandum Only)	
	2001	2000
\$ 2,274	\$ 3,264	\$ 987
<u>135,533</u>	<u>135,558</u>	<u>3,250</u>
<u>\$ 137,807</u>	<u>\$ 138,822</u>	<u>\$ 4,237</u>
\$ 135,533	\$ 135,533	\$ 3,250
-	843	843
256	428	144
<u>2,018</u>	<u>2,018</u>	<u>-</u>
137,807	138,822	4,237
<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 137,807</u>	<u>\$ 138,822</u>	<u>\$ 4,237</u>

City of Lyford, Texas
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
For the Year Ended September 30, 2001

(With Comparative Totals as of September 30, 2000)

	TCDP #715192 Willacy Apparel (Indiana Knitware) <u>Grant</u>	TCDP #720479 Street, Water and Sewer Improvements <u>Grant</u>	TCDP #721461 Lift Station Project <u></u>
Revenues			
Intergovernmental	\$ -	\$ 196,110	\$ 17,250
Expenditures			
Current			
General Government	-	9,843	2,625
Capital Outlay	<u>-</u>	<u>186,267</u>	<u>14,625</u>
Total expenditures	<u>-</u>	<u>196,110</u>	<u>17,250</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

USDA Rural Developmt Wastewater Expansion Grant	Totals (Memorandum Only)	
	2001	2000
\$488,975	\$702,335	\$ 19,750
-	12,468	6,750
<u>488,975</u>	<u>689,867</u>	<u>13,000</u>
<u>488,975</u>	<u>702,335</u>	<u>19,750</u>
-	-	-
<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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SUPPLEMENTAL SECTION

City of Lyford, Texas
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
For the Fiscal Year Ended September 30, 2001

Exhibit B-1

	<u>Balance</u> <u>9/30/00</u>	<u>Assessment</u>	<u>Collections</u>	<u>Adjustments</u>	<u>Balance</u> <u>9/30/01</u>
1990-and prior	\$ 4,430	\$ -	\$ (909)	\$ -	\$ 3,521
1991-92	1,482	-	(389)	-	1,093
1992-93	1,837	-	(472)	-	1,365
1993-94	1,744	-	(90)	-	1,654
1994-95	2,785	-	(731)	(107)	1,947
1995-96	3,695	-	(1,065)	(110)	2,520
1996-97	4,847	-	(1,119)	(112)	3,616
1997-98	9,459	-	(4,923)	(137)	4,399
1998-99	15,415	-	(6,163)	(159)	9,093
1999-00	26,763	-	(11,891)	(158)	14,714
2000-01	<u>-</u>	<u>137,920</u>	<u>(112,627)</u>	<u>(593)</u>	<u>24,700</u>
	72,457	137,920	(140,379)	(1,376)	68,622
Less allowance for uncollectibles	<u>(7,472)</u>				<u>(7,874)</u>
Net taxes receivable	<u>\$ 64,985</u>				<u>\$ 60,748</u>

Exhibit B-2

City of Lyford, Texas
ANALYSIS OF BONDED INDEBTEDNESS
WATERWORKS AND SEWER SYSTEM REVENUE BONDS
\$330,000 - 5%
SERIES 1972-B DATED - DECEMBER 15, 1972
September 30, 2001

Payable to: U.S. Department of Agriculture (FHA)

<u>Bond</u>	<u>Maturity</u>	<u>Principal Amounts</u>	<u>Interest Coupons</u>	<u>Total Annual Payment</u>
221-230	1/1/02	10,000	2,750	
	7/1/02		2,500	15,250
231-240	1/1/03	10,000	2,500	
	7/1/03		2,250	14,750
241-250	1/1/04	10,000	2,250	
	7/1/04		2,000	14,250
251-260	1/1/05	10,000	2,000	
	7/1/05		1,750	13,750
261-270	1/1/06	10,000	1,750	
	7/1/06		1,500	13,250
271-280	1/1/07	10,000	1,500	
	7/1/07		1,250	12,750
281-290	1/1/08	10,000	1,250	
	7/1/08		1,000	12,250
291-300	1/1/09	10,000	1,000	
	7/1/09		750	11,750
301-310	1/1/10	10,000	750	
	7/1/10		500	11,250
311-320	1/1/11	10,000	500	
	7/1/11		250	10,750
321-330	1/1/12	10,000	250	10,250
Total		<u>\$110,000</u>	<u>\$ 30,250</u>	<u>\$ 140,250</u>

Series 1972-B City of Lyford Bonds were authorized by the City Council in the principal amounts of \$290,000 for constructing, equipping and extending a sewer system, and \$40,000 to provide improvements and extend the City's water system.

These bonds are a special obligation to the City and are payable from and secured by revenues derived from the City's waterworks and sewer systems; they are not tax bonds.

The City expressly reserves the right to redeem in their inverse numerical order, Bond No's 201-330, both inclusive, of this issue, in whole or in part, on January 1, 2000, or on any interest payment date thereafter, at par and accrued interest to date fixed for redemption if due provision for payment is made.

City of Lyford, Texas
SCHEDULE OF INSURANCE COVERAGE - UNAUDITED
September 30, 2001

<u>Company</u>	<u>Policy Number</u>	<u>Coverage</u>
TML Workers' Compensation	9658-99	Workers' compensation - accident & bodily injury covers clerical, municipal waterworks, refuse collection, elected officials, volunteer firefighters, animal control, police officers and police reserves.
Hartford Life Insurance	41VP240454	Volunteer Fire Department - Accidental Death Permanent disability Partial disability
Western Surety Company	13030240 14312479 68621831 68674876 68607946 69031180 69117621	Fidelity bond - Lydia Moreno Fidelity bond - Benito Estrada Fidelity bond - Mayor Fidelity bond - Mario Cano Fidelity bond - Chief and Assistant Chief (Fire Department) Fidelity bond - Mayor Pro-Tem Fidelity bond - Olga Reyna
Texas Municipal League - Intergovernmental Risk Pool	9658-99	General liability Automobile liability Auto physical damage Errors & omissions liability - claims made basis Real and personal property Mobile equipment Boiler and machinery
AMGRIP	273181-01	Windstorm

In addition, the City of Lyford was a certificate holder (i.e., additional insured) under policy TBCY91423847031 issued by Employers Insurance of Wausau and Lexington Insurance Company for the period September 1, 2001 to September 1, 2002 for general liability insurance on the Indiana Knitware Corporation (Willacy Apparel) building. The policy provides coverage of \$850,000 for the building and \$500,000 for the contents with limits of \$1,000,000 for each occurrence and a \$2,000,000 annual aggregate.

Number of customers connected as of September 30, 2001:

Water connections	712
Sewer connections	591

Amounts and Limits	Policy Dates	
	From	To
Accidental death	10/01/00	10/01/01
Bodily injury		
Statutory limitations		
 \$10,000 accidental death	 07/01/01	 07/01/02
\$100 per week for maximum of 52 weeks		
\$50 per week for maximum of 6 weeks		
 \$75,000	 12/24/99	 12/24/02
\$10,000	05/03/00	05/03/03
\$75,000	05/17/00	05/17/01
\$10,000	12/05/00	12/05/01
\$10,000	05/21/00	12/05/00
 \$75,000	 05/15/00	 05/15/01
\$10,000	02/07/01	02/07/02
 \$1,000,000 per occurrence with \$2,000,000 annual aggregate.	 10/01/00	 10/01/01
\$1,000,000 per occurrence with \$25,000 medical limit per person.		
Actual cash value with \$10,000 deductible per occurrence and		
\$250 deductible per vehicle.		
\$1,000,000 per occurrence with \$2,000,000 annual aggregate		
and \$1,000 deductible per wrongful act.		
Blanket limit on each occurrence \$2,182,376 with \$250 deductible.		
Blanket limit on each occurrence \$50,724 with \$250 deductible.		
\$100,000 per accident with \$250 deductible.		
 \$1,697,701 building and \$50,000 contents with \$1,000 deductible	 07/27/01	 07/27/02
per occurrence.		