

TOWN OF LAKEWOOD VILLAGE, TEXAS

Financial Statements
(With Auditor's Report Thereon)

September 30, 2015

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TOWN OF LAKEWOOD VILLAGE
Annual Financial Report
For the Year Ended September 30, 2015

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor
and Members of the Town Council
Town of Lakewood Village
Lakewood Village, Texas 75068

I have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Lakewood Village, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Lakewood Village, Texas, as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows there of for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Lakewood Village, Texas's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Nabors CPA Services, P.C.

November 30, 2015

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Management's Discussion and Analysis

As management of the Town of Lakewood Village, we offer readers of the Town of Lakewood Village's financial statements this narrative overview and analysis of the financial activities of the Town of Lakewood Village for the fiscal year ended September 30, 2015.

Financial Highlights

- The assets of the Town of Lakewood Village exceeded its liabilities at the close of the most recent fiscal year by \$2,734,904 (net position). Of this amount \$340,051, (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the Town of Lakewood Village's governmental funds reported ending fund balance of \$188,081, an decrease of \$(932,320) in comparison with the prior year. Of this balance, \$179,323 is available for spending at the government's discretion (unassigned). Unassigned fund balance represents 45 percent of general fund expenditures, and 13 percent of total governmental fund expenditures. At the close of the current fiscal year, the Town of Lakewood Village's governmental funds had a current ratio of approximately 189:1, based on the current assets of \$189,007 and current liabilities of \$926.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Lakewood Village's basic financial statements. The Town of Lakewood Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of Lakewood Village's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the Town of Lakewood Village that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town of Lakewood Village include general government, public safety, and recreation (public works). The business-type activities of the Town of Lakewood Village include the water and sewer system.

The government-wide financial statements can be found on pages 11-13 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Lakewood Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the Town of Lakewood Village can be divided into two categories: governmental funds (General Fund) and proprietary funds (Water and Sewer Fund).

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 *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of the 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 Town of Lakewood Village maintains three governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund, the capital projects fund which is considered to be a major fund, and the municipal development district fund is a component unit.

The Town of Lakewood Village adopts an annual appropriated budget for its general fund. Budgetary comparison statements have been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14 - 18 of this report.

Proprietary funds. The Town of Lakewood Village maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Lakewood Village uses enterprise funds to account for its Water and Sewer 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 LWV Utility Fund operations, and the Rocky Point Utility Fund operations.

The basic proprietary fund financial statements can be found on pages 19-21 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-35 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town of Lakewood Village, assets exceed liabilities by \$2,734,904 at the close of the most recent fiscal year.

A portion of the Town of Lakewood Village's net position reflects its investment in capital assets (e.g., land, building, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The Town of Lakewood Village uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Lakewood Village's investment in its capital assets is reported not of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

TOWN OF LAKEWOOD VILLAGE - Net Position

	Governmental		Business-Type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 189,007	1,516,464	244,035	146,097	433,042	1,662,561
Capital Assets	2,063,891	1,274,207	1,753,572	1,789,059	3,817,463	3,063,266
Total assets	2,252,898	2,790,671	1,997,607	1,935,156	4,250,505	4,725,827
Long-term liabilities	1,472,000	1,600,000			1,472,000	1,600,000
Other liabilities	65	485,059	43,536	43,136	43,601	528,195
Total liabilities	1,472,065	2,085,059	43,536	43,136	1,515,601	2,128,195
Net position:						
Invested in capital assets						
net of related debt	591,891	(325,793)	1,753,572	1,789,059	2,345,463	1,463,266
Restricted	7,721	1,290,058	41,669		49,390	1,290,058
Unrestricted	181,221	(258,653)	158,830	102,961	340,051	(155,692)
Total net position	\$ 780,833	705,612	1,954,071	1,892,020	2,734,904	2,597,632

Governmental Activities:

- During the year, revenues increased by \$32,342 (11%).
- Expenses for the year decreased by \$27,955 (8%).

Business-type Activities:

- Charges for services increased by \$48,933 (16%) during the year while expenses increased by \$2,502 (1%).

TOWN OF LAKEWOOD VILLAGE - Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 73,233	66,529	353,614	304,681	426,847	371,210
General revenues:						
Property taxes	229,467	187,276			229,467	187,276
Other taxes	83,621	53,153			83,621	53,153
Other	8,553	9,056	867	7,372	9,420	16,428
Total revenues	394,874	316,014	354,481	312,053	749,355	628,067
Expenses:						
General government	217,429	239,939			217,429	239,939
Public safety	28,750	24,400			28,750	24,400
Public works	43,452	40,884			43,452	40,884
Interest	25,323	12,761			25,323	12,761
Bond issuance cost		29,925				29,925
Water & sewer			258,851	256,349	258,851	256,349
Total expenses	314,954	347,909	258,851	256,349	573,805	604,258
Increase in net position before other transfers	79,920	(31,895)	95,630	55,704	175,550	23,809
Transfers	41,819	37,980	(33,579)	(28,080)	8,240	9,900
Loss on disposal of capital assets	(46,518)				(46,518)	
Increase/(decrease) in net position	75,221	6,085	62,051	27,624	137,272	33,709
Net position - beginning	705,612	699,527	1,892,020	1,864,396	2,597,632	2,563,923
Net position - ending	\$ 780,833	705,612	1,954,071	1,892,020	2,734,904	2,597,632

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the Town of Lakewood Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town of Lakewood Village's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available at the end of the fiscal year.

At the end of the current fiscal year, the Town of Lakewood Village's governmental funds reported ending fund balance of \$188,081, a decrease of \$(932,320) from the prior year. Of the current combined ending fund balance, \$179,323 is unassigned.

Proprietary Funds. The Town of Lakewood Village's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Enterprise Funds at the end of the year amounted to \$158,830. The total increase in unrestricted net position of the Enterprise Funds was \$55,869. The factors concerning the finances of this fund have already been addressed in the discussion of the Town of Lakewood Village's business type activities.

General Fund Budgetary Highlights

During the year, revenues were more than budgetary estimates by \$56,694, and expenditures were more than budgetary estimates by \$52,166. The budget had called for a \$5,239 increase in fund balance, however, more than budgeted expenditures resulted in \$(36,838) decrease to fund balance.

Capital Assets and Debt Administration

Capital Assets. The Town of Lakewood Village's investment in capital assets for its governmental and business-type activities as of September 30 2015, amounts to \$2,345,463 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, and equipment.

Major capital asset events during the current fiscal year included the following:

- Construction of concrete streets were added to the general fund totaling \$793,889.
- System and improvements totaling \$43,759 were added to the LWV Utility Fund capital assets.

Additional information on the Town of Lakewood Village's capital assets can be found in Note 3.C. on pages 31-32 of this report.

Long-term debt. The Town has outstanding certificate of obligation bonds sold to finance construction of concrete streets.

Additional information on the Town of Lakewood Village long-term debt can be found in Note 3.D. on pages 32-33 of this report.

Economic Factors and Next Year's Budgets and Rates

In determining the budget and related ad-valorem tax rate the Town considers economic factors such as the Eldorado Parkway corridor related development, property tax values, sales and franchise fee taxes, and construction permits. Building permits accelerated in the previous year and we forecast a steady volume of housing starts. We believe property values have steadied and will increase in the 3-5 percent range due to our unique lakeside location and custom home building flexibility. Fiscal 2015 sales tax receipts increased approximately 115 percent year-to-year across all economic units (Town, EDC, and MDD). We do not expect this level of growth to be sustained and accordingly we forecast only a slight increase in the upcoming year. Given our attractive location, we expect increased developer attention in Lakewood Village as the FM720/Eldorado Parkway construction in Little Elm is completed.

In fiscal year 2016 the Town budget continues to make capital investments in our utility assets. The focus of the governmental budget is the continued retirement of the town's debt while making moderate improvements in town infrastructure.

The Town has historically operated with a relatively low ad-valorem tax rate of \$0.25 per \$100 of valuation which is one-half to one-third that of surrounding municipalities. Given the current level of cash reserves and our conservative budgeting approach, there will be no change in the maintenance and operations (M&O) tax rate. Fiscal 2016 will mark the 36th consecutive year the Town's M&O tax rate has been \$0.25 or less. In fiscal 2014, the Town entered the municipal debt market for the first time and issued \$1,600,000 in Certificates of Obligation to fund road improvements. The Town's strong balance sheet, significant reserves, and fiscal discipline led to strong demand from creditors in the competitive bidding process. To avoid debt rating costs and additional SEC related fees, the Town issued ten-year debt via a private placement. The debt is callable by the Town in five years and bears an interest rate of 1.99 percent. The town council has adopted a debt servicing tax rate (I&S) of \$0.05 per \$100 of valuation. The I&S tax will provide approximately 25 percent of the required debt servicing revenues, with the remainder paid from current operating revenues.

Request for information

This financial report is designed to provide a general overview of the Town of Lakewood Village's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Mayor, 100 Highridge, Lakewood Village, Texas 75068.

BASIC FINANCIAL STATEMENTS

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TOWN OF LAKEWOOD VILLAGE

Statement of Net Position

September 30, 2015

	Primary Government			Component Unit
	Governmental	Business-type		Economic
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Development</u>
				<u>Corporation</u>
ASSETS				
Cash and cash equivalents - unrestricted	\$ 177,416	182,544	359,960	
Cash and equivalents - restricted	7,721	41,669	49,390	12,438
Receivables (Net of allowance for uncollectibles):				
Property taxes	861		861	
Sales taxes	3,009		3,009	1,015
Accounts receivable		19,822	19,822	
Capital assets (net of accumulated depreciation):				
Land	185,917	50,814	236,731	
Furniture and equipment	11,338		11,338	
Buildings, systems and improvements	35,455	1,702,758	1,738,214	
Streets	<u>1,831,181</u>		<u>1,831,181</u>	
 Total assets	 <u>2,252,898</u>	 <u>1,997,607</u>	 <u>4,250,506</u>	 <u>13,453</u>
 LIABILITIES				
Deposits payable		39,200	39,200	
Sales tax payable		697	697	
Payroll liabilities	25		25	
Other payables	40	3,639	3,679	
Noncurrent liabilities:				
Due within one year	145,000		145,000	
Due in more than one year	<u>1,327,000</u>		<u>1,327,000</u>	
 Total liabilities	 <u>1,472,065</u>	 <u>43,536</u>	 <u>1,515,601</u>	
 NET POSITION				
Invested in capital assets, net of related debt	591,891	1,753,572	2,345,463	
Restricted	7,721	41,669	49,390	13,453
Unrestricted	<u>181,221</u>	<u>158,830</u>	<u>340,051</u>	
 Total net position	 <u>\$ 780,833</u>	 <u>1,954,071</u>	 <u>2,734,904</u>	 <u>13,453</u>

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

TOWN OF LAKEWOOD VILLAGE
Statement of Activities
For the Fiscal Year Ended September 30, 2015

	Program Revenues			
Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Capital Grants</u>
Primary government:				
Governmental activities:				
General government	\$ 217,429	73,233		
Public safety	28,750			
Public works	43,452			
Interest	25,323			
Total governmental activities	<u>314,954</u>	<u>73,233</u>		
Business-type activities				
Water and sewer	<u>258,851</u>	<u>353,614</u>		
Total business-type activities	<u>258,851</u>	<u>353,614</u>		
Total primary government	<u>\$ 573,805</u>	<u>426,847</u>		
Component unit:				
Economic development	\$ <u>4,674</u>			
Total component unit	<u>\$ 4,674</u>			

General revenues:
Property taxes
Franchise fees
Sales taxes
Fines and forfeitures
Investment earnings
Miscellaneous revenue
Loss on disposal of capital assets
Transfer (to)/from other funds
Total general revenues

Change in net position

Net position - beginning (as restated)

Net position - ending

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

Net (Expense) Revenue and Changes in Net Position			Component Unit Economic Development Corporation
Primary Government			
Governmental Activities	Business-type Activities	Total	
(144,196)		(144,196)	
(28,750)		(28,750)	
(43,452)		(43,425)	
<u>(25,323)</u>		<u>(25,323)</u>	
<u>(241,721)</u>		<u>(241,721)</u>	
	<u>94,763</u>	<u>94,763</u>	
	<u>94,763</u>	<u>94,763</u>	
<u>(241,721)</u>	<u>94,763</u>	<u>(146,958)</u>	
			(4,674)
			<u>(4,674)</u>
229,467		229,467	
35,324		35,324	
48,297		48,297	15,522
1,040		1,040	
3,501	867	4,368	61
4,012		4,012	
(46,518)		(46,518)	
<u>41,819</u>	<u>(33,579)</u>	<u>8,240</u>	<u>(8,240)</u>
<u>316,942</u>	<u>(32,712)</u>	<u>284,230</u>	<u>7,343</u>
75,221	62,051	137,272	2,669
<u>705,612</u>	<u>1,892,020</u>	<u>2,597,632</u>	<u>10,784</u>
\$ <u>780,833</u>	<u>1,954,071</u>	<u>2,734,904</u>	<u>13,453</u>

TOWN OF LAKEWOOD VILLAGE

Balance Sheet
Government Funds
September 30, 2015

	<u>General Funds</u>	<u>Municipal Development Improvement District</u>	<u>Capital Governmental Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents - unrestricted	\$ 177,416			177,416
Cash and cash equivalents - restricted	7,721			7,721
Receivables (net of allowance for uncollectibles):				
Property taxes	861			861
Sales taxes	<u>1,972</u>	<u>1,037</u>	<u> </u>	<u>3,009</u>
Total assets	\$ <u>187,970</u>	<u>1,037</u>	<u> </u>	<u>189,007</u>
 LIABILITIES & FUND BALANCES				
Liabilities:				
Deferred revenue	\$ 861			861
Payroll liabilities	25			25
Other liabilities	<u>40</u>		<u> </u>	<u>40</u>
Total liabilities	<u>926</u>		<u> </u>	<u>926</u>
Fund balances:				
Restricted	7,721	1,037		8,758
Unassigned	<u>179,323</u>	<u> </u>	<u> </u>	<u>179,323</u>
Total fund balance	<u>187,044</u>	<u>1,037</u>	<u> </u>	<u>188,081</u>
Total liabilities & fund balances	\$ <u>187,970</u>	<u>1,037</u>	<u> </u>	<u>189,007</u>

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

TOWN OF LAKEWOOD VILLAGE
 Reconciliation of the Balance Sheet of Governmental Funds
 to the Statement of Net Position
 September 30, 2015

Total Fund Balances - Governmental Funds \$ 188,081

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$1,389,678, the accumulated depreciation was \$(115,471), and loss on disposal of capital assets was \$(46,518). In addition, long-term liabilities, including bonds payable of \$(1,690,366), are not due and payable in the current period, and therefore, are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to decrease net assets. (462,677)

Current year capital outlays of \$963,360 and long-term debt principal payments of \$128,000 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase net assets. 1,091,360

The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets. (49,553)

Long-term liabilities are reported in the statement of net position but they are not due and payable in the current period and therefore are not reported as liabilities in the fund balance sheet. 12,761

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing \$861 of deferred revenue as revenue. 861

Net Position of Governmental Activities \$ 780,833

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

TOWN OF LAKEWOOD VILLAGE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended September 30, 2015

	<u>General Funds</u>	<u>Municipal Development District</u>	<u>Capital Improvement Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes				
Property	\$ 229,976			229,976
Franchise	35,324			35,324
Sales	31,030	17,267		48,297
Fines and forfeitures	1,040			1,040
Licenses and permits	66,274			66,274
Fees and service charges	6,959			6,959
Interest	1,854		1,647	3,501
Miscellaneous	<u>4,012</u>			<u>4,012</u>
Total revenues	<u>376,469</u>	<u>17,267</u>	<u>1,647</u>	<u>395,383</u>
EXPENDITURES				
General government	167,876			167,876
Public safety	28,750			28,750
Public works	43,452			43,452
Capital outlay	_____		<u>963,360</u>	<u>963,360</u>
Debt service:				
Principal	128,000			128,000
Interest and fiscal charges	38,084			38,084
Total expenditures	<u>406,162</u>		<u>963,360</u>	<u>1,369,522</u>
Excess/(deficiency) of revenues over expenditures	(<u>29,693</u>)	<u>17,267</u>	<u>(961,713)</u>	(<u>974,139</u>)
OTHER FINANCING SOURCES				
Transfers (to)/from other funds	(<u>7,145</u>)	<u>(17,443)</u>	<u>66,407</u>	<u>41,819</u>
Total other financing sources	(<u>7,145</u>)	<u>(17,443)</u>	<u>66,407</u>	<u>41,819</u>
Net change in fund balances	(36,838)	(176)	(895,306)	(932,320)
Fund balance, beginning	<u>223,882</u>	<u>1,213</u>	<u>895,306</u>	<u>1,120,401</u>
Fund balance, ending	\$ <u><u>187,044</u></u>	<u><u>1,037</u></u>	<u><u>----</u></u>	<u><u>188,081</u></u>

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

TOWN OF LAKEWOOD VILLAGE
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 September 30, 2015

Total Net Change in Fund Balances - Governmental Funds \$ (932,320)

Current year capital outlays of \$963,360 and long-term debt principal payments of \$128,000, are expenditures and sources in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase net position. 1,091,360

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in governmental funds. Loss on disposal of capital assets of \$(46,518) and depreciation of \$(49,553) are not recognized as an expense in governmental funds since they do not require the use of current resources. The net effect of the current year's activity is to decrease net position. (96,071)

Interest due on long-term debt is recorded as an expense on the statement of net position, but is not recorded as expense for the current period in the governmental funds. 12,761

Deferred revenue is not recognized as revenue in the governmental activities. The net effect is to decrease net position. (509)

Changes in Net Position of Governmental Activities \$ 75,221

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

TOWN OF LAKEWOOD VILLAGE
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
For the Fiscal Year Ended September 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes				
Property	\$ 232,600	232,600	229,976	(2,624)
Franchise	29,000	29,000	35,324	6,324
Sales	13,000	13,000	31,030	18,030
Fines and forfeitures	1,000	1,000	1,040	40
Licenses and permits	34,800	34,800	66,274	31,474
Fees and service charges	6,275	6,275	6,959	684
Interest	800	800	1,854	1,054
Miscellaneous	<u>2,300</u>	<u>2,300</u>	<u>4,012</u>	<u>1,712</u>
Total revenues	<u>319,775</u>	<u>319,775</u>	<u>376,469</u>	<u>56,694</u>
 EXPENDITURES				
General government	129,770	129,770	167,876	(38,106)
Public safety	26,000	26,000	28,750	(2,750)
Public works	31,700	31,700	43,452	(11,752)
Debt service:				
Principal	128,000	128,000	128,000	
Interest	<u>38,526</u>	<u>38,526</u>	<u>38,084</u>	<u>442</u>
Total expenditures	<u>353,996</u>	<u>353,996</u>	<u>406,162</u>	<u>(52,166)</u>
Excess (deficiency) of revenues over expenditures	(<u>34,221</u>)	(<u>34,221</u>)	(<u>29,693</u>)	<u>4,528</u>
 OTHER FINANCING SOURCES				
Transfers (to)/from other funds	<u>39,460</u>	<u>39,460</u>	(<u>7,145</u>)	(46,605)
Total other financing sources	<u>39,460</u>	<u>39,460</u>	(<u>7,145</u>)	(46,605)
Net change in fund balances	5,239	5,239	(36,838)	(42,077)
Fund balance, beginning	<u>223,882</u>	<u>223,882</u>	<u>223,882</u>	_____
Fund balance, ending	\$ <u>229,121</u>	<u>229,121</u>	<u>187,044</u>	<u>(42,077)</u>

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

TOWN OF LAKEWOOD VILLAGE

Statement of Net Position

Proprietary Funds

September 30, 2015

	Business-Type Activities		
	LWV Utility Fund	Rocky Point Utility Fund	Totals
ASSETS			
Current assets:			
Cash and cash equivalents - unrestricted	\$ 179,184	3,360	182,544
Cash and cash equivalents - restricted	39,169	2,500	41,669
Accounts receivable (net of allowance for uncollectibles)	<u>19,122</u>	<u>700</u>	<u>19,822</u>
Total current assets	<u>237,475</u>	<u>6,560</u>	<u>244,035</u>
Noncurrent assets:			
Capital assets:			
Land	34,892	15,922	50,814
Water systems and improvements	1,387,713	45,430	1,433,143
Sanitation systems and improvements	1,446,142		1,446,142
Buildings and improvements		3,533	3,533
Less: Accumulated depreciation	<u>(1,174,384)</u>	<u>(5,675)</u>	<u>(1,180,059)</u>
Total noncurrent assets	<u>1,694,363</u>	<u>59,210</u>	<u>1,753,573</u>
 Total assets	 <u>\$ 1,931,838</u>	 <u>65,770</u>	 <u>1,997,608</u>
 LIABILITIES			
Current liabilities:			
Customer deposits	\$ 36,700	2,500	39,200
Sales tax payable	697		697
Other payables	3,510	129	3,639
Total current liabilities	<u>40,907</u>	<u>2,629</u>	<u>43,536</u>
 Total liabilities	 <u>40,907</u>	 <u>2,629</u>	 <u>43,536</u>
 NET POSITION			
Invested in capital assets, net of related debt	1,694,363	59,210	1,753,573
Restricted	39,169	2,500	41,669
Unrestricted	<u>157,399</u>	<u>1,431</u>	<u>158,830</u>
Total net position	<u>\$ 1,890,931</u>	<u>63,141</u>	<u>1,954,072</u>

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

TOWN OF LAKEWOOD VILLAGE
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
September 30, 2015

	Business-Type Activities		
	LWV	Rocky Point	Totals
	Utility Fund	Utility Fund	
OPERATING REVENUES			
Water	\$ 146,548	14,761	161,309
Sewer	102,248		102,248
Sanitation	44,615		44,615
Fees and services	10,839		10,839
Other income	<u>34,125</u>	<u>479</u>	<u>34,604</u>
Total operating revenues	<u>338,375</u>	<u>15,240</u>	<u>353,615</u>
 OPERATING EXPENSES			
Contract services	37,369	2,400	39,769
Administrative	67,859	1,673	69,532
Repairs and maintenance	28,200	1,203	29,403
Miscellaneous	3,032	160	3,192
Garbage collections	37,704		37,704
Depreciation	<u>77,293</u>	<u>1,953</u>	<u>79,246</u>
Total operating expenses	<u>251,457</u>	<u>7,389</u>	<u>258,846</u>
 Operating income (loss)	 <u>86,918</u>	 <u>7,851</u>	 <u>94,769</u>
 NONOPERATING REVENUES (EXPENSES)			
Interest revenue	859	8	867
Interest expense	<u> </u>	(<u>4</u>)	(<u>4</u>)
Total nonoperating revenues (expenses)	<u>859</u>	<u>4</u>	<u>863</u>
 Income (loss) before transfers	 87,777	 7,855	 95,632
 Transfers (to)/from other funds	 (42,059)	 8,479	 (33,580)
 Change in net position	 45,718	 16,334	 62,052
 Net position - beginning (as restated)	 <u>1,845,213</u>	 <u>46,807</u>	 <u>1,892,020</u>
 Net position - ending	 \$ <u>1,890,931</u>	 <u>63,141</u>	 <u>1,954,072</u>

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

TOWN OF LAKEWOOD VILLAGE
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended September 30, 2015

	Business-Type Activities		Totals
	LWV Utility Fund	Rocky Point Utility Fund	
Cash flows from operating activities:			
Cash received from customers and users	\$ 335,630	15,968	351,598
Cash payments to suppliers	(173,964)	(5,236)	(179,200)
Net cash provided by operating activities	<u>161,666</u>	<u>10,732</u>	<u>172,398</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(43,760)		(43,760)
Net cash used by capital and related financing activities	<u>(43,760)</u>		<u>(43,760)</u>
Cash flows from noncapital financing activities:			
Advance repayments	14,445	(14,445)	
Interest expense		(4)	(4)
Transfer in/(out)	(42,059)	8,479	(33,580)
Net cash used by noncapital financing activities	<u>(27,614)</u>	<u>(5,970)</u>	<u>(33,584)</u>
Cash flows from investing activities:			
Interest on deposits and investments	<u>859</u>	<u>8</u>	<u>867</u>
Net cash provided by investing activities	<u>859</u>	<u>8</u>	<u>867</u>
Net increase in cash and cash equivalents	91,151	4,770	95,921
Cash and cash equivalents - beginning	<u>127,202</u>	<u>1,090</u>	<u>128,292</u>
Cash and cash equivalents - ending	<u>\$ 218,353</u>	<u>5,860</u>	<u>224,213</u>

Reconciliation of Net Income to Net Cash Provided/(Used) by Operating Activities

Operating income	\$ 86,918	7,851	94,769
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	77,293	1,953	79,246
(Increase)/decrease in accounts receivable	(2,745)	728	(2,017)
Increase/(decrease) in customer deposits	800	200	1000
Increase/(decrease) in other payables	(580)		(580)
Increase/(decrease) in sales tax payable	(20)		(20)
Total adjustments	<u>74,748</u>	<u>2,881</u>	<u>77,629</u>
Net cash provided by operating activities	<u>\$ 161,666</u>	<u>10,732</u>	<u>172,398</u>

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

TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2015

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Lakewood Village, Texas, have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The Town of Lakewood Village is a municipality governed by an elected mayor and town council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the Town of Lakewood Village has both blended and discrete component units. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Blended Component Unit. The Lakewood Village Municipal Development District (MDD) is a political subdivision of the State of Texas and the Town, established by the voters in 2009 for the purposes of promoting economic development within the Town as prescribed by Chapter 377 of the Texas Local Government Code. The MDD is presented as a governmental fund type. The fund is supported by a one-half cent sales tax which is currently used in full to fund the cost of construction of infrastructure, other capital asset acquisition, and debt service related to the Rocky Point proprietary fund. As of September 30, 2015, the amount provided by the MDD to the Rocky Point Proprietary fund totals \$46,879.

-continued-

TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2015

-continued-

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. **Reporting Entity** (continued)

Discretely Presented Component Unit. The Town of Lakewood Village Economic Development Corporation (EDC) which has a September 30 year end, services all citizens of the government and is governed by a board appointed by the government's elected council. The government can impose its will on the EDC and affect the day-to-day operations of the EDC by removing appointed board members at will. The scope of public service of the EDC benefits the government and its citizens and is operated primarily within the geographic boundaries of the government.

B. **Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary 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 demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead 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.

C. **Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

-continued-

TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2015

-continued-

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement focus, basis of accounting, and financial statement presentation(continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects* fund consists of various types of financial resources, and is used to account for acquisition or construction of capital facilities.

The government reports the following proprietary funds:

The *LWV Utility fund* is used to account for those operations that are financed and operated in a manner similar to private business or where the council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The enterprise fund is for water, sewer, and solid waste operations.

The *Rocky Point Utility fund* is used to account for those operations that are financed and operated in a manner similar to private business or where the council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The enterprise fund is for water operations.

-continued-

TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2015

-continued-

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement focus, basis of accounting, and financial statement presentation(continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of inter-fund activity has been eliminated from the governmental-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

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

D. Assets, liabilities, and net position or equity

1. Deposits

Cash and cash equivalents includes cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the government.

-continued-

TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2015

-continued-

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

D. Assets, liabilities, and net position or equity (continued)

2. Short-term Inter-fund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

3. Restricted Assets

Certain resources set aside for customer deposits are classified as restricted assets on the balance sheet because their use is limited.

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. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings, systems and improvements	5 - 40
Furniture and equipment	3 - 10

-continued-

TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2015

-continued-

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

D. Assets, liabilities, and net position or equity (continued)

5. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

6. Fund Equity

Fund Balance Classification: The governmental fund financial statements present fund balance classifications that comprise a hierarchy that is based primarily on the extent to which the Town is bound to honor constraints for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Town Council. These amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Town did not have any committed resources as of September 30, 2015.
- Assigned: This classification includes amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by an official to which the Town Council delegates this authority.
- Unassigned: This classification includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

-continued-

TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2015

-continued-

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, liabilities, and net position or equity (continued)

6. Fund Equity (continued)

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

As of September 30, 2015, fund balances are composed of the following:

	<u>General Fund</u>	<u>Municipal Development District</u>	<u>Total Governmental Funds</u>
Nonspendable:	\$		
Restricted:			
PSA agreement			
Road maintenance	7,555		7,555
Municipal Development		1,037	1,037
Road construction	166		166
Committed:			
Unassigned:	<u>179,323</u>	<u> </u>	<u>179,323</u>
Total fund balances	<u>\$ 187,044</u>	<u>1,037</u>	<u>188,081</u>

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted for the general fund and water and sewer fund. All annual appropriations lapse at fiscal year end.

The Town follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to September 1, the Town Council prepares a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.

-continued-

TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2015

-continued-

(2) **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY** (continued)

A. Budgetary Information (continued)

2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted by the Town Council through passage of an ordinance prior to the beginning of the fiscal year to which it applies, which can be amended by the Council.
4. Formal budgetary integration, using the modified accrual basis, is employed as a management control device during the year for the General Fund. One supplemental appropriation was made during the fiscal year.
5. The budget approved for the Water and Sewer Fund follows similar approval procedures. One supplemental appropriation was made during the fiscal year.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. At year end, encumbrances are canceled or reappropriated as part of the following year budget.

(3) **DETAILED NOTES ON ALL FUNDS**

A. Deposits and Investments

The Town may invest in obligations of the U. S. Treasury or the State of Texas, certain U. S. Agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchase agreements, common trust funds and other investments specifically allowed by the Public Funds Investment Act of 1987 (Article 842a-2 Vernon's Civil Statutes).

At September 30, 2015, the Town's carrying amount of deposits was \$421,538 and the bank balance was \$433,380. Of the bank balance, \$250,000 was covered by federal depository insurance and \$183,380 was secured by marketable securities pledged by the financial institution holding the Town's depository contract.

In compliance with the Public Funds Investment Act, the Town has adopted a deposit and investment policy. That policy addresses the following risks:

- a. *Custodial Credit Risk - Deposits*: In the case of deposits this is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Town's policy regarding types of deposits allowed and collateral requirements is: the Depository may be a state bank authorized and regulated under Texas law; a national bank, savings and loan association, or savings bank authorized and regulated by federal law, or a savings and loan association or savings bank organized under Texas law; but shall not be any bank the deposits of which are not insured by the Federal Deposit Insurance Corporation (FDIC). The Town is not exposed to custodial credit risk for its deposits, as all are covered by depository insurance.

-continued-

TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2015

-continued-

(3) DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments (continued)

- b. *Custodial Credit Risk* - Investments: For an investment, this is the risk that, in the event of the failure of the counter party, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town has no investments.
- c. *Credit Risk* - This is the risk that an issuer of an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. The Town has no investments.
- d. *Interest Rate Risk* - This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town has no investments.
- e. *Foreign Currency Risk* - This is the risk that exchange rates will adversely affect the fair value of an investment. The Town is not exposed to foreign currency risk.
- f. *Concentration of Credit Risk* - This is the risk of loss attributed to the magnitude of the Town's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. The Town has no investments.

B. Receivables

Receivables at September 30, 2015 consisted of the following:

	<u>General Fund</u>	<u>Municipal Development District</u>	<u>LWV Utility Fund</u>	<u>Rocky Point Utility Fund</u>	<u>Total</u>
Property taxes	\$ 861				861
Sales taxes	1,972	1,037			3009
Accounts receivable	_____	_____	19,122	700	19,822
Total receivables	\$ <u>2,833</u>	<u>1,037</u>	<u>19,122</u>	<u>700</u>	<u>23,692</u>

-continued-

TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2015

-continued-

(3) DETAILED NOTES ON ALL FUNDS (continued)

B. Receivables (continued)

Property taxes are based on the appraised values provided by the Denton County Appraisal District. Taxes are levied by October 1 of each year. Unpaid property taxes become delinquent on February 1 of the following year. Penalty is calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increase 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the Town.

Property taxes are due in full on October 1 and there are no discounts granted. The assessed value as of January 1, 2011, upon which the 2014/2015 levy was based, was approximately \$81,253,551. The tax rate for fiscal year 2014/2015 was \$.30 per \$100 of assessed valuation, with \$.25 allocated to maintenance and operation (M&O), and \$.05 allocated to debt service (I&S).

C. Capital Assets

Capital asset activity for the year ended September 30, 2015 was a follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Land	\$185,917			185,917
Buildings & Improvement	63,739			63,739
Furniture & Equipment	33,402			33,402
Streets	174,911	1,817,464	(91,886)	1,900,489
Construction in progress	<u>931,709</u>		<u>(931,709)</u>	<u> </u>
Totals at historical cost	1,389,678	1,817,464	(1,023,595)	2,183,547
Less accumulated depreciation	<u>(115,471)</u>	<u>(49,553)</u>	<u>45,368</u>	<u>(119,656)</u>
Governmental activities capital assets, net	\$ <u>1,274,207</u>	<u>1,767,911</u>	<u>(978,227)</u>	<u>2,063,891</u>
Business-type activities:				
LWV Utility:				
Land	\$ 34,892			34,892
Water systems & improvements	1,351,848	35,865		1,387,712
Sanitation systems & improvements	<u>1,438,247</u>	<u>7,894</u>		<u>1,446,142</u>
Totals at historical cost	2,824,987	43,759		2,868,746
Less accumulated depreciation	<u>(1,097,091)</u>	<u>(77,293)</u>		<u>(1,174,384)</u>
Business-type activities capital assets, net	\$ <u>1,727,896</u>	<u>(33,534)</u>		<u>1,694,362</u>

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TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2015

-continued-

(3) DETAILED NOTES ON ALL FUNDS (continued)

D. Long-term Debt (continued)

Bonds Payable

On April 10, 2014 the Town Council approved the issuance of \$1,600,000 of certificate of obligation bonds to fund the construction of concrete roads.

Certificate of obligation bonds issued by the Town are backed by the full faith and credit of the Town. The \$1,600,000 certificates of obligation issued by the Town will be repaid by levy of an ad valorem tax upon all taxable property within the Town and a limited pledge of the net revenues from the operation of the Town's waterworks and sewer system.

Interest expense for the bond issue was \$25,323 for the year ended September 30, 2015.

The following is a summary of changes in bonds payable for the year:

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>	<u>Due in One Year</u>
Governmental Activities					
Certificates of Obligation					
Series 2014, 1.99%, 2015-2024	\$ <u>1,600,000</u>	_____	(128,000)	<u>1,472,000</u>	<u>145,000</u>
Total governmental activities	\$ <u>1,600,000</u>	=====	(128,000)	<u>1,472,000</u>	<u>145,000</u>

Debt Service Requirement to Maturity

The annual debt service requirements to maturity for bonded debt are as follows at year-end:

Year	<u>Governmental Activities</u>			
	<u>Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016		\$ 145,000	27,850	172,850
2017		149,000	24,925	173,925
2018		154,000	21,910	175,910
2019		158,000	18,806	176,806
2020		163,000	15,612	178,612
2021 - 2025		<u>703,000</u>	<u>28,507</u>	<u>731,507</u>
Total		\$ <u>1,472,000</u>	<u>137,610</u>	<u>1,609,610</u>

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TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2015

-continued-

(3) DETAILED NOTES ON ALL FUNDS (continued)

E. Interfund Receivables, Payables and Transfers

The composition of the interfund balances as of September 30, 2015 is as follows:

Interfund transfers:

	<u>General</u> <u>Fund</u>	<u>MDD</u> <u>Fund</u>	<u>LWV</u> <u>Utility</u> <u>Fund</u>	<u>Rocky Point</u> <u>Utility</u> <u>Fund</u>	<u>Capital</u> <u>Projects</u> <u>Fund</u>	<u>EDC</u>	<u>Total</u>
Transfers In:	\$			8,479	66,407		74,886
Transfers Out:	(7,145)	(17,443)	(42,058)	_____	_____	(8,240)	(74,886)
	<u>\$ (7,145)</u>	<u>(17,443)</u>	<u>(42,058)</u>	<u>8,479</u>	<u>66,407</u>	<u>(8,240)</u>	<u>_____</u>

The transfer from the LWV Utility Fund and Rocky Point Utility Fund were to cover administrative and capital asset costs incurred on behalf of the utility fund. The transfer from the general fund was to cover street construction costs paid from general fund reserves, and the transfer from the EDC was to pay for capital asset additions.

(4) OTHER INFORMATION

A. Risk Management

The government is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government is a participant in the Texas Municipal League Workers' Compensation Joint Insurance Fund (WC Fund) and the Texas Municipal League Joint Self-Insurance Fund (Property-Liability Fund), a public entity risk pool operated by the Texas Municipal League Board for the benefit of individual governmental units located within Texas. The government pays an annual premium to the Funds for its workers' compensation and property and liability insurance coverage. The WC Fund and Property-Liability Fund are considered self-sustaining risk pools that provide coverage for its members for up to \$2,000,000 per insured event. There were no significant reduction in insurance coverage from the previous year. Settled claims for risks have not exceeded insurance coverage for the past three years.

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TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2015

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(4) OTHER INFORMATION (continued)

B. Potential Income from Legal Actions

The Town was awarded \$75,000 in court ordered restitution in 2005 and \$113,435 in additional civil judgment penalties in 2007 as repayment for misappropriation of Town funds by a prior employee. Payments of \$27,007 were received in fiscal year 2015, resulting in full satisfaction of the court ordered restitution. No payment has been received on the civil judgment as of September 30, 2015, which is accruing interest at 5 percent per annum. The balance as of September 30, 2015 for the civil judgement is approximately \$173,587 after applying accrued interest of approximately \$60,152. There is no way of estimating how much if any will be received in future years and so no receivable amount has been recorded. An error in the original notation of the restitution and civil judgement was discovered during the audit and the correct amounts have been reflected above.

(5) EVALUATION OF SUBSEQUENT EVENTS

The Town has evaluated subsequent events through November 30, 2015, the date which the financial statements were available to be issued.

INDIVIDUAL FUND SCHEDULES

TOWN OF LAKEWOOD VILLAGE
Statement of Revenues, Expenditures, and Changes in Fund Net Position
Budget and Actual - LWV Utility Fund
For the Fiscal Year Ended September 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
OPERATING REVENUES				
Water sales, fees and service charges	\$ 319,720	319,720	304,249	(15,471)
Other income	<u>2,500</u>	<u>2,500</u>	<u>34,125</u>	<u>31,625</u>
Total operating revenues	<u>322,220</u>	<u>322,220</u>	<u>338,374</u>	<u>16,154</u>
OPERATING EXPENSES				
Contract services	44,600	44,600	37,370	7,230
Administrative	91,860	91,860	67,859	24,001
Repairs and maintenance	26,500	26,500	28,200	(1,700)
Miscellaneous	1,000	1,000	3,032	(2,032)
Trash collections	40,000	40,000	37,704	2,296
Capital improvements				
Depreciation			<u>77,293</u>	<u>(77,293)</u>
Total operating expenses	<u>203,960</u>	<u>203,960</u>	<u>251,458</u>	<u>(47,498)</u>
Operating income (loss)	<u>118,260</u>	<u>118,260</u>	<u>86,916</u>	<u>(31,344)</u>
NONOPERATING REVENUE (EXPENSE)				
Transfers in/(out)	12,000	12,000	(42,058)	(54,058)
Interest income	<u>900</u>	<u>900</u>	<u>859</u>	<u>(41)</u>
Total nonoperating revenue (expense)	<u>12,900</u>	<u>12,900</u>	<u>(41,199)</u>	<u>(54,099)</u>
Change in net position	131,160	131,160	45,717	(85,443)
Net position - beginning	<u>1,845,213</u>	<u>1,845,213</u>	<u>1,845,213</u>	_____
Net position - ending	\$ <u>1,976,373</u>	<u>1,976,373</u>	<u>1,890,930</u>	<u>(85,443)</u>