

**TOWN OF LAKEWOOD VILLAGE, TEXAS**

**Financial Statements  
(With Auditor's Report Thereon)**

**September 30, 2008**

**TOWN OF LAKEWOOD VILLAGE**  
 Annual Financial Report  
 For the Year Ended September 30, 2008

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**INDEPENDENT AUDITOR'S REPORT**

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

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 the Town of Lakewood Village, Texas, as of and for the year ended September 30, 2008, which collectively comprise the Town's basic financial statements as listed in the table of contents. We have also audited the individual fund statements of the Town of Lakewood Village, Texas as of and for the year ended September 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the management of the Town of Lakewood Village. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Lakewood Village, Texas, at September 30, 2008, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparison for the water and sewer fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*/s/ Pingleton, Howard & Company, P. C.*

January 7, 2009

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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, 2008. All amounts, unless otherwise indicated, are expressed in actual dollars.

### Financial Highlights

- The assets of the Town of Lakewood Village exceeded its liabilities at the close of the most recent fiscal year by \$1,783,029 (net assets). Of this amount \$109,684, (unrestricted net assets) 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 \$59,489, a decrease of \$(9,913) in comparison with the prior year. Of this balance, \$59,489 is available for spending at the government's discretion (unreserved and undesignated fund balance). This balance represents 22 percent of total general fund expenditures.
- The Town of Lakewood Village's long-term debt decreased by \$23,173 during the current fiscal year.

### Overview of the Financial Statements

This discussion and analysis are 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 assets* presents information on all of the Town of Lakewood Village's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes).

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

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

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Lakewood Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of 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 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 one governmental fund. 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 Town of Lakewood Village adopts an annual appropriated budget for its general fund. Budgetary comparison statements have been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14-17 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 Water and Sewer operations, which is considered to be a major fund of the Town of Lakewood Village.

The basic proprietary fund financial statements can be found on pages 18-20 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 21-28 of this report.

## **Government-wide Financial Analysis**

As noted earlier, net assets 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 \$1,783,029 at the close of the most recent fiscal year.

A portion of the Town of Lakewood Village's net assets 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 net 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 Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 128,231	72,236	72,953	30,171	201,184	102,407
Capital assets	113,565	100,494	1,659,965	1,716,807	1,773,530	1,817,301
Total assets	241,796	172,730	1,732,918	1,746,978	1,974,714	1,919,708
Long-term liabilities			100,185	123,358	100,185	123,358
Other liabilities	60,000		31,500	27,300	91,500	27,300
Total liabilities	60,000		131,685	150,658	191,685	150,658
Net assets:						
Invested in capital assets, net of						
related debt	113,565	100,494	1,559,780	1,593,449	1,673,345	1,693,943
Unrestricted	68,231	72,236	41,453	2,871	109,684	75,107
Total net assets	\$ 181,796	172,730	1,601,233	1,596,320	1,783,029	1,769,050

**TOWN OF LAKEWOOD VILLAGE - Changes in Net Assets**

	Governmental Activities 2008	Business-type Activities 2008	Total 2008
Revenues:			
Program revenues:			
Charges for services	\$ 44,598	251,776	296,374
General revenues:			
Property taxes	181,140		181,140
Other taxes	23,774		23,774
Other	9,772	87	9,859
Total revenues	259,284	251,863	511,147
Expenses:			
General government	102,789		102,789
Public Safety	12,480		12,480
Public works	139,449		139,449
Water & Sewer		242,450	242,450
Total expenses	254,718	242,450	497,168
Increase in net assets before transfers	4,566	9,413	13,979
Transfers	4,500	(4,500)	
Increase(decrease) net assets	9,066	4,913	13,979
Net assets - beginning	172,730	1,596,320	1,769,050
Net Assets - ending	\$ 181,796	1,601,233	1,783,029

This is the first year of audit for the Town so prior year changes in net assets will not be shown until fiscal year ending September 30, 2009.

## 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, *unreserved 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 \$59,489, a decrease of \$(9,913) from the prior year. Of the current combined ending fund balance, \$59,489 is unreserved and not designated.

**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 assets of the Enterprise Fund at the end of the year amounted to \$1,566,341. The total increase in net assets of the Enterprise Funds was \$4,913. 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 and expenditures were less than budgetary estimates. The budget had called for a \$(11,884) decrease in fund balance, however, since transfers in of \$4,500 were more than budgeted and expenses were less than budgeted, the net fund balance decrease was \$(9,913), \$1,971 less than anticipated.

## Capital Asset 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, 2008, amounts to \$1,686,347 (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:

- Land (\$14,665) was the addition to the governmental activities capital assets.

Additional information on the Town of Lakewood Village's capital assets can be found in note 3.C. on page 27 of this report.

**Long-term debt.** At the end of the current fiscal year, the Town of Lakewood Village had debt outstanding of \$100,185. Of this amount, \$100,185 comprises debt secured by the full faith and credit of the government.

The Town of Lakewood Village's long-term debt decreased by \$23,173 during the current fiscal year.

Additional information on the Town of Lakewood Village's long-term debt can be found in note 3.D. on page 28 of this report.

## **Economic Factors and Next Year's Budgets and Rates**

In determining the budget and related tax rate, the Town considers general macro-economic factors (e.g. decline in new home building) as well as local factors such as the Eldorado Parkway Corridor project. The Eldorado Corridor and the new Lewisville Lake Toll bridge are expected to have a significant economic impact on the Town in the next fiscal year. The Town is currently revising the 1994 Comprehensive Plan to better reflect the expected economic development within the Town and the extra-territorial jurisdiction. As part of the process, the Town is evaluating future infrastructure needs and will be imposing impact fees in order to equitably allocate capital improvement costs.

During fiscal year 2008, the Town changed to a General Law Type A municipality. The benefits to the Town included greater operational flexibility, generally greater municipal powers, and increased financial flexibility. As a General Law Type A municipality, the Town's ad-valorem tax rate was no longer capped at the existing \$0.25 per \$100 valuation. In order to demonstrate that the change was not motivated by a desire to raise taxes, the Town reduced the tax rate to \$0.245 per \$100, well below the rollback rate. The decrease in revenues will be offset by increasing property tax valuations and additional revenues from revised franchise fee agreements. In order to attract upscale development, it is expected that the Town will continue to set property tax rates below the surrounding communities.

## **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 Assets

September 30, 2008

	Primary Government		
	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 119,489	27,704	147,193
Restricted cash and cash equivalents		31,500	31,500
Receivables (net of allowance for uncollectibles):			
Utility bills		13,749	13,749
Property taxes	8,742		8,742
Capital assets (net of accumulated depreciation):			
Land	66,956		66,956
Buildings, systems and improvements	<u>46,609</u>	<u>1,659,965</u>	<u>1,706,574</u>
Total assets	<u>241,796</u>	<u>1,732,918</u>	<u>1,974,714</u>
<b>LIABILITIES</b>			
Accounts payable	60,000		60,000
Deposits payable		31,500	31,500
Noncurrent liabilities:			
Due within one year		24,632	24,632
Due in more than one year		<u>75,553</u>	<u>75,553</u>
Total liabilities	<u>60,000</u>	<u>131,685</u>	<u>191,685</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	113,565	1,559,780	1,673,345
Unrestricted	<u>68,231</u>	<u>41,453</u>	<u>109,684</u>
Total net assets	\$ <u>181,796</u>	<u>1,601,233</u>	<u>1,783,029</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, 2008

<b>Functions/Programs</b>	<u>Expenses</u>	<u>Program Revenues</u> Charges for Services	<u>Operating Grants and Contributions</u>
<b>Primary government:</b>			
Governmental activities:			
General government	\$ 102,789	42,127	
Public safety	12,480	2,471	
Public works	<u>139,449</u>		
Total governmental activities	<u>254,718</u>	<u>44,598</u>	
Business-type activities:			
Water and sewer	<u>242,450</u>	<u>251,776</u>	
Total business-type activities	<u>242,450</u>	<u>251,776</u>	
Total primary government	<u>\$ 497,168</u>	<u>296,374</u>	

**General revenues:**

- Property taxes
- Franchise taxes
- Investment earnings
- Miscellaneous revenue
- Transfers
- Total general revenues and transfers
  
- Change in net assets
  
- Net assets - beginning
  
- Net assets - ending

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

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
(60,662)		(60,662)
(10,009)		(10,009)
<u>(139,449)</u>		<u>(139,449)</u>
<u>(210,120)</u>		<u>(210,120)</u>
	<u>9,326</u>	<u>9,326</u>
	<u>9,326</u>	<u>9,326</u>
<u>(210,120)</u>	<u>9,326</u>	<u>(200,794)</u>
181,140		181,140
23,774		23,774
3,888	87	3,975
5,884		5,884
<u>4,500</u>	<u>(4,500)</u>	
<u>219,186</u>	<u>(4,413)</u>	<u>214,773</u>
9,066	4,913	13,979
<u>172,730</u>	<u>1,596,320</u>	<u>1,769,050</u>
<u>\$ 181,796</u>	<u>1,601,233</u>	<u>1,783,029</u>

**TOWN OF LAKEWOOD VILLAGE**

Balance Sheet  
Governmental Fund  
September 30, 2008

**ASSETS**

Cash and cash equivalents	\$ 119,489
Receivables (net of allowance for uncollectibles):	
Property taxes	<u>8,742</u>
Total assets	\$ <u><u>128,231</u></u>

**LIABILITIES AND FUND BALANCES**

Liabilities:	
Accounts payable	\$ 60,000
Deferred revenue	<u>8,742</u>
Total liabilities	<u>68,742</u>
Fund balances:	
Unreserved and undesignated	<u>59,489</u>
Total fund balance	<u>59,489</u>
Total liabilities and fund balances	\$ <u><u>128,231</u></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 Fund  
 to the Statement of Net Assets  
 September 30, 2008

**Total Fund Balances - Governmental Funds** \$ 59,489

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 \$116,030 and the accumulated depreciation was \$(15,536). The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net assets. 100,494

Current year capital outlays of \$14,665 are expenditures in the fund financial statements, but they should be shown as an increase in capital assets in the government-wide financial statements. The net effect of including the current year capital outlay is to increase net assets. 14,665

The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets. (1,594)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing \$8,742 of deferred revenue as revenue. The net effect of this reclassification is to increase net assets.

**Net Assets of Governmental Activities** 8,742

**\$ 181,796**

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, 2008

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u> <u>Amounts</u>	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes:				
Property	\$ 179,694	179,694	175,234	(4,460)
Franchise	23,000	23,000	23,774	774
Fines and forfeitures			2,471	2,471
Licenses and permits	78,910	78,910	35,212	(43,698)
Fees and service charges	7,500	7,500	6,915	(585)
Interest	5,000	5,000	3,888	(1,112)
Miscellaneous			<u>5,884</u>	<u>5,884</u>
Total revenues	<u>294,104</u>	<u>294,104</u>	<u>253,378</u>	<u>(40,726)</u>
<b>EXPENDITURES</b>				
General Government:				
Payroll/benefits	46,984	46,984	44,414	2,570
Administrative	71,234	71,234	56,207	15,027
Public works	159,250	159,250	139,449	19,801
Police	8,400	8,400		8,400
Fire/EMS	12,120	12,120	12,480	(360)
Capital outlay	8,000	8,000	14,665	(6,665)
Miscellaneous			<u>576</u>	<u>(576)</u>
Total expenditures	<u>305,988</u>	<u>305,988</u>	<u>267,791</u>	<u>38,197</u>
Excess of revenues over expenditures	<u>(11,884)</u>	<u>(11,884)</u>	<u>(14,413)</u>	<u>(2,529)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in			<u>4,500</u>	<u>4,500</u>
Total other financing sources (uses)			<u>4,500</u>	<u>4,500</u>
Net change in fund balances	(11,884)	(11,884)	(9,913)	1,971
Fund balance, beginning	<u>69,402</u>	<u>69,402</u>	<u>69,402</u>	_____
Fund balance, ending	\$ <u>57,518</u>	<u>57,518</u>	<u>59,489</u>	<u>1,971</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 Fund  
to the Statement of Activities  
September 30, 2008

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$ (9,913)
Current year capital outlays of \$14,665 are expenditures in the fund financial statements, but they should be shown as increases in capital assets 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.	14,665
Depreciation 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 depreciation is to decrease net assets.	(1,594)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing prior year deferred revenue of \$5,908 as revenue. The net effect of these reclassifications is to increase net assets.	<u>5,908</u>
<b>Change in Net Assets of Governmental Activities</b>	\$ <u><u>9,066</u></u>

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

**TOWN OF LAKEWOOD VILLAGE**

Statement of Net Assets

Proprietary Fund

September 30, 2008

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 27,704
Restricted cash and cash equivalents	31,500
Utility bills receivable (net of allowance for uncollectibles)	<u>13,749</u>

Total current assets 72,953

Noncurrent assets:

Capital Assets:

Land	34,892
Water, systems and improvements	1,121,165
Sanitation system and improvements	1,225,000
Less: accumulated depreciation	<u>(721,092)</u>

Total capital assets (net of accumulated depreciation) 1,659,965

Total noncurrent assets 1,659,965

Total assets 1,732,918

**LIABILITIES**

Current liabilities:

Deposits payable	31,500
Current maturities on long-term debt	<u>24,632</u>
Total current liabilities	<u>56,132</u>

Noncurrent liabilities:

Noncurrent maturities on long-term debt	<u>75,553</u>
Total noncurrent liabilities	<u>75,553</u>

Total liabilities 131,685

**NET ASSETS**

Invested in capital assets, net of related debt 1,559,780

Unrestricted 41,453

Total net assets \$ 1,601,233

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 Assets  
Proprietary Fund  
For the Fiscal Year Ended September 30, 2008

**OPERATING REVENUES**

Water	\$ 133,101
Sewer	71,108
Trash	36,440
Late fees	5,047
Other income	<u>6,080</u>
Total operating revenues	<u>251,776</u>

**OPERATING EXPENSES**

Payroll/benefits	49,708
Administrative	55,227
Repairs and maintenance	36,712
Miscellaneous	788
Garbage collections	34,981
Capital improvements	1,270
Depreciation and amortization	<u>56,842</u>
Total operating expenses	<u>235,528</u>
Operating income (loss)	<u>16,248</u>

**NONOPERATING REVENUES (EXPENSES)**

Interest revenue	87
Interest expense and fiscal charges	<u>(6,922)</u>
Total nonoperating revenues (expenses)	<u>(6,835)</u>
Net income before transfers	9,413
Transfers out	(4,500)
Change in net assets	4,913
Net assets, beginning	<u>1,596,320</u>
Net assets, ending	<u>\$ 1,601,233</u>

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

**TOWN OF LAKEWOOD VILLAGE**  
Statement of Cash Flows  
Proprietary Fund  
For the Fiscal Year Ended September 30, 2008

Cash flows from operating activities:	
Cash received from customers and users	\$ 261,072
Cash payments to employees	(49,708)
Cash payments to suppliers	<u>(128,978)</u>
Net cash provided by operating activities	<u>82,386</u>
Cash flows from noncapital financing activities:	
Transfers to other funds	<u>(4,500)</u>
Net cash used by noncapital financing activities	<u>(4,500)</u>
Cash flows from capital and related financing activities:	
Principal payments - long-term debt	(23,173)
Interest paid on debt	<u>(6,922)</u>
Net cash used by capital and related financing activities	<u>(30,095)</u>
Cash flows from investing activities:	
Interest on deposits and investments	<u>87</u>
Net cash provided by investing activities	<u>87</u>
Net increase in cash and cash equivalents	47,878
Cash and cash equivalents - beginning	<u>11,326</u>
Cash and cash equivalents - ending	\$ <u>59,204</u>

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

Operating income	\$ <u>16,248</u>
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	56,842
Decrease in accounts receivable	5,096
Net increase in customer deposits	<u>4,200</u>
Total adjustments	<u>66,138</u>
Net cash provided by operating activities	\$ <u>82,386</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, 2008

**NOTE 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**

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 does not have any component units.

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

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the 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.

**TOWN OF LAKEWOOD VILLAGE**

Notes to the Financial Statements

September 30, 2008

-continued-

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

**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.

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 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 fund:

The *water/sewer 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 government's enterprise fund is for water and sewer operations.

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.

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**TOWN OF LAKEWOOD VILLAGE**

Notes to the Financial Statements

September 30, 2008

-continued-

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

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

As a general rule the effect of interfund activity has been eliminated from the government-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 assets 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.

**2. Short-term Interfund 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. Short-term interfund loans are classified as "interfund receivables/payables." The Town has no interfund receivables/payables.

**3. Restricted Assets**

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

-continued-

**TOWN OF LAKEWOOD VILLAGE**

Notes to Financial Statements

September 30, 2008

-continued-

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

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

**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

**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 assets.

**6. Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. There was no restricted or designated fund balance as of September 30, 2008.

**NOTE 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.

-continued-

**TOWN OF LAKEWOOD VILLAGE**

Notes to Financial Statements

September 30, 2008

-continued-

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

**A. Budgetary Information** (continued)

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.
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. No supplemental appropriations were made during the fiscal year.
5. The budget approved for the Water and Sewer Fund follows similar approval procedures but departs from general accepted accounting principles by not including depreciation in the approved budget. These amounts are reported at year end as part of the "actual" column. No supplemental appropriations were 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.

**NOTE 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, 2008, the Town's carrying amount of deposits was \$178,443 and the bank balance was \$187,171. Of the bank balance, \$34,812 was covered by federal depository insurance and \$152,359 was covered by SPIC Brokerage Insurance.

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 Town'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

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**TOWN OF LAKEWOOD VILLAGE**  
Notes to Financial Statements  
September 30, 2008  
-continued-

**NOTE 3. DETAILED NOTES ON ALL FUNDS** (continued)

**A. Deposits and Investments** (continued)

- a. Custodial Credit Risk-Deposits: (continued)  
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 or SPIC Brokerage Insurance.
- b. Custodial Credit Risk - Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, 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, 2008 consisted of the following:

	<u>General</u>	<u>Water and Sewer</u>
Property taxes	\$ 8,742	
Utilities	_____	<u>13,749</u>
Total receivables	<u>\$ 8,742</u>	<u>13,749</u>

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 increased 1% per

**TOWN OF LAKEWOOD VILLAGE**

Notes to Financial Statements

September 30, 2008

-continued-

**NOTE 3. DETAILED NOTES ON ALL FUNDS** (continued)

**B. Receivables** (continued)

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, 2007, upon which the 2007/2008 levy was based, was approximately \$70,532,008. The tax rate for fiscal year 2007/2008 was \$.25 per \$100 of assessed valuation.

**C. Capital Assets**

Capital asset activity for the year ended September 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Land	\$ 52,291	14,665		66,956
Buildings and improvements	<u>63,739</u>	<u>        </u>		<u>63,739</u>
Totals at historical cost	116,030	14,665		130,695
Less accumulated depreciation	<u>(15,536)</u>	<u>(1,594)</u>		<u>(17,130)</u>
Governmental activities capital assets, net	\$ <u>100,494</u>	<u>13,071</u>		<u>113,565</u>
Business-type activities:				
Land	\$ 34,892			34,892
Water systems and improvements	1,121,165			1,121,165
Sanitation systems and improvements	<u>1,225,000</u>			<u>1,225,000</u>
Totals at historical cost	2,381,057			2,381,057
Less accumulated depreciation	<u>(664,250)</u>	<u>(56,842)</u>		<u>(721,092)</u>
Business-type activities capital assets, net	\$ <u>1,716,807</u>	<u>(56,842)</u>		<u>1,659,965</u>

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

Government activities:	
Administration	\$ <u>1,594</u>
Total depreciation expense - government activities	\$ <u>1,594</u>
Business-type activities:	
Water and sewer	\$ <u>56,842</u>
Total depreciation expense - business-type activities	\$ <u>56,842</u>

-continued-

**TOWN OF LAKEWOOD VILLAGE**

Notes to Financial Statements

September 30, 2008

-continued-

**NOTE 3. DETAILED NOTES ON ALL FUNDS** (continued)

**D. Long-term Debt**

The Town borrowed funds from the depository bank for the purpose of drilling new water wells. Payments of \$7,524, including interest at 6%, are due quarterly through June 14, 2012.

During the year ended September 30, 2008, the following changes occurred in long-term liabilities reported in the Water and Sewer Fund:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Note payable	\$ <u>123,358</u>		(23,173)	<u>100,185</u>	<u>24,632</u>

The annual requirements to amortize the debt are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 24,632	5,463	30,095
2010	26,143	3,952	30,095
2011	27,747	2,348	30,095
2012	<u>21,663</u>	<u>649</u>	<u>22,312</u>
Total	<u>\$ 100,185</u>	<u>12,412</u>	<u>112,597</u>

**E. Potential Income from Legal Actions**

The Town was awarded \$81,745 in court ordered restitution in 2005 and \$49,945 in additional civil judgment penalties in 2007 as repayment for misappropriation of Town funds by a prior employee. Payments of \$6,080 were received in fiscal year 2008 bringing the total received to \$23,941 as of September 30, 2008. The balance as of September 30, 2008 is approximately \$111,925 after applying accrued interest of approximately \$8,290. There is no way of estimating how much if any will be received in future years and so no receivable amount has been recorded.

**NOTE 4. OTHER INFORMATION**

**A. Risk Management**

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government is a participant in the Texas Municipal League Workers' Compensation Joint Insurance Fund (WC Fund) and the Texas Municipal League Joint Self-Insurance Fund (Property-Liability Fund), a public entity risk pool operated by the Texas Municipal League Board for the benefit of 1,821 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 pervious year. Settled claims for risks have not exceeded insurance coverage for the past three years.

**INDIVIDUAL FUND STATEMENTS**

**TOWN OF LAKEWOOD VILLAGE**  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Budget and Actual - Water and Sewer Fund  
For the Fiscal Year Ended September 30, 2008

	Original <u>Budget</u>	Final <u>Budget</u>	Actual <u>Amounts</u>	Positive <u>(Negative)</u>
<b>OPERATING REVENUES</b>				
Water sales, fees and service charges	\$ 272,800	272,800	245,696	(27,104)
Other income	<u>7,920</u>	<u>7,920</u>	<u>6,080</u>	<u>(1,840)</u>
Total operating revenues	<u>280,720</u>	<u>280,720</u>	<u>251,776</u>	<u>(28,944)</u>
<b>OPERATING EXPENSES</b>				
Payroll/benefits	15,114	15,114	49,708	(34,594)
Administrative	49,593	49,593	55,227	(5,634)
Repairs and maintenance	51,800	51,800	36,712	15,088
Miscellaneous	5,000	5,000	788	4,212
Garbage collections	36,120	36,120	34,981	1,139
Capital improvements	70,000	70,000	1,270	68,730
Contract services	<u>40,500</u>	<u>40,500</u>	_____	<u>40,500</u>
Total operating expenses	<u>268,127</u>	<u>268,127</u>	<u>178,686</u>	<u>89,441</u>
Operating income	<u>12,593</u>	<u>12,593</u>	<u>73,090</u>	<u>60,497</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest revenue	100	100	87	(13)
Interest expense and fiscal charges	<u>(30,095)</u>	<u>(30,095)</u>	<u>(6,922)</u>	<u>23,173</u>
Total nonoperating revenues (expenses)	<u>(29,995)</u>	<u>(29,995)</u>	<u>(6,835)</u>	<u>23,160</u>
Net income before transfers	(17,402)	(17,402)	66,255	83,657
Transfers in/(out)	_____	_____	<u>(4,500)</u>	<u>(4,500)</u>
Change in net assets	(17,402)	(17,402)	61,755	79,157
Net assets, beginning	<u>1,561,428</u>	<u>1,561,428</u>	<u>1,561,428</u>	_____
Net assets, ending	<u>\$ 1,544,026</u>	<u>1,544,026</u>	<u>1,623,183</u>	<u>79,157</u>

The following schedule reconciles the amounts on the Statement of Revenues, Expenses and Changes in Fund Net Assets - Budget and Actual - Water and Sewer Fund to the amounts on the Statement of Revenues, Expenses and changes in fund Net Assets - Proprietary Funds:

Net assets (budget)	\$ 1,623,183
Depreciation	<u>(56,842)</u>
Net assets (GAAP)	<u>\$ 1,566,341</u>