

ANNUAL FINANCIAL REPORT

of the

**CITY OF WEST LAKE HILLS,
TEXAS**

For the Year Ended
September 30, 2013

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CITY OF WEST LAKE HILLS, TEXAS

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of West Lake Hills, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of West Lake Hills, Texas (the "City") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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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, and each major fund of the City as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
April 25, 2014
May 09, 2014

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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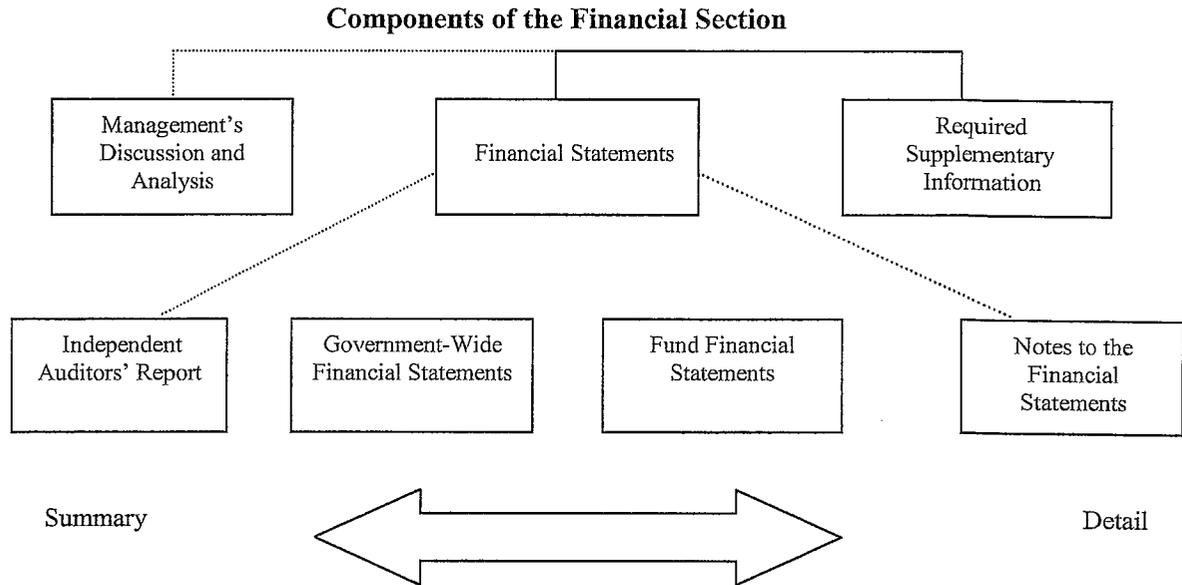
CITY OF WEST LAKE HILLS, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2013

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of West Lake Hills, Texas (the "City") for the year ended September 30, 2013. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other nonfinancial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

CITY OF WEST LAKE HILLS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City into two classes of activities:

1. Governmental Activities – Most of the City's basic services are reported here, which include general government, public safety, and public works. Interest payments on the City's debt are also reported here. Sales taxes, property taxes, franchise taxes, and other revenue finance most of these activities.
2. Business-Type Activities – Services involving a fee for those services are reported here. These services include the City's wastewater operations.

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of City funds are governmental and proprietary.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

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

The City maintains one individual governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, which is always considered a major fund.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

Proprietary Funds

The City maintains one type of proprietary fund, an enterprise fund. The City uses an enterprise fund to account for its wastewater operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

CITY OF WEST LAKE HILLS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to basic financial statements, this MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund and the schedule of funding progress for the Texas Municipal Retirement System.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflow of resources exceed liabilities by \$11,673,487 as of September 30, 2013. Of the City's net position, \$3,576,508, or 31 percent, reflects its investment in capital assets (e.g., land, City hall, machinery, and equipment), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

	2013			2012		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities *	Total Primary Government
Current and other assets	\$ 6,906,885	\$ 3,099,889	\$ 10,006,774	\$ 4,554,996	\$ 3,783,605	\$ 8,338,601
Capital assets, net	2,546,569	17,064,939	19,611,508	2,540,541	17,638,902	20,179,443
Internal balances	2,000,000	(2,000,000)	-	3,150,000	(3,150,000)	-
Total Assets	11,453,454	18,164,828	29,618,282	10,245,537	18,272,507	28,518,044
Long-term liabilities	221,568	16,035,000	16,256,568	205,911	16,180,000	16,385,911
Other liabilities	856,610	831,617	1,688,227	528,820	387,400	916,220
Total Liabilities	1,078,178	16,866,617	17,944,795	734,731	16,567,400	17,302,131
Net Position:						
Net investment in capital assets	2,546,569	1,029,939	3,576,508	2,540,541	1,458,902	3,999,443
Restricted	134,689	-	134,689	112,150	-	112,150
Unrestricted	7,694,018	268,272	7,962,290	6,858,115	246,205	7,104,320
Total Net Position	\$ 10,375,276	\$ 1,298,211	\$ 11,673,487	\$ 9,510,806	\$ 1,705,107	\$ 11,215,913

*See Note III. H. to the financial statements for restatement due to change in accounting principal.

The total net position of the City was comparable to prior year with an increase of \$457,574 or 4 percent. A portion of the City's net position, \$134,689, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$7,962,290, may be used to meet the City's ongoing obligation to citizens and creditors.

CITY OF WEST LAKE HILLS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

Statement of Activities

The following table provides a summary of the City's changes in net position:

	<u>For the Year Ended September 30, 2013</u>			<u>For the Year Ended September 30, 2012</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 648,690	\$ 1,323,128	\$ 1,971,818	\$ 445,789	\$ 1,241,401	\$ 1,687,190
General revenues:						
Property taxes	693,131	-	693,131	657,121	-	657,121
Sales taxes	3,092,388	-	3,092,388	2,232,909	-	2,232,909
Franchise and local taxes	500,206	-	500,206	594,752	-	594,752
Investment income	32,726	5,040	37,766	12,561	7,784	20,345
Other	52,519	26,456	78,975	60,230	92,638	152,868
Total Revenues	<u>5,019,660</u>	<u>1,354,624</u>	<u>6,374,284</u>	<u>4,003,362</u>	<u>1,341,823</u>	<u>5,345,185</u>
<u>Expenses</u>						
General government	1,480,677	-	1,480,677	1,083,831	-	1,083,831
Public works	911,921	-	911,921	1,296,785	-	1,296,785
Public safety	1,762,592	-	1,762,592	1,707,739	-	1,707,739
Wastewater	-	1,761,520	1,761,520	-	1,847,382	1,847,382
Total Expenses	<u>4,155,190</u>	<u>1,761,520</u>	<u>5,916,710</u>	<u>4,088,355</u>	<u>1,847,382</u>	<u>5,935,737</u>
Change in Net Position	864,470	(406,896)	457,574	(84,993)	(505,559)	(590,552)
Beginning net position	<u>9,510,806</u>	<u>1,705,107</u> *	<u>11,215,913</u>	<u>9,595,799</u>	<u>2,210,666</u>	<u>11,806,465</u>
Ending Net Position	<u>\$ 10,375,276</u>	<u>\$ 1,298,211</u>	<u>\$ 11,673,487</u>	<u>\$ 9,510,806</u>	<u>\$ 1,705,107</u>	<u>\$ 11,215,913</u>

*See Note III. H. to the financial statements for restatement due to change in accounting principal.

For the year ended September 30, 2013, revenues from governmental activities totaled \$5,019,660. Sales taxes are the City's largest revenue source at \$3,092,388 or 62 percent. Revenues remained comparable to the prior year, with the exception of sales tax. The increase in sales tax revenue for the year can be attributed to more economic activity in the City. Overall, governmental expenses reported an increase for the year of \$66,835 or 2 percent. This increase is a result of greater expenses in legal fees for consulting services on capital improvements.

Total revenues for business-type activities are comparable to the prior year. Overall, business-type expenses reported a decrease for the year of \$85,862 or 5 percent. This decrease is a result of a decrease in expenses to operate the City's wastewater plant.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds – The focus of the City's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

CITY OF WEST LAKE HILLS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

The City's general fund has an ending fund balance of \$8,043,375. Of this, \$45,817, \$85,086, and \$3,786 is restricted for municipal court technology, security, and child safety respectively. An additional \$7,908,686 is unassigned and reported in the general fund. Overall, there was an increase in fund balance of \$879,813 for the year, mainly due to significant increases in sales tax and property tax revenue.

Proprietary Funds – The City's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

Budgeted revenues were less than actual general fund revenues by \$640,760 during the year. This net positive variance was primarily attributable to an increase in sales tax revenue and charges for services. General fund expenditures were under the final budget by \$239,053 due to less payroll expenditures than expected.

CAPITAL ASSETS

At the end of the year, the City's governmental activities had invested \$2,546,569 in capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of \$6,028.

Major capital asset events during the year included the following:

- Purchased a new police vehicle for \$34,625.
- Purchased digital ticket writers for \$34,659.
- Purchased fire detection equipment for \$185,000.

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

LONG-TERM DEBT

At the end of the current year, the City had a total of \$221,568 in compensated absences and a net pension obligation. The City also had debt outstanding of \$16,035,000 in the wastewater fund.

More detailed information about the City's long-term liabilities is presented in note III. D. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City estimates a 4 percent increase in total property tax revenue due to increased values and new property.

The City approved a \$4 million budget for the 2013/2014 year. The property tax rate for 2014 remains the same, which is \$.0534.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Wendy Bates, Finance Officer, City of West Lake Hills, 911 Westlake Drive, West Lake Hills, Texas 78746-4599, telephone (512) 327-3628. For general information, visit the City's website at <http://www.westlakehills.org>.

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BASIC FINANCIAL STATEMENTS

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CITY OF WEST LAKE HILLS, TEXAS

STATEMENT OF NET POSITION

September 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 6,389,395	\$ 2,935,556	\$ 9,324,951
Receivables, net	507,489	164,333	671,822
Internal balances	2,000,000	(2,000,000)	-
Restricted assets:			
Cash and cash equivalents	10,001	-	10,001
	8,906,885	1,099,889	10,006,774
Capital assets:			
Nondepreciable capital assets	398,411	420,000	818,411
Net depreciable capital assets	2,148,158	16,644,939	18,793,097
	2,546,569	17,064,939	19,611,508
Total Assets	11,453,454	18,164,828	29,618,282
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	846,609	98,699	945,308
Escrow deposits	-	732,918	732,918
Liabilities payable from restricted assets	10,001	-	10,001
	856,610	831,617	1,688,227
Noncurrent liabilities:			
Long-term liabilities due within one year	188,127	195,000	383,127
Long-term liabilities due in more than one year	33,441	15,840,000	15,873,441
	221,568	16,035,000	16,256,568
Total Liabilities	1,078,178	16,866,617	17,944,795
<u>Net Position</u>			
Net investment in capital assets	2,546,569	1,029,939	3,576,508
Restricted for:			
Municipal court technology	45,817	-	45,817
Municipal court security	85,086	-	85,086
Child safety	3,786	-	3,786
Unrestricted	7,694,018	268,272	7,962,290
Total Net Position	\$ 10,375,276	\$ 1,298,211	\$ 11,673,487

See Notes to Financial Statements.

CITY OF WEST LAKE HILLS, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues Charges for Services
Primary Government		
Governmental Activities		
General government	\$ 1,480,677	\$ 301,322
Public works	911,921	-
Public safety	1,762,592	347,368
Total Governmental Activities	4,155,190	648,690
Business-Type Activities		
Wastewater	1,761,520	1,323,128
Total Business-Type Activities	1,761,520	1,323,128
Total Primary Government	\$ 5,916,710	\$ 1,971,818

General Revenues:

Taxes:

Property taxes

Sales taxes

Franchise and local taxes

Investment income

Other

Total General Revenues

Change in Net Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

*See Note III. H. to the financial statements for restatement due to change in accounting principal.

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-Type Activities</u> *	<u>Total</u>
\$ (1,179,355)	\$ -	\$ (1,179,355)
(911,921)	-	(911,921)
(1,415,224)	-	(1,415,224)
<u>(3,506,500)</u>	<u>-</u>	<u>(3,506,500)</u>
-	(438,392)	(438,392)
-	(438,392)	(438,392)
<u>(3,506,500)</u>	<u>(438,392)</u>	<u>(3,944,892)</u>
693,131	-	693,131
3,092,388	-	3,092,388
500,206	-	500,206
32,726	5,040	37,766
52,519	26,456	78,975
<u>4,370,970</u>	<u>31,496</u>	<u>4,402,466</u>
864,470	(406,896)	457,574
9,510,806	1,705,107	11,215,913
<u>\$ 10,375,276</u>	<u>\$ 1,298,211</u>	<u>\$ 11,673,487</u>

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CITY OF WEST LAKE HILLS, TEXAS

BALANCE SHEET

GENERAL FUND

September 30, 2013

	<u>General</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 6,389,395
Receivables, net	507,489
Restricted cash	10,001
Advances to other fund	2,000,000
Total Assets	<u>\$ 8,906,885</u>
<u>Liabilities</u>	
Accounts payable and accrued liabilities	\$ 846,609
Liabilities payable from restricted assets	10,001
Total Liabilities	<u>856,610</u>
<u>Deferred Inflows of Resources</u>	
Unavailable revenue - property taxes	<u>6,900</u>
<u>Fund Balances</u>	
Restricted:	
Municipal court technology	45,817
Municipal court security	85,086
Child safety	3,786
Unassigned	7,908,686
Total Fund Balances	<u>8,043,375</u>
Adjustments for the Statement of Net Position:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the fund.	
Nondepreciable capital assets	398,411
Net depreciable capital assets	4,272,145
Accumulated depreciation	(2,123,987)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the fund.	
Unavailable revenue - property taxes	6,900
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Long-term liabilities due within one year	(188,127)
Long-term liabilities due in more than one year	(33,441)
Net Position of Governmental Activities	<u>\$ 10,375,276</u>

See Notes to Financial Statements.

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CITY OF WEST LAKE HILLS, TEXAS

STATEMENT OF REVENUES, EXPENDITURES,

AND CHANGES IN FUND BALANCE

GENERAL FUND

For the Year Ended September 30, 2013

	<u>General</u>
<u>Revenues</u>	
Property taxes	\$ 698,845
Sales taxes	3,092,388
Franchise and local taxes	500,206
Licenses and permits	149,266
Charges for services	152,056
Fines and forfeitures	347,368
Investment income	32,726
Other	52,519
Total Revenues	<u>5,025,374</u>
<u>Expenditures</u>	
Current:	
General government	1,339,079
Public works	1,061,178
Public safety	1,745,304
Total Expenditures	<u>4,145,561</u>
Net Change in Fund Balance	879,813
Beginning fund balance	<u>7,163,562</u>
Ending Fund Balance	<u><u>\$ 8,043,375</u></u>

See Notes to Financial Statements.

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CITY OF WEST LAKE HILLS, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2013

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balance - total governmental funds	\$	879,813
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital asset acquisitions		317,690
Depreciation expense		(311,662)
Revenues that do not provide current financial resources are not reported as revenues in the fund.		
		(5,714)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Compensated absences		(15,552)
Net pension obligation		(105)
Change in Net Position of Governmental Activities	\$	<u>864,470</u>

See Notes to Financial Statements.

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CITY OF WEST LAKE HILLS, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2013

	<u>Business-Type Activities Wastewater</u>
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 2,935,556
Accounts receivable, net	164,333
	<u>3,099,889</u>
Noncurrent Assets	
Capital	
Nondepreciable	420,000
Depreciable, net	16,644,939
	<u>17,064,939</u>
Total Noncurrent Assets	<u>17,064,939</u>
Total Assets	<u>20,164,828</u>
<u>Liabilities</u>	
Current liabilities:	
Accounts payable	55,271
Accrued interests	43,428
Customer deposits	732,918
Advances from other fund	2,000,000
	<u>2,831,617</u>
Total Current Liabilities	<u>2,831,617</u>
Noncurrent liabilities:	
Long-term debt due within one year	195,000
Long-term debt due in more than one year	15,840,000
	<u>16,035,000</u>
Total Noncurrent Liabilities	<u>16,035,000</u>
	<u>18,866,617</u>
Total Liabilities	<u>18,866,617</u>
<u>Net Position</u>	
Net investment in capital assets	1,029,939
Unrestricted	268,272
	<u>1,298,211</u>
Total Net Position	<u>\$ 1,298,211</u>

See Notes to Financial Statements.

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CITY OF WEST LAKE HILLS, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUND

For the Year Ended September 30, 2013

		<u>Business-Type Activities</u>
		<u>Wastewater</u> *
<u>Operating Revenue</u>		
Wastewater charges	\$	1,323,128
Other		26,456
		<hr/>
Total Operating Revenue		1,349,584
<u>Operating Expenses</u>		
Wastewater treatment charge		268,225
Wastewater system maintenance		137,113
Wastewater billing fees		37,919
Purchased and contracted services		118,563
Miscellaneous		76,062
Depreciation		573,963
		<hr/>
Total Operating Expenses		1,211,845
		 <hr/>
Operating Income		137,739
<u>Non-Operating Revenues and Expenses</u>		
Interest expense		(549,675)
Investment income		5,040
		<hr/>
Total Non-operating (Expenses)		(544,635)
		 <hr/>
Change in Net Position		(406,896)
Beginning net position		1,705,107
		<hr/>
Ending Net Position	\$	1,298,211
		<hr/> <hr/>

See Notes to Financial Statements.

*See Note III. H. to the financial statements for restatement due to change in accounting principal.

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CITY OF WEST LAKE HILLS, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended September 30, 2013

	Business-Type Activities Wastewater
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 1,912,393
Payments to suppliers and operating costs	(1,830,376)
Net Cash Provided by Operating Activities	82,017
 <u>Cash Flows from Capital and Related Financing Activities</u>	
Debt repayment	(145,000)
Interest expense	(644,777)
Net Cash (Used) by Capital and Related Financing Activities	(789,777)
 <u>Cash Flows from Investing Activities</u>	
Interest on investments	5,040
Net Cash Provided by Investing Activities	5,040
Net (Decrease) in Cash and Cash Equivalents	(702,720)
Beginning cash and cash equivalents	3,638,276
Ending Cash and Cash Equivalents	\$ 2,935,556
 <u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>	
Operating income	\$ 137,739
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	573,963
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(19,004)
(Decrease) Increase in:	
Accounts payable	(42,494)
Advances to other funds	(1,150,000)
Escrow deposits	581,813
Net Cash Provided by Operating Activities	\$ 82,017

See Notes to Financial Statements.

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CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of West Lake Hills (the “City”) was founded and incorporated as a village on September 9, 1953. The City Council (the “Council”), a six member group, has governance responsibilities over all activities related to the City. The Council is elected by the public and has the exclusive power and duty to govern and oversee the management of the City. The City receives funding from local, state, and federal government sources and must comply with the requirements of those funding entities.

The City’s primary activities include police protection, court and general administrative services, and public works, including wastewater service.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City’s financial reporting entity. No other entities have been included in the City’s reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with the prescribed criteria considered in determining that the City’s financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the primary government. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City’s enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's wastewater functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

The City reports the following governmental fund:

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, and public works. The general fund is always considered a major fund for reporting purposes.

The City reports the following enterprise fund:

Enterprise Fund

The enterprise fund is used to account for the City's wastewater and collection operations. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The enterprise fund is considered a major fund for reporting purposes.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and proprietary fund 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 when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. 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.

2. Investments

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as the Lone Star Investment Pool, are reported using the pools' share price.

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. government
- Fully collateralized certificates of deposit
- Mutual funds of specific type
- Statewide investment pools

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors that reflect costs applicable to the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

4. Restricted Assets

Certain proceeds of bonds, as well as other resources set aside for specific purposes, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements. Restricted assets of the enterprise fund are restricted by bond covenants for repayment of debt and to finance construction projects.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$300 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with the construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Infrastructure	20 to 30 years
Buildings	40 years
Buildings improvements	10 to 30 years
Vehicles	2 to 5 years
Furniture and equipment	3 to 15 years

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City does not have any deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental fund reports unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

7. Compensated Employee Absences

The City maintains formal programs for vacation and sick leave. The City's personnel policy provides employees with annual vacation and sick leave after satisfactory completion of their six month probationary period. Temporary employees, after six months of employment, also receive paid vacation time in proportion to hours worked, based on a 40 hour workweek. Paid vacations are earned as follows: one to ten years of service receive 96 hours, with maximum accrual of 192 hours; 11 to 20 years of service receive 120 hours, with maximum accrual of 240 hours; and 21 years and over receive 144 hours, with maximum accrual of 288 hours. On September 1, all unused vacation time in excess of the "maximum accrual time allowable" will be cancelled. Sick leave for permanent employees is earned at the rate of one working day for each full month of continuous service. Sick leave may be accumulated to a maximum of 36 working days or 288 hours. On September 1 of each fiscal year, all accumulated sick leave in excess of 36 working days or 288 hours will be cancelled. Upon termination, the City will pay the employee one half of their hourly pay rate per hour of unused sick leave. Therefore, the City has recorded a liability for accrued vacation leave, sick leave and compensatory time earned.

8. 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 Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

9. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

considered to be applied. It is the City's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

10. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

11. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as non spendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions are classified as restricted fund balance.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

12. Estimates

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

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes are levied as of October 1 of each year, are due upon receipt of the City's tax bill and become delinquent on February 1 of the following year.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise 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 nonoperating revenues and expenses.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general fund. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control is the function level within the budgeted funds. Appropriations lapse at the end of the year.

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2013, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
External investment pools		
(Lone Star)	\$ 7,936,808	0.00%
Money market	1,159,399	0.00%
Total Fair Value	<u>\$ 9,096,207</u>	
Portfolio weighted average maturity		0.00%

Credit risk. The City's policy requires that investment pools must be rated no lower than AAA or AAAM. Banker's acceptances must be issued in the United States and carry a rating of A1/P1 as provided by two of the top nationally recognized rating agencies. As of September 30, 2013, the City's investments in Lone Star were rated AAAM by Standard & Poor's. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities with a collective market value of at least 102 percent. As of September 30, 2013, market values of pledged securities and FDIC insurance exceeded bank balances.

Custodial credit risk – investments. For an investment, this is the risk that the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party in the event of the failure of the counterparty. The City's investment policy requires that all securities bought be held in safekeeping by either the City, the City's designated depository, in a City account in an independent third party financial institution, or with the Federal Reserve Bank. Furthermore, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

Lone Star

Lone Star is administered by the Texas Association of School Boards, Inc. and First Public, LLC. Lone Star is overseen by an eleven member governing board, all of whom are participants in the Lone Star pool. The board meets quarterly to review operations, make any revisions to the investment policy, review financial activity and approve contractor agreements. Lone Star also has an advisory board consisting of participants and nonparticipants. RBC Dain Rauscher, Inc. is an independent consultant for Lone Star that reviews daily operations, analyzes all investment transactions for compliance with the Public Funds Investment Act, and performs monitoring activities. The Bank of New York provides custody and valuation services for Lone Star. American Beacon Advisors and Standish Mellon provide other investment management services. Lone Star's investment policy stipulates that it must invest in accordance with the Public Funds Investment Act. Separate financial statements can be obtained by contacting Maxwell Locke & Ritter, LLP, located at 401 Congress Ave, Suite 1100, Austin, Texas 78701.

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

B. Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectible) line for certain funds and aggregated columns. Below is the detail of receivables for the general fund and the enterprise fund, including the applicable allowances for uncollectible accounts:

	General	Wastewater	Total
Taxes	\$ 503,413	\$ -	\$ 503,413
Wastewater	-	159,855	159,855
Other	16,303	6,680	22,983
Allowance	(12,227)	(2,202)	(14,429)
	\$ 507,489	\$ 164,333	\$ 671,822

C. Capital Assets

A summary of changes in capital assets at year end is as follows:

	Governmental Activities			
	Beginning Balance	Increases	(Decreases)	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 398,411	\$ -	\$ -	\$ 398,411
Construction in progress	130,856	-	(130,856)	-
Total capital assets not being depreciated	529,267	-	(130,856)	398,411
Capital assets being depreciated:				
Buildings and improvements	1,238,411	29,064	-	1,267,475
Furniture and equipment	1,333,193	284,687	-	1,617,880
Infrastructure	1,251,995	134,795	-	1,386,790
Total capital assets being depreciated	3,823,599	448,546	-	4,272,145
Less accumulated depreciation for:				
Buildings and improvements	(670,819)	(107,338)	-	(778,157)
Furniture and equipment	(931,680)	(134,334)	-	(1,066,014)
Infrastructure	(209,826)	(69,990)	-	(279,816)
Total accumulated depreciation	(1,812,325)	(311,662)	-	(2,123,987)
Capital assets being depreciated, net	2,011,274	136,884	-	2,148,158
Governmental Activities Capital Assets, Net	\$ 2,540,541	\$ 136,884	\$ (130,856)	\$ 2,546,569

Depreciation was charged to governmental functions as follows:

General government	\$ 144,299
Public safety	66,886
Public works	100,477
Total Governmental Activities Depreciation Expense	\$ 311,662

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

The following is a summary of changes in capital assets for business-type activities.

	Business-Type Activities			Ending Balance
	Beginning Balance	Increases	(Decreases)	
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 420,000	\$ -	\$ -	\$ 420,000
Total capital assets not being depreciated	420,000	-	-	420,000
Capital assets being depreciated:				
Wastewater system	17,218,902	-	-	17,218,902
Total capital assets being depreciated	17,218,902	-	-	17,218,902
Less accumulated depreciation for:				
Wastewater system	-	(573,963)	-	(573,963)
Total accumulated depreciation	-	(573,963)	-	(573,963)
Capital assets being depreciated, net	17,218,902	(573,963)	-	16,644,939
Business-Type Activities Capital Assets, Net	\$ 17,638,902	\$ (573,963)	\$ -	\$ 17,064,939
		Less associated debt		(16,035,000)
		Net Investment in Capital Assets		\$ 1,029,939

Depreciation was charged to business-type functions as follows:

Wastewater	\$ 573,963
Total Business-Type Activities Depreciation Expense	\$ 573,963

D. Long-Term Liabilities

The following is a summary of changes in the City's total governmental and business-type long-term liabilities for the year end.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
	Governmental Activities:				
Other liabilities:					
Compensated absences	\$ 193,478	\$ 169,353	\$ (153,801)	\$ 209,030	\$ 188,127
Net pension obligation	12,433	209,239	(209,134)	12,538	-
Total Governmental Activities	\$ 205,911	\$ 378,592	\$ (362,935)	\$ 221,568	\$ 188,127
			Long-term liabilities due in more than one year	\$ 33,441	

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

The City is not obligated in any manner for special assessment debt. The governmental activities compensated absences and net pension obligations are liquidated by the general fund.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business-Type Activities:					
Other liabilities:					
Revenue bonds	\$ 16,180,000	\$ -	\$ (145,000)	\$ 16,035,000	\$ 195,000
Total Business-Type Activities	\$ 16,180,000	\$ -	\$ (145,000)	\$ 16,035,000	\$ 195,000
Long-term liabilities due in more than one year				\$ 15,840,000	

Long-term debt at year end was comprised of the following debt issues:

Description	Interest Rates	Balance
Revenue Bonds		
Wastewater System Revenue Bonds, Series 2012	3.25%	\$ 16,035,000
Total Revenue Bonds		\$ 16,035,000

On June 26, 2012 the City issued revenue bonds for the purpose of acquiring, improving, repairing, renovating, enlarging, extending, and equipping the wastewater system. The revenue bonds are payable from and secured by a first lien on and pledge of the net revenues of the wastewater system.

The annual requirements to amortize bond issues outstanding at year end were as follows:

Year	Business-Type Activity	
Ending Sept. 30	Principal	Interest
2014	\$ 195,000	\$ 620,795
2015	255,000	521,138
2016	315,000	514,800
2017	385,000	506,513
2018	460,000	496,275
2019-2023	3,430,000	2,246,238
2024-2028	5,645,000	1,615,738
2029-2033	5,350,000	651,785
Total	\$ 16,035,000	\$ 7,173,282

Revenue bonds are direct obligations of the City for which its full faith and credit are pledged. Repayments of revenue bonds are from wastewater revenue from customers located within the City. The City is not obligated in any manner for special assessment debt.

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

E. Interfund Transactions

The composition of advances to/from other funds as of year end was as follows:

Receivable fund	Payable fund	Amounts
General fund	Wastewater fund	\$ 2,000,000
	Total	\$ 2,000,000

The City's general fund loaned a total of \$3,150,000 to the wastewater fund in 2008. This includes a payment in kind calculated to be the total loan amount times an interest rate tied to the benchmark rate as established by the Lone Star Investment Pool or its successors. The wastewater fund repaid \$1,150,000 during the current fiscal year. The repayment of the \$2,000,000 is to begin in 2026 subject to available funds.

F. Restricted Assets

The balance of the restricted cash account for the City's certificates of deposit for future turnaround in the general fund recognized by the City is as follows:

General Fund	
Restricted cash	\$ 10,001

G. Fund Equity

As of September 30, 2013, \$134,689 of the general fund balance is restricted by enabling legislation.

H. Restatement of Net Position

In the fiscal year ending September 30, 2013, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. In accordance with this statement, beginning net position of the business-type activities has been reduced by \$272,661 to remove previously capitalized bond issuance costs.

See below for a reconciliation of changes in beginning net position:

	Business-Type Activities and Enterprise Fund
Prior year ending net position	\$ 1,977,768
Bond issuance costs	(272,661)
Beginning net position	\$ 1,705,107

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,700 other entities in the Texas Municipal League's Intergovernmental Risk Pool (the "Pool"). The Pool

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

purchases commercial insurance at a group rate for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums and deductibles. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in several lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's management that resolution of these matters will not have a material adverse effect of the financial condition of the City.

Liabilities are reported when it is probable a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

C. Pension Plans

Texas Municipal Retirement System

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), 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 RSI for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by TMRS. This report may be obtained from TMRS' website at www.TMRS.com.

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

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:

	<u>2013</u>	<u>2012</u>
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	10	10
Service requirement eligibility (expressed as age/yrs of service)	60/10, 0/25	60/10, 0/25
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Benefits

Upon retirement, benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percentage (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percentage had always been in existence, and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the employer-financed monetary credits, with interest, were used to purchase an annuity.

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 and the prior service cost contribution rate, which is calculated to be a level percentage of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 30-year amortization period. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

The annual pension cost and the net pension obligation (assets) are as follows:

Annual required contribution (ARC)	\$ 209,134
Interest on Net Pension Obligation (NPO)	870
Adjustment to the ARC	(765)
Annual Pension Cost (APC)	209,239
Contributions made	(209,134)
Increase in NPO	105
NPO beginning of year	12,433
NPO end of year	\$ 12,538

Three-year trend information for the annual pension cost (APC) is as follows:

Fiscal Year	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
2011	\$ 226,902	\$ 217,820	96.00%	\$ 9,082
2012	\$ 216,457	\$ 213,106	96.00%	\$ 12,433
2013	\$ 209,239	\$ 209,134	99.95%	\$ 12,538

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

	2013 12/31/2012	2012 12/31/2011	2011 12/31/2010
Actuarial Valuation Date	12/31/2012	12/31/2011	12/31/2010
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
Remaining Amortization Period	25.5 Years - Closed Period	26.4 Years - Closed Period	27.4 Years - Closed Period
Amortization Period for New Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10 - Year Smoothed Market	10 - Year Smoothed Market	10 - Year Smoothed Market
Investment Rate of Return	7.0%	7.0%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation at Cost of Living Adjustments	3.00%	3.00%	3.00%
	2.10%	2.10%	2.10%

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

The funded status as of December 31, 2012, under the actuarial valuations, is presented as follows:

	<u>2013</u>
Actuarial Valuation Date	12/31/2012
Actuarial Value of Assets	\$ 4,936,744
Actuarial Accrued Liability	\$ 5,932,934
Percentage Funded	83.2%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 996,190
Annual Covered Payroll	\$ 1,659,909
UAAL as a Percentage of Covered Payroll	60.0%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

D. Other Post Employment Benefits

TMRS - Supplemental Death Benefit Fund

Plan Description

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 post employment benefit," or OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund. For the year ended September 30, 2013, the City offered the supplemental death benefit to both active and retired employees.

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

Contributions

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.

The City's contributions to the TMRS SDBF for the fiscal years ended 2013, 2012 and 2011 were \$1,455, \$1,263, and \$1,111, respectively. The City's contribution rates for the past three years are shown below:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual Req. Contrib. (Rate)	0.09%	0.08%	0.07%
Actual Contribution Made	0.09%	0.08%	0.07%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF WEST LAKE HILLS, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended September 30, 2013

	Original Budget	Budget as Amended	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Property taxes	\$ 680,658	\$ 680,658	\$ 698,845	\$ 18,187
Sales taxes	2,213,192	2,671,648	3,092,388	420,740
Franchise and local	484,000	484,000	500,206	16,206
Licenses and permits	90,000	90,000	149,266	59,266
Charges for services	69,000	69,000	152,056	83,056
Fines and forfeitures	317,000	317,000	347,368	30,368
Investment income	11,000	11,000	32,726	21,726
Other	61,308	61,308	52,519	(8,789)
Total Revenues	3,926,158	4,384,614	5,025,374	640,760
<u>Expenditures</u>				
Current:				
General government	1,173,031	1,354,107	1,339,079	15,028
Public works	1,256,303	1,256,303	1,061,178	195,125
Public safety	1,696,824	1,774,204	1,745,304	28,900
Total Expenditures	4,126,158	4,384,614	4,145,561	239,053
Net Change in Fund Balance	\$ (200,000)	\$ -	879,813	\$ 879,813
Beginning fund balance			7,163,562	
Ending Fund Balance			\$ 8,043,375	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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CITY OF WEST LAKE HILLS, TEXAS

SCHEDULE OF FUNDING PROGRESS

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2013

Fiscal Year	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarial Valuation Date	12/31/2012	12/31/2011	12/31/2010
Actuarial Value of Assets	\$ 4,936,744	\$ 4,488,367	\$ 4,042,052
Actuarial Accrued Liability	\$ 5,932,934	\$ 5,608,875	\$ 5,176,525
Percentage Funded	83.2%	80.0%	78.1%
Unfunded Actuarial			
Accrued Liability (UAAL)	\$ 996,190	\$ 1,120,508	\$ 1,134,473
Annual Covered Payroll	\$ 1,659,909	\$ 1,583,599	\$ 1,553,353
UAAL % of Covered Payroll	60.0%	70.8%	73.0%
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ 12,433	\$ 9,082	\$ -
Annual Req. Contrib. (ARC)	209,239	216,457	226,902
Contributions Made	209,134	213,106	217,820
NPO at the End of Period	<u>\$ 12,538</u>	<u>\$ 12,433</u>	<u>\$ 9,082</u>

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