

TOWN OF LAKEWOOD VILLAGE, TEXAS

Financial Statements
(With Auditor's Report Thereon)

September 30, 2018

TOWN OF LAKEWOOD VILLAGE
Annual Financial Report
For the Year Ended September 30, 2018

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INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Lakewood Village, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Lakewood Village, Texas, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows there of for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 10 and 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

DRAFT

November 26, 2018

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Management's Discussion and Analysis

As management of the Town of Lakewood Village, we offer readers of the Town of Lakewood Village's financial statements this narrative overview and analysis of the financial activities of the Town of Lakewood Village for the fiscal year ended September 30, 2018.

Financial Highlights

- The assets of the Town of Lakewood Village exceeded its liabilities at the close of the most recent fiscal year by \$2,886,322 (net position). Of this amount \$278,915 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the Town of Lakewood Village's governmental funds reported ending fund balance of \$231,395, an increase of \$21,948 in comparison with the prior year. Of this balance, \$203,084 is available for spending at the government's discretion (unassigned). Unassigned fund balance represents 69 percent of general fund expenditures, and 69 percent of total governmental fund expenditures. At the close of the current fiscal year, the Town of Lakewood Village's governmental funds had a current ratio of approximately 34:1, based on the current assets of \$238,441 and current liabilities of \$7,046.

Overview of the Financial Statements

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

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

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

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

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

The government-wide financial statements can be found on pages 13-15 of this report.

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

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

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

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

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

The basic governmental fund financial statements can be found on pages 16-19 of this report.

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the LWV Utility Fund operations, and the Rocky Point Utility Fund operations.

The basic proprietary fund financial statements can be found on pages 21-23 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24-37 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town of Lakewood Village, assets exceed liabilities by \$2,886,322 at the close of the most recent fiscal year.

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

TOWN OF LAKEWOOD VILLAGE - Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 238,441	253,848	113,536	104,630	351,977	358,478
Capital Assets	<u>1,815,178</u>	<u>1,874,577</u>	<u>1,798,851</u>	<u>1,825,015</u>	<u>3,614,029</u>	<u>3,699,592</u>
Total assets	<u>2,053,619</u>	<u>2,128,425</u>	<u>1,912,387</u>	<u>1,929,645</u>	<u>3,966,006</u>	<u>4,058,070</u>
Long-term liabilities	1,024,000	1,178,000			1,024,000	1,178,000
Other liabilities	<u>6,400</u>	<u>43,720</u>	<u>49,284</u>	<u>57,746</u>	<u>55,684</u>	<u>101,466</u>
Total liabilities	<u>1,030,400</u>	<u>1,221,720</u>	<u>49,284</u>	<u>57,746</u>	<u>1,079,684</u>	<u>1,279,466</u>
Net position:						
Invested in capital assets						
net of related debt	791,178	696,577	1,798,851	1,825,015	2,590,029	2,521,592
Restricted	17,378	10,782			17,378	10,782
Unrestricted	<u>214,663</u>	<u>199,346</u>	<u>64,252</u>	<u>46,884</u>	<u>278,915</u>	<u>246,230</u>
Total net position	<u>\$ 1,023,219</u>	<u>906,705</u>	<u>1,863,103</u>	<u>1,871,899</u>	<u>2,886,322</u>	<u>2,778,604</u>

Governmental Activities:

- During the year revenues increased by \$4,765 (1%), primarily due to franchise tax, sales tax.
- Expenses for the year increased by \$29,055 (9%), primarily due to legal fees and street improvements.

Business-type Activities:

- Charges for services increased by \$13,762 (4%) during the year primarily due to water sales, while expenses increased by \$11,943 (4%), due primarily to repairs and maintenance.

TOWN OF LAKEWOOD VILLAGE - Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues:						
Program revenues:						
Charges for services	\$ 49,816	52,379	341,505	327,743	391,321	380,122
General revenues:						
Property taxes	287,753	267,219			287,753	267,219
Other taxes	90,522	101,321			90,522	101,321
Other	<u>14,667</u>	<u>26,604</u>	<u>24,980</u>	<u>6,560</u>	<u>39,647</u>	<u>33,164</u>
Total revenues	442,758	447,523	366,485	334,303	809,243	781,826
Expenses:						
General government	274,118	235,018			274,118	235,018
Public safety	27,100	24,900			27,100	24,900
Public works	30,988	40,218			30,988	40,218
Interest	21,910	26,925			21,910	24,925
Water & sewer			<u>342,979</u>	<u>331,036</u>	<u>342,979</u>	<u>331,036</u>
Total expenses	354,116	325,061	342,979	331,036	697,095	656,097
Increase in net position before other transfers	88,642	122,462	23,506	3,267	112,148	125,729
Transfers	27,872	30,238	(27,872)	(30,238)		
Gain/(loss) on disposal of capital assets	<u> </u>	<u>37,056</u>	<u>(4,430)</u>	<u> </u>	<u>(4,430)</u>	<u>37,056</u>
Increase/(decrease) in net position	116,514	189,756	(8,796)	(26,971)	107,718	162,785
Net position - beginning	<u>906,705</u>	<u>716,949</u>	<u>1,871,899</u>	<u>1,898,870</u>	<u>2,778,604</u>	<u>2,615,819</u>
Net position - ending	\$ <u><u>1,023,219</u></u>	<u><u>906,705</u></u>	<u><u>1,863,103</u></u>	<u><u>1,871,899</u></u>	<u><u>2,886,322</u></u>	<u><u>2,778,604</u></u>

Financial Analysis of the Government's Funds

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

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

At the end of the current fiscal year, the Town of Lakewood Village's governmental funds reported ending fund balance of \$231,395, an increase of \$21,948 from the prior year. Of the current combined ending fund balance, \$203,084 is unassigned.

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

Unrestricted net position of the Enterprise Funds at the end of the year amounted to \$64,252. The total increase in unrestricted net position of the Enterprise Funds was \$17,368. The factors concerning the finances of this fund have already been addressed in the discussion of the Town of Lakewood Village's business type activities.

General Fund Budgetary Highlights

During the year, revenues were more than budgetary estimates by \$14,567, and expenditures were more than budgetary estimates by \$3,767. The budget had called for a \$650 decrease in fund balance, however, more than budgeted revenues resulted in \$13,581 increase to fund balance.

Capital Assets and Debt Administration

Capital Assets. The Town of Lakewood Village's investment in capital assets for its governmental and business-type activities as of September 30 2018, amounts to \$3,614,029 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, and equipment.

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

- Building and street light improvements totaling \$14,261 were added to the general fund.
- System and improvements, land, and equipment totaling \$63,975 were added to the LWV Utility Funds.

Additional information on the Town of Lakewood Village's capital assets can be found in Note 3.C. on pages 33-34 of this report.

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

Additional information on the Town of Lakewood Village long-term debt can be found in Note 3.D. on pages 35 of this report.

Cash Flow and Historical Trends

General Fund

In 2014 the Town issued \$1,600,000 in ten year certificates of obligation, with the first principle and interest payment due in fiscal 2015. The debt-servicing required based on 2015 tax-roles was \$0.21 per \$100 of assessed value. The Town adopted a debt servicing rate of only \$0.05, reduced discretionary spending and chose to use the budgeted operating surplus and reserves to pay the remaining balance. The long-term goal of the Town was to reduce expenses while organically growing revenues sufficient to offset the use of reserves.

Debt Servicing Payments and Operating Surplus

	<u>2015 Audit</u>	<u>2018 Audit</u>
Revenues:		
Total	\$ <u>376,469</u>	<u> </u>
Expenses:		
General government	(167,876)	()
Public safety	(28,750)	()
Public works	(43,452)	()
Parks & playground		()
Capital improvements		()
Income before bond payment	<u>136,391</u>	<u> </u>
Bonds:		
Principle payment	(128,000)	()
Interest payment	(38,084)	()
Surplus (deficit) after bond payment	<u>(29,693)</u>	<u> </u>
General fund CASH - unrestricted	\$ <u><u>177,416</u></u>	<u><u> </u></u>

As the table above shows, in 2015, after the Town reduced discretionary spending on parks and deferred all capital expenditures, \$29,693 of reserves were needed to make the bond payment. In the current year, we resumed expenditures for our parks and capital improvements. Despite increasing bond payments, we are now adding to our surplus due to our growth in revenues and reduced expenses. The General Fund cash balance has increased relative to 2015 and we expect the surplus and cash balances to continue to increase in the future.

Utility Fund

In conjunction with the planning and engineering of the new roads, in 2014 the Town invested significant resources in replacing and upsizing water mains in the affected area. The Town also embarked on a multi-year commitment to bring the town's infrastructure up to modern fire-fighting standards. This project resulted in a three-fold increase in the number of fire-hydrants, and a five-fold increase in our pumping capacity. In 2016-2017, the town added a new ground storage tank and hydro-pneumatic pressure tank which significantly increased our distribution system. As the Table shows, since 2014 the Town has invested almost on-half million dollars in system improvements, which exceeds our operating cash flow, resulting in a planned draw-down in our capital reserves.

Cash Flow and Historical Trends (continued)

Utility Fund Cash Flow and CAPX

	<u>Audit Reports</u>				<u>2018</u>	<u>Total</u>
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>		
Operating Cash Flow	\$ 123,684	161,666	69,510	60,512		
Capital Improvements	\$ (250,630)	(43,760)	(92,331)	(103,320)		()

In 2016 and 2017 our operating cash flow significantly declined from it's long-term trend. Some of this decline is temporary due to spending on impact fees and associated well feasibility study and the unusual occurrence of multiple complex sewer repairs. However, some of the decline is likely structural due to new maintenance routines for both water and sewer infrastructure (e.g. quarterly cleaning of sewer lines, lift stations, exercising hydrants and valves, etc.). The near term-goal is to increase our capital reserves. The level of capital expenditures is planned to decrease in fiscal 2018 resulting in an increase in our cash balances. In addition, although the timing is uncertain some of our spending on capital improvements and engineering will ultimately be recoverable from developers through our impact fee regime.

Economic Factors and Next Year's Budgets and Rates

In determining the budget and related ad-valorem tax rate the Town considers economic factors such as the Eldorado Parkway corridor related development, property tax values, sales and franchise fee taxes, and construction permits. Building permits remained steady in the previous year and we forecast a similar volume of housing starts. We believe property values have firmed and will increase in the ----- percent range due to our unique lakeside location and custom home building flexibility. Given our attractive location, we expect increased developer attention in Lakewood Village as the FM720/Eldorado Parkway construction in Little Elm is completed.

As discussed previously, after significant capital improvements in 2017, the Town plans to primarily build reserves during fiscal 2018 while making strategic targeted capital investments when appropriate. The focus of the governmental budget is the continued retirement of the town's debt while making moderate improvements in town infrastructure.

The Town has historically operated with a relatively low ad-valorem tax rate of \$0.25 per \$100 of valuation which is one-half to one-third that of surrounding municipalities. Given the current level of cash reserves, operating surplus, cash flows, and our conservative budgeting approach, there will likely be no change in the maintenance and operations (M&O) tax rate. Fiscal 2018 will mark the 37th consecutive year the Town's M&O tax rate has been \$0.25 or less.

Request for information

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

BASIC FINANCIAL STATEMENTS

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TOWN OF LAKEWOOD VILLAGE

Statement of Net Position

September 30, 2018

	Primary Government		
	Governmental	Business-type	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents - unrestricted	\$ 217,342	61,624	278,966
Cash and equivalents - restricted	17,378	43,900	61,278
Receivables (Net of allowance for uncollectibles):			
Property taxes	646		646
Sales taxes	3,075		3,075
Accounts receivable		8,012	8,012
Noncurrent assets:			
Capital assets (net of accumulated depreciation):			
Land and improvements	123,761	73,475	197,236
Buildings, systems and improvements	39,365	1,721,147	1,760,512
Furniture and equipment	8,388	4,229	12,617
Streets	<u>1,643,664</u>		<u>1,643,664</u>
Total assets	<u>2,053,619</u>	<u>1,912,387</u>	<u>3,966,006</u>
LIABILITIES			
Deposits payable		43,900	43,900
Other payables	6,400	5,384	11,784
Noncurrent liabilities:			
Bonds payable:			
Due within one year	158,000		158,000
Due in more than one year	<u>866,000</u>		<u>866,000</u>
Total liabilities	<u>1,030,400</u>	<u>49,284</u>	<u>1,079,684</u>
NET POSITION			
Invested in capital assets, net of related debt	791,178	1,798,851	2,590,029
Restricted	17,378		17,378
Unrestricted	<u>214,663</u>	<u>64,252</u>	<u>278,915</u>
Total net position	\$ <u>1,023,219</u>	<u>1,863,103</u>	<u>2,886,322</u>

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

TOWN OF LAKEWOOD VILLAGE
Statement of Activities
For the Fiscal Year Ended September 30, 2018

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Capital Grants</u>
Primary government:				
Governmental activities:				
General government	\$ 274,118	49,816		
Public safety	27,100			
Public works	30,988			
Interest	<u>21,910</u>			
Total governmental activities	<u>354,116</u>	<u>49,816</u>		
Business-type activities				
Water and sewer	<u>342,979</u>	<u>341,505</u>		
Total business-type activities	<u>342,979</u>	<u>341,505</u>		
 Total primary government	 \$ <u>697,095</u>	 <u>391,321</u>		

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

Change in net position

Net position - beginning

Net position - ending

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

Net (Expense) Revenue and Changes in Net Position Primary Government		
Governmental Activities	Business-type Activities	Total
(224,302)		(224,302)
(27,100)		(27,100)
(30,988)		(30,988)
<u>(21,910)</u>		<u>(21,910)</u>
<u>(304,300)</u>		<u>(304,300)</u>
	<u>(1,474)</u>	<u>(1,474)</u>
	<u>(1,474)</u>	<u>(1,474)</u>
		<u>(305,774)</u>
287,753		287,753
35,518		35,518
55,004		55,004
7,478		7,478
2,403	864	3,267
4,786	24,116	28,902
	(4,430)	(4,430)
<u>27,872</u>	<u>(27,872)</u>	
<u>420,814</u>	<u>(7,322)</u>	<u>413,492</u>
116,514	(8,796)	107,718
<u>906,705</u>	<u>1,871,899</u>	<u>2,778,604</u>
\$ <u><u>1,023,219</u></u>	<u><u>1,863,103</u></u>	<u><u>2,886,322</u></u>

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

TOWN OF LAKEWOOD VILLAGE

Balance Sheet
Government Funds
September 30, 2018

	<u>General Fund</u>	<u>Municipal Development District</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents - unrestricted	\$ 217,342		217,342
Cash and cash equivalents - restricted	250	17,128	17,378
Receivables (net of allowance for uncollectibles):			
Property taxes	646		646
Sales taxes	<u>2,216</u>	<u>859</u>	<u>3,075</u>
Total assets	\$ <u>220,454</u>	<u>17,987</u>	<u>238,441</u>
LIABILITIES & FUND BALANCES			
Liabilities:			
Deferred revenue	\$ 646		646
Other liabilities	<u>6,400</u>		<u>6,400</u>
Total liabilities	<u>7,046</u>		<u>7,046</u>
Fund balances:			
Restricted	250	17,987	18,237
Assigned:	10,074		10,074
Unassigned	<u>203,084</u>		<u>203,084</u>
Total fund balance	<u>213,408</u>	<u>17,987</u>	<u>231,395</u>
Total liabilities & fund balances	\$ <u>220,454</u>	<u>17,987</u>	<u>238,441</u>

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

TOWN OF LAKEWOOD VILLAGE
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
September 30, 2018

Total Fund Balances - Governmental Funds \$ 231,395

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$2,142,114, and the accumulated depreciation was \$(267,537). In addition, long-term liabilities, including bonds payable and legal liabilities of \$(1,178,000), are not due and payable in the current period, and therefore, are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets.

696,577

Current year capital outlays of \$14,261 and long-term debt principal payments of \$154,000 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase net assets.

168,261

The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.

(73,660)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing \$646 of deferred revenue as revenue.

646

Net Position of Governmental Activities **\$ 1,023,219**

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

TOWN OF LAKEWOOD VILLAGE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended September 30, 2018

	<u>General Funds</u>	<u>Municipal Development District</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes			
Property	\$ 287,788		287,788
Franchise	35,518		35,518
Sales	31,327	23,677	55,004
Fines and forfeitures	7,478		7,478
Licenses and permits	37,435		37,435
Fees and service charges	12,381		12,381
Interest	2,254	149	2,403
Miscellaneous	<u>4,486</u>	<u>300</u>	<u>4,786</u>
Total revenues	<u>418,667</u>	<u>24,126</u>	<u>442,793</u>
 EXPENDITURES			
General government	200,458		200,458
Public safety	27,100		27,100
Public works	30,988		30,988
Capital outlay	14,261		14,261
Debt service:			
Principal	154,000		154,000
Interest and fiscal charges	<u>21,910</u>	<u> </u>	<u>21,910</u>
Total expenditures	<u>448,717</u>	<u> </u>	<u>448,717</u>
 Excess/(deficiency) of revenues over expenditures	<u>(30,050)</u>	<u>24,126</u>	<u>(5,924)</u>
 OTHER FINANCING SOURCES AND USES			
Transfers (to)/from other funds	<u>43,631</u>	<u>(15,759)</u>	<u>27,872</u>
Total other financing sources	<u>43,631</u>	<u>(15,759)</u>	<u>27,872</u>
 Net change in fund balances	13,581	8,367	21,948
 Fund balance, beginning	<u>199,827</u>	<u>9,620</u>	<u>209,447</u>
 Fund balance, ending	<u>\$ 213,408</u>	<u>17,987</u>	<u>231,395</u>

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

TOWN OF LAKEWOOD VILLAGE
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
September 30, 2018

Total Net Change in Fund Balances - Governmental Funds \$ 21,948

Current year capital outlays of \$14,261 and long-term debt principal payments of \$154,000, are expenditures and sources in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase net position. 168,261

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in governmental funds. Depreciation of \$73,660 is not recognized as an expense in governmental funds since it does not require the use of current resources. The net effect of the current year's activity is to decrease net position. (73,660)

Deferred revenue is not recognized as revenue in the governmental activities. The net effect is to decrease net position. (35)

Changes in Net Position of Governmental Activities \$ 116,514

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

TOWN OF LAKEWOOD VILLAGE
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
For the Fiscal Year Ended September 30, 2018

	Original <u>Budget</u>	Final <u>Budget</u>	Actual <u>Amounts</u>	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes				
Property	\$ 288,000	288,000	287,788	(212)
Franchise	30,000	30,000	35,518	5,518
Sales	34,000	34,000	31,327	(2,673)
Fines and forfeitures	3,000	3,000	7,478	4,478
Licenses and permits	38,400	38,400	37,435	(965)
Fees and service charges	6,000	6,000	12,381	6,381
Interest	700	700	2,254	1,554
Miscellaneous	<u>4,000</u>	<u>4,000</u>	<u>4,486</u>	<u>486</u>
Total revenues	<u>404,100</u>	<u>404,100</u>	<u>418,667</u>	<u>14,567</u>
 EXPENDITURES				
General government	196,900	203,450	200,458	2,992
Public safety	25,000	27,100	27,100	
Public works	27,500	27,500	30,988	(3,488)
Capital outlay	5,000	11,000	14,261	(3,261)
Debt service:				
Principal	154,000	154,000	154,000	
Interest	<u>21,900</u>	<u>21,900</u>	<u>21,910</u>	<u>(10)</u>
Total expenditures	<u>430,300</u>	<u>444,950</u>	<u>448,717</u>	<u>(3,767)</u>
 Excess (deficiency) of revenues over expenditures	 <u>(26,200)</u>	 <u>(40,850)</u>	 <u>(30,050)</u>	 <u>10,800</u>
 OTHER FINANCING SOURCES				
Transfers (to)/from other funds	<u>40,200</u>	<u>40,200</u>	<u>43,631</u>	<u>3,431</u>
Total other financing sources	<u>40,200</u>	<u>40,200</u>	<u>43,631</u>	<u>3,431</u>
 Net change in fund balances	 14,000	 (650)	 13,581	 14,231
 Fund balance, beginning	 <u>199,827</u>	 <u>199,827</u>	 <u>199,827</u>	 _____
 Fund balance, ending	 \$ <u>213,827</u>	 <u>199,177</u>	 <u>213,408</u>	 <u>14,231</u>

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

TOWN OF LAKEWOOD VILLAGE

Statement of Net Position

Proprietary Funds

September 30, 2018

	<u>Business-Type Activities</u>		
	<u>LWV</u>	<u>Rocky Point</u>	
	<u>Utility</u>	<u>Utility</u>	
	<u>Fund</u>	<u>Fund</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash and cash equivalents - unrestricted	\$ 53,264	8,360	61,624
Cash and cash equivalents - restricted	41,300	2,600	43,900
Accounts receivable (net of allowance for uncollectibles)	<u>6,789</u>	<u>1,223</u>	<u>8,012</u>
Total current assets	<u>101,353</u>	<u>12,183</u>	<u>113,536</u>
Noncurrent assets:			
Capital assets:			
Land	57,553	15,922	73,475
Equipment	5,824		5,824
Water systems and improvements	1,521,728	101,748	1,623,476
Sanitation systems and improvements	1,498,718		1,498,718
Buildings and improvements	21,281	3,533	24,814
Less: Accumulated depreciation	<u>(1,413,696)</u>	<u>(13,760)</u>	<u>(1,427,456)</u>
Total noncurrent assets	<u>1,691,408</u>	<u>107,443</u>	<u>1,798,851</u>
Total assets	\$ <u>1,792,761</u>	<u>119,626</u>	<u>1,912,387</u>
LIABILITIES			
Current liabilities:			
Customer deposits	\$ 41,300	2,600	43,900
Other payables	<u>5,255</u>	<u>129</u>	<u>5,384</u>
Total current liabilities	<u>46,555</u>	<u>2,729</u>	<u>49,284</u>
Total liabilities	<u>46,555</u>	<u>2,729</u>	<u>49,284</u>
NET POSITION			
Invested in capital assets, net of related debt	1,691,408	107,443	1,798,851
Unrestricted	<u>54,798</u>	<u>9,454</u>	<u>64,252</u>
Total net position	\$ <u>1,746,206</u>	<u>116,897</u>	<u>1,863,103</u>

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

TOWN OF LAKEWOOD VILLAGE
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
September 30, 2018

	Business-Type Activities		
	LWV Utility Fund	Rocky Point Utility Fund	Totals
OPERATING REVENUES			
Water	\$ 151,946	16,814	168,760
Sewer	107,790		107,790
Sanitation	47,213		47,213
Fees and services	17,248	494	17,742
Other income	4,503	5,830	10,333
Total operating revenues	<u>328,700</u>	<u>23,138</u>	<u>351,838</u>
OPERATING EXPENSES			
Contract services	45,300	2,400	47,700
Administrative	84,116	4,023	88,139
Repairs and maintenance	61,062	4,905	65,967
Miscellaneous	8,787	570	9,357
Garbage collections	41,240		41,240
Depreciation	87,744	2,832	90,576
Total operating expenses	<u>328,249</u>	<u>14,730</u>	<u>342,979</u>
Operating income (loss)	<u>451</u>	<u>8,408</u>	<u>8,859</u>
NONOPERATING REVENUES (EXPENSES)			
Gain/loss on disposition of capital assets	(4,430)		(4,430)
Insurance proceeds	13,783		13,783
Interest revenue	800	64	864
Total nonoperating revenues (expenses)	<u>10,153</u>	<u>64</u>	<u>10,217</u>
Income (loss) before transfers	10,604	8,472	19,076
Transfers (to)/from other funds	(36,172)	8,300	(27,872)
Change in net position	(25,568)	16,772	(8,796)
Net position - beginning	<u>1,771,774</u>	<u>100,125</u>	<u>1,871,899</u>
Net position - ending	\$ <u>1,746,206</u>	<u>116,897</u>	<u>1,863,103</u>

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

TOWN OF LAKEWOOD VILLAGE
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended September 30, 2018

	Business-Type Activities		
	LWV Utility Fund	Rocky Point Utility Fund	Totals
Cash flows from operating activities:			
Cash received from customers and users	\$ 343,987	22,900	366,887
Cash payments to suppliers	<u>(250,068)</u>	<u>(11,898)</u>	<u>(261,966)</u>
Net cash provided by operating activities	<u>93,919</u>	<u>11,002</u>	<u>104,921</u>
Cash flows from capital and related financing activities:			
Acquisition/disposition of capital assets	<u>(51,911)</u>	<u>(12,500)</u>	<u>(64,411)</u>
Net cash used by capital and related financing activities	<u>(51,911)</u>	<u>(12,500)</u>	<u>(64,411)</u>
Cash flows from noncapital financing activities:			
Transfer in/(out)	<u>(36,172)</u>	<u>8,300</u>	<u>(27,872)</u>
Net cash used by noncapital financing activities	<u>(36,172)</u>	<u>8,300</u>	<u>(27,872)</u>
Cash flows from investing activities:			
Interest on deposits and investments	<u>800</u>	<u>64</u>	<u>864</u>
Net cash provided by investing activities	<u>800</u>	<u>64</u>	<u>864</u>
Net increase in cash and cash equivalents	15,989	6,866	
Cash and cash equivalents - beginning	<u>78,575</u>	<u>4,094</u>	<u>82,669</u>
Cash and cash equivalents - ending	\$ <u>94,564</u>	<u>10,960</u>	<u>105,524</u>

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

Operating income	\$ 451	8,408	8,859
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	87,744	2,832	90,576
(Increase)/decrease in accounts receivable	4,683	(338)	4,345
(Increase)/decrease in other receivables	9,604		9,604
Increase/(decrease) in customer deposits	1,000	100	1,100
Increase/(decrease) in other payables	<u>(9,563)</u>		<u>(9,563)</u>
Total adjustments	<u>93,468</u>	<u>2,594</u>	<u>96,062</u>
Net cash provided by operating activities	\$ <u>93,919</u>	<u>11,002</u>	<u>104,921</u>

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

TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2018

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Blended Component Unit. The Lakewood Village Municipal Development District (MDD) is a political subdivision of the State of Texas and the Town, established by the voters in 2009 for the purposes of promoting economic development within the Town as prescribed by Chapter 377 of the Texas Local Government Code. The MDD is presented as a governmental fund type. The fund is supported by a one-half cent sales tax which is currently used in full to fund the cost of construction of infrastructure, other capital asset acquisition, and debt service related to the Rocky Point proprietary fund. As of September 30, 2018, the amount provided by the MDD to the Rocky Point Proprietary fund totals \$89,514.

TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2018

-continued-

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

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

-continued-

TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2018

-continued-

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

The government reports the following major governmental funds:

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

The government reports the following proprietary funds:

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

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

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TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2018

-continued-

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

D. **Assets, liabilities, and net position or equity**

1. **Deposits**

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

-continued-

TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2018

-continued-

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2. Short-term Inter-fund Receivables/Payables

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

3. Restricted Assets

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

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

-continued-

TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2018

-continued-

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5. Long-Term Obligations

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

6. Fund Equity

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

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Town Council. These amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Town did not have any committed resources as of September 30, 2018.
- Assigned: This classification includes amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by an official to which the Town Council delegates this authority.
- Unassigned: This classification includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

-continued-

TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2018

-continued-

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

6. Fund Equity (continued)

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

As of September 30, 2018, fund balances are composed of the following:

	<u>General Fund</u>	<u>Municipal Development District</u>	<u>Total Governmental Funds</u>
Nonspendable:	\$		
Restricted:			
Municipal Development		17,987	17,987
Debt service	250		250
Committed:			
Assigned:			
Road maintenance	10,074		10,074
Unassigned:	<u>203,084</u>	<u> </u>	<u>203,084</u>
Total fund balances	\$ <u>213,408</u>	<u>17,987</u>	<u>231,395</u>

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

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

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

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TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2018

-continued-

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

A. Budgetary Information (continued)

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

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

(3) DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

At September 30, 2018, the Town's carrying amount of deposits was \$340,244 and the bank balance was \$367,816. Of the bank balance, \$250,000 was covered by federal depository insurance and \$117,816 was secured by marketable securities pledged by the financial institution holding the Town's depository contract.

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

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

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TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2018

-continued-

(3) DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments (continued)

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

B. Receivables

Receivables at September 30, 2018 consisted of the following:

	<u>General Fund</u>	<u>Municipal Development District</u>	<u>LWV Utility Fund</u>	<u>Rocky Point Utility Fund</u>	<u>Total</u>
Property taxes	\$ 646				646
Sales taxes	2,216	859			3,075
Accounts receivable	—	—	6,789	1,223	8,012
Total receivables	\$ <u>2,862</u>	<u>859</u>	<u>6,789</u>	<u>1,223</u>	<u>11,733</u>

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TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2018

-continued-

(3) DETAILED NOTES ON ALL FUNDS (continued)**B. Receivables (continued)**

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

Property taxes are due in full on October 1 and there are no discounts granted. The assessed value as of January 1, 2017, upon which the 2017/2018 levy was based, was approximately 95,399,000. The tax rate for fiscal year 2017/2018 was \$.30 per \$100 of assessed valuation, with \$.25 allocated to maintenance and operation (M&O), and \$.05 allocated to debt service (I&S).

C. Capital Assets

Capital asset activity for the year ended September 30, 2018 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Land and improvements	\$ 118,225	5,570		123,795
Buildings & Improvement	63,739	8,691		72,430
Furniture & Equipment	39,057			39,057
Streets	<u>1,921,093</u>			<u>1,921,093</u>
Totals at historical cost	2,142,114	14,261		2,156,375
Less accumulated depreciation	<u>(267,537)</u>	<u>(73,660)</u>		<u>(341,197)</u>
Governmental activities capital assets, net	<u>\$ 1,874,577</u>	<u>(59,399)</u>		<u>1,815,178</u>
Business-type activities:				
LWV Utility:				
Land	\$ 57,553			57,553
Buildings and improvements		21,281		21,281
Equipment	5,824			5,824
Water systems & improvements	1,510,521	11,207		1,521,728
Sanitation systems & improvements	1,484,160	30,193	(15,635)	1,498,718
Construction in progress	<u>6,340</u>		<u>(6,340)</u>	
Totals at historical cost	3,064,398	62,681	(21,975)	3,105,104
Less accumulated depreciation	<u>(1,337,158)</u>	<u>(87,744)</u>	<u>11,206</u>	<u>(1,413,696)</u>
Business-type activities capital assets, net	<u>\$ 1,727,240</u>	<u>(25,063)</u>	<u>(10,769)</u>	<u>1,691,408</u>

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TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2018

-continued-

(3) DETAILED NOTES ON ALL FUNDS (continued)**C. Capital Assets (continued)**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Business-type activities: (continued)				
Rocky Point Utility:				
Land	\$ 15,922			15,922
Building & improvements	3,533			3,533
Water system	<u>89,248</u>	<u>12,500</u>		<u>101,748</u>
Totals at historical cost	108,703	12,500		121,203
Less accumulated depreciation	<u>(10,928)</u>	<u>(2,832)</u>		<u>(13,760)</u>
Component unit capital assets, net	\$ <u>97,775</u>	<u>9,668</u>		<u>107,443</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Government Activities:

Administration	\$ 4,089
Public works	<u>69,571</u>

Total depreciation expense - government activities \$ 73,660

Business-type activities:

LWV Utility	\$ 87,744
Rocky Point Utility	<u>2,832</u>

Total depreciation expense - business-type activities \$ 90,576

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TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2018

-continued-

(3) DETAILED NOTES ON ALL FUNDS

D. Long-term Debt

Bonds Payable

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

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

Interest expense for the bond issue was \$21,910 for the year ended September 30, 2018.

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

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>	<u>Due in One Year</u>
Governmental Activities Certificates of Obligation Series 2014, 1.99%, 2015-2024	\$ <u>1,178,000</u>	<u> </u>	<u>(154,000)</u>	<u>1,024,000</u>	<u>158,000</u>
Total governmental activities	\$ <u>1,178,000</u>	<u> </u>	<u>(154,000)</u>	<u>1,024,000</u>	<u>158,000</u>

Debt Service Requirement to Maturity

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

	<u>Governmental Activities</u>		
<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	158,000	18,806	176,806
2020	163,000	15,612	178,612
2021	168,000	12,318	180,318
2022	173,000	8,925	181,925
2023	184,000	5,433	189,433
2024	<u>178,000</u>	<u>1,831</u>	<u>179,831</u>
Total	\$ <u>1,024,000</u>	<u>62,925</u>	<u>1,086,925</u>

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TOWN OF LAKEWOOD VILLAGE

Notes to the Financial Statements

September 30, 2018

-continued-

(3) DETAILED NOTES ON ALL FUNDS (continued)

E. Interfund Receivables, Payables and Transfers

The composition of the interfund balances as of September 30, 2018 is as follows:

Interfund transfers:

	General Fund	MDD Fund	LWV Utility Fund	Rocky Point Utility Fund	Total
Transfers In:	\$43,631			8,300	51,931
Transfers Out:		(15,759)	(36,172)		(51,931)
	<u>\$43,631</u>	<u>(15,759)</u>	<u>(36,172)</u>	<u>8,300</u>	<u> </u>

The transfers to/from the LWV Utility Fund and Rocky Point Utility Fund were to cover administrative expenses incurred by the General Fund on behalf of the utility funds, and funding from the MDD for eligible capital projects in the Rocky Point Utility Fund.

(4) OTHER INFORMATION

Risk Management

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

(5) EVALUATION OF SUBSEQUENT EVENTS

The Town has evaluated subsequent events through November 26, 2018, the date which the financial statements were available to be issued.

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INDIVIDUAL FUND SCHEDULES

TOWN OF LAKEWOOD VILLAGE
Statement of Revenues, Expenditures, and Changes in Fund Net Position
Budget and Actual - LWV Utility Funds
For the Fiscal Year Ended September 30, 2018

	Original <u>Budget</u>	Final <u>Budget</u>	Actual <u>Amounts</u>	Variance with Final Budget Positive <u>(Negative)</u>
OPERATING REVENUES				
Water sales, fees and service charges	\$ 350,660	350,660	341,505	(9,155)
Other income	<u>2,300</u>	<u>2,300</u>	<u>10,333</u>	<u>8,033</u>
Total operating revenues	<u>352,960</u>	<u>352,960</u>	<u>351,838</u>	<u>(1,122)</u>
 OPERATING EXPENSES				
Contract services	51,000	51,000	47,700	3,300
Administrative	91,650	91,650	88,139	3,511
Repairs and maintenance	33,185	38,185	65,967	(32,782)
Miscellaneous	1,550	1,550	9,357	(7,807)
Trash collections	43,000	43,000	41,240	1,760
Capital improvements	75,000	75,000		75,000
Depreciation			<u>90,576</u>	<u>(90,576)</u>
Total operating expenses	<u>295,385</u>	<u>295,385</u>	<u>342,979</u>	<u>(47,594)</u>
 Operating income (loss)	<u>57,575</u>	<u>57,575</u>	<u>8,859</u>	<u>(48,716)</u>
 NONOPERATING REVENUE (EXPENSE)				
Gain/loss on disposition of capital assets			(4,430)	(4,430)
Insurance proceeds			13,783	13,783
Interest income	540	540	864	324
Transfers in/(out)	<u>(40,200)</u>	<u>(40,200)</u>	<u>(27,872)</u>	<u>12,328</u>
Total nonoperating revenue (expense)	<u>(39,660)</u>	<u>(39,660)</u>	<u>(17,655)</u>	<u>22,005</u>
 Change in net position	17,915	17,915	(8,796)	(26,711)
 Net position - beginning	<u>1,871,899</u>	<u>1,871,899</u>	<u>1,871,899</u>	<u>_____</u>
 Net position - ending	\$ <u>1,889,814</u>	<u>1,889,814</u>	<u>1,863,103</u>	<u>(26,711)</u>