



City Of Lavon, Texas

Annual Financial Report

Fiscal Year Ended September 30, 2010

**ANNUAL FINANCIAL REPORT
OF THE
CITY OF LAVON, TEXAS**

Fiscal Year Ended September 30, 2010

*City Manager
J. Michael Jones*

This page is intentionally left blank.

**CITY OF LAVON, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

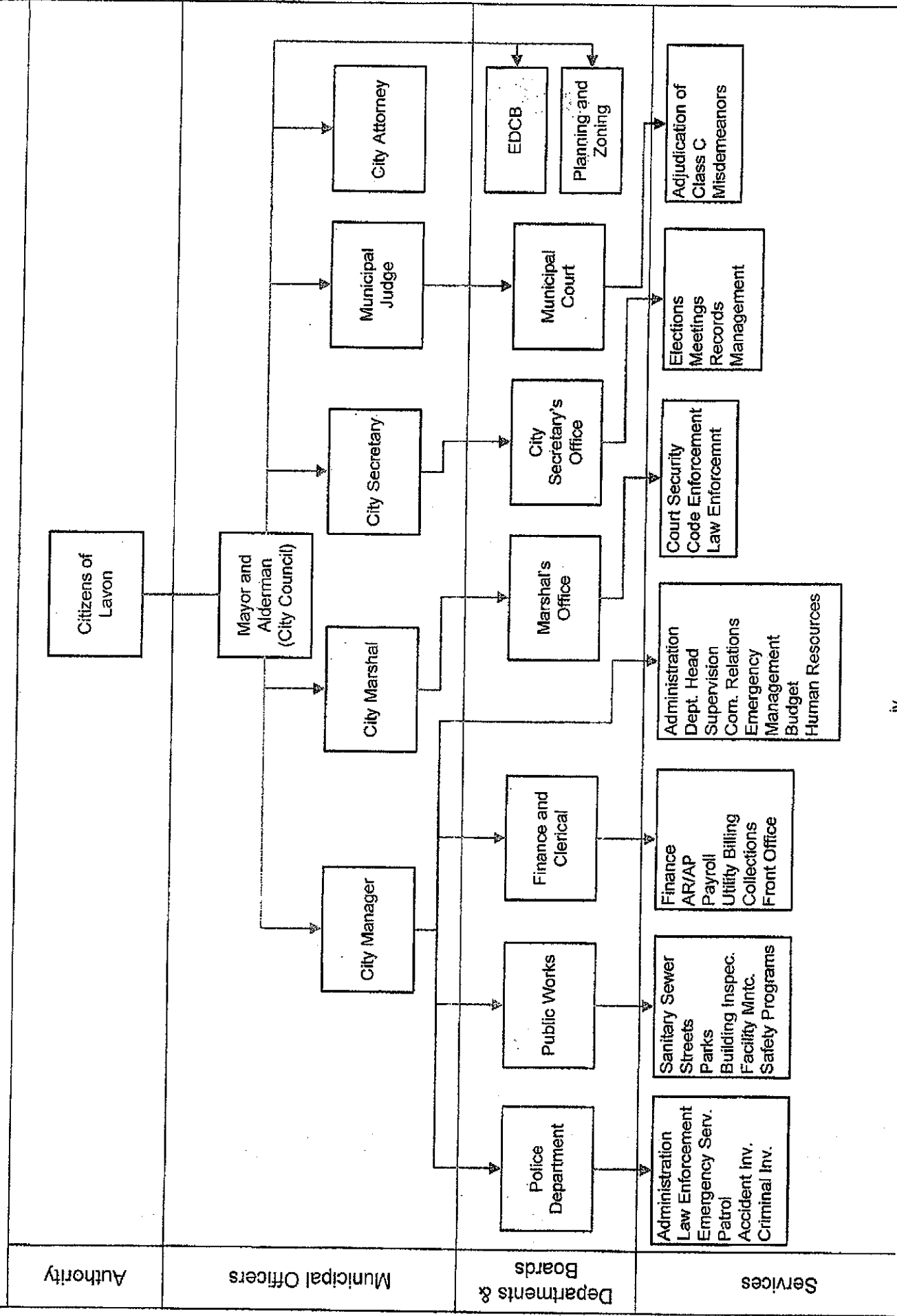
TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTORY SECTION	
Organizational Chart.....	iv
Principal Officials.....	v
II. FINANCIAL SECTION	
Independent Auditor's Report on Financial Statements.....	3
A. Management Discussion and Analysis.....	5
B. Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets.....	19
Statement of Activities.....	20
Fund Financial Statements:	
Governmental Fund Financial Statements	
Balance Sheet.....	22
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets.....	23
Statement of Revenues, Expenditures, and Changes in Fund Balances	24
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	25
Proprietary Fund Financial Statements	
Statement of Net Assets.....	26
Statement of Revenues, Expenditures, and Changes in Fund Net Assets.....	27
Statement of Cash Flows.....	28
Notes to the Financial Statements	29
C. Required Supplementary Information	
Budgetary Comparison Schedule - General Fund.....	45
Schedule of Pension Trust - TMRS Funding Progress and Contributions.....	46
D. Supplementary Information	
Nonmajor Governmental Funds	
Balance Sheet - Other Governmental Funds.....	49
Statement of Revenues, Expenditures and Changes in Fund Balances - Other Governmental Funds.....	50

This page is intentionally left blank.

INTRODUCTORY SECTION

City of Lavon Organization Chart FY 09-10



**City of Lavon, Texas
Principal Officials
September 30, 2010**

City Council

Norma Martin	Mayor
Chris Kane	Council member
Deborah Nabors	Council member
Gary Meeks	Council member
Aaron Heatley	Council member
Charles Teske, Jr.	Council member

This page is intentionally left blank.

FINANCIAL SECTION

This page is intentionally left blank.



Michael Conway, CPA
Nell Conway, CPA

Toll Free (800) 594-7951
Metro (903) 450-1200

CONWAY COMPANY CPAs PC
ACCOUNTANTS & ADVISORS

www.conwaycpas.com

PO Box 8234
Greenville, Texas 75404-8234

Member
American Institute of CPAs
Texas Society of CPAs

January 16, 2012

Independent Auditor's Report on Financial Statements

Mayor and City Council
City of Lavon
P.O. Box 340
Lavon, TX 75166

Mayor and City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lavon, Texas (the "City") as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lavon'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 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 the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lavon as of September 30, 2010, 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 January 16, 2012, on our consideration of the City of Lavon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 considered in assessing the results of our audit.

1021 Park Street
Commerce, Texas 75428
Office (903) 886-2123
Fax (903) 886-6580

8910 Wesley Street
Greenville, Texas 75402
Office (903) 455-9898
Fax (903) 454-3181

#1 Horizon Court
Rockwall, Texas 75032
Office (972) 771-1065
Fax (903) 454-3181

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Pension Trust – TMRS Funding Progress and Contributions, and the Budgetary Comparison Schedule for the General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Auditing Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. .

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lavon, Texas' financial statements as a whole. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Respectfully submitted,

CONWAY COMPANY CPAs, P.C.

Conway Company CPAs, P.C.

1021 Park Street
Commerce, Texas 75428
Office (903) 886-2123
Fax (903) 886-6580

8910 Wesley Street
Greenville, Texas 75402
Office (903) 455-9898
Fax (903) 454-3181

#1 Horizon Court
Rockwall, Texas 75032
Office (972) 771-1065
Fax (903) 454-3181

CITY OF LAVON, TEXAS

MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2010

As management of the City of Lavon ("City"), we offer the readers of the City of Lavon's financial statements this narrative overview and analysis of the financial activities of the City of Lavon for the fiscal year ended September 30, 2010. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The assets of the City of Lavon exceeded its liabilities at the close of the fiscal year by \$9,028,633 (net assets). Of this amount, \$37,823 is restricted for court, police and streets use. The amount of unrestricted net assets is \$144,187.
- The government's total net assets decreased by \$(161,704), excluding prior period adjustments, due to a decrease in the Governmental Funds that exceeded the increase in the Proprietary Funds.
- As of the close of the current fiscal year, the City of Lavon's governmental funds reported an ending fund balance of \$97,660, an increase of \$52,168, or 87%, including prior period adjustments, in comparison with the prior year. A total of \$59,837, or 61%, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General fund of \$59,837 was 4% of total general fund operating expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Lavon's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City.

Basic Financial Statements

The first two statements (pages 19-21) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (pages 22-28) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes** (pages 29-41). The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **required supplemental information** (pages 45-46) is provided to show details about the City's budgetary comparison and pension plan. **Supplemental information** (pages 49-50) presents combining information for nonmajor governmental funds.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The statement of net assets presents information on all of the City of Lavon's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both the statement of net assets and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting methods.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component unit. The governmental activities include most of the City's basic services such as public safety, public works, and general administration. Property taxes and sales taxes finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the utility services offered by the City of Lavon. The final category is the component unit.

The government-wide financial statements are on pages 19 - 21 of this report.

**CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2010**

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like all other governmental entities in Texas, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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

The City adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget amounts; 2) the final budget as amended by the council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. The Governmental Fund financial statements can be found on pages 22-25 of this report. The budgetary comparison schedule for the Governmental Fund can be found on page 45 of this report.

Proprietary Funds – The City has one type of proprietary fund which is the Utility Fund. The City charges customers for the services it provides, whether to outside customers or to other units within 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. Because these services benefit both governmental as well as business type functions, they have been included in both the governmental and business-type activities in the government-wide financial statements.

Proprietary Funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 26-28 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 29 – 41 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Lavon's budgetary comparison and the progress in funding its obligation to provide pension benefits to its employees.

**CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2010**

Government-Wide Financial Analysis

The government-wide financial statements for the fiscal year ended September 30, 2010 continue the implementation of a new standard of financial reporting for the City of Lavon, and many other units of government across the United States. Prior to fiscal year 2004, the City of Lavon maintained their governmental and proprietary fund groups as two separate and very distinct types of accounting without any type of consolidated statement that accurately reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of the City of Lavon. These statements were basically the equivalent of the fund financial statements that appear in this report with fiduciary funds and two account groups, the long-term debt and the general fixed assets, added in.

The changes in the financial statement reporting model are mandated by the Governmental Accounting Standards Board (GASB). GASB Statement 34 dictated the changes you see in the City of Lavon's financial reports as well as those of many other units of government. While the City of Lavon was required to implement these changes for the fiscal year ended September 30, 2004, other units were required to implement Statement 34 in 2002 and 2003.

CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2010

The City of Lavon Net Assets

Figure 1

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 492,203	\$ 978,419	\$ 241,018	\$ 202,625	\$ 733,221	\$ 1,181,044
Capital assets	8,870,623	9,291,694	-	-	8,870,623	9,291,694
Total assets	9,362,826	10,270,113	241,018	202,625	9,603,844	10,472,738
Current liabilities	395,056	902,088	156,155	163,543	551,211	1,065,631
Long-term liabilities	24,000	29,794	-	-	24,000	29,794
Total liabilities	419,056	931,882	156,155	163,543	575,211	1,095,425
Net assets:						
Invested in capital assets, net of related debt	8,846,623	9,261,900	-	-	8,846,623	9,261,900
Restricted	37,823	-	-	-	37,823	-
Unrestricted	59,324	76,331	84,863	39,082	144,187	115,413
Total net assets	\$ 8,943,770	\$ 9,338,231	\$ 84,863	\$ 39,082	\$ 9,028,633	\$ 9,377,313

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The net assets of the City of Lavon exceeded liabilities by \$9,028,633 as of September 30, 2010. The City's net assets decreased by \$(161,704), excluding prior period adjustments, for the fiscal year ended September 30, 2010. However, the largest portion, 97.98%, reflects the City's investment in capital assets (e.g. land, buildings, infrastructure, and equipment) less any related debt still outstanding that was issued to acquire those items. The City of Lavon uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Lavon's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Lavon's net assets, .42%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$144,187 is available for spending at the government's discretion (unreserved fund balance).

CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2010

The City of Lavon's Changes in Net Assets

Figure 2

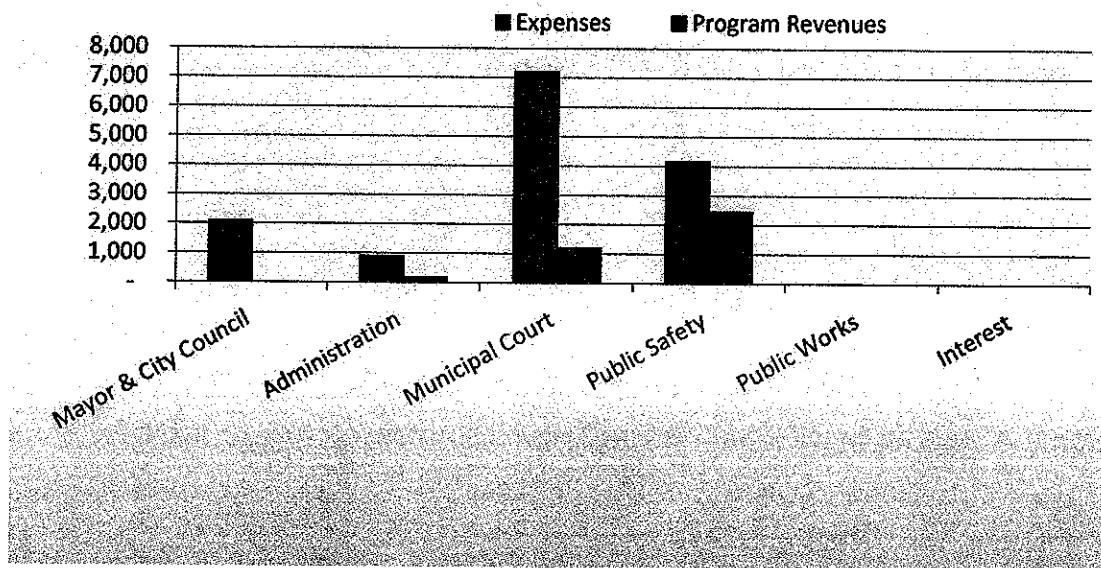
	Governmental Activities		Business Activities		Totals	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 386,338	\$ 363,670	\$ 447,008	\$ 395,815	\$ 833,346	\$ 759,485
General Revenues:						
Property tax	652,356	590,851	-	-	652,356	590,851
Sales tax	76,724	69,486	-	-	76,724	69,486
Franchise tax	76,808	69,559	-	-	76,808	69,559
Investment income	674	514	-	-	674	514
Miscellaneous	15,701	183	-	-	15,701	183
Total revenues	<u>1,208,601</u>	<u>1,094,263</u>	<u>447,008</u>	<u>395,815</u>	<u>1,655,609</u>	<u>1,490,078</u>
Expenses:						
Program expenses						
General government	471,067	417,429	-	-	471,067	417,429
Public safety	720,539	787,665	-	-	720,539	787,665
Public works	416,624	312,234	-	-	416,624	312,234
Interest on long-term debt	1,268	2,737	-	-	1,268	2,737
Water and sewer	-	-	198,595	165,976	198,595	165,976
Total expenses	<u>1,609,498</u>	<u>1,520,065</u>	<u>198,595</u>	<u>165,976</u>	<u>1,808,093</u>	<u>1,686,041</u>
Change in net assets before other						
Financing Sources (Uses)	(400,897)	(425,802)	248,413	229,839	(152,484)	(195,963)
Other financing sources (uses):						
Transfers	-	450,000	-	(450,000)	-	-
Extraordinary Item	(2,942)	-	(6,278)	-	(9,220)	-
Total other financing sources (uses)	<u>(2,942)</u>	<u>450,000</u>	<u>(6,278)</u>	<u>(450,000)</u>	<u>(9,220)</u>	<u>-</u>
Total change in net assets	(403,839)	24,198	242,135	(220,161)	(161,704)	(195,963)
Net assets - October 1	9,338,231	9,310,120	39,082	259,243	9,377,313	9,569,363
Prior period adjustments	9,378	3,913	(196,354)	-	(186,976)	3,913
Net assets - September 30	<u>\$ 8,943,770</u>	<u>\$ 9,338,231</u>	<u>\$ 84,863</u>	<u>\$ 39,082</u>	<u>\$ 9,028,633</u>	<u>\$ 9,377,313</u>

CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2010

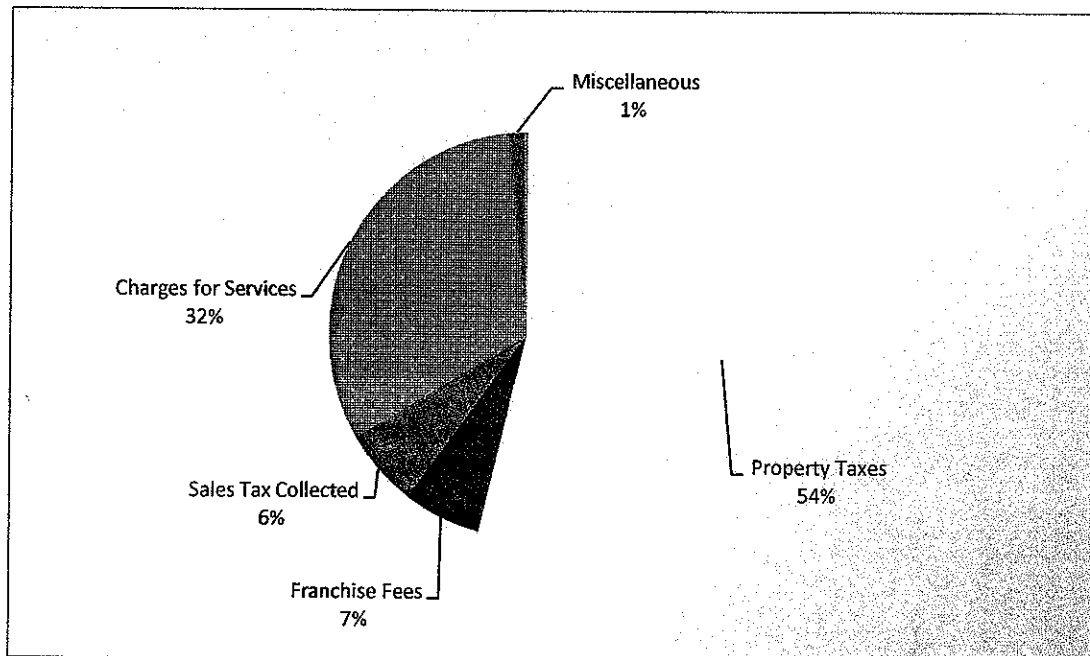
Governmental-type activities - The Governmental Fund decreased the City's net assets by \$(403,839), excluding prior period adjustments. Key elements of this decrease are as follows:

Total revenues increased \$114,338 or 10.4% and at the same time total expenditures increased \$89,433 or 5.8%.

Expenses and Program Revenues - Governmental Activities



Revenues By Source - Governmental Activities

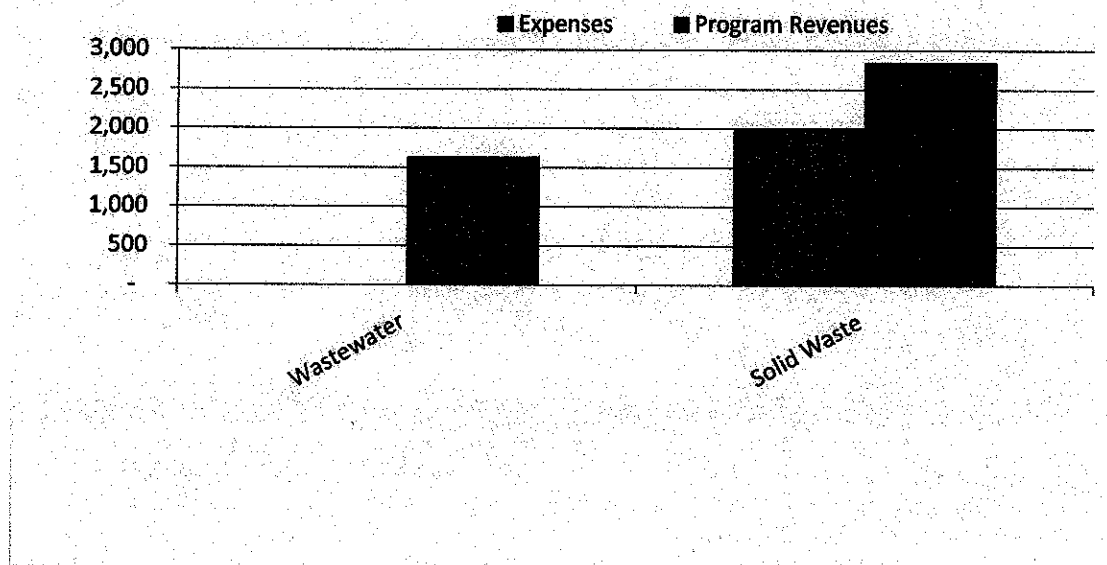


CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2010

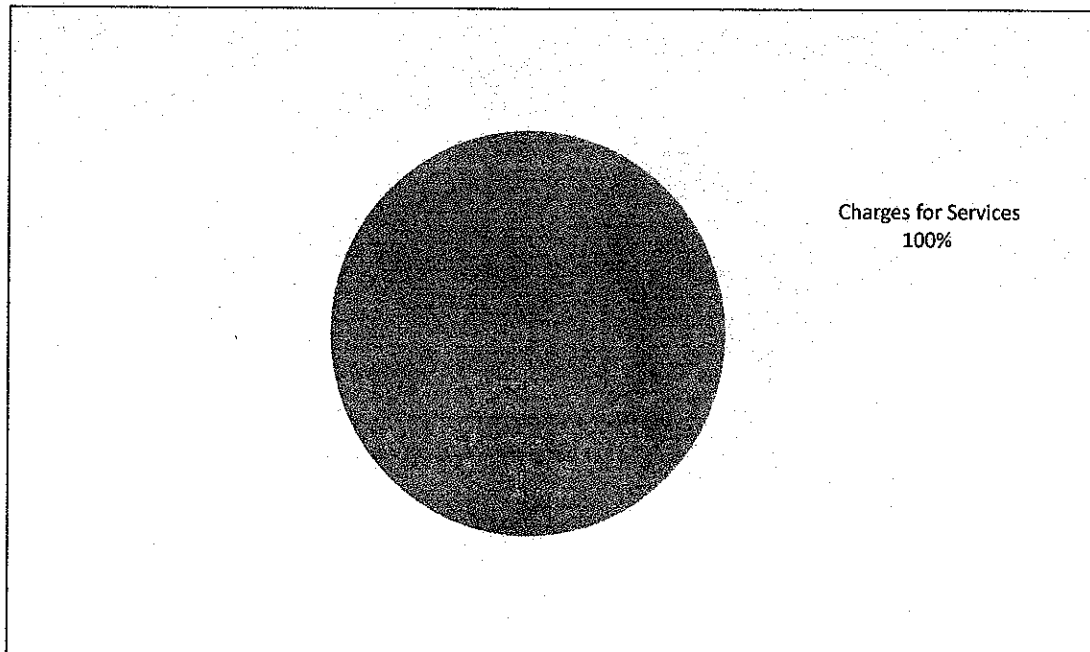
Business-type activities - The Proprietary Funds increased the City's net assets by \$242,135, excluding prior period adjustments. Key elements of this increase are as follows:

Total revenues increased \$51,193 or 12.9% and at the same time total expenditures only increased \$32,619 or 19.65%.

Expenses and Program Revenues - Business Activities



Revenues By Source - Business Activities



Financial Analysis of the City's Funds

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

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$59,837. As a measure of the general fund's liquidity, it may be useful to compare the unrestricted fund balance to total fund expenditures. Unreserved fund balance represents 4% of total General Fund operating expenditures.

At September 30, 2010, the governmental funds of the City reported total fund balances of \$97,660, an 87% increase from last year, including prior period adjustments.

General Fund Budgetary Highlights: During the fiscal year, the City made several revisions to the budget. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; (2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and (3) increases in appropriations that become necessary to maintain services.

Revenues were higher than the budgeted amounts mainly in the area of fines and forfeitures, and licenses and permits.

Expenditures were lower than budgeted amounts mainly in the areas of public works and general government.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net assets of the proprietary funds at the end of the fiscal year amounted to \$84,863.

CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2010

Capital Asset and Debt Administration

Capital assets - The City's investment in capital assets for its governmental and business-type activities as of September 30, 2010, totals \$8,870,623 (net of accumulated depreciation). These assets include land, buildings & improvements, infrastructure, vehicles and equipment. The decrease in the City's capital assets for governmental activities was 4.5%. The City does not report any capital assets for business-type activities.

Major capital asset transactions during the year include the following additions and disposals:

- Police Vehicle Sales/Additions
- Removal of obsolete assets
- New equipment
- Sale of Land

Figure 3

City of Lavon
Capital Assets
September 30, 2010
(net of accumulated depreciation)

	Governmental		Business-type		Total	
	2010	2009	2010	2009	2010	2009
Land	\$1,676,872	\$1,892,335	\$ -	\$ -	\$1,676,872	\$1,892,335
Buildings & Improvements	432,999	460,564	-	-	432,999	460,564
Infrastructure	6,663,523	6,844,590	-	-	6,663,523	6,844,590
Equipment	8,580	6,563	-	-	8,580	6,563
Vehicles	88,649	87,642	-	-	88,649	87,642
Total	<u>\$8,870,623</u>	<u>\$9,291,694</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$8,870,623</u>	<u>\$9,291,694</u>

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

Long-Term Debt - As of September 30, 2010, the City had one outstanding capital lease with the Ford Motor Company in the amount of \$24,000, with \$10,461 payable within one year. The City also retired two capital leases in 2010. The net effect is a decrease in long term debt of \$(5,794), or 19%, less than last year.

City of Lavon
Certificates of Obligation and Revenue Bonds
As of September 30, 2010

	Governmental		Business-type		Total	
	2010	2009	2010	2009	2010	2009
Capital Leases Payable	\$ 24,000	\$ 29,794	\$ -	\$ -	\$ 24,000	\$ 29,794
	<u>\$ 24,000</u>	<u>\$ 29,794</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,000</u>	<u>\$ 29,794</u>

More detailed information about the City's long-term debt is presented in Note G to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The annual budget is developed to provide efficient, effective and economic uses of the City's resources, as well as a means to accomplish the highest priority objectives. Through the budget, the City Council and administration set the direction of the City, allocate its resources, and establish its priorities.

The City annually reviews all of its fees as part of the budget adoption process. Fees for general government as well as user charges are evaluated and, if needed, adjusted to meet the needs of the operations of the systems. The budget is adopted and a tax rate is approved to meet the demands of the budget. For 2011, rates set for fees and taxes are estimated to meet operational demand similar to the current year.

The adopted tax rate for FY 2010-2011 will remain at a tax rate of \$0.414500 per \$100 valuation.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in the government's finances. Questions concerning the information found in this report or requests for additional financial information should be directed to the City of Lavon, PO Box 340, Lavon, Texas 75166.

This page is intentionally left blank.

BASIC FINANCIAL STATEMENTS

This page is intentionally left blank.

CITY OF LAVON, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

	<u>Primary Government</u>			
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Unit</u>
ASSETS				
Cash and cash equivalents	\$ 93,094	\$ 72,094	\$ 165,188	\$ 185,733
Receivables (net of allowance for uncollectibles)	59,704	27,180	86,884	-
Prepaid expenses	2,840		2,840	
Due from City	-	-	-	6,379
Restricted assets:				
Cash and cash equivalents	336,565	141,744	478,309	-
Capital assets not being depreciated:				
Land	1,676,872	-	1,676,872	-
Capital assets net of accumulated depreciation:				
Building & improvements	432,999	-	432,999	-
Infrastructure	6,663,523	-	6,663,523	-
Equipment	8,580	-	8,580	-
Vehicles	88,649	-	88,649	-
Total assets	9,362,826	241,018	9,603,844	192,112
LIABILITIES				
Accounts payable	33,488	14,411	47,899	-
Payroll liabilities payable	17,944	-	17,944	-
Sales tax payable	1,620	-	1,620	-
Accrued interest payable	513	-	513	-
Grant Payable	1,118	-	1,118	-
Due to EDB	6,379	-	6,379	-
Liabilities payable from restricted assets	333,994	141,744	475,738	-
Non-current liabilities:				
Due within one year:				
Capital lease payable	10,461	-	10,461	-
Due in more than one year:				
Capital lease payable	13,539	-	13,539	-
Total liabilities	419,056	156,155	575,211	-
NET ASSETS				
Investment in capital assets, net of related debt	8,846,623	-	8,846,623	-
Restricted for:				
Court	30,338	-	30,338	-
Police	6,420	-	6,420	-
Streets	1,065	-	1,065	-
Unrestricted	59,324	84,863	144,187	192,112
Total net assets	\$ 8,943,770	\$ 84,863	\$ 9,028,633	\$ 192,112

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

CITY OF LAVON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

		Program Revenues	
		Charges for	Capital
	Expenses	Services	Grants and
			Contributions
Function/Program Activities			
Primary Government			
Governmental Activities:			
Legislative	\$ 172,697	\$ -	\$ -
Administration	207,850	-	-
Municipal court	90,520	18,921	-
Public safety	720,539	121,463	-
Public works	416,624	245,954	-
Interest on long-term debt	1,268	-	-
Total governmental activities	1,609,498	386,338	-
Business-type Activities:			
Wastewater	-	162,719	-
Solid waste	198,595	284,289	-
Total business-type activities	198,595	447,008	-
Total primary government	1,808,093	833,346	-
Component Unit Activities:			
Economic Development Corporation	11,362	-	-
Total component unit activities	\$ 11,362	\$ -	\$ -

General revenues:

Property tax
Sales & mixed beverage tax
Franchise tax
Investment income
Miscellaneous
Extraordinary items
Total general revenues
Change in net assets
Net assets - beginning
Prior period adjustments
Net assets - ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business Activities	Total	
\$ (172,697)	\$ -	\$ (172,697)	\$ -
(207,850)	-	(207,850)	-
(71,599)	-	(71,599)	-
(599,076)	-	(599,076)	-
(170,670)	-	(170,670)	-
(1,268)	-	(1,268)	-
(1,223,160)	-	(1,223,160)	-
-	162,719	162,719	-
-	85,694	85,694	-
-	248,413	248,413	-
(1,223,160)	248,413	(974,747)	-
-	-	-	(11,362)
\$ -	\$ -	\$ -	\$ (11,362)
\$ 652,356	\$ -	\$ 652,356	\$ -
76,724	-	76,724	38,336
76,808	-	76,808	-
674	-	674	411
15,701	-	15,701	-
(2,942)	(6,278)	(9,220)	-
819,321	(6,278)	813,043	38,747
(403,839)	242,135	(161,704)	27,385
9,338,231	39,082	9,377,313	164,727
9,378	(196,354)	(186,976)	-
\$ 8,943,770	\$ 84,863	\$ 9,028,633	\$ 192,112

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

CITY OF LAVON, TEXAS
BALANCE SHEET - GOVERNMENTAL FUND
SEPTEMBER 30, 2010

	General Fund	Other Governmental Funds	Total
ASSETS			
Cash and cash equivalents	\$ 57,842	\$ 35,252	\$ 93,094
Receivables (net of allowance for uncollectibles)	59,704	-	59,704
Prepaid expenses	2,840	-	2,840
Cash and cash equivalents - restricted	333,994	2,571	336,565
Total assets	454,380	37,823	492,203
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	33,488	-	33,488
Payroll liabilities payable	17,944	-	17,944
Sales tax payable	1,620	-	1,620
Grant payable	1,118	-	1,118
Due to EDB	6,379	-	6,379
Liabilities payable from restricted assets	333,994	-	333,994
Total liabilities	394,543	-	394,543
Fund Balance:			
Reserved for:			
Court	-	30,338	30,338
Police	-	6,420	6,420
Streets	-	1,065	1,065
Unreserved-undesignated	59,837	-	59,837
Total fund balance	59,837	37,823	97,660
Total liabilities and fund balance	\$ 454,380	\$ 37,823	\$ 492,203

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

**CITY OF LAVON, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010**

Total fund balances - governmental funds balance sheet	\$ 97,660
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	9,894,313
Accumulated depreciation has not been included in the governmental fund financial statements.	(1,023,690)
Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the governmental fund financial statements, an interest expenditure is reported when due.	(513)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(24,000)</u>
Net assets of governmental activities - statement of net assets	<u>\$ 8,943,770</u>

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

CITY OF LAVON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	General Fund	Other Governmental Funds	Total Governmental Fund
REVENUES			
Taxes:			
Property	\$ 652,356	\$ -	\$ 652,356
Sales	76,724	-	76,724
Franchise	76,808	-	76,808
Licenses and permits	245,954	-	245,954
Fines and fees	138,375	2,009	140,384
Investment income	674	-	674
Miscellaneous	15,701	-	15,701
Total revenues	1,206,592	2,009	1,208,601
EXPENDITURES			
Current operating:			
Legislative	172,697	-	172,697
Administration	205,199	-	205,199
Public works	231,934	-	231,934
Municipal court	88,881	1,639	90,520
Fire department	34,661	-	34,661
Police	625,790	-	625,790
Debt service:			
Principal retirement	41,793	-	41,793
Interest	910	-	910
Capital outlays	41,999	-	41,999
Total expenditures	1,443,864	1,639	1,445,503
Excess (deficiency) of revenues over (under) expenditures	(237,272)	370	(236,902)
Other revenues and financing sources (uses)			
Capital lease proceeds	35,999	-	35,999
Total other financing sources (uses)	35,999	-	35,999
Extraordinary items	(2,942)	-	(2,942)
Net change in fund balances	(204,215)	370	(203,845)
Fund balances, October 1	5,324	40,168	45,492
Prior period adjustments	258,728	(2,715)	256,013
Fund balances, September 30	\$ 59,837	\$ 37,823	\$ 97,660

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

**CITY OF LAVON, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Net change in fund balances - statement of revenues, expenditures and changes in fund balances - governmental funds	\$ (203,845)
Amounts reported for governmental activities in the statement of activities are different because:	
Current year capital outlays are expenditures in the fund financial statements, but these are shown as an increase in capital assets in the government-wide financial statements. The effect of removing the 2010 capital outlays is to increase net assets.	41,999
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The effect of recording the current year's depreciation is to decrease net assets.	(247,428)
Current year long-term debt principal payments on contractual obligations, are expenditures in the fund financial statements but are shown as reductions in long-term debt in the government-wide financial statements.	41,793
Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements an interest expenditure is reported when due.	(359)
In governmental fund financial statements the proceeds from capital leases are shown as an increase in financial resources. In the government-wide financial statements, this is shown as a reduction of the asset.	<u>(35,999)</u>
Change in net assets - statement of activities	<u>\$ (403,839)</u>

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

CITY OF LAVON, TEXAS
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2010

	Wastewater Utility	Solid Waste Utility	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 85,666	\$ (13,572)	\$ 72,094
Receivables (net of allow for uncollectibles)	12,132	15,048	27,180
Cash and cash equivalents - restricted	141,744	-	141,744
Total current assets	239,542	1,476	241,018
Total assets	239,542	1,476	241,018
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities:			
Accounts payable	-	14,411	14,411
Liabilities payable from restricted assets	141,744	-	141,744
Total current liabilities	141,744	14,411	156,155
Total liabilities	141,744	14,411	156,155
NET ASSETS			
Unrestricted	97,798	(12,935)	84,863
Total net assets	\$ 97,798	\$ (12,935)	\$ 84,863
Total Liabilities and Net Assets	\$ 239,542	\$ 1,476	\$ 241,018

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

**CITY OF LAVON, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	Wastewater Utility	Solid Waste Utility	Total
OPERATING REVENUES:			
Charges for services	\$ 162,719	\$ 284,289	\$ 447,008
Total operating revenues	<u>162,719</u>	<u>284,289</u>	<u>447,008</u>
OPERATING EXPENSES:			
Supplies and materials	-	10,258	10,258
Contractual services	-	169,914	169,914
Sales tax	-	18,423	18,423
Total operating expenses	<u>-</u>	<u>198,595</u>	<u>198,595</u>
Operating income (loss)	<u>162,719</u>	<u>85,694</u>	<u>248,413</u>
NON-OPERATING REVENUES (EXPENSES):			
Transfers	-	-	-
Total non-operating revenues (expenses)	<u>-</u>	<u>-</u>	<u>-</u>
Extraordinary items	(6,278)	-	(6,278)
Change in net assets	156,441	85,694	242,135
Net assets, October 1	21,401	17,681	39,082
Prior period adjustment	(80,044)	(116,310)	(196,354)
Net assets, September 30	<u>\$ 97,798</u>	<u>\$ (12,935)</u>	<u>\$ 84,863</u>

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

**CITY OF LAVON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	Business-type Activities
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 243,565
Cash paid to suppliers	(205,982)
Cash paid to employees	-
Net cash provided by operating activities	<u>37,583</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers to Other Funds	-
Net cash used for non-capital financing activities	<u>-</u>
Net increase (decrease) in cash and cash equivalents	37,583
Cash and cash equivalents at beginning of year	176,255
Cash and cash equivalents at end of year	<u><u>\$ 213,838</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	\$ 248,413
Adjustment to reconcile operating income to net cash provided by operating activities	
Extraordinary Item	(6,278)
Prior Period Adjustment	(196,354)
Changes in assets and liabilities:	
Decrease (increase) in:	
Receivables	(810)
Increase (decrease) in:	
Accounts payable	14,411
Other liabilities	(21,799)
Total adjustments	<u>(210,830)</u>
Net cash provided by operating activities	<u><u>\$ 37,583</u></u>

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

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

A. Summary of Significant Accounting Policies

The combined financial statements of the City of Lavon, Texas ("City") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB). The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this note. The remainder of the notes are organized to provide concise explanation, including required disclosures of budgetary matters, assets, liabilities, fund equity, revenues, expenditures/expenses, and other information considered important to gaining a clear picture of the City's financial activities for the current year.

1. Reporting Entity

The City is a municipal corporation governed by an elected mayor and five-member council and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by Government Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity," as amended by GASB 39 "Determining Whether Certain Organizations are Component Units".

Under GASB 14, component units are organizations for which the City is financially accountable and all other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City may be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The financial statements of the component units may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government. GASB 39 added clarification to GASB 14 by including entities which meet all three of the following requirements:

1. The economic resources received or held by the separate organization are entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component unit, is entitled to, or have the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component unit, is entitled to, or have the ability to otherwise access, are significant to the primary government.

Discretely Presented Component Unit - The Lavon Economic Development Corporation ("EDC") is a discretely presented component unit of the City. The EDC is governed by a board of seven directors, all of whom are appointed by the City Council of the City of Lavon and whom can be removed from office by the City Council at its will. The EDC was incorporated in the state of Texas in 2004. The nature and significance of the relationship between the primary government and the EDC is such that exclusion would cause the City's financial statements to be misleading or incomplete. The EDC issues separate audited financial statements that are available from the City of Lavon Administrative offices at 695 Main Street, #400, Lavon, TX 75166.

2. Financial Statement Presentation

The basic financial statements are prepared in conformity with GASB Statement No. 34 which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities and business-type activities on the statement of net assets and statement of activities. Significantly, the City's statement of net assets includes both noncurrent assets and noncurrent liabilities. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which use the modified accrual basis of accounting and the current financial resources measurement focus for the governmental funds. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The City also presents Management's Discussion and Analysis which includes an analytical overview of the City's financial activities. In addition, a budgetary comparison statement is presented in the required supplementary section that compares the original adopted and final amended General Fund budget with actual results.

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

A. Summary of Significant Accounting Policies

3. 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, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and 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. 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 taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the funds financial statements. The major governmental funds are the general fund and street improvements fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements. The non-major funds are detailed in the combining statements in the supplementary section.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer funds are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting the definition are reported as non-operating revenues and expenses.

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

b. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time 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. The government-wide and proprietary fund financial statements follow the accounting set forth by the Governmental Accounting Standards Board and all pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989.

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 compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

A. Summary of Significant Accounting Policies

3. Basis of Presentation, Basis of Accounting

b. Measurement Focus, Basis of Accounting (continued)

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

The City reports the following major governmental fund:

The *General Fund* is the operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contracted agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's water, sewer and environmental waste services are charges to customers for sales and services. Operating expenses for Proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City has chosen not to apply future FASB standards.

The City reports the following major proprietary funds:

The *Wastewater Utility Fund* accounts for the operation of the City's wastewater utility system, a self-supporting activity, which renders services on a user charge basis to residents and businesses located in and outside of Lavon.

The *Solid Waste Fund* accounts for the operation of the City's solid waste collection activity. The City collects monthly user charges from subscribers and contracts with a third party for the collection of solid waste.

4. Financial Statement Amounts

a. Cash and Cash Equivalents

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

b. Receivable and Payable Balances

Interfund Receivables/Payables - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to" or "due from" other funds for the current portion of interfund loans or "advances to" or "advances from" other funds for the non-current portion of interfund loans. All other outstanding balances between funds are reported as "due to" or "due from" other funds.

Trade and property tax receivables are shown net of an allowance for uncollectible.

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

A. Summary of Significant Accounting Policies

4. Financial Statement Amounts (continued)

c. Property Taxes

Property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City. Assessed value represents the appraisal value less applicable exemptions authorized by the City Council. The Appraisal Board of Review establishes appraised values at 100% for estimated market value. A tax lien attaches to the property on January 1 of each year, to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on that property, whether or not the taxes are imposed in the year the lien attaches.

Taxes are due October 1 immediately following the levy date and are delinquent after the following January 31st. Revenues are recognized as the related ad valorem taxes are collected. Additional delinquent property taxes estimated to be collectible within 60 days following the close of the fiscal year have been recognized as a revenue at fund level.

In Texas, county-wide central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its market value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every five years; however, the City may, at its own expense, require annual reviews of appraisal values. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, take legal action. Under this legislation, the City continues to set tax rates on City property. However, if the effective tax rate, including tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year.

The statutes of the State of Texas do not prescribe a legal debt limit. However, Article XI, Section 5 of the Texas Constitution applicable to cities of more than 5,000 in population limits the ad valorem tax rate to \$2.50 per \$100 assessed value.

d. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature of normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of the other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the governmental funds represent cash and cash equivalents and investments set aside for Police, Court, and Street Departments' use.

e. Capital Assets

Capital assets, which include land, buildings, equipment, vehicles and infrastructure, purchased or acquired, are reported in the applicable governmental or business-like activities columns in the government-wide financial statements and proprietary fund types. The City defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets of business-like activities is included as part of the capitalized value of the assets constructed.

Management elected not to retroactively report infrastructure assets within the scope of GASB 34.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings, structures and improvements	20-50 years
Equipment, including vehicles	5-20 years
Infrastructure	15-100 years

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

A. Summary of Significant Accounting Policies

4. Financial Statement Amounts (continued)

f. Compensated absences

Due to the immaterial amounts involved, the City does not accrue compensated absences.

g. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Currently, the City does not have any deferred charges or amortization expenses.

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

h. Fund Equity

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

i. Comparative Data/Reclassification

Comparative total data for the current year to budget have been presented in the supplementary section of the financial statement in order to provide an understanding of budget to actual. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

j. 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.

k. Use of Estimates

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

l. Program Revenues

Certain revenues such as charges for services and impact fees are included in program revenues.

m. Program Expenses

Certain indirect costs such as administrative costs are included in the program expense reported for individual functional activities.

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Explanation</u>
Solid Waste Utility Fund	\$ (12,935)	Recurring issue from the prior year

3. Budgets and Budgetary Accounting

The City adopts an "appropriated budget" of governmental fund types on the modified accrual basis of accounting by department. The City is required to present the adopted and final amended budgeted revenues and expenditures. The City compares the final amended budget to actual revenues and expenditures. The General Fund budget is included in the Required Supplementary Section and other informational budgets are presented in the supplemental information.

The following procedures are followed in establishing the budgetary data:

- No later than the fifteenth day of each August, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Budgets for the General Fund and Debt Service Fund are legally adopted on a basis consistent with GAAP. The majority of the City's Capital Projects Funds are budgeted on an annual basis.
- According to the City Charter, total estimated expenditures of the General Fund and Debt Service Fund are to be budgeted.
- The level of control (the level at which expenditures may not exceed budget) is the fund level. The City Manager and/or Finance Clerk are authorized to approve a transfer of budgeted amounts within departments; however, any revisions that alter the total of any fund must be approved by the City Council.

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 banks dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

C. Deposits and Investments (continued)

Cash Deposits

At September 30, 2010, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$643,497 and the bank balance was \$662,184. The City's cash deposits at September 30, 2010 and during the year ended September 30, 2010, were covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. Cash and cash equivalents as of September 30, 2010 consist of and are classified in the accompanying financial statements as follows:

Statement of net assets:

Primary Government

Cash and cash equivalents	\$ 165,188
Restricted assets-cash and cash equivalents	478,309
Total cash and cash equivalents	<u>\$ 643,497</u>

Governmental - Restricted Cash

Public Improvement Development	\$ 247,845
Grand Heritage	86,150
Police	2,570
Total Governmental	<u>336,565</u>

Business-type - Restricted Cash

Sewer Tap Fees	141,744
Total Business-type	<u>141,744</u>
Total Restricted cash	<u>\$ 478,309</u>

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 national recognized agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the even of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all City investments and funds on deposit with a depository bank, other than investments which are obligations of the U.S. government and its agencies and instrumentalities.

As of September 30, 2010, the City's deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

Concentration of Credit Risk

This 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.

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.

Foreign Currency Risk

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

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

D. Receivables

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

	Governmental	Proprietary	Total
Receivables:			
Taxes	\$ 36,546	\$ -	\$ 36,546
Fees and Charges	186,965	30,579	217,544
Other Receivables	4,441	-	4,441
Gross Receivables	227,952	30,579	258,531
Less: allowance for uncollectible	(168,248)	(3,399)	(171,647)
Net Total Receivables	\$ 59,704	\$ 27,180	\$ 86,884

E. Capital Assets

Capital asset activity for the period ended September 30, 2010 was as follows:

	Beginning Balances	Prior Period Adjustments	Additions	Decreases	Ending Balances
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 1,892,335	\$ -	\$ -	\$ (215,463)	\$ 1,676,872
Total capital assets, not being depreciated:	1,892,335	-	-	(215,463)	1,676,872
Capital assets, being depreciated:					
Buildings & Improvements	554,289	-	-	-	554,289
Infrastructure	7,242,632	-	-	-	7,242,632
Furniture & Fixtures	13,646	-	-	(13,646)	-
Equipment	104,759	28,000	6,000	(39,146)	99,613
Vehicles	353,237	-	35,999	(68,329)	320,907
Total capital assets being depreciated	8,268,563	28,000	41,999	(121,121)	8,217,441
Less accumulated depreciation for:					
Buildings & Improvements	(93,725)	-	(27,565)	-	(121,290)
Infrastructure	(398,042)	-	(181,067)	-	(579,109)
Furniture & Fixtures	(13,646)	-	-	13,646	-
Equipment	(98,196)	(28,000)	(3,804)	38,967	(91,033)
Vehicles	(265,595)	-	(34,992)	68,329	(232,258)
Total accumulated depreciation	(869,204)	(28,000)	(247,428)	120,942	(1,023,690)
Total capital assets, being depreciated, net	7,399,359	-	(205,429)	(179)	7,193,751
Governmental activities capital assets, net	\$ 9,291,694	\$ -	\$ (205,429)	\$ (215,642)	\$ 8,870,623

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

Governmental activities:	
Administration	\$ 2,650
Police and Fire Protection	60,088
Public Works	184,690
Total depreciation expense - governmental activities	\$ 247,428

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

F. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Tax revenues which are reported as deferred revenue in the governmental funds are recorded as revenue in the government-wide financial statements. At the end of the current fiscal year, the City does not have any components of deferred revenue reported in the governmental funds.

G. Long-Term Obligations

A summary of long-term debt transactions, including the current portion, for the year ended September 30, 2010, is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Governmental Activities					
Capital Leases Payable	\$ 29,794	\$ 35,999	\$ (41,793)	\$ 24,000	\$ 10,461
Governmental activity					
Long-term liabilities	\$ 29,794	\$ 35,999	\$ (41,793)	\$ 24,000	\$ 10,461

Changes in Governmental Long-term Debt

Description	Interest Rate Payable	Amounts Issue	Amounts Outstanding September 30		Retired	Amounts Outstanding September 30		Due Within One Year
			2009	Issued		2010		
Ford Motor Company	5.9%	\$ 61,928	\$ 18,223	\$ -	\$ (18,223)	\$ -		\$ -
Ford Motor Company	6.6%	32,727	11,571	-	(11,571)	-		-
Ford Motor Company	7.1%	35,999	-	35,999	(11,999)	24,000		10,461
Total Long Term Obligations		\$ 130,654	\$ 29,794	\$ 35,999	\$ (41,793)	\$ 24,000		\$ 10,461

The City incurred a capital lease payable with Ford Motor Credit Company in the amount of \$33,665 for the purchase of one new police vehicle.

Debt service requirements are as follows:

Year Ending September 30:	Total		
	Principal	Interest	Requirements
2011	\$ 10,461	\$ 1,538	\$ 12,000
2012	11,204	796	12,000
Totals	\$ 21,665	\$ 2,334	\$ 24,000

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

H. Pension Plan

1. Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plant in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing TMRS, P O Box 149153, Austin, TX 78714-9153 or by calling 800.924.8677; in addition, the report is available on TMRS' website at www.TMRS.com.

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

Deposit Rate:	5%
Matching Ratio (City to Employee):	2-1
A member is vested after	5 yrs
The Service Retirement Eligibilities for the City are:	5 yrs/age 60, 20 yrs/any age.
Updated Service Credit	0%
Annuity Increase (to retirees)	0% of CPI

2. Contributions

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

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves at the basis of the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

City of Lavon Schedule of Actuarial Liabilities and Funding Progress				
Actuarial Valuation Date	12/31/07	12/31/08	12/31/09	
Actuarial Value of Assets	\$ 172,399	\$ 228,418	\$ 276,767	
Actuarial Accrued Liability	\$ 188,658	\$ 240,607	\$ 355,220	
Percentage Funded	91.4%	94.9%	77.9%	
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	\$ 16,259	\$ 12,189	\$ 78,453	
Annual Covered Payroll	\$ 711,948	\$ 753,591	\$ 724,604	
UAAL as a Percentage of Covered Payroll	2.3%	1.6%	10.8%	
Net Pension Obligation (NPO) at the Beginning of Period	\$ -	\$ -	\$ -	
Annual Pension Cost:				
Annual required contribution (ARC)	Plus \$ 17,288	\$ 18,435	\$ 16,458	
Contributions Made	Less (17,288)	(18,435)	(16,458)	
NPO at the end of the period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2008 and 2009 actuarial valuations.

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

H. Pension Plan

2. Contributions (continued)

Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level %	Level %	Level %
Asset Valuation method	Amortized Cost	Amortized Cost	10-year Smoothed Market
Amortization period	25 yrs-closed	24 yrs-closed	23 yrs-closed
Actuarial assumptions:			
Investment rate of return	7%	7.5%	7.5%
Inflation rate	3.00%	3.00%	3.00%
Projected salary increase	varies	varies	varies

3. Group-term Life Insurance

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit", or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

I. Health Care Coverage

During the year ended September 30, 2010, employees of the City were covered by a health insurance plan with TML Intergovernmental Employee Benefits Pool-United Health Care Choice Plan Plus ("Plan"). The City contributed \$377 per month per employee and \$0 of the cost for dependent's. Employees, at their option, authorized payroll withholdings to pay contributions for dependents. All contributions were paid to TML-IEBP. The Plan was authorized by article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

J. Insurance Coverage

Below is a schedule of insurance in force:

	Policy Number	Description of Coverage	Amount of Coverage	Period Covered	Premium	Deductible
Liability Coverage:						
TX Municipal League Joint Self Ins Fund	4897	General	\$ 2,000,000 per occurrence	10/01/09 to 10/01/10	\$ 828	\$ 2,500
TX Municipal League Joint Self Ins Fund	4897	Law Enforcement	\$ 2,000,000 per occurrence	10/01/09 to 10/01/10	\$ 6,378	\$ 1,000
TX Municipal League Joint Self Ins Fund	4897	Errors & Omissions	\$ 2,000,000 per claim	10/01/09 to 10/01/10	\$ 1,418	\$ 1,000
TX Municipal League Joint Self Ins Fund	4897	Automotive	\$ 500,000 per occurrence	10/01/09 to 10/01/10	\$ 2,944	\$ 2,500
TX Municipal League Joint Self Ins Fund	4897	Automotive Phys. Damage	Per Schedule	10/01/09 to 10/01/10	\$ 1,958	\$ 1,000
Property Coverage:						
TX Municipal League Joint Self Ins Fund	4897	Real and Personal	Replacement Cost	10/01/09 to 10/01/10	\$ 1,754	\$ 1,000
TX Municipal League Joint Self Ins Fund	4897	Mobile Equipment	Replacement Cost	10/01/09 to 10/01/10	\$ 450	\$ 1,000
TX Municipal League Joint Self Ins Fund	4897	Boiler and Machinery	Replacement Cost	10/01/09 to 10/01/10	Included	\$ 1,000

In accordance with state statute, the City was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through Texas Municipal League, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Stop-loss coverage was in effect for individual claims exceeding \$125,000 and for aggregate loss. According to the latest actuarial opinion dated October 1, 2009, the unfunded claim benefit obligation included no reported claims that were unpaid and no estimated claims incurred, but not reported.

K. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City had general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

L. Litigation

The City is currently party to an investigation involving theft of City assets. As of January 16, 2012, the City has not settled this lawsuit and they are still undergoing investigation with the Texas Rangers. See Note N below for further details.

The City is party to several legal actions arising in the ordinary course of business. In the opinion of the City's management, the City has adequate legal defense and/or insurance coverage regarding these actions and does not believe that it will materially affect the City's operations or financial position.

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

M. Prior Period Adjustment

Prior period adjustments are transactions that relate to a prior year. The following is a breakdown of prior period adjustments:

Governmental Funds

General Fund	\$ 208,909	To adjust cash accounts
	10,052	To adjust payable accounts to actual
	1,871	To reclassify principal payments and record interest expense
	4,472	To record TML receivable for equity return received in 12/2010
	3,549	To reverse an incorrect due to/from account
	(1,116)	To true up sales tax revenue and receivable and the payable due to the EDC
	30,991	To write off deferred revenue accounts
Total General Fund	<u>258,728</u>	
Other Governmental Funds	834	To adjust cash to book balance.
	<u>(3,549)</u>	To reverse an incorrect due to/from account
Total Other Governmental Funds	\$ <u>(2,715)</u>	
TOTAL	\$ <u>256,013</u>	

Business-type Funds

Wastewater Fund	\$ (80,044)	To adjust cash to book balance.
Solid Waste Fund	<u>(116,310)</u>	To adjust cash to book balance.
TOTAL	\$ <u>(196,354)</u>	

N. Extraordinary item

The City is party to an investigation with the Texas Rangers and has suffered a current year extraordinary loss of \$9,220 that was both unusual and infrequent in nature. As of September 30, 2010, the City had not recovered any of these funds.

O. Subsequent Events

The City has evaluated all events or transactions that occurred after September 30, 2010 up through January 16, 2012, the date the financial statements were available to be issued. During this period the following events occurred:

- The City of Lavon approved the issuance and sale of the City of Lavon, Texas, Tax Notes, Series 2011A on August 2, 2011. The total amount of the tax note was \$108,000 and it was issued for the purpose of paying (i) operating or current expenses, and (ii) professional services rendered in relation to the financing. The note will be payable on March 15, 2012 at an interest rate of 3.69% per annum.
- The City of Lavon approved the issuance and sale of the City of Lavon, Texas, Tax Notes, Series 2011B on September 20, 2011. The total amount of the tax note was \$188,000 and it was issued for the purpose of paying (i) operating or current expenses, and (ii) professional services rendered in relation to the financing. The note will be payable on March 15, 2012 at an interest rate of 3.2% per annum.

P. New Accounting Pronouncements

The GASB has issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement establishes new categories for reporting fund balance and revises the definitions for governmental fund types. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. The City will adopt their GASB 54 Fund Balance Policy for the fiscal year ending September 30, 2011.

This page is intentionally left blank.

REQUIRED SUPPLEMENTARY INFORMATION

This page is intentionally left blank.

CITY OF LAVON, TEXAS
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes:				
Property	\$ 651,958	\$ 651,958	\$ 652,356	\$ 398
Sales	90,000	90,000	76,724	(13,276)
Franchise	95,000	95,000	76,808	(18,192)
Licenses and permits	227,000	227,000	245,954	18,954
Fines and forfeitures	99,300	101,287	138,375	37,088
Investment income	500	500	674	174
Miscellaneous	10,200	10,200	15,701	5,501
Total revenues	1,173,958	1,175,945	1,206,592	30,647
EXPENDITURES				
Current operating:				
Legislative	250,855	208,701	172,697	36,004
Administration	124,286	197,440	205,199	(7,759)
Public works	301,196	273,216	231,934	41,282
Municipal court	40,888	40,288	88,881	(48,593)
Fire department	18,900	32,300	34,661	(2,361)
Police	620,495	615,195	625,790	(10,595)
Debt service:				
Principal retirement	90,220	84,720	41,793	42,927
Interest	-	-	910	(910)
Capital outlay	6,000	6,000	41,999	(35,999)
Total expenditures	1,452,840	1,457,860	1,443,864	13,996
Excess of revenues over expenditures	(278,882)	(281,915)	(237,272)	44,643
Other financing sources (uses)				
Capital lease proceeds	-	-	35,999	35,999
Transfers	278,882	281,915	-	(281,915)
Total other financing sources (uses)	278,882	281,915	35,999	(245,916)
Extraordinary items	-	-	(2,942)	(2,942)
Net change in fund balances	-	-	(204,215)	(204,215)
Fund balances/equity, October 1	5,324	5,324	5,324	
Prior period adjustments	-	-	258,728	
Fund balances/equity, September 30	\$ 5,324	\$ 5,324	\$ 59,837	

CITY OF LAVON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2010

SCHEDULE OF PENSION TRUST - TMRS FUNDING PROGRESS AND CONTRIBUTIONS
LAST FOUR FISCAL YEARS (UNAUDITED)

Fiscal Year	Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) -Unit Credit	(3) Unfunded Actuarial Accrued Liability UAAL (2)-(1)	(4) Funded Percent (1)/(2)	(5) Covered Payroll	(6) UAAL as Percent of Covered Payroll (3)/(5)	(7) Annual Required Contributions	(8) Actual Contributions	Percent Contributed (8)/(7)
2007	12/31/2006	128,963	137,504	8,541	93.8%	505,769	1.7%	13,325	13,325	100%
2008	12/31/2007	172,399	188,658	16,259	91.4%	711,948	2.3%	17,288	17,288	100%
2009	12/31/2008	228,418	240,607	12,189	94.9%	753,591	1.6%	18,435	18,435	100%
2010	12/31/2009	276,767	355,220	78,453	77.9%	724,604	10.8%	16,458	16,458	100%

SUPPLEMENTARY INFORMATION

This page is intentionally left blank.

CITY OF LAVON, TEXAS
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2010

ASSETS AND OTHER DEBITS

ASSETS

Cash and cash equivalents
 Cash and cash equivalents - restricted
Total assets

Municipal Court Tech Fund	Police TCLEOSE Fund	Police Seized Asset Fund	Municipal Court Security Fund	Court Escrow Fund	Street Sales Tax Fund	Total Other Governmental Funds
\$ 19,757	\$ 1,129	\$ 2,720	\$ 9,409	\$ 1,172	\$ 1,065	\$ 35,252
-	-	2,571	-	-	-	2,571
<u>19,757</u>	<u>1,129</u>	<u>5,291</u>	<u>9,409</u>	<u>1,172</u>	<u>1,065</u>	<u>37,823</u>

LIABILITIES AND FUND BALANCE

Liabilities:

Total liabilities

-	-	-	-	-	-	-
---	---	---	---	---	---	---

Fund Balances:

Reserved for:

Court
 Police
 Streets
 Unreserved-undesignated
Total fund balance

19,757	-	-	9,409	1,172	-	30,338
-	1,129	5,291	-	-	-	6,420
-	-	-	-	-	1,065	1,065
-	-	-	-	-	-	-
<u>19,757</u>	<u>1,129</u>	<u>5,291</u>	<u>9,409</u>	<u>1,172</u>	<u>1,065</u>	<u>37,823</u>

Total liabilities and fund balances

\$ 19,757	\$ 1,129	\$ 5,291	\$ 9,409	\$ 1,172	\$ 1,065	\$ 37,823
-----------	----------	----------	----------	----------	----------	-----------

**CITY OF LAVON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	Municipal Court Tech Fund	Police TCLEOSE Fund	Police Seized Asset Fund	Municipal Court Security Fund	Court Escrow Fund	Street Sales Tax Fund	Total Other Governmental Funds
REVENUES							
Fines and Forfeitures	-	-	\$ -	\$ -	\$ -	\$ -	\$ 2,009
Total Revenues	-	-	-	2,009	-	-	2,009
EXPENDITURES							
Current:							
Court	-	-	-	1,639	-	-	1,639
Total Expenditures	-	-	-	1,639	-	-	1,639
Excess of revenues over expenditures	-	-	-	370	-	-	370
Other Financing Sources (uses)	-	-	-	-	-	-	-
Total Other Financing Sources (uses)	-	-	-	-	-	-	-
Net Change in Fund Balances	-	-	-	370	-	-	370
Fund Balances, October 1	16,848	1,883	5,283	9,721	(999)	7,432	40,168
Prior Period Adjustments	2,909	(754)	8	(682)	2,171	(6,367)	(2,715)
Fund Balances, September 30	\$ 19,757	\$ 1,129	\$ 5,291	\$ 9,409	\$ 1,172	\$ 1,065	\$ 37,823

