

CITY OF WEST LAKE HILLS, TEXAS  
ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2015



SINGLETON, CLARK  
& COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS

CITY OF WEST LAKE HILLS, TEXAS  
 ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

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# **FINANCIAL SECTION**



INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council  
City of West Lake Hills, Texas

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of West Lake Hills, Texas (the "City") as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City'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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 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 opinions.

***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, each major fund, and the aggregate remaining fund information of the City as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof 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 section preceding the basic financial statements, the budgetary schedule following the basic financial statements and the pension related schedules following the notes to the financial statements 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Singleton, Clark & Company, PC  
Cedar Park, Texas

January 29, 2016

CITY OF WEST LAKE HILLS, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR END SEPTEMBER 30, 2015

As management of the City of West Lake Hills, Texas, (the "City") we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2015. Please read it in conjunction with the independent auditor's report on page 1 and the City's basic financial statements which follow this section.

**Financial Highlights**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$9,636,060 (*total net position*). Of this amount, \$5,324,270 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position decreased during the year by \$1,178,377 related primarily to expenditures for a road expansion project. Furthermore, a prior period adjustment of \$756,028 resulting from GASB 68 also decreased net position for a total decrease of net position of \$1,934,407.
- At the close of the current fiscal year, the City's General Fund reported a fund balance of \$5,848,509, a decrease of \$1,912,846 in comparison with the prior year.
- At the end of the current fiscal year, the City's Wastewater Fund reported a net position of \$1,603,036, an increase of \$169,291 in comparison with the prior year.

**Overview of the Financial Statements**

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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

The *statement of net position* presents financial information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference 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 City is improving or deteriorating.

The *statement of activities* presents information showing how the City'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 for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City 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 City include general government, public safety, public works, and sanitation. The business-type activities of the City include a wastewater utility operation.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR END SEPTEMBER 30, 2015

The government-wide financial statements can be found on pages 10-11 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 City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City adopts an annual appropriated budget for all funds. A budgetary comparison schedule has been provided within this report for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 12-15 of this report and the General Fund's budget to actual statement is presented on page 16.

**Proprietary Funds.** The City has the option of maintaining two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its wastewater utility operation. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among a City's departments. The City is not currently utilizing an internal service fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the wastewater utility, which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 17-19 of this report.

CITY OF WEST LAKE HILLS, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Notes to the Financial Statements.** The notes provide additional information that is necessary to acquire 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 20-38 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's pension obligations.

Required supplementary information can be found on pages 39-41 of this report.

**Government-wide Overall Financial Analysis**

As noted earlier, net position over time, may serve as a useful indicator of a government's financial condition. In the case of the City, assets for governmental activities exceeded liabilities by \$8,033,024 at the close of the most recent fiscal year and assets for business-type activities exceeded liabilities by \$1,603,036.

**City of West Lake Hills, Texas's Net Position**

	Governmental Activities 2015	Governmental Activities 2014	Change	Business- Type Activities 2015	Business- Type Activities 2014	Change
Current & other assets	\$ 5,229,156	\$ 6,447,532	\$ (1,218,376)	\$ 3,067,618	\$ 3,000,115	\$ 67,503
Capital assets	3,299,843	2,662,323	637,520	16,451,094	16,896,179	(445,085)
Advances to other funds	2,000,000	2,000,000	-	-	-	-
<b>Total assets</b>	<b>10,528,999</b>	<b>11,109,855</b>	<b>(580,856)</b>	<b>19,518,712</b>	<b>19,896,294</b>	<b>(377,582)</b>
Current liabilities	1,372,072	682,119	689,953	330,676	622,549	(291,873)
Advances from other funds	-	-	-	2,000,000	2,000,000	-
Noncurrent liabilities	1,471,228	291,016	1,180,212	15,585,000	15,840,000	(255,000)
<b>Total liabilities</b>	<b>2,843,300</b>	<b>973,135</b>	<b>1,870,165</b>	<b>17,915,676</b>	<b>18,462,549</b>	<b>(546,873)</b>
<b>Net Position</b>						
Net investment in capital assets	3,299,843	2,662,323	637,520	866,094	1,056,179	(190,085)
Restricted	145,853	152,097	(6,244)	-	-	-
Unrestricted	4,587,326	7,322,300	(2,734,974)	736,942	377,566	359,376
<b>Total net position</b>	<b>\$ 8,033,022</b>	<b>\$ 10,136,720</b>	<b>\$ (2,103,698)</b>	<b>\$ 1,603,036</b>	<b>\$ 1,433,745</b>	<b>\$ 169,291</b>

CITY OF WEST LAKE HILLS, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR END SEPTEMBER 30, 2015

By far, the largest portion of the City's net position (55%) is its unrestricted balance. The next largest balance is its net investment in capital assets at (43%). The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (2%) represents resources that are subject to external restrictions on how they may be used. The unrestricted balance of \$5,324,270 may be used to meet the government's ongoing obligations to its citizens and creditors. At the end of the current fiscal year, the City is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

The City's overall net position did decrease by \$1,934,407 from the prior fiscal year. The reasons for this overall decrease are discussed in the following sections for governmental activities and business-type activities.

**Governmental Activities.** During the current fiscal year, net position for governmental activities decreased by \$1,347,668. Also during the year related to GASB 68 and a prior period adjustment, net position decreased by another \$756,028 for an overall ending balance of \$8,033,024. The decrease is attributed to expenses related to acquiring land and rights of way related to a road expansion project.

**City of West Lake Hills, Texas's Changes in Net Position**

	Governmental Activities 2015	Governmental Activities 2014	Change	Business- Type Activities 2015	Business- Type Activities 2014	Change
Revenues:						
Program Revenues:						
Charges for services	\$ 454,211	\$ 586,283	\$ (132,072)	\$ 1,850,309	\$ 1,806,607	\$ 43,702
General Revenues:						
Property taxes	813,511	734,454	79,057	-	-	-
Sales tax	3,275,514	3,270,076	5,438	-	-	-
Franchise and other taxes	658,526	628,321	30,205	-	-	-
Investment earnings & miscellaneous	40,203	51,504	(11,301)	25,951	8,947	17,004
Total revenue	5,241,965	5,270,638	(28,673)	1,876,260	1,815,554	60,706
Expenses:						
General government	3,278,566	2,297,107	981,459	-	-	-
Public safety	2,157,650	1,936,404	221,246	-	-	-
Public works	1,155,230	1,303,965	(148,735)	-	-	-
Wastewater	-	-	-	1,706,969	1,680,020	26,949
Total expenses	6,591,446	5,537,476	1,053,970	1,706,969	1,680,020	26,949
Increase (decrease) in net position before gain	(1,349,481)	(266,838)	(1,082,643)	169,291	135,534	33,757
Gain on sale of capital assets	1,811	28,282	(26,471)	-	-	-
Increase (decrease) in net position	(1,347,670)	(238,556)	(1,109,114)	169,291	135,534	33,757
Net position - beginning	10,136,720	10,375,276	(238,556)	1,433,745	1,298,211	135,534
Prior period adjustment	(756,028)	-	(756,028)	-	-	-
Net position - ending	\$ 8,033,022	\$ 10,136,720	\$(2,103,698)	\$ 1,603,036	\$ 1,433,745	\$ 169,291

CITY OF WEST LAKE HILLS, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Business-type Activities.** For the City's business-type activities, the results for the current fiscal year were positive in that overall net position increased to reach an ending balance of \$1,603,036. The total increase in net position for business-type activities (wastewater operations) was \$169,291.

### **Financial Analysis of Governmental Funds**

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

**Governmental Funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's governing council.

At September 30, 2015, the City's General Fund reported a fund balance of \$5,848,509, a decrease of \$1,912,846 in comparison with the prior year. Related to total fund balance, 98% constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The decrease in fund balance in current year is primarily due to ongoing expenditures for a road expansion project.

As a measure of the General Fund's liquidity, it may be useful to compare total fund balance to total General Fund expenditures. Total fund balance represented approximately 82% of total General Fund expenditures for the current year.

**Proprietary Funds.** The City's Proprietary Fund financials provide the same type of information found in the government-wide financial statements, but in more detail.

The City's Proprietary Fund reported a net position of \$1,603,036. Of this amount, the unrestricted net position of the Wastewater Fund represents \$736,942. This reflects an increase in total net position of \$169,291.

### **General Fund Budgetary Highlights**

**Original budget compared to final budget.** During the year significant budget amendments were made to decrease General Fund fines and forfeiture revenues by approximately \$100,000 due to lower than expected collections as the year progressed. Also, general government expenditures were amended upward by approximately \$1.865 million related to the City's road expansion project.

### **Capital Assets and Debt Administration**

**Capital assets.** The City's total investment in capital assets for its governmental and business-type activities as of September 30, 2015, amounts to \$19,750,937.

CITY OF WEST LAKE HILLS, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**City of West Lake Hills - Capital Assets**

	Governmental Activities 2015	Governmental Activities 2014	Change
Land	\$ 398,411	\$ 398,411	\$ -
Buildings	1,331,102	1,283,695	47,407
Furniture and Equipment	1,987,383	1,698,178	289,205
Infrastructure	2,357,748	1,688,479	669,269
Total	<u>6,074,644</u>	<u>5,068,763</u>	<u>1,005,881</u>
Less Accumulated Depreciation	<u>(2,774,801)</u>	<u>(2,406,440)</u>	<u>(368,361)</u>
Capital Assets, Net of Depreciation	<u>\$ 3,299,843</u>	<u>\$ 2,662,323</u>	<u>\$ 637,520</u>

  

	Business-type Activities 2015	Business-type Activities 2014	Change
Land	\$ 420,000	\$ 420,000	\$ -
Wastewater System	17,755,857	17,625,283	130,574
Total	<u>18,175,857</u>	<u>18,045,283</u>	<u>130,574</u>
Less Accumulated Depreciation	<u>(1,724,763)</u>	<u>(1,149,104)</u>	<u>(575,659)</u>
Capital Assets, Net of Depreciation	<u>\$ 16,451,094</u>	<u>\$ 16,896,179</u>	<u>\$ (445,085)</u>

Additional information on the City's capital assets can be found in Note IV. D on pages 29-30 of this report.

**Long-term Debt.** At the end of the current fiscal year, the City had total long-term obligations of \$17,056,228. Of this amount, \$254,434 represents the City's liability for compensated absences earned by employees as of year end and \$1,216,794 represents the City's net pension liability related to GASB 68. The remaining \$15,585,000 represents bonds payable within the Wastewater Fund.

**City of West Lake Hills - Outstanding Debt and Other Liabilities**

	Governmental Activities 2015	Governmental Activities 2014	Change
Compensated Absences	\$ 254,434	\$ 279,085	\$ (24,651)
Net Pension Liability	1,216,794	-	1,216,794
Net Pension Obligation	-	11,931	(11,931)
Total	<u>\$ 1,471,228</u>	<u>\$ 291,016</u>	<u>\$ 1,180,212</u>

CITY OF WEST LAKE HILLS, TEXAS  
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	Business-type Activities 2015	Business-type Activities 2014	Change
Revenue Bonds	\$ 15,585,000	\$ 15,840,000	\$ (255,000)
Total	\$ 15,585,000	\$ 15,840,000	\$ (255,000)

The City’s bonds payable decreased by \$255,000 during the current fiscal year. The reason for the decrease was the principal payment made during the year on the Wastewater Fund’s bonds.

Additional information on the City’s long-term debt can be found in Note IV. H on pages 36-37 of this report.

**Economic Factors and Next Year’s Budget**

The City’s elected and appointed officials considered many factors when setting the fiscal year 2015/2016 budget. The City adopted a General Fund budget for 2016 with expenditures totaling \$5,791,557. This represents an approximately 2% increase over the prior year’s General Fund adopted budget.

**Requests for Information**

This financial report is designed to provide a general overview of the City of West Lake Hill’s finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City’s Finance Officer, City of West Lake Hills, 911 Westlake Drive, West Lake Hills, Texas 78746-4599 or call (512) 327-3628. Financial information is also available on the City’s website at [www.westlakehills.org](http://www.westlakehills.org).

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF WEST LAKE HILLS, TEXAS  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 4,562,854	\$ 2,920,904	\$ 7,483,758
Taxes receivable	656,301	-	656,301
Accounts receivable, net	-	146,714	146,714
Advances to other funds	2,000,000	-	2,000,000
Restricted cash	10,001	-	10,001
	<u>7,229,156</u>	<u>3,067,618</u>	<u>10,296,774</u>
Capital assets, not being depreciated:			
Land	398,411	420,000	818,411
Capital assets, being depreciated:			
Buildings and improvements	1,331,102	-	1,331,102
Machinery, equipment, and vehicles	1,987,383	-	1,987,383
Infrastructure	2,357,748	17,755,857	20,113,605
Accumulated depreciation	(2,774,801)	(1,724,763)	(4,499,564)
	<u>3,299,843</u>	<u>16,451,094</u>	<u>19,750,937</u>
Total Assets	<u>10,528,999</u>	<u>19,518,712</u>	<u>30,047,711</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows-pension	347,325	-	347,325
Total Deferred Outflows of Resources	<u>347,325</u>	<u>-</u>	<u>347,325</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	1,298,862	79,659	1,378,521
Accrued salaries and benefits	73,210	-	73,210
Advances from other funds	-	2,000,000	2,000,000
Accrued interest payable	-	43,428	43,428
Customer deposits	-	207,589	207,589
	<u>1,372,072</u>	<u>2,330,676</u>	<u>3,702,748</u>
Noncurrent liabilities:			
Due within one year	-	315,000	315,000
Net pension liability	1,216,794	-	1,216,794
Due in more than one year	254,434	15,270,000	15,524,434
	<u>1,471,228</u>	<u>15,585,000</u>	<u>17,056,228</u>
Total Liabilities	<u>2,843,300</u>	<u>17,915,676</u>	<u>20,758,976</u>
<b>NET POSITION</b>			
Net investment in capital assets	3,299,843	866,094	4,165,937
Restricted for municipal court security	83,391	-	83,391
Restricted for municipal court technology	50,752	-	50,752
Restricted for child safety	11,710	-	11,710
Unrestricted	4,587,326	736,942	5,324,268
Total Net Position	<u>\$ 8,033,022</u>	<u>\$ 1,603,036</u>	<u>\$ 9,636,058</u>

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

CITY OF WEST LAKE HILLS, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Functions/Programs:	Expenses	Program		Net (Expense) Revenue and Changes in Net Position		
		Revenues	Primary Government			
		Charges for Services	Governmental Activities	Business-Type Activities	Total	
<b>Primary government:</b>						
Governmental activities:						
General government	\$ 3,278,566	\$ 201,087	\$ (3,077,479)	\$ -	\$ (3,077,479)	
Public safety	2,157,650	253,124	(1,904,526)	-	(1,904,526)	
Public works	1,155,230	-	(1,155,230)	-	(1,155,230)	
Total governmental activities:	<u>6,591,446</u>	<u>454,211</u>	<u>(6,137,235)</u>	<u>-</u>	<u>(6,137,235)</u>	
Business-type activities:						
Wastewater	1,706,969	1,850,309	-	143,340	143,340	
Total business-type activities:	<u>1,706,969</u>	<u>1,850,309</u>	<u>-</u>	<u>143,340</u>	<u>143,340</u>	
Total primary government	<u>\$ 8,298,415</u>	<u>\$ 2,304,520</u>	<u>(6,137,235)</u>	<u>143,340</u>	<u>(5,993,895)</u>	
General revenues:						
Property taxes			813,511	-	813,511	
Sales taxes			3,275,514	-	3,275,514	
Franchise and other taxes			658,526	-	658,526	
Investment earnings			8,362	2,601	10,963	
Gain on sale of capital assets			1,811	-	1,811	
Miscellaneous			31,841	23,350	55,191	
Total general revenues			<u>4,789,565</u>	<u>25,951</u>	<u>4,815,516</u>	
Change in net position			(1,347,670)	169,291	(1,178,379)	
Net position -- beginning			10,136,720	1,433,745	11,570,465	
Prior Period Adjustment			(756,028)	-	(756,028)	
Net position -- ending			<u>\$ 8,033,022</u>	<u>\$ 1,603,036</u>	<u>\$ 9,636,058</u>	

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

FUND BASIS FINANCIAL STATEMENTS

CITY OF WEST LAKE HILLS, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2015

	General Fund
<b>ASSETS</b>	
Cash and cash equivalents	\$ 4,562,854
Accounts receivable, net	656,301
Advances to other funds	2,000,000
Restricted cash	10,001
Total assets	\$ 7,229,156
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	\$ 1,288,862
Accrued salaries and benefits	73,210
Liability payable from restricted asset	10,001
Total liabilities	1,372,073
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable revenue-property taxes	8,574
Total deferred inflows of resources	8,574
<b>FUND BALANCES</b>	
Restricted:	
Municipal court security	83,391
Municipal court technology	50,752
Child safety	11,710
Unassigned	5,702,656
Total fund balances	5,848,509
Total liabilities, deferred inflows, and fund balances	\$ 7,229,156

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

CITY OF WEST LAKE HILLS, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
 STATEMENT OF NET POSITION  
 SEPTEMBER 30, 2015

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

Total fund balances - governmental funds	\$	5,848,509
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		3,299,843
Long-term debt, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.		(266,365)
An additional long-term liability related to recognition of the City's net pension liability is not reported in the funds.		(857,538)
Other long-term assets, such as uncollected property taxes, are not available to pay for and, therefore, are reported as unavailable revenue in the funds.		8,575
 Net position of governmental activities	 <u>\$</u>	 <u>8,033,024</u>

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

CITY OF WEST LAKE HILLS, TEXAS  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>General Fund</u>
<b>REVENUES</b>	
Property taxes	\$ 808,995
Sales taxes	3,275,514
Franchise and other taxes	658,526
Building permits	115,813
Charges for services	85,274
Fines and forfeitures	253,124
Investment earnings	8,362
Miscellaneous revenue	31,841
Total revenues	<u>5,237,449</u>
<b>EXPENDITURES</b>	
Current:	
General government	3,194,466
Public safety	1,979,819
Public works	971,940
Capital outlay	1,005,881
Total expenditures	<u>7,152,106</u>
Excess (deficiency) of revenue over expenditures	<u>(1,914,657)</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
Sale of general capital assets	1,811
Total other financing sources (uses)	<u>1,811</u>
Net change in fund balance	(1,912,846)
Fund balance - beginning	7,761,355
Fund balance - ending	<u>\$ 5,848,509</u>

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

CITY OF WEST LAKE HILLS, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
 EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

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

Net change in fund balances - total governmental funds	\$ (1,912,846)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	637,520
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(101,510)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to increase (decrease) net assets.	4,517
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	24,651
Net change in fund balances - total governmental activities	\$ (1,347,668)

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

CITY OF WEST LAKE HILLS, TEXAS  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL – GENERAL FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 813,797	\$ 813,797	\$ 808,995	\$ (4,802)
Sales taxes	3,225,820	3,225,820	3,275,514	49,694
Franchise and other taxes	634,200	634,200	658,526	24,326
Building permits	135,000	115,000	115,813	813
Charges for services	78,000	78,000	85,274	7,274
Fines and forfeitures	351,600	251,749	253,124	1,375
Investment earnings	8,000	8,000	8,362	362
Miscellaneous revenue	44,000	44,000	31,841	(12,159)
Total revenues	<u>5,290,417</u>	<u>5,170,566</u>	<u>5,237,449</u>	<u>66,883</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,329,407	3,195,093	3,194,466	627
Public safety	2,106,488	2,016,545	1,979,819	36,726
Public works	1,083,893	1,096,532	971,940	124,592
Capital outlay	1,156,456	1,176,929	1,005,881	171,048
Total Expenditures	<u>5,676,244</u>	<u>7,485,099</u>	<u>7,152,106</u>	<u>332,993</u>
Excess (deficiency) of revenues over expenditures	<u>(385,827)</u>	<u>(2,314,533)</u>	<u>(1,914,657)</u>	<u>399,876</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of general capital assets	5,000	5,000	1,811	(3,189)
Total other financing sources (uses)	<u>5,000</u>	<u>5,000</u>	<u>1,811</u>	<u>(3,189)</u>
Net change in fund balances	(380,827)	(2,309,533)	(1,912,846)	396,687
Fund balance - beginning	7,761,355	7,761,355	7,761,355	-
Fund balance - ending	<u>\$ 7,380,528</u>	<u>\$ 5,451,822</u>	<u>\$ 5,848,509</u>	<u>\$ 396,687</u>

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

CITY OF WEST LAKE HILLS, TEXAS  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2015

	Business-Type Activities
	Wastewater
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 2,920,904
Accounts receivable, net	146,714
Total current assets	3,067,618
Noncurrent Assets:	
Land	420,000
Wastewater system	17,755,857
Accumulated depreciation	(1,724,763)
Total noncurrent assets	16,451,094
Total assets	19,518,712
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and accrued liabilities	79,659
Advances from other funds	2,000,000
Accrued interest payable	43,428
Bonds payable - current	315,000
Customer deposits	207,589
Total current liabilities	2,645,676
Noncurrent Liabilities:	
Bonds payable	15,270,000
Total noncurrent liabilities	15,270,000
Total liabilities	17,915,676
<b>NET POSITION</b>	
Net investment in capital assets	866,094
Unrestricted	736,942
Total net position	\$ 1,603,036

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

CITY OF WEST LAKE HILLS, TEXAS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Business-Type Activities
	Wastewater
Operating revenues:	
Charges for services:	
Wastewater charges	\$ 1,589,835
Other charges for services	260,474
Miscellaneous revenue	23,350
Total operating revenues	1,873,659
Operating expenses:	
Personnel services	8,527
Wastewater treatment charges	224,573
Wastewater system maintenance and operations	272,821
Wastewater billing fees	41,834
Other operating expenses	68,789
Depreciation	575,660
Total operating expenses	1,192,204
Operating income (loss)	681,455
Nonoperating revenues (expenses)	
Interest expense	(514,765)
Investment earnings	2,601
Total nonoperating revenues (expenses)	(512,164)
Change in net position	169,291
Net position-beginning	1,433,745
Net position-ending	\$ 1,603,036

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

CITY OF WEST LAKE HILLS, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Business-Type Activities
	Wastewater
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 1,587,233
Receipt (return) of customer deposits	(217,740)
Other receipts	283,824
Payments to suppliers and operating costs	(682,150)
Payments to employees for salaries and benefits	(8,527)
Net cash provided by (used for) operating activities	962,640
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(130,575)
Principal paid on capital debt	(255,000)
Interest paid on capital debt	(514,765)
Net cash provided by (used for) capital and related financing activities	(900,340)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	2,601
Net cash provided by investing activities	2,601
Net increase (decrease) in cash and cash equivalents	64,901
Cash and cash equivalents-beginning	2,856,003
Cash and cash equivalents-ending	\$ 2,920,904
<b>Reconciliation of operating income (loss) to net cash provided (used for) operating activities:</b>	
Operating income (loss)	\$ 681,455
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	575,660
(Increase) decrease in accounts receivable	(2,602)
(Decrease) increase in deposits payable	(217,740)
(Decrease) increase in accounts payable and accruals	(74,133)
Total adjustments	281,185
Net cash provided by (used for) operating activities	\$ 962,640

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

NOTES TO THE FINANCIAL STATEMENTS

CITY OF WEST LAKE HILLS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

**I. Summary of significant accounting policies**

**A. Description of government-wide 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. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

**B. Reporting entity**

The City of West Lake Hills, Texas (the “City”) was founded and incorporated as a village on September 9, 1953. The City Council (the “Council”), a six member group, has governance responsibilities over all activities related to the City. The Council is elected by the public and has the exclusive power and duty to govern and oversee the management of the City. The City receives funding from local, state, and federal government sources and must comply with the requirements of those funding entities.

The City’s primary activities include police protection, court and general administrative services, public works, and wastewater service.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor; and, is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on the considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City’s financial reporting entity. No other entities have been included in the City’s reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

**C. Basis of presentation – government-wide financial statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government’s enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

**D. Basis of presentation – fund financial statements**

The fund financial statements provide information about the government’s funds, including its fiduciary funds and blended component units. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds, as applicable. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

CITY OF WEST LAKE HILLS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

**I. Summary of significant accounting policies (continued)**

**D. Basis of presentation – fund financial statements (continued)**

The government reports the following major governmental fund:

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

The government reports the following major enterprise fund:

The *Wastewater Fund* accounts for the revenues, expenses, and residual equity related to the operation of the City's wastewater services.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds or advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

**E. Measurement focus and basis of accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF WEST LAKE HILLS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

**I. Summary of significant accounting policies (continued)**

**E. Measurement focus and basis of accounting (continued)**

The 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Sales 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary activities are reported using the *economic resources measurement focus* and the *accrual basis of accounting, as described for the government wide financial statements*.

**F. Budgetary information**

**1. Budgetary basis of accounting**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds. Currently, the City does not utilize any other funds which are not aggregated with the General Fund or the Wastewater Fund for reporting purposes.

The appropriated budgets are prepared by fund and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

CITY OF WEST LAKE HILLS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

**I. Summary of significant accounting policies (continued)**

**F. Budgetary information (continued)**

**2. Excess of expenditures over appropriations**

For the year ended September 30, 2015, expenditures did not exceed appropriations in the City's General Fund.

**G. Assets, liabilities, deferred outflows/inflows, and net position/fund balance**

**1. Cash and cash equivalents**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**2. Investments**

Investments for the government are reported at fair value (generally based on quoted market prices) except for positions in local government investment pools like, Lone Star, when applicable. In accordance with state law, these investment pools operate in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, the pools qualify as 2a7-like pools and are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. The pools are subject to regulatory oversight by the State Treasurer, although it is not registered with the SEC.

**3. Inventories and prepaid items**

The City does not report inventories of supplies or consumable items due to the unused amount of these items on hand at any given time being immaterial. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**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 column in the government-wide financial statements. Capital assets, except for infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$300 and an estimated useful life of more than one year.

As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

CITY OF WEST LAKE HILLS, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

**I. Summary of significant accounting policies (continued)**

**4. Capital assets (continued)**

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives (in years):

Capital asset classes	Lives
Buildings	40
Machinery and equipment	3-15
Vehicles	2-5
Improvements	10-30
Infrastructure/Wastewater system	20-30

**5. Deferred outflows/inflows of resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The government currently does not have any financial transactions that qualify for reporting in this category. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government currently does not have any financial transactions that qualify for reporting in this category.

**6. Net position flow assumption**

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**7. Fund balance flow assumptions**

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

CITY OF WEST LAKE HILLS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

**I. Summary of significant accounting policies (continued)**

**8. Fund balance policies**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation. Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**H. Revenues and expenditures/expenses**

**1. Program revenues**

Amounts reported as *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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

**2. Property taxes**

Property taxes are levied October 1 of each year, are due upon receipt of the City's tax bill and become delinquent on February 1 of the following year.

**3. Compensated absences**

The City maintains formal programs for vacation, holiday and sick leave. The City's personnel policy provides employees with annual vacation, holiday and sick leave after satisfactory completion of their six month probationary period. Temporary employees, after six months of employment, also receive paid vacation time in proportion to hours worked (based on a 40 hour workweek). Paid vacations are earned as follows: one to ten years of service receive 96 hours with a maximum accrual of 192 hours, 11 to 20 years of service receive 120 hours with a maximum accrual of 240 hours, and 21 or more years of service receive 144 hours with maximum accrual of 288 hours. On September 1, all unused vacation time in excess of maximum accruals will be cancelled. Sick leave for permanent employees is earned at the rate of one working day for each full month of continuous service. Sick leave may be accumulated to a maximum of 288 hours. On September 1 of each fiscal year all accumulated sick leave in excess of maximum accrual will be cancelled. Paid holidays are determined by the City, and currently may be accrued if the employee is required to work on said holiday.

CITY OF WEST LAKE HILLS, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

**I. Summary of significant accounting policies (continued)**

**3. Compensated absences (continued)**

Upon termination, the City will pay the employee for properly accrued vacation, comp and holiday hours as well as one half of accrued sick leave. As a result, the City has accrued a liability for compensated absences in the amount of \$254,434 as a long-term obligation.

**4. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**5. Proprietary funds operating and nonoperating revenues and expenses**

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 wastewater fund are charges to customers for sales and services. The wastewater 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 and internal service 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.

**II. Reconciliation of government-wide and fund financial statements**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position**

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. Items shown in summary form on that reconciliation are provided in detail below.

One element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of this amount are as follows:

Capital assets not being depreciated:	
Land	\$ 398,411
Buildings and improvements	1,331,102
Machinery, equipment, and vehicles	1,987,383
Infrastructure	2,357,748
Accumulated depreciation	(2,774,801)
	_____
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	\$ 3,299,843

CITY OF WEST LAKE HILLS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

**II. Reconciliation of government-wide and fund financial statements (continued)**

The details of the long-term debt reconciliation are as follows:

Compensated absences	\$ (254,434)
Net pension obligation	<u>(11,931)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u><u>\$ (266,365)</u></u>

The details of the net pension liability are as follows:

Prior period adjustment related to beginning of the year amounts	\$ (756,028)
Cumulative current period period decrease related to net pension liability change	<u>(101,510)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u><u>\$ (857,538)</u></u>

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. Items shown in summary form on that reconciliation are provided in detail below.

One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.” The details of this amount are as follows:

Capital outlay	\$ 1,005,881
Depreciation expense	<u>(368,361)</u>
Net adjustment to increase <i>net changes in fund balance - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u><u>\$ 637,520</u></u>

The details of the long-term debt reconciliation are as follows:

Full accrual cost of accrued pension benefits within the measurement period	\$ (339,031)
De-expense of current contributions made after the measurement date	<u>237,521</u>
Net adjustment to decrease <i>net changes in governmental funds</i> related to pension cost to arrive at <i>changes in net position of governmental activities</i>	<u><u>\$ (101,510)</u></u>

CITY OF WEST LAKE HILLS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

**III. Stewardship, compliance and accountability**

**A. Violations of legal or contractual provisions**

No violations of legal or contractual provisions were noted during the current year.

**B. Deficit fund equity**

For the year ended September 30, 2015 there were no funds reported with deficit fund equity.

**IV. Detailed notes on all activities and funds**

**A. Cash deposits with financial institutions**

*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 City addresses this risk by ensuring that deposits are insured by FDIC and pledged security coverage. As of September 30, 2015, the government's bank balance was \$7,477,974 all of which was insured and collateralized with securities held by the pledging or financial institution's trust department or agent, but not in the government's name.

**B. Investments**

The City currently holds balances with Lone Star, a government investment pool operated in the State of Texas. Lone Star's funds have a credit rating of AAA from Standard & Poor's Financial Services. Local government investment pools in this rating category meet the highest standards for credit quality, have conservative investment policies, and provide for safety of principal. Lone Star's investments are governed by the Public Funds Investment Act (PFIA), Chapter 2256 of the Texas Government Code. State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and government investment pools.

As of September 30, 2015, the balances held with Lone Star were classified as cash and cash equivalents.

*Interest rate risk.* In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than ten months.

*Credit risk.* State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the government's policy to limit its investments in these investment types to the top rating issued by NRSROs. As of September 30, 2015, the government's balance held with Lone Star was rated AAA by Standard & Poor's.

*Concentration of credit risk.* The government's investment policy does not allow for an investment in any one issuer that is in excess of 5 percent of the government's total investments. This restriction however does not apply to government investment pools due to the low risk nature of this type of investment.

*Custodial credit risk-investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

CITY OF WEST LAKE HILLS, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

**IV. Detailed notes on all activities and funds (continued)**

**C. Receivables**

In some instances the City's receivable amounts are presented in aggregate. Below is a detail of the City's receivable balances, both governmental and proprietary fund amounts, and related allowances, if applicable.

**Governmental Funds**

Receivables	General Fund
Sales tax	\$ 579,112
Property tax	20,801
Other	68,615
Gross receivables	668,528
Less: allowance for uncollectibles related to property tax receivable	(12,227)
Net receivables	\$ 656,301

**Proprietary Funds**

Receivables	Wastewater
Accounts receivable	\$ 148,916
Gross receivables	148,916
Less: Allowance for uncollectibles	(2,202)
Net receivables	\$ 146,714

**D. Capital Assets**

Depreciation expense was charged to the departments of the governmental activities of the primary City as follows:

**Governmental activities:**

General government	\$ 191,454
Public safety	118,656
Public works	58,251
Total depreciation expense - governmental activities	\$ 368,361

CITY OF WEST LAKE HILLS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

**IV. Detailed notes on all activities and funds (continued)**

**D. Capital Assets (continued)**

Capital assets activity for the City for the year ended September 30, 2015, was as follows:

**Governmental Activities:**

	Balance 10/1/14	Increases	Decreases	Balance 9/30/15
Capital assets, not being depreciated:				
Land	\$ 398,411	\$ -	\$ -	\$ 398,411
Total capital assets, not being depreciated	398,411	-	-	398,411
Capital assets, being depreciated:				
Buildings and improvements	1,283,695	47,407	-	1,331,102
Machinery, equipment, and vehicles	1,698,178	289,205	-	1,987,383
Infrastructure	1,688,479	669,269	-	2,357,748
Total capital assets, being depreciated	4,670,352	1,005,881	-	5,676,233
Less accumulated depreciation for:				
Buildings and improvements	(891,361)	(70,131)	-	(961,492)
Machinery, equipment, and vehicles	(1,157,916)	(164,997)	-	(1,322,913)
Infrastructure	(357,163)	(133,233)	-	(490,396)
Total accumulated depreciation	(2,406,440)	(368,361)	-	(2,774,801)
Total capital assets being depreciated, net	2,263,912	637,520	-	2,901,432
Governmental activities capital assets, net	\$ 2,662,323	\$ 637,520	\$ -	\$ 3,299,843

Capital assets activity for the City for the year ended September 30, 2015, was as follows:

**Business-Type Activities:**

	Balance 10/1/14	Increases	Decreases	Balance 9/30/15
Capital assets, not being depreciated:				
Land	\$ 420,000	\$ -	\$ -	\$ 420,000
Total capital assets, not being depreciated	420,000	-	-	420,000
Capital assets, being depreciated:				
Wastewater system	17,625,283	130,574	-	17,755,857
Total capital assets, being depreciated	17,625,283	130,574	-	17,755,857
Less accumulated depreciation for:				
Wastewater system	(1,149,104)	(575,659)	-	(1,724,763)
Total accumulated depreciation	(1,149,104)	(575,659)	-	(1,724,763)
Total capital assets being depreciated, net	16,476,179	(445,085)	-	16,031,094
Business-type activities capital assets, net	\$ 16,896,179	\$ (445,085)	\$ -	\$ 16,451,094

CITY OF WEST LAKE HILLS, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

**IV. Detailed notes on all activities and funds (continued)**

**E. Defined Benefit Pension Plans**

*Plan Description*

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

All eligible employees of the City are required to participate in TMRS.

*Benefits Provided*

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

*Employees covered by benefit terms*

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	20
Inactive employees entitled to but not yet receiving benefits	26
Active employees	29
	75

*Contributions*

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

CITY OF WEST LAKE HILLS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

**IV. Detailed notes on all activities and funds (continued)**

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 12.59% and 16.47% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015, were \$308,585, and were equal to the required contributions.

*Net Pension Liability*

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

*Actuarial assumptions*

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.00%
Overall payroll growth	3.50 to 12.00%, including inflation
Investment rate of return	7.00%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by a factor of 95%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

CITY OF WEST LAKE HILLS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

**IV. Detailed notes on all activities and funds (continued)**

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	<u>100%</u>	

*Discount Rate*

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2013	\$ 6,658,591	\$ 5,798,527	\$ 860,064
Changes for the year:			
Service cost	292,506	-	292,506
Interest	474,597	-	474,597
Change of benefit terms	114,583	-	114,583
Difference between expected and actual experience	159,918	-	159,918
Changes of assumptions	-	-	-
Contributions - employer	-	229,502	(229,502)
Contributions - employee	-	127,358	(127,358)
Net investment income	-	331,762	(331,762)
Benefit payments, including refunds of employee contr.	(278,948)	(278,948)	-
Administrative expense	-	(3,463)	3,463
Other changes	-	(285)	285
Net changes	<u>762,656</u>	<u>405,926</u>	<u>356,730</u>
Balance at 12/31/2014	<u>\$ 7,421,247</u>	<u>\$ 6,204,453</u>	<u>\$ 1,216,794</u>

CITY OF WEST LAKE HILLS, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

**IV. Detailed notes on all activities and funds (continued)**

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate 7.0%	1% Increase in Discount Rate (8.0%)
City's net pension liability	\$ 2,314,704	\$ 1,216,794	\$ 323,417

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at [www.tmrs.com](http://www.tmrs.com).

*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

For the year ended September 30, 2015, the city recognized pension expense of \$410,095.

At September 30, 2015, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 116,829	\$ -
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	59,308	-
Contributions subsequent to the measurement date	171,288	-
Total	\$ 347,425	\$ -

Deferred outflows of resources related to pensions in the amount of \$237,521 resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended Dec 31:	Net Deferred Outflows (Inflows) of Resources
2015	\$ 57,916
2016	57,916
2017	45,478
2018	14,827

CITY OF WEST LAKE HILLS, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

**IV. Detailed notes on all activities and funds (continued)**

**E. Pension obligations (continued)**

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an “other postemployment benefit,” or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees’ entire careers.

The City’s contributions to the TMRS SDBF for the years ended 2015, 2014 and 2013 were \$5,700, \$1,617 and \$1,455, respectively, which equaled the required contributions each year.

**G. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities reported by the governmental fund at September 30, 2015 were as follows:

	General Fund
Accounts payable	\$ 372,525
Escrow deposits	875,547
Other liabilities	40,791
Total accrued liabilities	\$ 1,288,863

**G. 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; and natural disasters. During the year, the City purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and no settlements exceeding insurance coverage for each of the past three fiscal years.

CITY OF WEST LAKE HILLS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

**IV. Detailed notes on all activities and funds (continued)**

**H. Long-Term Liabilities**

Revenue Bonds

On June 26, 2012 the City issued revenue bonds for the purpose of acquiring, improving, repairing, renovating, enlarging, extending and equipping the City's wastewater system. The bonds are payable from and secured by a first lien on and pledge of the net revenues of the wastewater system. Revenue bonds are direct obligations of the City for which its full faith and credit are pledged. Repayments of revenue bonds are from wastewater revenue from customers located within the City. The City is not obligated in any manner for special assessment debt.

Details of Wastewater Fund long-term debt obligations outstanding at September 30, 2015 are as follows:

**Business-type Activities:**

Type	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding 9/30/15
<b>General Obligation Bonds:</b>					
Revenue Bonds, Series 2012	2012	\$ 16,180,000	3.25%	2032	\$ 15,585,000
Total General Obligation Bonds					<u>\$ 15,585,000</u>

Changes in Wastewater Fund long-term debt for the current year are as follows:

**Business-type Activities**

Description	Balance 10/1/14	Additions	Reductions	Balance 9/30/15	Due in One Year
Bonds Payable					
Revenue Bonds, Series 2012	\$ 15,840,000	\$ -	\$ (255,000)	\$ 15,585,000	\$ 315,000
Business-type long-term liabilities	<u>\$ 15,840,000</u>	<u>\$ -</u>	<u>\$ (255,000)</u>	<u>\$ 15,585,000</u>	<u>\$ 315,000</u>

The annual debt service requirements for the Wastewater revenue bonds are as follows:

Year Ended September 30,	<u>Business-Type Activities</u> <u>Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2016	315,000	506,513
2017	385,000	496,275
2018	460,000	483,763
2019	530,000	468,813
2020	600,000	451,587
2021-2025	4,295,000	1,910,837
2026-2030	6,300,000	1,067,137
2031-2032	2,700,000	131,625
Totals	<u>\$ 15,585,000</u>	<u>\$ 5,516,550</u>

CITY OF WEST LAKE HILLS, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

**IV. Detailed notes on all activities and funds (continued)**

**H. Long-Term Liabilities (continued)**

Governmental Fund Long Term Obligations

As of the current year ended September 30, 2015, the City did not have any governmental activities long-term obligations related to bonds payable and/or notes payable. The City was not obligated in any manner for special assessment debt related to its governmental activities. However, the City's governmental activities did have long-term obligations at year end related to compensated absences and its net pension obligation.

Details of the governmental activities long-term obligations as of September 30, 2015 are as follows:

**Governmental Activities**

Description	Balance 10/1/14	Additions	Reductions	Balance 9/30/15	Due in One Year
Compensated absences	\$ 279,085	\$ -	\$ (24,651)	\$ 254,434	\$ -
Net pension obligation	11,931	-	(11,931)	-	-
Net pension liability	-	1,216,794	-	1,216,794	-
Governmental activities long-term liabilities	<u>\$ 291,016</u>	<u>\$ 1,216,794</u>	<u>\$ (36,582)</u>	<u>\$ 1,471,228</u>	<u>\$ -</u>

**I. Interfund receivables and payables**

The composition of interfund balances/advances as of the year ended September 30, 2015 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Wastewater Fund	\$ 2,000,000
Total		<u>\$ 2,000,000</u>

The City's General Fund lent a total of \$3,150,000 to the Wastewater Fund during 2008. This includes a payment in kind calculated to be the total loan amount times an interest rate tied to the benchmark rate as established by the Lone Star Investment Pool. The Wastewater Fund repaid \$1.15 million during fiscal year 2012/2013. The repayment of the remaining \$2 million is set to begin in 2026 subject to available funds.

**J. Contingencies**

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City anticipates such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

CITY OF WEST LAKE HILLS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

**IV. Detailed notes on all activities and funds (continued)**

**K. Subsequent events**

The City has evaluated subsequent events through January 29, 2016, the date of the audit report. The City is not aware of any subsequent events that materially affect the financial statements as of that date.

**L. Prior Period Adjustment**

During the year ended September 30, 2015, the City adopted *GASB Statement No. 68 – Accounting and Financial Reporting for Pensions* (GASB 68). Due to GASB 68, the City must record a net pension liability for any City pension liabilities in excess of pension assets as reported to the City by the Texas Municipal Retirement System (TMRS). Implementation of GASB 68 during the fiscal year required a prior period adjustment to beginning net position in the amount of \$756,028.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WEST LAKE HILLS, TEXAS  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Schedule of Changes in Net Pension Liability and Related Ratios Current Period

A. Total pension liability	
1. Service cost	\$ 292,506
2. Interest (on the Total Pension Liability)	474,597
3. Changes of benefit terms	114,583
4. Difference between expected and actual experience	159,918
5. Changes of assumptions	-
6. Benefit payments, including refunds of employee contributions	<u>(278,948)</u>
7. Net change in total pension liability	\$ 762,656
8. Total pension liability - beginning	<u>6,658,591</u>
9. Total pension liability - ending	<u><u>\$ 7,421,247</u></u>
B. Plan fiduciary net position	
1. Contributions - employer	\$ 229,502
2. Contributions - employee	127,358
3. Net investment income	331,762
4. Benefit payments, including refunds of employee contributions	(278,948)
5. Administrative expense	(3,463)
6. Other	<u>(285)</u>
7. Net change in plan fiduciary net position	\$ 405,926
8. Plan fiduciary net position - beginning	<u>5,798,527</u>
9. Plan fiduciary net position - ending	<u><u>\$ 6,204,453</u></u>
C. Net pension liability [A.9 - B.9]	<u><u>\$ 1,216,794</u></u>
D. Plan fiduciary net position as a percentage of the total pension liability [B.9 / A.9]	83.60%
E. Covered-employee payroll	\$ 1,819,396
F. Net position as a percentage of covered employee payroll [C / E]	66.88%

CITY OF WEST LAKE HILLS, TEXAS  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Schedule of Contributions

	<u>2014</u>
Actuarially Determined Contribution	\$ 229,502
Contributions in relation to the actuarially determined contribution	<u>(229,502)</u>
Contribution deficiency (excess)	\$ -
Covered employee payroll	\$ 1,819,396
Contributions as a percentage of covered employee payroll	12.6%

CITY OF WEST LAKE HILLS, TEXAS  
NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Notes to Schedule of Contributions

**Valuation Date:**

Notes

Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	30 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.00%
Salary Increases	3.50% to 12%; including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

**Other Information:**

Notes

There were no benefit changes during the year.

OTHER SUPPLEMENTARY INFORMATION SECTION



REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor, Members of the City Council and Citizens of  
the City of West Lake Hills, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of West Lake Hills, Texas as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 29, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Singleton, Clark & Company, PC". The signature is written in a cursive style and is placed on a light gray rectangular background.

Singleton, Clark & Company, PC  
Cedar Park, Texas

January 29, 2016

CITY OF WEST LAKE HILLS, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**FINANCIAL STATEMENTS**

Type of auditor’s report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

**FEDERAL AWARDS**

Under the guidelines of OMB Circular A-133, a Single Audit was not required due to expenditure of federal awards being below \$500,000.

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

Findings Related to Financial Statements Which are Required to be Reported in Accordance with Government Auditing Standards:

No findings or questioned costs required to be reported in accordance with *Government Auditing Standards* for the years ended September 30, 2015 and 2014.

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**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

Findings Related to Financial Statements Which are Required to be Reported in Accordance with Section 510(c) of OMB Circular A-133:

Not applicable.