

Town of Lakeside, Texas

Financial Statements

September 30, 2012

HMSW CPA, P.L.L.C.
Professional Limited Liability Company
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Arlington, TX 76011
817-704-6400

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Lakeside, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Lakeside, Texas (the "Town"), as of and for the year ended September 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion 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, assessing the accounting principles used and the 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 Town of Lakeside, Texas, as of September 30, 2012, and the respective changes in financial position and, where appropriate, cash flows, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

A handwritten signature in cursive script that reads 'HMSW'.

HMSW CPA, P.L.L.C.
Arlington, Texas
October 31, 2012

Town of Lakeside, Texas
Government-Wide Statement of Net Assets
September 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 150,478	\$ 109,192	\$ 259,670
Certificates of deposit	600,000	480,000	1,080,000
Property taxes receivable, net of allowance for uncollectibles	-	-	-
Accounts receivable	4,648	69,642	74,290
Mineral lease receivable	27,587	-	27,587
Restricted assets:			
Customer deposits	-	33,028	33,028
Court technology fund	11,202	-	11,202
Court security fund	5,361	-	5,361
Capital assets:			
Land	283,172	136,275	419,447
Building	225,221	22,535	247,756
Furniture and equipment	291,103	201,913	493,016
Water system	-	1,736,739	1,736,739
Sewer system	-	511,808	511,808
Less: accumulated depreciation	(298,410)	(1,103,689)	(1,402,099)
TOTAL ASSETS	\$ 1,300,362	\$ 2,197,443	\$ 3,497,805
LIABILITIES			
Accounts payable	\$ 1,849	\$ 5,198	\$ 7,047
Accrued liabilities	22,572	3,853	26,425
Payable from restricted assets:			
Customer deposits	-	33,028	33,028
Court technology fund	11,202	-	11,202
Court security fund	5,361	-	5,361
TOTAL LIABILITIES	40,984	42,079	83,063
NET ASSETS			
Invested in capital assets	501,086	1,505,581	2,006,667
Unrestricted	758,292	649,783	1,408,075
TOTAL NET ASSETS	\$ 1,259,378	\$ 2,155,364	\$ 3,414,742

The accompanying notes are an integral part of these financial statements.

Town of Lakeside, Texas
 Government-Wide Statement of Activities
 For the Year Ended September 30, 2012

Program Activities	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
General and administrative	\$ 218,812	\$ 23,394	\$ -	\$ -
Corporation court	28,942	-	-	-
Public works	12,699	-	-	-
Police department	388,663	37,332	-	-
TOTAL GOVERNMENTAL ACTIVITIES	<u>649,116</u>	<u>60,726</u>	<u>-</u>	<u>-</u>
BUSINESS-TYPE ACTIVITIES				
Water, sewer and sanitation	673,370	734,646	-	-
TOTAL BUSINESS-TYPE ACTIVITIES	<u>673,370</u>	<u>734,646</u>	<u>-</u>	<u>-</u>
TOTAL GOVERNMENT	<u>\$ 1,322,486</u>	<u>\$ 795,372</u>	<u>\$ -</u>	<u>\$ -</u>

GENERAL REVENUES

- Property taxes
- Franchise taxes
- Sales taxes
- Penalties
- Interest
- Other

TOTAL GENERAL REVENUES

CHANGE IN NET ASSETS

NET ASSETS, BEGINNING OF YEAR

NET ASSETS, END OF YEAR

The accompanying notes are an integral part of these financial statements

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (195,418)	\$ -	\$ (195,418)
(28,942)	-	(28,942)
(12,699)	-	(12,699)
<u>(351,331)</u>	<u>-</u>	<u>(351,331)</u>
 (588,390)	 -	 (588,390)
 -	 61,276	 61,276
 -	 61,276	 61,276
 <u>(588,390)</u>	 <u>61,276</u>	 <u>(527,114)</u>
 384,769	 -	 384,769
119,082	-	119,082
79,631	-	79,631
2,095	-	2,095
3,590	4,589	8,179
<u>53,003</u>	<u>-</u>	<u>53,003</u>
 <u>642,170</u>	 <u>4,589</u>	 <u>646,759</u>
 53,780	 65,865	 119,645
 <u>1,205,598</u>	 <u>2,089,499</u>	 <u>3,295,097</u>
 <u>\$ 1,259,378</u>	 <u>\$ 2,155,364</u>	 <u>\$ 3,414,742</u>

Town of Lakeside, Texas
Balance Sheet
Governmental Funds
September 30, 2012

	General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 150,478	\$ 150,478
Certificate of deposit	600,000	600,000
Property taxes receivable, net of allowance for uncollectibles	-	-
Accounts receivable	4,648	4,648
Mineral lease receivable	27,587	27,587
Restricted assets:		
Court technology fund	11,202	11,202
Court security fund	5,361	5,361
TOTAL ASSETS	\$ 799,276	\$ 799,276
 LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 1,849	\$ 1,849
Accrued liabilities	22,572	22,572
Payable from restricted assets:		
Court technology fund	11,202	11,202
Court security fund	5,361	5,361
TOTAL LIABILITIES	40,984	40,984
 FUND BALANCES		
Unassigned	758,292	758,292
TOTAL FUND BALANCES	758,292	758,292
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 799,276	 \$ 799,276

The accompanying notes are an integral part of these financial statements

Town of Lakeside, Texas
Reconciliation of the Governmental Funds Balance Sheet to
Government-Wide Statement of Net Assets
September 30, 2012

Total fund balance per governmental funds balance sheet \$ 758,292

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not current financial
resources and therefore are not reported in the governmental funds
balance sheet

501,086

Total net assets of governmental activities

\$ 1,259,378

The accompanying notes are an integral part of these financial statements.

Town of Lakeside, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2012

	General Fund	Total Governmental Funds
REVENUES		
Property taxes	\$ 384,769	\$ 384,769
Franchise taxes	119,082	119,082
Sales taxes	79,631	79,631
Penalties	2,095	2,095
Fines and service fees	37,332	37,332
Permits and inspections	23,394	23,394
Interest	3,590	3,590
Other	53,003	53,003
	<u>702,896</u>	<u>702,896</u>
TOTAL REVENUES		
EXPENDITURES		
General and administrative	213,862	213,862
Corporation court	28,942	28,942
Public works	12,699	12,699
Police department	354,348	354,348
	<u>609,851</u>	<u>609,851</u>
TOTAL EXPENDITURES		
Excess (deficiency) of revenues over (under) expenditures	93,045	93,045
FUND BALANCE, BEGINNING OF YEAR		
	<u>665,247</u>	<u>665,247</u>
FUND BALANCE, END OF YEAR		
	<u>\$ 758,292</u>	<u>\$ 758,292</u>

The accompanying notes are an integral part of these financial statements.

Town of Lakeside, Texas
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance of Governmental Funds
to the Statement of Activities
For the Year Ended September 30, 2012

Net change in fund balance - total governmental funds	\$	93,045
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.		2,816
Depreciation on capital assets is reported in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources. Therefore, depreciation is not reported as an expenditure in governmental funds.		(42,081)
Change in net assets of governmental activities	\$	<u>53,780</u>

The accompanying notes are an integral part of these financial statements.

Town of Lakeside, Texas
 General Fund
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual
 For the Year Ended September 30, 2012

	Budgeted Amounts		Actual	Variance favorable (unfavorable)
	Original	Final		
REVENUES				
Property taxes	\$ 377,393	\$ 377,393	\$ 384,769	\$ 7,376
Franchise taxes	100,000	100,000	119,082	19,082
Sales taxes	55,000	55,000	79,631	24,631
Penalties	-	-	2,095	2,095
Fines and service fees	37,440	37,440	37,332	(108)
Permits, plats and inspections	5,650	5,650	23,394	17,744
Interest	3,500	3,500	3,590	90
Other	46,673	54,556	53,003	(1,553)
TOTAL REVENUES	<u>625,656</u>	<u>633,539</u>	<u>702,896</u>	<u>69,357</u>
EXPENDITURES				
General and administrative	185,273	196,495	213,862	(17,367)
Corporation court	30,842	30,497	28,942	1,555
Public works	41,400	28,750	12,699	16,051
Police department	376,024	371,915	354,348	17,567
TOTAL EXPENDITURES	<u>633,539</u>	<u>627,657</u>	<u>609,851</u>	<u>17,806</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (7,883)</u>	<u>\$ 5,882</u>	93,045	<u>\$ 87,163</u>
FUND BALANCE, BEGINNING OF YEAR			<u>665,247</u>	
FUND BALANCE, END OF YEAR			<u>\$ 758,292</u>	

The accompanying notes are an integral part of these financial statements.

Town of Lakeside, Texas
Statement of Net Assets
Proprietary Funds
September 30, 2012

ASSETS	Business-Type Activities Enterprise Funds	
	Water, Sewer and Sanitation	Total
CURRENT ASSETS		
Cash	\$ 109,192	\$ 109,192
Certificate of deposit	480,000	480,000
Accounts receivable	69,642	69,642
TOTAL CURRENT ASSETS	658,834	658,834
RESTRICTED ASSETS		
Customer deposits	33,028	33,028
TOTAL RESTRICTED ASSETS	33,028	33,028
CAPITAL ASSETS		
Land	136,275	136,275
Building	22,535	22,535
Furniture and equipment	201,913	201,913
Water system	1,736,739	1,736,739
Sewer system	511,808	511,808
	2,609,270	2,609,270
Less: accumulated depreciation	(1,103,689)	(1,103,689)
TOTAL CAPITAL ASSETS	1,505,581	1,505,581
TOTAL ASSETS	\$ 2,197,443	\$ 2,197,443

The accompanying notes are an integral part of these financial statements.

Town of Lakeside, Texas
Statement of Net Assets
Proprietary Funds
September 30, 2012

	Business-Type Activities	
	Enterprise Funds	
	Water, Sewer and Sanitation	Total
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 5,198	\$ 5,198
Accrued liabilities	3,853	3,853
TOTAL CURRENT LIABILITIES	9,051	9,051
CURRENT LIABILITIES DUE FROM RESTRICTED ASSETS		
Customer deposits	33,028	33,028
TOTAL CURRENT LIABILITIES DUE FROM RESTRICTED ASSETS	33,028	33,028
TOTAL LIABILITIES	42,079	42,079
NET ASSETS		
Invested in capital assets	1,505,581	1,505,581
Unrestricted	649,783	649,783
TOTAL NET ASSETS	\$ 2,155,364	\$ 2,155,364

The accompanying notes are an integral part of these financial statements.

Town of Lakeside, Texas
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2012

	Business-Type Activities	
	Enterprise Funds	
	Water, Sewer and Sanitation	Total
OPERATING REVENUES		
Water sales	\$ 556,756	\$ 556,756
Sewer sales	35,647	35,647
Fees	12,616	12,616
Sanitation services	116,150	116,150
Penalties and services charges	13,477	13,477
TOTAL OPERATING REVENUES	<u>734,646</u>	<u>734,646</u>
OPERATING EXPENSES		
Personnel services	248,478	248,478
Supplies and materials	21,973	21,973
Utilities and telephone	73,977	73,977
Insurance	3,660	3,660
Maintenance	78,450	78,450
Other expenses	21,220	21,220
Contractual services	113,108	113,108
Engineering and professional services	18,035	18,035
Water purchases	33,904	33,904
Depreciation	60,565	60,565
TOTAL OPERATING EXPENSES	<u>673,370</u>	<u>673,370</u>
INCOME FROM OPERATIONS	<u>61,276</u>	<u>61,276</u>
NON-OPERATING REVENUE		
Interest	4,589	4,589
TOTAL NON-OPERATING REVENUE	<u>4,589</u>	<u>4,589</u>
CHANGE IN NET ASSETS	65,865	65,865
NET ASSETS, BEGINNING OF YEAR	<u>2,089,499</u>	<u>2,089,499</u>
NET ASSETS, END OF YEAR	<u>\$ 2,155,364</u>	<u>\$ 2,155,364</u>

The accompanying notes are an integral part of these financial statements.

Town of Lakeside, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2012

	Business-Type Activities Enterprise Funds	
	Water, Sewer and Sanitation	Total
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and other	\$ 734,820	\$ 734,820
Cash paid to suppliers and employees	(613,112)	(613,112)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>121,708</u>	<u>121,708</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	4,589	4,589
Purchase of property and equipment	(137,707)	(137,707)
Purchase of certificates of deposits	(140,000)	(140,000)
NET CASH USED BY INVESTING ACTIVITIES	<u>(273,118)</u>	<u>(273,118)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(151,410)	(151,410)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including \$32,757 in restricted assets)	<u>293,630</u>	<u>293,630</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (including \$33,028 in restricted assets)	<u>\$ 142,220</u>	<u>\$ 142,220</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES		
INCOME FROM OPERATIONS	\$ 61,276	\$ 61,276
ADJUSTMENTS TO RECONCILE INCOME FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES		
Depreciation	60,565	60,565
Increase in accounts receivable	(97)	(97)
Decrease in accounts payable	(2,123)	(2,123)
Increase in accrued expenses	1,816	1,816
Increase in customer deposit	271	271
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 121,708</u>	<u>\$ 121,708</u>

The accompanying notes are an integral part of these financial statements.

Town of Lakeside, Texas
Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Lakeside, Texas (the "Town") was formed as an incorporated town on March 10, 1958. The Town is governed by an elected mayor and five-member council and provides the following services to the citizens of the Town: library, police department, water and sewer utilities, fire and ambulance, and general administration.

The financial statements of the Town have been prepared to conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to state and local governments. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. As allowed in Section P80 of GASB's "*Codification of Governmental Accounting and Financial Reporting Standards*", the Town has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The more significant accounting and reporting policies and practices used by the Town are described below

A. Financial Statement Presentation

The basic financial statements are prepared in conformity with GAAP which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund. Significantly, the Town's statement of net assets includes both non-current assets and non-current liabilities of the Town. In addition, the government-wide statement of activities reflects depreciation expenses on the Town's capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus for governmental funds. Accordingly, the accounting and financial reporting of the City's governmental funds is similar to that previously presented in the City's financial statements, although the format of financial statements has been modified by GASB Statement No. 34, "*Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.*" The accrual basis of accounting and the economic resources measurement focus is utilized by the pension trust fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

GAAP also requires supplementary information presented as Management's Discussion and Analysis. However, management has elected to exclude this information. In addition, a budgetary comparison statement is presented that compares the general fund budget with actual results.

Town of Lakeside, Texas
Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Reporting Entity

The Town's basic financial statements include the accounts of all Town operations. The criteria for including organizations as component units within the Town's reporting, as set forth in Section 2100 of GASB's "Codification of Governmental Accounting and Financial Reporting Standards," include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The Town holds the corporate powers of the organization
- The Town appoints a voting majority of the organization's board
- The Town is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the Town
- There is fiscal dependency by the organization on the Town

Based on these criteria, the Town of Lakeside has no component units.

C. 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 on all of the activities of the Town. 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 government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (general and administrative, police, etc.) 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, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. All franchise fees are based on gross receipts and are included in general revenues. The net cost is normally covered by general revenue (property and sales taxes, franchise fees, interest income, etc).

The Town segregates transactions related to certain functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The only governmental fund of the Town is the General Fund. It accounts for all revenues and expenditures of the Town.

Town of Lakeside, Texas
Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The only proprietary fund of the Town is the Water, Sewer and Sanitation Fund. It is used to account for the provision of water, sewer and sanitation services to the residents of the Town. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. Operating expenses include the cost of personal and contractual services, supplies and depreciation on capital assets. All other revenues and expenses are reported as non-operating revenues and expenses.

The government-wide focus is more on the sustainability of the Town as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

D. Measurement Focus and Basis of Accounting

The government-wide statements and financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. However, the Town has established an allowance for delinquent taxes equivalent to 100 percent of uncollected property taxes. As of September 30, 2012 there was \$3,861 in levied delinquent property taxes that were fully reserved. Gross receipts of taxes, licenses, and charges for services, fines and other revenues are recorded as revenue when received as they are generally not measurable until received.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting.

E. Budgetary Data

Budgets are adopted on a basis consistent with GAAP. Annual appropriated budgets are adopted for the general fund. All annual unencumbered appropriations lapse at fiscal year end.

The Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results.

Town of Lakeside, Texas
Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Capital Assets

Capital assets include property, plant, equipment and infrastructure assets and are defined by the Town as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Capital assets are reported in the governmental activities column in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. There is no capitalized interest associated with capital acquisitions for the year ended September 30, 2012.

The Town has elected to account for infrastructure assets on a prospective basis beginning October 1, 2003 and, therefore, has no infrastructure assets. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives for buildings and water and sewer system and equipment are 20 to 40 and 5 to 10 years, respectively.

Capital asset activity for the year ended September 30, 2012, was as follows:

Governmental Activities:

	<u>Balance</u> <u>10/1/2011</u>		<u>Additions</u>		<u>Deletions</u>		<u>Balance</u> <u>9/30/2012</u>
Capital Assets:							
Land	\$ 283,172	\$	-	\$	-	\$	283,172
Building	225,221		-		-		225,221
Furniture & equipment	288,287		2,816		-		291,103
	<u>\$ 796,680</u>	<u>\$</u>	<u>2,816</u>	<u>\$</u>	<u>-</u>	<u>\$</u>	<u>799,496</u>
Accumulated Depreciation:							
Building	\$ (132,347)	\$	(4,950)	\$	-	\$	(137,297)
Furniture & equipment	(123,982)		(37,131)		-		(161,113)
	<u>\$ (256,329)</u>	<u>\$</u>	<u>(42,081)</u>	<u>\$</u>	<u>-</u>	<u>\$</u>	<u>(298,410)</u>
Governmental Activities							
Net Capital Assets	<u>\$ 540,351</u>	<u>\$</u>	<u>(39,265)</u>	<u>\$</u>	<u>-</u>	<u>\$</u>	<u>501,086</u>

Town of Lakeside, Texas
Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business-Type Activities (Water, Sewer and Sanitation Fund):

	Balance 10/1/2011	Additions	Deletions	Balance 9/30/2012
Capital Assets:				
Land	\$ 110,779	\$ 25,496	\$ -	\$ 136,275
Building	22,535	-	-	22,535
Furniture & equipment	162,870	39,043	-	201,913
Water & sewer system	2,175,379	73,168	-	2,248,547
	<u>\$ 2,471,563</u>	<u>\$ 137,707</u>	<u>\$ -</u>	<u>\$ 2,609,270</u>
Accumulated Depreciation:				
Building	\$ (16,547)	\$ (959)	\$ -	\$ (17,506)
Furniture & equipment	(146,374)	(7,352)	-	(153,726)
Water & sewer system	(880,203)	(52,254)	-	(932,457)
	<u>\$ (1,043,124)</u>	<u>\$ (60,565)</u>	<u>\$ -</u>	<u>\$ (1,103,689)</u>
Business-Type Activities Net Capital Assets	<u><u>\$ 1,428,439</u></u>	<u><u>\$ 77,142</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,505,581</u></u>

Depreciation was charged to programs as follows:

Governmental Activities:

General and administrative	\$ 4,950
Police department	37,131
	<u>\$ 42,081</u>

Business-Type Activities:

Water, sewer and sanitation	\$ 60,565
	<u>\$ 60,565</u>

G. Fund Balance

Governmental Funds fund balances classified as nonspendable are amounts that are not in spendable form or are required to be maintained intact. Fund balances classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance or resolution. Assigned fund balances are constrained by the intent to be used for specific purposes, neither restricted nor committed. Assignments are made by City management based on Council direction. Unassigned fund balances are amounts that are available for any purpose.

Town of Lakeside, Texas
Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. As of September 30, 2012, there is no debt associated with capital assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

I. Cash and Investments

For purposes of the statement of cash flows, the Water, Sewer and Sanitation Fund considers all short-term investments (including restricted assets) with a maturity of three months or less at the date of acquisition to be cash equivalents.

J. Restricted Assets

Restricted assets in the Water, Sewer and Sanitation Fund include customer security deposits. Restricted assets in the General Fund include amounts received to be used for court technology and security.

K. Compensated Absences

The Town's employees earn vacation leave for each year of work performed. The accrual rate increases with years of service to a maximum of four weeks after fifteen years of service. Employees earn comp time to the extent they work overtime. Accrued vacation leave and comp time is accrued when incurred in the financial statements. At September 30, 2012, accrued compensated absences for the governmental funds and proprietary funds were \$22,125 and \$3,853, respectively.

2. CASH AND CASH EQUIVALENTS

At September 30, 2012, the carrying amount of the Town's cash deposits was \$1,388,662. \$1,330,000 of this amount was covered by federal depository insurance, and the remaining \$58,662 was covered by collateral held in the pledging financial institution's trust department in the government's name.

Town of Lakeside, Texas
Notes to Basic Financial Statements

3. PROPERTY TAXES

Property taxes are levied on October 1 on the assessed value listed as of the prior January 1 and are due and payable at that time. All unpaid taxes attach as a lien on property as of January 1 and become enforceable February 1. Penalty and interest is charged at seven percent on delinquent taxes beginning February 1 and increases each month to 18 percent on July 1.

Appraised values are established by the Tarrant Appraisal District at 100 percent of estimated market value and certified by the Appraisal Review Board. The assessed value for the tax roll of January 1, 2011, upon which the original levy for fiscal year 2012 was based, was \$101,490,604.

In Texas, county-wide central appraisal districts are required to assess all property within the appraisal district on the basis of 100 percent of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every three years. The Town may challenge appraised values established by the appraisal district through various appeals, and, if necessary, legal action. Under this system, the Town sets tax rates on Town property. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than eight percent, qualified voters of the Town may petition for an election to determine whether to limit the tax rate to no more than eight percent above the tax rate of the previous year.

Property tax revenues are recognized when levied to the extent that they result in current receivable available for financing current operations. The Town has chosen to establish an allowance for delinquent taxes equal to 100% of uncollected ad valorem taxes. Current tax collections for the period ended September 30, 2012 were 99.6% of tax levy.

4. EMPLOYEE RETIREMENT PLAN AND SUPPLEMENTAL DEATH BENEFITS PLAN

A. Pension Plan Description

The Town provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System ("TMRS"), one of 847 administered by TMRS, an agent, multiple-employer public employee retirement system. Each of the municipalities has an annual individual actuarial valuation performed. All assumptions for the December 31, 2011 valuations are contained in the 2011 TMRS Comprehensive Annual Financial Report ("CAFR"), a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153 or accessing the CAFR online at www.tnrs.org.

4. EMPLOYEE RETIREMENT PLAN AND SUPPLEMENTAL DEATH BENEFITS PLAN (CONTINUED)

Benefits depend upon the sum of the employee's contributions to the Plan, with interest, and the Town-financed monetary credits, with interest. At the date the plan began, the Town granted monetary credits for service rendered before the plan began of a theoretical amount 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 100 percent of the employee's accumulated contributions. In addition, the Town can grant, as often as annually, another type of monetary credit referred to as an updated service credit which 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 Town 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.

Members can retire at age 60 and above with 5 or more years of service or with 25 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the Town, within the options available in the state statutes governing TMRS. The contribution rate for the employees is 5 percent, and the Town matching ratio is currently 2 to 1, both as adopted by the governing body of the Town.

Per TMRS statutes, there is a statutory maximum in effect based on the benefit levels elected by the Town. If the required rate calculated by TMRS exceeds one or both of those rates, the Town council at its option can choose to either adjust benefits to reduce the required rate to conform with the maximums or lift the maximums altogether and to pay the full required rate. The Town's maximum is 11.5 percent.

B. Pension Funding Policy

Under the state law governing TMRS, the actuary annually determines the Town's contribution rate on a calendar-year basis. The Town discloses the annual pension costs (which equal the required contributions) based on the calculated rates for the Town's fiscal year. The rate is 3.8%, 5.4%, and 5.1% of covered payroll for the months in calendar years 2012, 2011 and 2010, respectively. This rate consists of the normal cost contribution rate and the prior service contribution rate. The normal cost contribution rate finances the currently accruing monetary credits due to Town matching percent, which are the obligation of the Town as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation for the Town to each employee at the time his or her retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability. Both the employees and the Town make contributions monthly. Since the Town 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. the January 1, 2012 contribution rate is based on the December 31, 2010 valuation results). If a change in plan provisions is elected by the Town, this rate can change.

Town of Lakeside, Texas
Notes to Basic Financial Statements

4. EMPLOYEE RETIREMENT PLAN AND SUPPLEMENTAL DEATH BENEFITS PLAN (CONTINUED)

C. Pension Plan Provisions

	Valuation Date		
	2011	2010	2009
1. Total number of participating entities	847	842	837
Town specific data:			
2. Employee deposit rate	5.0%	5.0%	5.0%
3. Matching ratio (Town to employee)	2 to 1	2 to 1	2 to 1
4. Years required for vesting	5	5	5
5. Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25	60/5, 0/25
6. Updated service credit	100%	100%	100%
	Repeating	Repeating	Repeating
7. Annuity increase to retirees	0%	0%	0%
8. Supplemental death benefit:			
For active employees	Y	Y	Y
For retirees	Y	Y	Y

D. Pension Actuarial Information

	Valuation Date		
	2011	2010	2009
1. Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
2. Amortization method	Level % of Payroll	Level % of Payroll	Level % of Payroll
3. Remaining amortization period	15.8 years; closed period	22.4 years; closed period	23.5 years; closed period
4. Asset valuation method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
5. Assumptions:			
Investment return	7.0%	7.0%	7.5%
Projected salary increases	Varies by age and service	Varies by age and service	Varies by age and service
Inflation	3.0%	3.0%	3.0%
Cost-of-living adjustments	0.0%	0.0%	0.0%

Town of Lakeside, Texas
Notes to Basic Financial Statements

4. EMPLOYEE RETIREMENT PLAN AND SUPPLEMENTAL DEATH BENEFITS PLAN (CONTINUED)

E. Pension Funding Information

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability ("AAL") (b)	Unfunded AAL ("UAAL") (b-a)	Percentage Funded (a/b)	Annual Covered Payroll (c)
2011	\$ 537,591	\$ 538,653	\$ 1,062	99.8%	\$ 423,038
2010	501,096	545,717	44,621	91.8%	446,445
2009	294,491	352,692	58,201	83.5%	391,756

Actuarial Valuation Date	UAAL as a % of Covered Payroll (b-a)/(c)	Net Pension Obligation ("NPO") at the beginning of the period	Annual Required Contri- bution	Contri- bution Made	NPO at the end of the period
2011	3.0%	\$ -	\$ 18,318	\$ 18,318	\$ -
2010	10.0%	-	22,803	22,803	-
2009	14.9%	-	21,913	21,913	-

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for the liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by the Town. Two-thirds of the cities participating in TMRS have adopted Updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2007 valuation, the TMRS Board determined that the Projected Unit Credit ("PUC") funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustees rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5 percent, the amortization period will be increased to 30 years, unless a Town requests that the period remain at 25 years. For cities with repeating features, these changes would likely result in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approximately 12.5 percent each year) to their full rate (or their required contribution rate).

Town of Lakeside, Texas
Notes to Basic Financial Statements

4. EMPLOYEE RETIREMENT PLAN AND SUPPLEMENTAL DEATH BENEFITS PLAN (CONTINUED)

F. Supplemental Death Benefits Fund

The Town as an employer participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the TMRS known as the Supplemental Death Benefits Fund ("SDBF"). The Town elected to provide group-term life insurance coverage to both current and retired employees. 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). The death benefit for retirees is considered a postemployment benefit other than pension benefit ("OPEB" or other post-employment benefit) and is a fixed amount of \$7,500.

The Town 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 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 employee's entire careers. As an employer, the Town contributions to the SDBF for the years ended September 30, 2012, 2011, and 2010 were \$840, \$936, and \$829, respectively, which equaled 100 percent of the required contributions each year.

G. Supplemental Death Benefits Plan Provisions

	2011	2010	2009
1. Total number of participating entities	725	722	720
Town specific data:			
2. Supplemental death benefit			
For active employees	Y	Y	Y
For retirees	Y	Y	Y

Town of Lakeside, Texas
Notes to Basic Financial Statements

4. EMPLOYEE RETIREMENT PLAN AND SUPPLEMENTAL DEATH BENEFITS PLAN (CONTINUED)

H. Supplemental Death Benefits Actuarial Information

	<u>2011</u>	<u>2010</u>	<u>2009</u>
1. Valuation date	12/31/11	12/31/10	12/31/09
2. Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit
3. Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
4. Amortization period	25 years – open period	25 years – open period	25 years – open period
5. Asset valuation method	Fund value	Fund value	Fund value
6. Assumptions:			
Investment return	4.25%	4.25%	4.25%
Projected salary increases	Varies by age and service	Varies by age and service	Varies by age and service
Inflation	3.0%	3.0%	3.0%
Cost-of-living adjustments	None	None	None

5. SUBSEQUENT EVENTS

On October 22, 2012 the Town received \$27,587 pursuant to the settlement of a lawsuit regarding a mineral lease that was ongoing at September 30, 2012, and, therefore, pursuant to ASC 450 has been recorded as a receivable in the governmental funds financial statements at September 30, 2012.