

Town of Lakeside, Texas

Financial Statements

September 30, 2014

HMSW CPA, P.L.L.C.
Professional Limited Liability Company
1010 N. Center Street
Arlington, TX 76011
817-704-6400



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 as of and for the year ended September 30, 2014, 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

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 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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, 2014, and the respective changes in financial position and, where applicable, 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.

Other Matters

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 appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

HMSW

HMSW, CPA, P.L.L.C.
Arlington, Texas
November 20, 2014

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Town of Lakeside, Texas
Government-Wide Statement of Net Assets
September 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 499,285	\$ 132,163	\$ 631,448
Certificates of deposit	600,967	480,892	1,081,859
Property taxes receivable, net of allowance for uncollectibles	-	-	-
Accounts receivable	11,145	116,947	128,092
Restricted assets:			
Customer deposits	-	36,382	36,382
Court technology fund	14,504	-	14,504
Court security fund	5,322	-	5,322
2013 Series bond fund	-	2,511,694	2,511,694
Debt service	-	12,442	12,442
Deferred charge-issuance costs	-	36,112	36,112
Capital assets:			
Land	283,172	136,275	419,447
Building	225,221	65,519	290,740
Furniture and equipment	291,103	252,527	543,630
Water system	-	1,995,142	1,995,142
Sewer system	-	511,808	511,808
Less: accumulated depreciation	(376,906)	(1,190,637)	(1,567,543)
TOTAL ASSETS	\$ 1,553,813	\$ 5,097,266	\$ 6,651,079

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

Town of Lakeside, Texas
Government-Wide Statement of Net Assets
September 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Accounts payable	\$ 22,006	\$ 24,467	\$ 46,473
Accrued liabilities	24,473	2,095	26,568
Payable from restricted assets:			
Customer deposits	-	36,382	36,382
Court technology fund	14,504	-	14,504
Court security fund	5,322	-	5,322
Non-current liabilities:			
Due within one year:			
Long-term debt	-	90,000	90,000
Due in more than one year			
Long-term debt	-	2,400,000	2,400,000
TOTAL LIABILITIES	66,305	2,552,944	2,619,249
NET ASSETS			
Invested in capital assets , net of related debt	422,590	1,770,634	2,193,224
Unrestricted	1,064,918	773,688	1,838,606
TOTAL NET ASSETS	\$ 1,487,508	\$ 2,544,322	\$ 4,031,830

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, 2014

Program Activities	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
General and administrative	\$ 274,580	\$ 17,244	\$ -	\$ -
Corporation court	28,858	-	-	-
Public works	6,355	-	-	-
Police department	411,929	55,000	-	-
TOTAL GOVERNMENTAL ACTIVITIES	721,722	72,244	-	-
BUSINESS-TYPE ACTIVITIES				
Water, sewer and sanitation	786,878	1,125,090	-	-
Interest on long-term debt	60,848	-	-	-
TOTAL BUSINESS-TYPE ACTIVITIES	847,726	1,125,090	-	-
TOTAL GOVERNMENT	\$ 1,569,448	\$ 1,197,334	\$ -	\$ -

GENERAL REVENUES

Property taxes
Franchise taxes
Sales taxes
Interest
Gain on sale of capital assets
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
\$ (257,336)	\$ -	\$ (257,336)
(28,858)	-	(28,858)
(6,355)	-	(6,355)
<u>(356,929)</u>	<u>-</u>	<u>(356,929)</u>
 (649,478)	 -	 (649,478)
 -	338,212	338,212
 -	<u>(60,848)</u>	<u>(60,848)</u>
 -	277,364	277,364
<u>(649,478)</u>	<u>277,364</u>	<u>(372,114)</u>
 389,867	-	389,867
117,633	-	117,633
160,926	-	160,926
7,278	13,507	20,785
-	100,340	100,340
<u>134,834</u>	<u>-</u>	<u>134,834</u>
<u>810,538</u>	<u>113,847</u>	<u>924,385</u>
 161,060	391,211	552,271
<u>1,326,448</u>	<u>2,153,111</u>	<u>3,479,559</u>
<u>\$ 1,487,508</u>	<u>\$ 2,544,322</u>	<u>\$ 4,031,830</u>

Town of Lakeside, Texas
Balance Sheet
Governmental Funds
September 30, 2014

	<u>General Fund</u>	<u>Total Governmental Funds</u>
ASSETS		
Cash and cash equivalents	\$ 499,285	\$ 499,285
Certificates of deposit	600,967	600,967
Property taxes receivable, net of allowance for uncollectibles	-	-
Accounts receivable	11,145	11,145
Mineral lease receivable	-	-
Restricted assets:		
Court technology fund	14,504	14,504
Court security fund	5,322	5,322
TOTAL ASSETS	<u><u>\$ 1,131,223</u></u>	<u><u>\$ 1,131,223</u></u>
 LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 22,006	\$ 22,006
Accrued liabilities	24,473	24,473
Payable from restricted assets:		
Court technology fund	14,504	14,504
Court security fund	5,322	5,322
TOTAL LIABILITIES	<u>66,305</u>	<u>66,305</u>
 FUND BALANCES		
Unassigned	<u>1,064,918</u>	<u>1,064,918</u>
TOTAL FUND BALANCES	<u>1,064,918</u>	<u>1,064,918</u>
 TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 1,131,223</u></u>	<u><u>\$ 1,131,223</u></u>

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, 2014

Total fund balance per governmental funds balance sheet	\$ 1,064,918
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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

422,590

Total net assets of governmental activities

\$ 1,487,508

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, 2014

	General Fund	Total Governmental Funds
REVENUES		
Property taxes	\$ 389,867	\$ 389,867
Franchise taxes	117,633	117,633
Sales taxes	160,926	160,926
Fines and service fees	55,000	55,000
Permits and inspections	17,244	17,244
Interest	7,278	7,278
Other	134,834	134,834
TOTAL REVENUES	<u>882,782</u>	<u>882,782</u>
EXPENDITURES		
General and administrative	269,630	269,630
Corporation court	28,858	28,858
Public works	6,355	6,355
Police department	378,032	378,032
TOTAL EXPENDITURES	<u>682,875</u>	<u>682,875</u>
Excess (deficiency) of revenues over (under) expenditures	199,907	199,907
FUND BALANCE, BEGINNING OF YEAR	<u>865,011</u>	<u>865,011</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 1,064,918</u></u>	<u><u>\$ 1,064,918</u></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, 2014

Net change in fund balance - total governmental funds	\$ 199,907
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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.

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.

	(38,847)
Change in net assets of governmental activities	<u>\$ 161,060</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 Balance
Budget and Actual
For the Year Ended September 30, 2014

	Budgeted Amounts		Actual	Variance favorable (unfavorable)
	Original	Final		
REVENUES				
Property taxes	\$ 377,614	\$ 377,614	\$ 389,867	\$ 12,253
Franchise taxes	115,992	115,992	117,633	1,641
Sales taxes	160,000	160,000	160,926	926
Fines and service fees	38,390	38,390	55,000	16,610
Permits, plats and inspections	12,245	12,245	17,244	4,999
Interest	6,250	6,250	7,278	1,028
Other	130,505	130,530	134,834	4,304
TOTAL REVENUES	840,996	841,021	882,782	41,761
EXPENDITURES				
General and administrative	359,426	359,426	269,630	89,796
Corporation court	31,755	31,755	28,858	2,897
Public works	35,700	35,700	6,355	29,345
Police department	375,459	375,459	378,032	(2,573)
TOTAL EXPENDITURES	802,340	802,340	682,875	119,465
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 38,656</u>	<u>\$ 38,681</u>	199,907	<u>\$ 161,226</u>
FUND BALANCE, BEGINNING OF YEAR			<u>865,011</u>	
FUND BALANCE, END OF YEAR			<u><u>\$ 1,064,918</u></u>	

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

Town of Lakeside, Texas
Statement of Net Assets
Proprietary Funds
September 30, 2014

	Business-Type Activities Enterprise Funds	
	Water, Sewer and Sanitation	Total
ASSETS		
CURRENT ASSETS		
Cash	\$ 132,163	\$ 132,163
Certificates of deposit	480,892	480,892
Accounts receivable	116,947	116,947
TOTAL CURRENT ASSETS	<u>730,002</u>	<u>730,002</u>
NON-CURRENT ASSETS		
Restricted Assets		
Customer deposits	36,382	36,382
2013 Series bond fund	2,511,694	2,511,694
Debt service	12,442	12,442
Deferred charge-issuance costs	36,112	36,112
TOTAL NON-CURRENT ASSETS	<u>2,596,630</u>	<u>2,596,630</u>
CAPITAL ASSETS		
Land	136,275	136,275
Building	65,519	65,519
Furniture and equipment	252,527	252,527
Water system	1,995,142	1,995,142
Sewer system	511,808	511,808
	<u>2,961,271</u>	<u>2,961,271</u>
Less: accumulated depreciation	(1,190,637)	(1,190,637)
TOTAL CAPITAL ASSETS, net	<u>1,770,634</u>	<u>1,770,634</u>
TOTAL ASSETS	<u><u>\$ 5,097,266</u></u>	<u><u>\$ 5,097,266</u></u>

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

Town of Lakeside, Texas
Statement of Net Assets
Proprietary Funds
September 30, 2014

	Business-Type Activities Enterprise Funds	
	Water, Sewer and Sanitation	Total
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 24,467	\$ 24,467
Accrued liabilities	2,095	2,095
Bonds payable-current portion	90,000	90,000
TOTAL CURRENT LIABILITIES	<u>116,562</u>	<u>116,562</u>
CURRENT LIABILITIES DUE FROM RESTRICTED ASSETS		
Customer deposits	36,382	36,382
TOTAL CURRENT LIABILITIES DUE FROM RESTRICTED ASSETS	<u>36,382</u>	<u>36,382</u>
NON-CURRENT LIABILITIES		
Bonds payable-net	2,400,000	2,400,000
TOTAL NON-CURRENT LIABILITIES	<u>2,400,000</u>	<u>2,400,000</u>
TOTAL LIABILITIES	<u>2,552,944</u>	<u>2,552,944</u>
NET ASSETS		
Invested in capital assets, net of related debt	1,770,634	1,770,634
Unrestricted	773,688	773,688
TOTAL NET ASSETS	<u>\$ 2,544,322</u>	<u>\$ 2,544,322</u>

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, 2014

	Business-Type Activities Enterprise Funds	
	Water, Sewer and Sanitation	Total
OPERATING REVENUES		
Water sales	\$ 873,457	\$ 873,457
Sewer sales	62,906	62,906
Fees	54,748	54,748
Sanitation services	122,742	122,742
Penalties and services charges	11,237	11,237
TOTAL OPERATING REVENUES	1,125,090	1,125,090
OPERATING EXPENSES		
Personnel services	311,115	311,115
Supplies and materials	21,265	21,265
Utilities and telephone	65,491	65,491
Insurance	4,112	4,112
Maintenance	120,659	120,659
Other expenses	33,315	33,315
Contractual services	147,256	147,256
Engineering and professional services	13,715	13,715
Water purchases	8	8
Depreciation	69,942	69,942
TOTAL OPERATING EXPENSES	786,878	786,878
INCOME FROM OPERATIONS	338,212	338,212
NON-OPERATING REVENUE (EXPENSES)		
Interest revenues	13,507	13,507
Gain on sale of capital assets	100,340	100,340
Interest and fiscal charges	(60,848)	(60,848)
TOTAL NON-OPERATING REVENUE	52,999	52,999
CHANGE IN NET ASSETS	391,211	391,211
NET ASSETS, BEGINNING OF YEAR	2,153,111	2,153,111
NET ASSETS, END OF YEAR	\$ 2,544,322	\$ 2,544,322

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, 2014

	Business-Type Activities Enterprise Funds	
	Water, Sewer and Sanitation	Total
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and other	\$ 1,098,694	\$ 1,098,694
Cash paid to suppliers and employees	(708,925)	(708,925)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>389,769</u>	<u>389,769</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	13,507	13,507
Proceeds from sale of assets	103,522	103,522
Purchase of property and equipment	(311,238)	(311,238)
NET CASH USED BY INVESTING ACTIVITIES	<u>(194,209)</u>	<u>(194,209)</u>
CASH FLOWS FROM CAPITAL AND AND RELATED FINANCING ACTIVITIES		
Proceeds from bonds	2,503,163	2,503,163
Principal payments-bonds	(50,000)	(50,000)
Interest and fiscal charges	(60,123)	(60,123)
NET CASH PROVIDED BY CAPITAL AND AND RELATED FINANCING ACTIVITIES	<u>2,393,040</u>	<u>2,393,040</u>
INCREASE IN CASH AND CASH EQUIVALENTS	2,588,600	2,588,600
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including \$33,028 in restricted assets)	<u>104,081</u>	<u>104,081</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (including \$2,560,518 in restricted assets)	<u>\$ 2,692,681</u>	<u>\$ 2,692,681</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, 2014

	Business-Type Activities Enterprise Funds	
	Water, Sewer and Sanitation	Total
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES		
INCOME FROM OPERATIONS	\$ 338,212	\$ 338,212
ADJUSTMENTS TO RECONCILE INCOME FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES		
Depreciation	69,942	69,942
Increase in certificates of deposits	(299)	(299)
Increase in accounts receivable	(29,405)	(29,405)
Increase in accounts payable	7,721	7,721
Increase in accrued expenses	290	290
Increase in customer deposit	3,308	3,308
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 389,769</u>	<u>\$ 389,769</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. The Town's statement of net assets includes both non-current assets and non-current liabilities. The government-wide statement of activities also reflects depreciation expense of the Town's capital assets.

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 Town's governmental funds is similar to that previously presented in the Town'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, 2014, there was \$4,399 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, 2014.

The Town has elected to account for infrastructure assets on a prospective basis beginning October 1, 2003. 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, 2014, was as follows:

Governmental Activities:

	<u>Balance 10/1/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2014</u>
Capital Assets:				
Land	\$ 283,172	\$ -	\$ -	\$ 283,172
Building	225,221	-	-	225,221
Furniture & equipment	291,103	-	-	291,103
	<u>\$ 799,496</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 799,496</u>
Accumulated Depreciation:				
Building	\$ (142,247)	\$ (4,950)	\$ -	\$ (147,197)
Furniture & equipment	(195,812)	(33,897)	-	(229,709)
	<u>\$ (338,059)</u>	<u>\$ (38,847)</u>	<u>\$ -</u>	<u>\$ (376,906)</u>
Governmental Activities Net Capital Assets	<u><u>\$ 461,437</u></u>	<u><u>\$ (38,847)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 422,590</u></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 10/1/2013	Additions	Deletions	Balance 9/30/2014
Capital Assets:				
Land	\$ 136,275	\$ -	\$ -	\$ 136,275
Building	22,535	65,520	(22,536)	65,519
Furniture & equipment	224,989	59,887	(32,349)	252,527
Water & sewer system	2,321,119	185,831	-	2,506,950
	<u>\$ 2,704,918</u>	<u>\$ 311,238</u>	<u>\$ (54,885)</u>	<u>\$ 2,961,271</u>
Accumulated Depreciation:				
Building	\$ (18,465)	\$ (1,398)	\$ 19,353	\$ (510)
Furniture & equipment	(168,808)	(15,912)	32,350	(152,370)
Water & sewer system	(985,125)	(52,632)	-	(1,037,757)
	<u>\$ (1,172,398)</u>	<u>\$ (69,942)</u>	<u>\$ 51,703</u>	<u>\$ (1,190,637)</u>
Business-Type Activities				
Net Capital Assets	<u>\$ 1,532,520</u>	<u>\$ 241,296</u>	<u>\$ (3,182)</u>	<u>\$ 1,770,634</u>

Depreciation was charged to programs as follows:

Governmental Activities:

General and administrative	\$ 4,950
Police department	33,897
	<u>\$ 38,847</u>

Business-Type Activities:

Water, sewer and sanitation	\$ 69,942
	<u>\$ 69,942</u>

G. Fund Balance

Governmental 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, consist 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. Net assets are reported as restricted or committed 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 with a maturity of three months or less at the date of acquisition, plus net proceeds from bond sales to be cash equivalents.

J. Restricted Assets

Restricted assets in the Water, Sewer and Sanitation Fund include customer security deposits, funds designated for improvements to the water system and funds designated for debt service. 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 compensatory time to the extent they work overtime. Accrued vacation leave and compensatory time is accrued when incurred in the financial statements. At September 30, 2014, accrued compensated absences for the governmental funds and proprietary funds were \$21,694 and \$2,095, respectively.

L. 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 assets. Bond premiums/discounts and issuance costs are deferred and amortized over the life of the bonds using the effective interest method and straight line method, respectively. Bonds payable are reported net of the applicable bond premium or discount.

2. CASH AND CASH EQUIVALENTS

At September 30, 2014, the carrying amount of the Town's cash deposits was \$4,293,651. \$3,855,993 of this amount was covered by federal depository insurance, and the remaining \$437,658 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 7 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, 2013, upon which the original levy for fiscal year 2014 was based, was \$101,909,203.

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 8 percent, qualified voters of the Town may petition for an election to determine whether to limit the tax rate to no more than 8 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 percent of uncollected ad valorem taxes. Current tax collections for the period ended September 30, 2014 were 99.2 percent of tax levy.

4. DEBT AND LIABILITIES

On November 14, 2013, the Town issued Revenue Certificates of Obligation, Series 2013 of \$2,540,000 with interest rates of 2.0 to 3.125 percent with maturities on August 15 from 2014 through 2027. Interest on notes is due every February and August 15, beginning August 15, 2014. The Certificates were issued to construct a water line. Activity for the year ended September 30, 2014 was as follows:

Balance 10/1/2013	Additions	Payments	Balance 9/30/2014
\$ -	\$ 2,540,000	\$ (50,000)	\$ 2,490,000

Future minimum payments on bond obligations are as follows:

	Principal	Interest	Total
2015	\$ 90,000	\$ 74,650	\$ 164,650
2016	95,000	72,850	167,850
2017	95,000	70,950	165,950
2018	100,000	69,050	169,050
2019	105,000	67,050	172,050
Thereafter	2,005,000	572,544	2,577,544
	\$ 2,490,000	\$ 927,094	\$ 3,417,094

Town of Lakeside, Texas
Notes to Basic Financial Statements

5. 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 850 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, 2013 valuations are contained in the 2013 TMRS Comprehensive Annual Financial Report ("CAFR"), a copy of which may be obtained by accessing the CAFR online at www.tmrs.org.

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 were 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.

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 3.1% of covered payroll for the months in calendar year 2013, and 4.5% for the months in calendar year 2014. 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 the Town's 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, 2014 contribution rate is based on the December 31, 2012 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

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

C. Pension Plan Provisions

	Valuation Date		
	2013	2012	2011
1. Total number of participating entities	850	849	847
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		
	2013	2012	2011
1. Actuarial cost method	Entry Age Normal	Projected Unit Credit	Projected Unit Credit
2. Amortization method	Level % of Payroll	Level % of Payroll	Level % of Payroll
3. Remaining amortization period	30 years; closed period	25 years; closed period	15.8 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%	7.0%
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

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

E. Pension Funding Information

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Percentage Funded	Annual Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)
2013	\$ 663,748	\$ 673,592	\$ 9,844	98.5%	\$ 463,853
2012	593,099	548,585	(44,514)	108.1%	424,332
2011	537,591	538,653	1,062	99.8%	423,038

Actuarial Valuation Date	UAAL as a % of Covered Payroll	Net Pension Obligation ("NPO") at the beginning of the period	Annual Required Contri- bution	Contri- bution Made	NPO at the end of the period
	(b-a)/(c)				
2013	2.1%	\$ -	\$ 20,066	\$ 20,066	\$ -
2012	(10.5)%	-	14,391	14,391	-
2011	0.3%	-	19,158	19,158	-

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

5. 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, 2014, 2013, and 2012 were \$997, \$756, and \$840, respectively, which equaled 100 percent of the required contributions each year.

G. Supplemental Death Benefits Plan Provisions

	<u>2013</u>	<u>2012</u>	<u>2011</u>
1. Total number of participating entities	731	730	725
Town specific data:			
2. Supplemental death benefit			
For active employees	Y	Y	Y
For retirees	Y	Y	Y

H. Supplemental Death Benefits Actuarial Information

	<u>2013</u>	<u>2012</u>	<u>2011</u>
1. Valuation date	12/31/13	12/31/12	12/31/11
2. Actuarial cost method	Entry Age Normal	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