

*ANNUAL FINANCIAL REPORT*

of the

**CITY OF WEST LAKE HILLS,  
TEXAS**

For the Year Ended  
September 30, 2012

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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:

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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, and each major fund of the City as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, budgetary comparison information and schedule of funding progress, identified as Required Supplementary Information on the table of contents, are not required parts of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. 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*

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June 11, 2013

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*MANAGEMENT'S DISCUSSION  
AND ANALYSIS*

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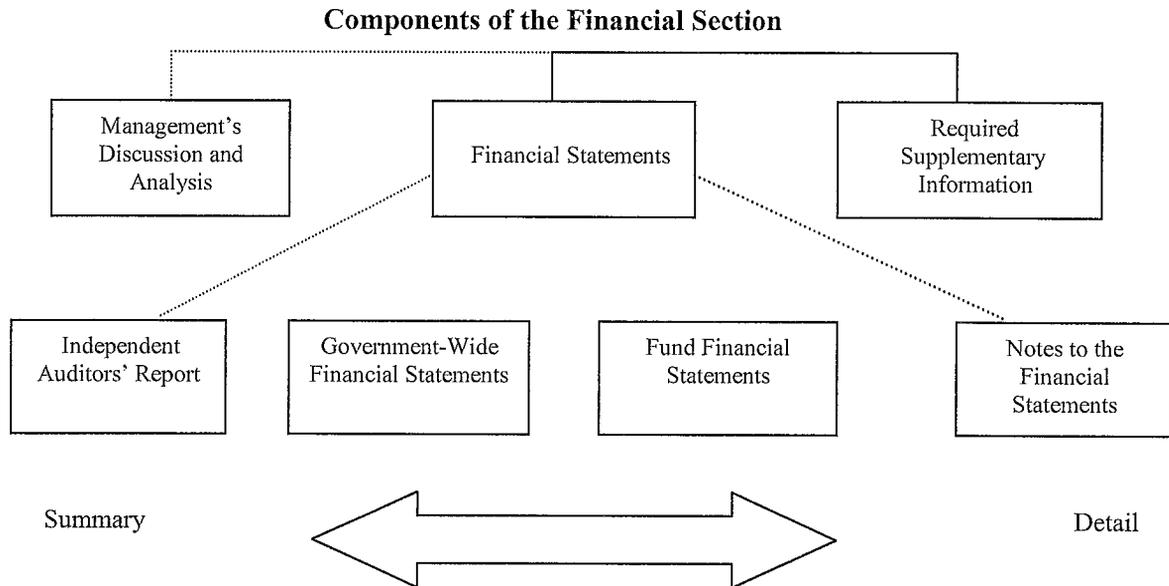
# CITY OF WEST LAKE HILLS, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2012

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, 2012. 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 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 Assets 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 Assets presents information on all of the City's assets and liabilities. The difference between the two is 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. 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, 2012**

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in the net assets 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 Assets 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 – The City's wastewater operations are reported here, which include services involving a fee for such activities.

### **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. The proprietary fund financial statements provide separate information for the wastewater operations.

**CITY OF WEST LAKE HILLS, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended September 30, 2012

**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 can be found after the financial statements within this report.

**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 assets may serve over time as a useful indicator of the City's financial position. For the City, assets exceed liabilities by \$11,488,574 as of year end.

Of the City's net assets, \$3,999,443 or 35 percent, reflect 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. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

**Statement of Net Assets**

The following table reflects the condensed Statement of Net Assets:

	2012			2011		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Current and other assets	\$ 7,704,996	\$ 906,266	\$ 8,611,262	\$ 7,666,197	\$ 2,396,214	\$ 10,062,411
Capital assets, net	2,540,541	17,638,902	20,179,443	2,566,600	-	2,566,600
<b>Total Assets</b>	<b>10,245,537</b>	<b>18,545,168</b>	<b>28,790,705</b>	<b>10,232,797</b>	<b>2,396,214</b>	<b>12,629,011</b>
Long-term liabilities	205,911	16,180,000	16,385,911	201,246	-	201,246
Other liabilities	528,820	387,400	916,220	435,752	185,548	621,300
<b>Total Liabilities</b>	<b>734,731</b>	<b>16,567,400</b>	<b>17,302,131</b>	<b>636,998</b>	<b>185,548</b>	<b>822,546</b>
Net assets:						
Invested in capital assets						
net of related debt	2,540,541	1,458,902	3,999,443	2,566,600	-	2,566,600
Restricted	112,150	-	112,150	112,351	1,741,718	1,854,069
Unrestricted	6,858,115	518,866	7,376,981	6,916,848	468,948	7,385,796
<b>Total Net Assets</b>	<b>\$ 9,510,806</b>	<b>\$ 1,977,768</b>	<b>\$ 11,488,574</b>	<b>\$ 9,595,799</b>	<b>\$ 2,210,666</b>	<b>\$ 11,806,465</b>

A portion of the City's net assets, \$112,150, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$7,376,981, 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, 2012

The City's business-type activities capital assets significantly increased by \$17,638,902 due to the purchase of a wastewater facility that was owned and operated by the Lower Colorado River Authority (the "LCRA"). Long-term liabilities for business-type activities also significantly increased due to the issuance of revenue bonds to fund the purchase of the wastewater facility.

**Statement of Activities**

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

	<u>For the Year Ended September 30, 2012</u>			<u>For the Year Ended September 30, 2011</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>
<b><u>Revenues</u></b>						
Program revenues:						
Charges for services	\$ 445,789	\$ 1,241,401	\$ 1,687,190	\$ 515,619	\$ 1,178,523	\$ 1,694,142
General revenues:						
Property taxes	657,121	-	657,121	662,106	-	662,106
Sales taxes	2,232,909	-	2,232,909	2,816,156	-	2,816,156
Franchise and local	594,752	-	594,752	685,797	-	685,797
Investment income	12,561	7,784	20,345	11,644	4,006	15,650
Other	60,230	92,638	152,868	70,741	10,736	81,477
<b>Total Revenues</b>	<b>4,003,362</b>	<b>1,341,823</b>	<b>5,345,185</b>	<b>4,762,063</b>	<b>1,193,265</b>	<b>5,955,328</b>
<b><u>Expenses</u></b>						
General government	1,083,831	-	1,083,831	1,184,114	-	1,184,114
Public works	1,296,785	-	1,296,785	1,716,261	-	1,716,261
Public safety	1,707,739	-	1,707,739	1,215,795	-	1,215,795
Wastewater	-	1,574,721	1,574,721	-	1,644,265	1,644,265
<b>Total Expenses</b>	<b>4,088,355</b>	<b>1,574,721</b>	<b>5,663,076</b>	<b>4,116,170</b>	<b>1,644,265</b>	<b>5,760,435</b>
<b>Change in Net Assets</b>	<b>(84,993)</b>	<b>(232,898)</b>	<b>(317,891)</b>	<b>645,893</b>	<b>(451,000)</b>	<b>194,893</b>
Beginning net assets	9,595,799	2,210,666	11,806,465	8,949,906	2,661,666	11,611,572
<b>Ending Net Assets</b>	<b>\$ 9,510,806</b>	<b>\$ 1,977,768</b>	<b>\$ 11,488,574</b>	<b>\$ 9,595,799</b>	<b>\$ 2,210,666</b>	<b>\$ 11,806,465</b>

For the year ended September 30, 2012, revenues from governmental activities totaled \$4,003,362. Sales taxes are the City's largest revenue source at \$2,232,909 or 56 percent. Sales tax revenues decreased \$583,247 or 21 percent compared to the prior year. The decrease in sales tax revenue for the year can be attributed to a recovery of sales tax revenue in the prior year for a sales tax audit conducted with the Texas State Comptroller. Overall, governmental expenses reported a decrease for the year of \$27,815 or less than one percent, mainly due to decrease in spending for public works and general government.

Revenues for business-type activities increased \$148,558 due primarily to an increase in impact fees and wastewater revenue. The increase in impact fees and wastewater revenue is due to increases in wastewater customers. Expenditures for business-type activities totaled \$1,574,721, which is comparable to the previous year.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

**CITY OF WEST LAKE HILLS, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2012**

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.

The City's general fund has an ending fund balance of \$7,163,562. Of this, \$35,507 and \$76,643 is restricted for municipal court technology and security, respectively. An additional \$7,051,412 is unassigned and reported in the general fund. Overall, there was an decrease in fund balance of \$56,799 for the year, mainly due to a decrease in sales tax revenue and franchise and local tax revenue.

Proprietary Funds – The City's proprietary fund provides 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 \$279,998 during the year. This net positive variance was attributable to positive variances in sales tax revenue and franchise and local tax revenue. General fund expenditures were under the final budget by \$187,108 due to positive variances across all departments.

**CAPITAL ASSETS**

At the end of the year, the City's governmental activities had invested \$2,540,541 in capital assets and infrastructure (net of accumulated depreciation). This represents a net decrease of \$26,059. The City's business-type activities had invested \$17,638,902 in capital assets (net of accumulated depreciation).

Major capital asset events during the year included the following:

- Purchase of a wastewater facility for \$17,638,902

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

**LONG-TERM LIABILITIES**

At the end of the current year, the City had a total of \$205,911 in compensated absences and net pension obligation. The City also had debt outstanding of \$16,180,000 in the wastewater fund related to the purchase of the wastewater facility.

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

**ECONOMIC FACTORS**

City revenues continue to remain relatively strong in a less than ideal economic environment, allowing the City to provide quality services to its residents.

The City approved a \$4 million budget for the 2012/2013 year. The property tax rate for 2012 remains the same, which is \$.0534.

**CITY OF WEST LAKE HILLS, TEXAS**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)*  
For the Year Ended September 30, 2012

**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 Janet Rogers, City Secretary, 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>.

***FINANCIAL STATEMENTS***

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# CITY OF WEST LAKE HILLS, TEXAS

## STATEMENT OF NET ASSETS

September 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b><u>Assets</u></b>			
Current assets:			
Cash and cash equivalents	\$ 3,952,506	\$ 1,630,016	\$ 5,582,522
Receivables, net	592,489	145,329	737,818
Internal balances	3,150,000	(3,150,000)	-
Deferred charges	-	272,661	272,661
Restricted assets:			
Cash and cash equivalents	10,001	2,008,260	2,018,261
	7,704,996	906,266	8,611,262
Capital assets:			
Capital assets, nondepreciable	529,267	420,000	949,267
Capital assets, net depreciable	2,011,274	17,218,902	19,230,176
	2,540,541	17,638,902	20,179,443
<b>Total Assets</b>	10,245,537	18,545,168	28,790,705
<b><u>Liabilities</u></b>			
Current liabilities:			
Accounts payable and accrued liabilities	351,819	236,295	588,114
Customer deposits	-	66,660	66,660
Escrow deposits	-	84,445	84,445
Liabilities payable from restricted assets	177,001	-	177,001
	528,820	387,400	916,220
Noncurrent liabilities:			
Due within one year	174,130	145,000	319,130
Due in more than one year	31,781	16,035,000	16,066,781
	205,911	16,180,000	16,385,911
<b>Total Liabilities</b>	734,731	16,567,400	17,302,131
<b><u>Net Assets</u></b>			
Invested in capital assets, net of related debt	2,540,541	1,458,902	3,999,443
Restricted for:			
Municipal court technology	35,507	-	35,507
Municipal court security	76,643	-	76,643
Unrestricted	6,858,115	518,866	7,376,981
	6,858,115	518,866	7,376,981
<b>Total Net Assets</b>	\$ 9,510,806	\$ 1,977,768	\$ 11,488,574

See Notes to Financial Statements.

# CITY OF WEST LAKE HILLS, TEXAS

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2012

Functions/Programs	Expenses	Program Revenues
<b>Primary Government</b>		
<b>Governmental Activities</b>		
General government	\$ 1,083,831	\$ 157,368
Public works	1,296,785	-
Public safety	1,707,739	288,421
<b>Total Governmental Activities</b>	4,088,355	445,789
 <b>Business-Type Activities</b>		
Wastewater	1,574,721	1,241,401
<b>Total Business-Type Activities</b>	1,574,721	1,241,401
<b>Total Primary Government</b>	\$ 5,663,076	\$ 1,687,190

**General Revenues:**

- Property taxes
- Sales taxes
- Franchise and local
- Investment income
- Other

**Total General Revenues**

**Change in Net Assets**

Beginning net assets

Ending Net Assets

See Notes to Financial Statements.

**Net (Expense) Revenue and Changes in Net Assets**

<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total Primary Government</b>
\$ (926,463)	\$ -	\$ (926,463)
(1,296,785)	-	(1,296,785)
(1,419,318)	-	(1,419,318)
<u>(3,642,566)</u>	<u>-</u>	<u>(3,642,566)</u>
<u>-</u>	<u>(333,320)</u>	<u>(333,320)</u>
<u>-</u>	<u>(333,320)</u>	<u>(333,320)</u>
<u>(3,642,566)</u>	<u>(333,320)</u>	<u>(3,975,886)</u>
657,121	-	657,121
2,232,909	-	2,232,909
594,752	-	594,752
12,561	7,784	20,345
60,230	92,638	152,868
<u>3,557,573</u>	<u>100,422</u>	<u>3,657,995</u>
(84,993)	(232,898)	(317,891)
9,595,799	2,210,666	11,806,465
<u>\$ 9,510,806</u>	<u>\$ 1,977,768</u>	<u>\$ 11,488,574</u>

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# CITY OF WEST LAKE HILLS, TEXAS

## BALANCE SHEET

### GENERAL FUND

September 30, 2012

	<u>General</u>
<b><u>Assets</u></b>	
Cash and cash equivalents	\$ 3,952,506
Receivables, net	592,489
Cash - restricted	10,001
Advances to other funds	3,150,000
<b>Total Assets</b>	<b>\$ 7,704,996</b>

<b><u>Liabilities</u></b>	
Accounts payable and accrued liabilities	\$ 351,819
Deferred revenue	12,614
Liabilities payable from restricted assets	177,001
<b>Total Liabilities</b>	<b>\$ 541,434</b>

<b><u>Fund Balances</u></b>	
Restricted:	
Municipal court technology	35,507
Municipal court security	76,643
Unassigned	7,051,412
<b>Total Fund Balances</b>	<b>\$ 7,163,562</b>

Adjustments for the Statement of Net Assets:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the fund.

Capital assets, nondepreciable	529,267
Capital assets, depreciable	3,823,599
Accumulated depreciation	(1,812,325)

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the fund.

Deferred revenue	12,614
------------------	--------

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the fund.

Non-current liabilities due in one year	(174,130)
Non-current liabilities due in more than one year	(31,781)

<b>Net Assets of Governmental Activities</b>	<b>\$ 9,510,806</b>
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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, 2012

	<u>General</u>
<b>Revenues</b>	
Taxes:	
Property	\$ 654,591
Sales	2,232,909
Franchise and local	594,752
Licenses and permits	81,616
Charges for services	75,752
Fines and forfeitures	288,421
Investment income	12,561
Other revenue	60,230
<b>Total Revenues</b>	<u>4,000,832</u>
<b>Expenditures</b>	
Current:	
General government	1,026,179
Public works	1,368,107
Public safety	1,663,345
<b>Total Expenditures</b>	<u>4,057,631</u>
<b>Net Change in Fund Balance</b>	(56,799)
Beginning fund balance	<u>7,220,361</u>
<b>Ending Fund Balance</b>	<u><u>\$ 7,163,562</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, 2012**

Net change in fund balance - governmental fund \$ (56,799)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	297,739
Depreciation	(303,256)
Disposal of capital assets	(20,542)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund.	2,530
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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	(1,314)
Net pension obligation	(3,351)

<b>Change in Net Assets of Governmental Activities</b>	<b>\$ <u>(84,993)</u></b>
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See Notes to Financial Statements.

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# CITY OF WEST LAKE HILLS, TEXAS

## STATEMENT OF NET ASSETS

### PROPRIETARY FUND

September 30, 2012

	<u>Business-Type Activities Enterprise Fund</u>
<b><u>Assets</u></b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 1,630,016
Accounts receivable, net	145,329
<b>Total Current Assets</b>	<u>1,775,345</u>
<b>Restricted Assets</b>	
Cash and cash equivalents - debt service	1,157,663
Cash and cash equivalents - capital improvements	850,597
<b>Total Restricted Assets</b>	<u>\$ 2,008,260</u>
<b>Noncurrent Assets</b>	
Deferred charges	272,661
Capital Assets:	
Nondepreciable	420,000
Depreciable, net	17,218,902
<b>Total Noncurrent Assets</b>	<u>17,911,563</u>
<b>Total Assets</b>	<u>21,695,168</u>
<b><u>Liabilities</u></b>	
<b>Current liabilities:</b>	
Accounts payable	97,765
Accrued interests	138,530
Customer deposits	66,660
Escrow deposits	84,445
Advances from other funds	3,150,000
	<u>3,537,400</u>
<b>Noncurrent liabilities:</b>	
Long-term debt due within one year	145,000
Long-term debt due in more than one year	16,035,000
	<u>16,180,000</u>
<b>Total Liabilities</b>	<u>19,717,400</u>
<b><u>Net Assets</u></b>	
Invested in capital assets, net of related debt	1,458,902
Unrestricted	518,866
<b>Total Net Assets</b>	<u>\$ 1,977,768</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 ASSETS

#### PROPRIETARY FUND

For the Year Ended September 30, 2012

	<u>Business-Type Activities Enterprise Fund</u>
<b><u>Operating Revenue</u></b>	
Wastewater charges	\$ 1,241,401
Other revenue	92,638
	<hr/>
<b>Total Operating Revenue</b>	<b>1,334,039</b>
	<hr/>
<b><u>Operating Expenses</u></b>	
Wastewater treatment charge	247,903
Wastewater system maintenance	169,266
Wastewater billing fees	43,170
Purchased and contracted services	874,860
Miscellaneous	100,992
	<hr/>
<b>Total Operating Expenses</b>	<b>1,436,191</b>
	<hr/>
<b>Operating (Loss)</b>	<b>(102,152)</b>
	<hr/>
<b><u>Non-Operating Revenues and Expenses</u></b>	
Interest expense	(138,530)
Investment income	7,784
	<hr/>
<b>Total Non-Operating Revenues</b>	<b>(130,746)</b>
	<hr/>
<b>Change in Net Assets</b>	<b>(232,898)</b>
	<hr/>
Beginning net assets	2,210,666
	<hr/>
<b>Ending Net Assets</b>	<b>\$ 1,977,768</b>
	<hr/> <hr/>

See Notes to Financial Statements.

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# CITY OF WEST LAKE HILLS, TEXAS

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUND

For the Year Ended September 30, 2012

	Business-Type Activities
	Enterprise Fund
<b><u>Cash Flows from Operating Activities</u></b>	
Receipts from customers	\$ 1,387,657
Payments to suppliers and operating costs	(1,379,430)
	8,227
<b>Net Cash Provided by Operating Activities</b>	
 <b><u>Cash Flows from Capital and Related Financing Activities</u></b>	
Acquisition of capital assets	(15,897,184)
Interfund proceeds for capital projects and debt service	2,000,000
Proceeds from debt issuance	16,180,000
Bond issuance costs	(272,661)
	2,010,155
<b>Net Cash Provided by Capital and Related Financing Activities</b>	
 <b><u>Cash Flows from Investing Activities</u></b>	
Interest on investments	7,784
	7,784
<b>Net Cash Provided by Investing Activities</b>	
<b>Net Increase in Cash and Cash Equivalents</b>	
	2,026,166
Beginning cash and cash equivalents	1,612,110
<b>Ending Cash and Cash Equivalents</b>	\$ 3,638,276
Unrestricted cash and cash equivalents	1,630,016
Restricted cash and cash equivalents	2,008,260
<b>Ending Cash and Cash Equivalents</b>	\$ 3,638,276
 <b><u>Reconciliation of Operating (Loss)</u></b>	
<b><u>to Net Cash Provided by Operating Activities</u></b>	
Operating (loss)	\$ (102,152)
<b>Changes in Operating Assets and Liabilities:</b>	
<b>(Increase) Decrease in:</b>	
Accounts receivable	47,057
<b>(Decrease) Increase in:</b>	
Accounts payable	56,761
Customer deposits	5,650
Escrow deposits	911
	911
<b>Net Cash Provided by Operating Activities</b>	\$ 8,227

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, 2012**

### **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, fire protection, 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 Assets and the Statement of Activities) report information about the City as a whole. These statements include all activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges 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, 2012

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 water 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.

#### **Governmental Funds**

Governmental funds are those funds through which most governmental functions are typically financed.

##### **General Fund**

The only governmental fund used by the City is the general fund. The general fund is the City's primary operating fund. It accounts for all financial resources of the City.

#### **Proprietary Funds**

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB) and all Financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its proprietary funds as presented by GASB.

The proprietary fund type used by the City includes the following:

##### **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.

# CITY OF WEST LAKE HILLS, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2012

### E. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide Statements of Net Assets and Statements of Activities and all proprietary funds are accounted for on a flow of economic resources measurement focus, accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Government-wide and proprietary equity consists of net assets. Operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in net total assets.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus, modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Property taxes, sales taxes, franchise taxes, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the accounting period in which they are incurred.

### F. Assets, Liabilities, and Net Assets or Fund Equity

#### 1. Deposits and Investments

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. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

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, 2012

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

### 2. Receivables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either “interfund receivables/payables” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds” in the fund financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds are offset by an assigned fund balance account in an applicable governmental fund to indicate they are not available for appropriation and are not expendable, available financial resources.

All trade receivables are shown net of an allowance for uncollectibles.

### 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. The City’s tax lien exists from January 1 (the assessment date) each year until the taxes are paid. The Travis County Tax Assessor-Collector bills and collects taxes on behalf of the City. All taxes that remain delinquent as of July 1 of the year in which they become delinquent shall incur an additional penalty of 15 percent of the amount of taxes, penalty and interest due. The procedure for collection on delinquent taxes is to send notice of delinquency and additional penalty at least 30 and not more than 60 days before July 1.

### 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. 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 retroactively recorded prior to October 1, 2003. Capital assets are defined by the City 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

# CITY OF WEST LAKE HILLS, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2012

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 years
Buildings	40 years
Buildings improvements	30 years
Vehicles	2 to 3 years
Furniture and equipment	3 to 15 years
Wastewater System	30 years

### 5. 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 employment, also receive paid vacation time in proportion to hours worked, based on a 40 hour work week. 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.

### 6. Fund Equity

Fund balances of governmental funds are classified as follows:

*Nonspendable fund balance* — represents amounts that cannot be spent because they are either in nonspendable form (such as inventory or prepaid insurance) or are legally required to remain intact (such as notes receivable or principal of a permanent fund).

*Restricted fund balance* — represents amounts that are constrained by external parties, constitutional provisions, or by enabling legislation.

*Committed fund balance* — represents amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as

# CITY OF WEST LAKE HILLS, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2012

committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint. The commitment must be made prior to year end.

*Assigned fund balance* — represents amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. Assignments can be made at any time.

*Unassigned fund balance* — represents amounts that are available for any purpose. Positive amounts are reported only in the general fund. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

When an expenditure is incurred for which restricted, committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of restricted, then committed, then assigned funds, and, finally, unassigned funds.

### 7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities column of the Statement of Net Assets.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount, and payments of principal and interest are reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable, available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, discounts and 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. Issuance costs are reported as deferred charges.

### 8. 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.

## 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 department 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, 2012

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and Investments

As of September 30, 2012, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
External investment pools		
(Lone Star)	\$ 6,140,084	0.00
Money market	1,157,662	0.00
Total Fair Value	\$ 7,297,746	
Portfolio weighted average maturity		0.00

*Credit risk.* State law and the City’s investment policy provides limits for investments to obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than AAA or AAA-m or its equivalent by at least one nationally recognized rating 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, 2012, market values of pledged securities and FDIC insurance exceeded bank balances.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, 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. 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 11 member governing board (the “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, 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, 2012

### B. Receivables

The following comprise receivable balances at year end:

	General	Wastewater	Total
Taxes	\$ 423,782	\$ -	\$ 423,782
Water and sewer	-	151,079	151,079
Other	180,934	6,680	187,614
Allowance	(12,227)	(12,430)	(24,657)
	\$ 592,489	\$ 145,329	\$ 737,818

### C. Capital Assets

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

	Governmental Activities			
	Beginning Balance	Increases	(Decreases)	
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 398,411	\$ -	\$ -	\$ 398,411
Construction in progress	-	130,856	-	130,856
Total capital assets not being depreciated	398,411	130,856	-	529,267
Capital assets being depreciated:				
Buildings and improvements	1,238,411	-	-	1,238,411
Furniture and equipment	1,263,511	159,087	(89,405)	1,333,193
Infrastructure	1,244,199	7,796	-	1,251,995
Total capital assets being depreciated	3,746,121	166,883	(89,405)	3,823,599
Less accumulated depreciation for:				
Buildings and improvements	(563,645)	(107,174)	-	(670,819)
Furniture and equipment	(869,309)	(131,234)	68,863	(931,680)
Infrastructure	(144,978)	(64,848)	-	(209,826)
Total accumulated depreciation	(1,577,932)	(303,256)	68,863	(1,812,325)
Capital assets being depreciated, net	2,168,189	(136,373)	(20,542)	2,011,274
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 2,566,600</b>	<b>\$ (5,517)</b>	<b>\$ (20,542)</b>	<b>\$ 2,540,541</b>

Depreciation was charged to governmental functions as follows:

General government	\$ 127,704
Public safety	65,738
Public works	109,814
	303,256
<b>Total Governmental Activities Depreciation Expense</b>	<b>\$ 303,256</b>

# CITY OF WEST LAKE HILLS, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2012

	Business-Type Activities			Ending Balance
	Beginning Balance	Increases	(Decreases)	
<b>Business-Type Activities:</b>				
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	-	-	-	-
Total accumulated depreciation	-	-	-	-
Capital assets being depreciated, net	-	17,218,902	-	17,218,902
<b>Business-Type Activities Capital Assets, Net</b>	\$ -	\$ 17,638,902	\$ -	17,638,902
			Less associated debt	16,180,000
			<b>Invested in capital assets, net of related debt</b>	<b>\$ 1,458,902</b>

### D. Long-Term Liabilities

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

The following is a summary long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Other liabilities:					
Compensated absences	\$ 192,164	\$ 162,024	\$ (160,710)	\$ 193,478	\$ 174,130
Net pension obligation	9,082	216,457	(213,106)	12,433	-
<b>Total Governmental Activities</b>	\$ 201,246	\$ 378,481	\$ (373,816)	\$ 205,911	\$ 174,130
			<b>Long-term liabilities due in more than one year</b>	<b>\$ 31,781</b>	

# CITY OF WEST LAKE HILLS, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2012

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>Business-Type Activities:</b>					
Other liabilities:					
Revenue bonds	\$ -	\$ 16,180,000	\$ -	\$ 16,180,000 *	\$ 145,000
<b>Total Business-Type       Activities</b>	\$ -	\$ 16,180,000	\$ -	\$ 16,180,000	\$ 145,000
				Long-term liabilities due in more than one year \$ 16,035,000	

\*Debt associated with capital assets

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

Description	Interest Rates	Balance
<b>Revenue Bonds</b>		
Wastewater System Revenue Bonds, Series 2012	3.25%	\$ 16,180,000
<b>Total Long-Term Debt</b>		<b>\$ 16,180,000</b>

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 Ending Sept. 30	Business-Type Activity	
	Principal	Interest
2013	\$ 145,000	\$ 620,795
2014	195,000	521,138
2015	255,000	514,800
2016	315,000	506,513
2017	385,000	496,275
2018-2022	3,035,000	2,246,238
2023-2027	5,240,000	1,615,738
2028-2032	6,610,000	651,785
<b>Total</b>	<b>\$ 16,180,000</b>	<b>\$ 7,173,282</b>

### E. Commitments

In 2001, the City entered into an agreement with the Lower Colorado River Authority (LCRA) to construct, own, operate, and maintain a wastewater collection system. The City purchased the wastewater collection system from LCRA during the month of July in the current fiscal year. The City made payments of \$862,248 to LCRA during the 2012 fiscal year under the operating contract with LCRA before purchasing the wastewater collection system.

# CITY OF WEST LAKE HILLS, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2012

### F. Interfund Transactions

The City has loaned a total of \$3,150,000 from the City's general fund to the wastewater fund. 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 repayment is to begin in 2026 subject to available funds.

### G. Fund Equity

As of year end, \$112,150 of the general fund balance is restricted by enabling legislation.

### H. Restatement of Net Assets

Beginning net assets have been restated for business-type activities. The enterprise fund had an increase for cash held by LCRA on behalf of the City in previous years related to the wastewater collection system. Cash held by LCRA consisted of estimated interest earnings on escrow of \$57,013, unspent construction funds of \$915,927, reserved funds of \$608,778, and earnest money of \$160,000.

	<u>Business-Type Activities</u>
	<u>Enterprise Fund</u>
Prior year ending net assets	\$ 468,948
Cash held by LCRA	1,741,718
Beginning net assets	<u>\$ 2,210,666</u>

## 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 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pool (the "Pool"). The Pool 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. 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 plaintiff in one lawsuit. Although the outcome of this lawsuit is not presently determinable, it is the opinion of the City's management that resolution of this matter will not have a material adverse effect of the financial condition of the City.

# CITY OF WEST LAKE HILLS, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2012

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 Plan

#### 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](http://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:

	<u>2012</u>	<u>2011</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

##### 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 percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the 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.

# CITY OF WEST LAKE HILLS, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2012

The City contributes to 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 (i.e., December 31, 2010 valuation is effective for rates beginning January 2012).

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

Annual required contribution (ARC)	\$	216,367
Interest on net pension obligation (NPO)		636
Adjustment to the ARC		(546)
Annual pension cost (APC)		216,457
Contributions made		(213,106)
Increase in NPO		3,351
NPO-beginning of year		9,082
NPO-end of year	\$	12,433

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)
2010	\$ 209,728	\$ 209,728	100.00%	\$ -
2011	\$ 226,902	\$ 217,820	96.00%	\$ 9,082
2012	\$ 216,457	\$ 213,106	98.45%	\$ 12,433

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

	2012	2011	2010
Actuarial Valuation Date	12/31/2011	12/31/2010	12/31/2009
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	26.4 Years - Closed Period	27.4 Years - Closed Period	28.3 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%	7.5%
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, 2012

### Funded Status and Funding Progress

The funded status as of December 31, 2011, the most recent actuarial valuation date, is presented as follows:

	<u>2012</u>
Actuarial Valuation Date	12/31/2011
Actuarial Value of Assets	\$ 4,488,367
Actuarial Accrued Liability	\$ 5,608,875
Percentage Funded	80.0%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 1,120,508
Annual Covered Payroll	\$ 1,583,599
UAAL as a Percentage of Covered Payroll	70.8%

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 Required Supplementary Information 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, 2012, 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, 2012

### 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 2012, 2011 and 2010 were \$1,263, \$1,111, and \$1,078, respectively. The City's contribution rate to the TMRS SDBF for the retiree portion for the year ended September 30, 2012 is shown below:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual Req. Contrib. (Rate)	0.08%	0.07%	0.07%
Actual Contribution Made	0.08%	0.07%	0.07%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

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***REQUIRED SUPPLEMENTARY INFORMATION***

**CITY OF WEST LAKE HILLS, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Page 1 of 2)**  
**For the Year Ended September 30, 2012**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues</b>			
Taxes:			
Property	\$ 656,137	\$ 654,591	\$ (1,546)
Sales	2,059,053	2,232,909	173,856
Franchise and local	470,271	594,752	124,481
Licenses and permits	82,699	81,616	(1,083)
Charges for services	61,803	75,752	13,949
Fines and forfeitures	323,327	288,421	(34,906)
Investment income	11,500	12,561	1,061
Other revenue	56,044	60,230	4,186
<b>Total Revenues</b>	<u>3,720,834</u>	<u>4,000,832</u>	<u>279,998</u>
<b>Expenditures</b>			
Current:			
General Government			
Administration:			
Maintenance	21,796	25,373	(3,577)
Repairs	3,850	2,564	1,286
Contract services	309,500	238,287	71,213
Payroll	396,536	414,277	(17,741)
Utilities and sundry	102,605	64,123	38,482
Capital outlay	5,000	15,078	(10,078)
Municipal court:			
Repairs	21,728	14,504	7,224
Contract services	44,350	43,608	742
Payroll	167,650	177,932	(10,282)
Capital outlay	35,000	30,433	4,567
<b>Total General Government</b>	<u>1,108,015</u>	<u>1,026,179</u>	<u>81,836</u>
Public Works			
Maintenance	750	707	43
Repairs	434,500	550,466	(115,966)
Contract services	511,873	506,131	5,742
Payroll	153,377	153,248	129
Capital outlay	351,000	157,555	193,445
<b>Total Public Works</b>	<u>1,451,500</u>	<u>1,368,107</u>	<u>83,393</u>

**CITY OF WEST LAKE HILLS, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Page 2 of 2)**  
**For the Year Ended September 30, 2012**

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Public Safety</b>			
Police:			
Maintenance	59,000	58,045	955
Repairs	19,596	30,111	(10,515)
Contract services	13,750	14,605	(855)
Payroll	1,103,944	1,103,736	208
Utilities and sundry	56,936	46,178	10,758
Capital outlay	92,000	77,583	14,417
Central dispatch:			
Maintenance	500	81	419
Repairs	850	1,076	(226)
Contract services	10,500	4,950	5,550
Payroll	323,548	322,956	592
Utilities and sundry	3,100	3,090	10
Capital outlay	1,500	934	566
<b>Total Public Safety</b>	1,685,224	1,663,345	21,879
<b>Total Expenditures</b>	4,244,739	4,057,631	187,108
<b>Net Change in Fund Balance</b>	\$ (523,905)	(56,799)	\$ 467,106
Beginning fund balance		7,220,361	
<b>Ending Fund Balance</b>		\$ 7,163,562	

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, 2012

Fiscal Year	<u>2012</u>	<u>2011</u>	<u>2010</u>
Actuarial Valuation Date	12/31/2011	12/31/2010	12/31/2009
Actuarial Value of Assets	\$ 4,488,367	\$ 4,042,052	\$ 2,641,859
Actuarial Accrued Liability	\$ 5,608,875	\$ 5,176,525	\$ 3,908,545
Percentage Funded	80.0%	78.1%	67.6%
Unfunded Actuarial			
Accrued Liability (UAAL)	\$ 1,120,508	\$ 1,134,473	\$ 1,266,686
Annual Covered Payroll	\$ 1,583,599	\$ 1,553,353	\$ 1,571,770
UAAL % of Covered Payroll	70.8%	73.0%	80.6%
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ 9,082	\$ -	\$ -
Annual Req. Contrib. (ARC)	216,457	226,902	209,728
Contributions Made	213,106	217,820	209,728
<b>NPO at the End of Period</b>	<u><u>\$ 12,433</u></u>	<u><u>\$ 9,082</u></u>	<u><u>\$ -</u></u>

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