

ANNUAL FINANCIAL REPORT

of the

**CITY OF WEST LAKE HILLS,
TEXAS**

For the Year Ended
September 30, 2011

(This page intentionally left blank.)

CITY OF WEST LAKE HILLS, TEXAS

TABLE OF CONTENTS

September 30, 2011

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	5
<u>BASIC FINANCIAL STATEMENTS</u>	
Government-Wide Financial Statements	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements	
Balance Sheet – General Fund	17
Statement of Revenues, Expenditures, and Changes in Fund Balance – General Fund	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	21
Proprietary Fund Financial Statements	
Statement of Net Assets	23
Statement of Revenues, Expenses, and Changes in Fund Net Assets	25
Statement of Cash Flows	27
Notes to Financial Statements	29
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	46
Schedule of Funding Progress – Texas Municipal Retirement System	49

(This page intentionally left blank.)



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, 2011, 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, 2011, 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 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.

Partners

Robert Belt, CPA
Stephanie E. Harris, CPA
Nathan Krupke, CPA

Houston

3210 Bingle Rd., Ste. 300
Houston, TX 77055
713.263.1123

Bellville

6100 Windy Hill Lane
Bellville, TX 77418
979.865.3169

Austin

100 Congress Ave., Ste. 2000
Austin, TX 78701
512.381.0222

All Offices

www.texasauditors.com
info@txauditors.com
713.263.1550 fax



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.

*B*ELT *H*ARRIS *P*ECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
May 7, 2012

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

(This page intentionally left blank.)

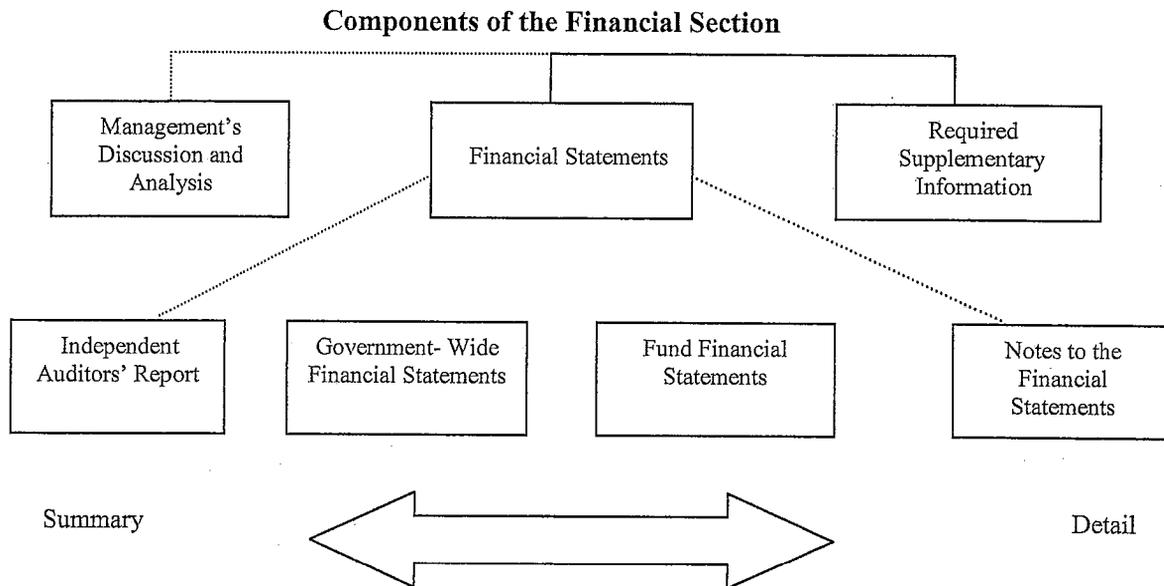
CITY OF WEST LAKE HILLS, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2011

The purpose of the Management's Discussion and Analysis (the "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, 2011. The analysis is based on currently known facts, decisions, or economic conditions. It presents short term 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. Governmental Accounting Standards Board (GASB) Statement No. 34 establishes the content of the minimum requirements for the MD&A. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



The annual financial report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. The financial reporting model requires governments to present certain basic financial statements as well as the MD&A and certain other Required Supplementary Information (RSI). 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, 2011

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 balances 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, 2011

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 RSI. The RSI that GASB Statement No. 34 requires 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 \$10,064,747 as of year end.

Of the City's net assets, \$2,566,600 or 26 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.

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets:

	2011			2010		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Current and other assets	\$ 7,666,197	\$ 654,496	\$ 8,320,693	\$ 7,590,571	\$ 1,091,862	\$ 8,682,433
Capital assets, net	2,566,600	-	2,566,600	1,982,074	-	1,982,074
Total Assets	10,232,797	654,496	10,887,293	9,572,645	1,091,862	10,664,507
Long-term liabilities	201,246	-	201,246	163,961	-	163,961
Other liabilities	435,752	185,548	621,300	458,778	171,914	630,692
Total Liabilities	636,998	185,548	822,546	622,739	171,914	794,653
Net assets:						
Invested in capital assets	2,566,600	-	2,566,600	1,982,074	-	1,982,074
Restricted	112,351	-	112,351	116,719	-	116,719
Unrestricted	6,916,848	468,948	7,385,796	6,851,113	919,948	7,771,061
Total Net Assets	\$ 9,595,799	\$ 468,948	\$ 10,064,747	\$ 8,949,906	\$ 919,948	\$ 9,869,854

A portion of the City's net assets, \$112,351, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$7,385,796, 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, 2011

Statement of Activities

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

	For the Year Ended September 30, 2011			For the Year Ended September 30, 2010		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 515,619	\$ 1,178,523	\$ 1,694,142	\$ 659,171	\$ 1,176,210	\$ 1,835,381
General revenues:						
Property taxes	662,106	-	662,106	683,129	-	683,129
Sales taxes	2,816,156	-	2,816,156	1,911,275	-	1,911,275
Franchise and local	685,797	-	685,797	101,931	-	101,931
Investment income	11,644	4,006	15,650	14,728	4,862	19,590
Other	70,741	10,736	81,477	114,908	115,077	229,985
Total Revenues	4,762,063	1,193,265	5,955,328	3,485,142	1,296,149	4,781,291
<u>Expenses</u>						
General government	1,184,114	-	1,184,114	1,086,680	-	1,086,680
Public works	1,716,262	-	1,716,262	907,939	-	907,939
Public safety	1,215,795	-	1,215,795	1,218,601	-	1,218,601
Wastewater	-	1,644,265	1,644,265	-	1,579,851	1,579,851
Total Expenses	4,116,170	1,644,265	5,760,435	3,213,220	1,579,851	4,793,071
Change in Net Assets	645,893	(451,000)	194,893	271,922	(283,702)	(11,780)
Beginning Net Assets	8,949,906	919,948	9,869,854	8,677,984	1,203,650	9,881,634
Ending Net Assets	\$ 9,595,799	\$ 468,948	\$ 10,064,747	\$ 8,949,906	\$ 919,948	\$ 9,869,854

For the year ended September 30, 2011, revenues from governmental activities totaled \$4,762,063. Sales taxes are the City's largest revenue source at \$2,816,156 or 59 percent. Revenues remained comparable to the prior year, with the exception of sales tax and franchise and local taxes. The increase in sales tax revenue for the year can be attributed to a recovery of sales tax revenue through a sales tax audit conducted with the Texas State Comptroller. Franchise tax increased primarily due to a new utility franchise contract with the City of Austin Utilities. Overall, governmental expenses reported an increase for the year of \$902,950 or 28 percent, mainly due to increased spending for public works and general government.

Revenues for business-type activities decreased \$102,884 due primarily to a decrease in impact fees. Expenditures increased by \$64,414 or four percent compared to the prior year. This increase in expenditures is mainly due to increased maintenance and other costs necessary to operate the wastewater system.

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, 2011

The City's general fund has an ending fund balance of \$7,220,361. Of this, \$35,507 and \$76,844 is restricted for municipal court technology and security, respectively. An additional \$7,108,010 is unassigned and reported in the general fund. Overall, there was an increase in fund balance of \$99,015 for the year, mainly due to increased 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 \$1,369,125 during the year. This net positive variance was attributable to an increase in sales tax revenue and franchise and local tax revenue. General fund expenditures were over the final budget by \$647,943 due to negative variances across all departments.

CAPITAL ASSETS

At the end of the year, the City's governmental activities had invested \$2,566,600 in capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of \$584,526. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34 with an increase in depreciation expense of \$245,917.

Major capital asset events during the year included the following:

- Additions to City Hall improvement project in the amount of \$302,032

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

LONG-TERM LIABILITIES

At the end of the current year, the City had a total of \$201,246 in compensated absences and a net pension obligation. There was a net increase in long-term liabilities of \$37,285 during the year.

More detailed information about the City's long-term liabilities is presented 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.

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>.

(This page intentionally left blank.)

FINANCIAL STATEMENTS

(This page intentionally left blank.)

CITY OF WEST LAKE HILLS, TEXAS

STATEMENT OF NET ASSETS

September 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 6,029,206	\$ 1,612,110	\$ 7,641,316
Receivables, net	476,990	192,386	669,376
Internal balances	1,150,000	(1,150,000)	-
Restricted assets:			
Cash and cash equivalents	10,001	-	10,001
	7,666,197	654,496	8,320,693
Capital assets:			
Capital assets, nondepreciable	398,411	-	398,411
Capital assets, net depreciable	2,168,189	-	2,168,189
	2,566,600	-	2,566,600
Total Assets	10,232,797	654,496	10,887,293
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	341,751	40,709	382,460
Escrow deposits	-	83,534	83,534
Customer deposits	-	61,010	61,010
Impact fees payable	-	295	295
Liabilities payable from restricted assets	94,001	-	94,001
	435,752	185,548	621,300
Noncurrent liabilities:			
Due within one year	172,948	-	172,948
Due in more than one year	28,298	-	28,298
	201,246	-	201,246
Total Liabilities	636,998	185,548	822,546
<u>Net Assets</u>			
Invested in capital assets	2,566,600	-	2,566,600
Restricted for:			
Municipal court technology	35,507	-	35,507
Municipal court security	76,844	-	76,844
Unrestricted	6,916,848	468,948	7,385,796
	2,566,600	468,948	2,566,600
Total Net Assets	\$ 9,595,799	\$ 468,948	\$ 10,064,747

See Notes to Financial Statements.

CITY OF WEST LAKE HILLS, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2011

Functions/Programs	Expenses	Program Revenues Charges for Services
Primary Government		
Governmental Activities		
General government	\$ 1,184,114	\$ 194,463
Public works	1,716,262	-
Public safety	1,215,795	321,156
Total Governmental Activities	4,116,170	515,619
 Business-Type Activities		
Wastewater	1,644,265	1,178,523
Total Business-Type Activities	1,644,265	1,178,523
Total Primary Government	\$ 5,760,435	\$ 1,694,142

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

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (989,651)	\$ -	\$ (989,651)
(1,716,262)	-	(1,716,262)
<u>(894,639)</u>	<u>-</u>	<u>(894,639)</u>
<u>(3,600,551)</u>	<u>-</u>	<u>(3,600,551)</u>
-	(465,742)	(465,742)
-	(465,742)	(465,742)
<u>(3,600,551)</u>	<u>(465,742)</u>	<u>(4,066,293)</u>
662,106	-	662,106
2,816,156	-	2,816,156
685,797	-	685,797
11,644	4,006	15,650
70,741	10,736	81,477
<u>4,246,444</u>	<u>14,742</u>	<u>4,261,186</u>
645,893	(451,000)	194,893
8,949,906	919,948	9,869,854
<u>\$ 9,595,799</u>	<u>\$ 468,948</u>	<u>\$ 10,064,747</u>

(This page intentionally left blank.)

CITY OF WEST LAKE HILLS, TEXAS

BALANCE SHEET

GENERAL FUND

September 30, 2011

<u>Assets</u>	<u>General</u>
Cash and cash equivalents	\$ 6,029,206
Receivables, net	476,990
Cash - restricted	10,001
Advances to other funds	1,150,000
Total Assets	\$ 7,666,197
<u>Liabilities</u>	
Accounts payable and accrued liabilities	\$ 341,751
Deferred revenue	10,084
Liabilities payable from restricted assets	94,001
Total Liabilities	445,836
<u>Fund Balances</u>	
Restricted:	
Municipal court technology	35,507
Municipal court security	76,844
Unassigned	7,108,010
Total Fund Balances	7,220,361
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	398,411
Capital assets, depreciable	3,746,121
Accumulated depreciation	(1,577,932)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the fund.	
Deferred revenue	10,084
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Non-current liabilities due in one year	(172,948)
Non-current liabilities due in more than one year	(28,298)
Net Assets of Governmental Activities	\$ 9,595,799

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF WEST LAKE HILLS, TEXAS

STATEMENT OF REVENUES, EXPENDITURES,

AND CHANGES IN FUND BALANCE

GENERAL FUND

For the Year Ended September 30, 2011

	<u>General</u>
<u>Revenues</u>	
Taxes:	
Property	\$ 662,469
Sales	2,816,156
Franchise and local	685,797
Licenses and permits	98,982
Charges for services	95,481
Fines and forfeitures	321,156
Investment income	11,644
Other revenue	70,741
Total Revenues	<u>4,762,426</u>
<u>Expenditures</u>	
Current:	
General government	1,371,303
Public works	1,534,098
Public safety	1,758,010
Total Expenditures	<u>4,663,411</u>
Net Change in Fund Balance	99,015
Beginning Fund Balance	<u>7,121,346</u>
Ending Fund Balance	<u><u>\$ 7,220,361</u></u>

See Notes to Financial Statements.

(This page intentionally left blank.)

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, 2011

Net change in fund balance - governmental fund	\$	99,015
Adjustments for the Statement of Activities:		
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		841,422
Depreciation		(245,917)
Disposal of capital assets		(10,979)
Revenues that do not provide current financial resources are not reported as revenues in the fund.		
		(363)
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		(28,203)
Net pension obligation		(9,082)
		(37,285)
Change in Net Assets of Governmental Activities	\$	<u>645,893</u>

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF WEST LAKE HILLS, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUND

September 30, 2011

	<u>Business-Type Activities Wastewater Fund</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 1,612,110
Accounts receivable, net	192,386
Total Assets	<u>1,804,496</u>
<u>Liabilities</u>	
Accounts payable	40,709
Escrow deposits	83,534
Customer deposits	61,010
Impact fees payable	295
Advances from other funds	<u>1,150,000</u>
Total Liabilities	<u>1,335,548</u>
<u>Net Assets</u>	
Unrestricted	<u>468,948</u>
Total Net Assets	<u>\$ 468,948</u>

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF WEST LAKE HILLS, TEXAS

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

For the Year Ended September 30, 2011

	<u>Business-Type Activities Wastewater Fund</u>
<u>Operating Revenue</u>	
Wastewater charges	\$ 1,178,523
Other revenue	<u>10,736</u>
Total Operating Revenue	<u>1,189,259</u>
<u>Operating Expenses</u>	
Wastewater treatment charge	187,954
Wastewater system maintenance	120,507
Wastewater billing fees	21,425
Purchased and contracted services	1,229,493
Miscellaneous	<u>84,886</u>
Total Operating Expenses	<u>1,644,265</u>
Operating (Loss)	<u>(455,006)</u>
<u>Non-Operating Revenues</u>	
Investment income	<u>4,006</u>
Total Non-operating Revenues	<u>4,006</u>
Change in Net Assets	(451,000)
Beginning Net Assets	<u>919,948</u>
Ending Net Assets	<u>\$ 468,948</u>

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF WEST LAKE HILLS, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended September 30, 2011

	<u>Business-Type Activities</u> <u>Wastewater Fund</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 1,236,619
Payments to suppliers	<u>(1,625,426)</u>
Net Cash (Used) by Operating Activities	<u>(388,807)</u>
<u>Cash Flows from Investing Activities</u>	
Interest on investments	4,006
Net Cash Provided by Investing Activities	<u>4,006</u>
Net (Decrease) in Cash and Cash Equivalents	<u>(384,801)</u>
 Beginning Cash and Cash Equivalents	 <u>1,996,911</u>
 Ending Cash and Cash Equivalents	 <u>\$ 1,612,110</u>
 <u>Reconciliation of Operating (Loss)</u>	
<u>to Net Cash (Used) by Operating Activities</u>	
Operating (Loss)	\$ (455,006)
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	52,565
(Decrease) Increase in:	
Accounts payable	18,839
Customer deposits	6,075
Escrow deposits	<u>(11,280)</u>
Net Cash (Used) by Operating Activities	<u>\$ (388,807)</u>

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2011

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 and Fund 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. For the most part, the effect of interfund activity has been removed from these statements. 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.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2011

are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate.

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 Fund Type

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.

C. 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

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2011

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.

D. 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, 2011

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 statement. 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 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

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2011

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

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, 2011

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 payment of principal and interest is 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.

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2011

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.

A. Expenditures in Excess of Appropriations

For the year ended, expenditures exceeded appropriations at the legal level of control for the general fund as follows.

General government	\$	435,536
Public works	\$	154,001
Public safety	\$	58,406

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2011, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
State Pool (Lone Star)	\$ 7,743,661	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, 2011, 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.

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2011

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.

B. Receivables

The following comprise receivable balances at year end:

	<u>General</u>	<u>Wastewater</u>	<u>Total</u>
Taxes	\$ 399,645	\$ -	\$ 399,645
Water and Sewer	-	198,136	198,136
Other	89,572	6,680	96,252
Allowance	<u>(12,227)</u>	<u>(12,430)</u>	<u>(24,657)</u>
	<u>\$ 476,990</u>	<u>\$ 192,386</u>	<u>\$ 669,376</u>

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2011

C. Capital Assets

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

	Primary Government			Ending Balance
	Beginning Balance	Increases	(Decreases)	
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 398,411	\$ -	\$ -	\$ 398,411
Construction in progress	134,514	302,032	(436,546)	-
Total capital assets not being depreciated	<u>532,925</u>	<u>302,032</u>	<u>(436,546)</u>	<u>398,411</u>
Capital assets being depreciated:				
Buildings and improvements	936,379	302,032	-	1,238,411
Furniture and equipment	1,207,740	199,409	(143,638)	1,263,511
Infrastructure	769,704	474,495	-	1,244,199
Total capital assets being depreciated	<u>2,913,823</u>	<u>975,936</u>	<u>(143,638)</u>	<u>3,746,121</u>
Less accumulated depreciation for:				
Buildings and improvements	(529,735)	(33,910)	-	(563,645)
Furniture and equipment	(863,685)	(138,283)	132,659	(869,309)
Infrastructure	(71,254)	(73,724)	-	(144,978)
Total accumulated depreciation	<u>(1,464,674)</u>	<u>(245,917)</u>	<u>132,659</u>	<u>(1,577,932)</u>
Capital assets being depreciated, net	<u>1,449,149</u>	<u>730,019</u>	<u>(10,979)</u>	<u>2,168,189</u>
Totals	<u>\$ 1,982,074</u>	<u>\$ 1,032,051</u>	<u>\$ (447,525)</u>	<u>\$ 2,566,600</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 56,689
Public safety	114,665
Public works	<u>74,563</u>
Total Governmental Activities Depreciation Expense	<u>\$ 245,917</u>

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2011

D. Commitments

In 2001, the City entered into an agreement with the Lower Colorado River Authority (LCRA). The terms of the agreement state that LCRA will construct, own, operate, and maintain the wastewater collection system. The City is obligated to make payments through 2036 to the LCRA. It is management's opinion that the contract payments can be fully funded through wastewater revenues and that wastewater rates will be set at a level sufficient to avoid using general funds. The future payments under the agreement are as follows:

Year Ending Sept. 30	Payment
2012	\$ 1,552,702
2013	1,556,094
2014	1,558,338
2015	1,559,044
2016	1,567,090
2017-2021	8,056,139
2022-2026	8,125,061
2027-2031	8,229,130
2032-2036	5,759,398
Total	\$ 37,962,996

E. Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Other liabilities:					
Compensated absences	\$ 163,961	\$ 165,885	\$ (137,682)	\$ 192,164	\$ 172,948
Net pension obligation	-	9,082	-	9,082	-
Total Governmental Activities	\$ 163,961	\$ 174,967	\$ (137,682)	\$ 201,246	\$ 172,948
Long-term liabilities due in more than one year				\$ 28,298	

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.

F. Interfund Transactions

The City approved a one-time transfer of \$1,150,000 from the City's general fund to the wastewater fund including 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, \$112,351 of the general fund balance is restricted by enabling legislation.

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2011

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 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.

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, 2011

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>2011</u>	<u>2010</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 percent (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 percent 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 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.

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 (i.e., December 31, 2009 valuation is effective for rates beginning January 2011).

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2011

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

Annual required contribution (ARC)	\$	226,902
Contributions made		(217,820)
		9,082
Increase in net pension obligation		9,082
Net pension obligation-beginning of year		-
Net pension obligation-end of year	\$	9,082

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)
2009	\$ 179,000	179,000	100.00%	\$ -
2010	\$ 209,728	209,728	100.00%	\$ -
2011	\$ 226,902	217,820	96.00%	\$ 9,082

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

	2011	2011	2010	2009
Actuarial Valuation Date	12/31/2010- Restructured	12/31/2010-Prior to Restructuring	12/31/2009	12/31/2008
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll	Level % of Payroll
Remaining Amortization Period	27.4 Years - Closed Period	27.3 Years - Closed Period	28.3 Years - Closed Period	29 Years - Closed Period
Amortization Period for new Gains/Losses	30 years	30 years	30 years	30 years
Asset Valuation Method	10 - Year Smoothed Market	10 - Year Smoothed Market	10 - Year Smoothed Market	Amortized cost
Investment Rate of Return	7.0%	7.5%	7.5%	7.5%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation at	3.00%	3.00%	3.00%	3.00%
Cost of Living Adjustments	2.10%	2.10%	2.10%	2.10%

In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report.

CITY OF WEST LAKE HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2011

The funded status as of December 31, 2010, under the two separate actuarial valuations, is presented as follows:

	<u>2011</u>	<u>2011</u>
Actuarial Valuation Date	12/31/2010 (2)	12/31/2010 (1)
Actuarial Value of Assets	\$ 4,042,052	\$ 3,063,664
Actuarial Accrued Liability	\$ 5,176,525	\$ 4,366,474
Percentage Funded	78.1%	70.2%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 1,134,473	\$ 1,302,810
Annual Covered Payroll	\$ 1,553,353	\$ 1,553,353
UAAL as a Percentage of Covered Payroll	73.0%	83.9%

(1) Actuarial valuation performed under the original fund structure

(2) Actuarial valuation performed under the new fund structure

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 Texas Municipal Retirement System (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, 2011, 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, 2011

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 2011, 2010 and 2009 were \$1,111, \$1,078, and \$430, respectively. The City's contribution rate to the TMRS Supplemental Death Benefit Fund for the retiree portion for the year ended September 30, 2011 is shown below.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Annual Req. Contrib. (Rate)	0.07%	0.07%	0.07%
Actual Contribution Made	0.07%	0.07%	0.07%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

V. SUBSEQUENT EVENT

In April of 2012, the City entered into an agreement with the Lower Colorado River Authority (the "LCRA") to purchase a wastewater utility system that is already serving the City. The purchase amount, or date of full repayment, has not been finalized as of the date of this report. The payment amount is to be the sum of the LCRA's outstanding long-term debt as of closing, defeasance costs for the LCRA's outstanding long-term debt, the outstanding balance at closing due to LCRA on the City of Austin consideration payment made on behalf of the City by LCRA, minus the total amount of unspent Phase 2 construction funds and an operating reserve balance change attributable to the wastewater system as of closing.

(This page intentionally left blank.)

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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>				
Taxes:				
Property	\$ 651,319	\$ 651,319	\$ 662,469	\$ 11,150
Sales	1,872,832	1,872,832	2,816,156	943,324
Franchise and local	377,000	377,000	685,797	308,797
Licenses and permits	75,000	75,000	98,982	23,982
Charges for services	50,750	50,750	95,481	44,731
Fines and forfeitures	293,500	293,500	321,156	27,656
Investment income	12,000	12,000	11,644	(356)
Other revenue	60,900	60,900	70,741	9,841
Total Revenues	3,393,301	3,393,301	4,762,426	1,369,125
<u>Expenditures</u>				
Current:				
General government				
Administration:				
Maintenance	22,000	22,000	23,076	(1,076)
Repairs	6,000	6,000	5,471	529
Contract services	222,000	222,000	371,903	(149,903)
Payroll	368,697	368,697	346,760	21,937
Utilities and sundry	42,250	42,250	359,643	(317,393)
Capital outlay	45,400	45,400	50,307	(4,907)
Municipal court:				
Repairs	15,500	15,500	11,253	4,247
Contract services	47,450	47,450	46,542	908
Payroll	161,470	161,470	154,085	7,385
Capital outlay	5,000	5,000	2,263	2,737
Total General Government	935,767	935,767	1,371,303	(435,536) *
Public works				
Maintenance	3,750	3,750	959	2,791
Repairs	75,200	75,200	119,358	(44,158)
Contract services	378,939	378,939	488,495	(109,556)
Payroll	148,245	148,245	147,891	354
Capital outlay	773,963	773,963	777,395	(3,432)
Total Public Works	1,380,097	1,380,097	1,534,098	(154,001) *

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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Public safety				
Police:				
Maintenance	53,000	53,000	61,477	(8,477)
Repairs	19,500	19,500	25,249	(5,749)
Contract services	18,750	18,750	15,089	3,661
Payroll	1,088,058	1,088,058	1,115,250	(27,192)
Utilities and sundry	50,750	50,750	57,448	(6,698)
Capital outlay	128,500	128,500	144,567	(16,067)
Central dispatch:				
Maintenance	1,000	1,000	73	927
Repairs	1,250	1,250	722	528
Contract services	21,000	21,000	9,260	11,740
Payroll	312,296	312,296	323,464	(11,168)
Utilities and sundry	3,500	3,500	3,354	146
Capital outlay	2,000	2,000	2,057	(57)
Total Public Safety	<u>1,699,604</u>	<u>1,699,604</u>	<u>1,758,010</u>	<u>(58,406) *</u>
Total Expenditures	<u>4,015,468</u>	<u>4,015,468</u>	<u>4,663,411</u>	<u>(647,943)</u>
Net Change in Fund Balance	<u>\$ (622,167)</u>	<u>\$ (622,167)</u>	99,015	<u>\$ 721,182</u>
Beginning Fund Balance			<u>7,121,346</u>	
Ending Fund Balance			<u>\$ 7,220,361</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. *Expenditures exceeded appropriations at the legal level of control.

(This page intentionally left blank.)

CITY OF WEST LAKE HILLS, TEXAS

SCHEDULE OF FUNDING PROGRESS

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2011

Fiscal Year	<u>2011 (2)</u>	<u>2011 (1)</u>	<u>2010</u>	<u>2009</u>
Actuarial Valuation Date	12/31/2010	12/31/2010	12/31/2009	12/31/2008
Actuarial Value of Assets	\$ 4,042,052	\$ 3,063,664	\$ 2,641,859	\$ 2,244,802
Actuarial Accrued Liability	\$ 5,176,525	\$ 4,366,474	\$ 3,908,545	\$ 3,297,546
Percentage Funded	78.1%	70.2%	67.6%	68.1%
Unfunded Actuarial				
Accrued Liability	\$ 1,134,473	\$ 1,302,810	\$ 1,266,686	\$ 1,052,744
Annual Covered Payroll	\$ 1,553,353	\$ 1,553,353	\$ 1,571,770	\$ 1,371,422
Unfunded Actuarial Accrued Liability				
(UAAL) % of Covered Payroll	73.0%	83.9%	80.6%	76.8%
Net Pension Obligation (NPO)				
at the Beginning of Period	\$ -	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	226,902	226,902	209,728	179,000
Contributions Made	217,820	217,820	209,728	179,000
NPO at the End of Period	\$ 9,082	\$ 9,082	\$ -	\$ -

(1) Actuarial Valuation performed under the original fund structure.

(2) Actuarial valuation performed under the new fund structure.

(This page intentionally left blank.)