

CITY OF LAGO VISTA, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2014

CITY OF LAGO VISTA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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Independent Auditor's Report

Honorable Mayor and
Members of the City Council
City of Lago Vista, Texas
Lago Vista, TX 78645

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Lago Vista, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lago Vista, Texas, as of September 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the Schedule of Funding Progress for the Retirement Plan on pages 3–8, 43 and 44 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.

Neffendorf, Knopp, Dooss Company, P.C.

NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.
Fredericksburg, Texas

March 21, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Lago Vista, we offer readers of the City's financial statements this narrative overview and analysis of the financial statements of the City for the year ended September 30, 2014. Please read it in conjunction with the independent auditors' report (an unqualified opinion) on page 1, and City's Basic Financial Statements which begin on page 9.

FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$51,399,311 (net position). Of this amount, the unrestricted net position was \$(19,763,022). The large negative balance in the unrestricted net position of the governmental activities is due to recording of the long-term debt as required by GASS #34. The assets are reflected in the business type activities while the long-term debt is shown in the governmental activities (financed by property taxes).

The City's net position increased by \$21,714,874 as a result of this year's operations.

At September 30, 2014, the City's governmental funds reported combined ending fund balances of \$7,801,846, an increase of \$4,950,125 in comparison with the prior year.

At September 30, 2014, the City's Enterprise Funds reported unrestricted net position of \$4,548,558, a decrease of \$730,556 in comparison with the prior year.

The City issued Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014 dated August 1, 2014 in the amount of \$7,655,000 for utility infrastructure improvements and street improvements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 9 and 10). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (beginning on page 12) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements (starting on page 24) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The Budgetary Comparison Schedule (operating fund) and the Schedule of Funding Progress for the Retirement Plan are presented as required supplementary information on page 43 and 44.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 9. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider other factors as well, such as changes in the City's customers or its property tax base and the condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities, the City has two kinds of activity:

» Governmental activity - Most of the City's basic services are reported here, including the public safety, public works, municipal court and administration. Property taxes, user charges, sales tax, and franchise tax finance most of these activities.

» Business-type activity - The City's water and sewer system and golf courses are reported as business-type activities since the fees charged to customers cover the cost of services provided.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

The City has two kinds of funds:

» Governmental funds - All of the City's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in Note II to the financial statements.

» Proprietary funds - Services for which the City charges customers a fee are generally reported in proprietary funds. The City's enterprise fund (Water and Sewer and Golf Courses) is a business-type activity and provides both long and short-term financial information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position of the City's governmental activities increased from \$(9,459,044) to \$1,973,374. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - were \$(24,311,580), at September 30, 2014. This increase in governmental net position was the result of four factors. First, the City's expenditures exceeded the revenues by \$4,950,125. Second, the City acquired capital assets in the amount of \$13,149,983 and paid principal on long-term debt of \$1,949,452. Third, the City recorded depreciation in the amounts of \$331,951 and fourth the City issued \$7,655,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014.

Net position of the City's business-type activities increased from \$39,143,481 to \$49,425,937. Unrestricted net position was \$4,548,558. This increase in business-type net position was the result of net income of \$10,282,456.

Table I
City of Lago Vista

NET POSITION
in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2014	2013	2014	2013	2014	2013
Current Assets	\$ 1,393	\$ 454	\$ 5,289	\$ 5,971	\$ 6,682	\$ 6,425
Capital Assets	20,957	8,139	45,028	34,106	65,985	42,245
Restricted Assets	8,094	6,239			8,094	6,239
Intangible Asset	308	325			308	325
Total Assets	\$ 30,752	\$ 15,157	\$ 50,317	\$ 40,077	\$ 81,069	\$ 55,234
Deferred Outflows of Resources						
Deferred Charge for Refunding	\$ 210	\$ 236	\$	\$	\$ 210	\$ 236
Total Deferred Outflows of Resources	\$ 210	\$ 236	\$	\$	\$ 210	\$ 236
Current and Long-Term Debt	\$ 27,857	\$ 21,552	\$ 150	\$ 242	\$ 28,007	\$ 21,794
Other Liabilities	1,105	3,276	741	692	1,846	3,968
Total Liabilities	\$ 28,962	\$ 24,828	\$ 891	\$ 934	\$ 29,853	\$ 25,762
Deferred Inflow of Resources						
Unavailable Revenue - Property Taxes	\$ 26	\$ 25	\$	\$	\$ 26	\$ 25
Total Deferred Inflows of Resources	\$ 26	\$ 25	\$	\$	\$ 26	\$ 25
Net Position:						
Net Investment in						
Capital Assets	\$ 21,266	\$ 8,464	\$ 44,877	\$ 33,864	\$ 66,143	\$ 42,328
Restricted	5,019	278			5,019	278
Unrestricted	(24,312)	(18,201)	4,549	5,279	(19,763)	(12,922)
Total Net Position	\$ 1,973	\$ (9,459)	\$ 49,426	\$ 39,143	\$ 51,399	\$ 29,684

**Table II
City of Lago Vista**

**CHANGES IN NET POSITION
in thousands**

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2014	2013	2014	2013	2014	2013
Revenues:						
Charges for Services	\$ 889	\$ 934	\$ 4,764	\$ 4,637	\$ 5,653	\$ 5,571
Grants & Contributions	6	71			6	71
Property Tax	3,923	3,791			3,923	3,791
Sales Tax	365	316			365	316
Franchise Tax	292	274			292	274
Hotel/Motel Tax	83	89			83	89
Interest Income	10	12		2	11	14
Miscellaneous	130	174	786	561	916	735
Total Revenue	\$ 5,698	\$ 5,661	\$ 5,551	\$ 5,200	\$ 11,249	\$ 10,861
Expenses:						
General Government	\$ 1,366	\$ 1,127	\$	\$	\$ 1,366	\$ 1,127
Public Safety	1,778	1,723			1,778	1,723
Community Development	1,596	1,445			1,596	1,445
Debt Service & Interest	787	906	7	12	794	918
Water			1,840	1,649	1,840	1,649
Wastewater			952	816	952	816
Recreation			1,373	1,302	1,373	1,302
Tourism		57				57
Capital Outlay	6,583	2,957			6,583	2,957
Depreciation			1,146	1,153	1,146	1,153
Total Expenses	\$ 12,110	\$ 8,215	\$ 5,318	\$ 4,932	\$ 17,428	\$ 13,147
Increase in Net Assets Before Transfers & Capital Contributions	\$ (6,412)	\$ (2,553)	\$ 233	\$ 269	\$ (6,179)	\$ (2,284)
Capital Contributions	\$ 16,261	\$ 3,924	\$ 11,633	\$ 2,957	\$ 27,894	\$ 6,881
Transfers	1,583	1,000	(1,583)	(1,000)		
Total	\$ 17,844	\$ 4,924	\$ 10,050	\$ 1,957	\$ 27,894	\$ 6,881
Net Change	\$ 11,432	\$ 2,371	\$ 10,283	\$ 2,226	\$ 21,715	\$ 4,597
Net Position, Beginning	(9,459)	(11,638)	39,143	36,917	29,684	25,279
Prior Period Adjustment		(191)				(191)
Net Position, Ending	\$ 1,973	\$ (9,459)	\$ 49,426	\$ 39,143	\$ 51,399	\$ 29,684

The cost of all governmental activities this year was \$12,110,250. However, as shown in the Statement of Activities on page 10, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$3,879,090 because the other costs were paid by sales tax (\$364,704), franchise tax (\$292,574), motel and other taxes (\$83,409), user charges (\$889,092), grants and contributions (\$16,266,731), interest on investments (\$9,880) and other miscellaneous (\$130,521).

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$7,801,846, which is more than last year's total of \$2,851,721. Included in this year's total change in fund balance is an increase of \$209,185 in the City's General Fund. The increase in the General Fund was due to the excess of revenues over expenditures.

The City adopted the General Fund Budget. Actual revenues were more than the budgeted amounts while actual expenditures were less than the budgeted amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2014, the City had the following amounts invested in capital assets, net of depreciation:

CAPITAL ASSETS in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2014	2013	2014	2013	2014	2013
Land	\$ 1,052	\$ 1,052	\$ 3,272	\$ 3,272	\$ 4,324	\$ 4,324
Construction in Progress	1,180	1,232	4,705	3,318	5,885	4,550
Buildings & Streets	12,605	2,748	919	872	13,523	3,620
Improvements	6,570	3,445	48,202	37,662	54,772	41,107
Machinery & Equipment	1,908	1,687	3,536	3,441	5,444	5,128
Total Capital Assets	\$ 23,315	\$ 10,165	\$ 60,633	\$ 48,565	\$ 83,948	\$ 58,730
Less: Accumulated Depreciation	(2,358)	(2,026)	(15,605)	(14,459)	(17,963)	(16,485)
Capital Assets, Net	\$ 20,957	\$ 8,139	\$ 45,028	\$ 34,106	\$ 65,985	\$ 42,245

More detailed information about the City's capital assets is presented in Note E and F to the financial statements.

DEBT

At September 30, 2014, the City had the following outstanding debt:

OUTSTANDING DEBT in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2014	2013	2014	2013	2014	2013
Bonds Payable	\$ 27,387	\$ 21,161	\$	\$	\$ 27,387	\$ 21,161
Loans Payable	198	165	150	242	348	407
Deferred Loss on						
Refunding Bonds	(210)	(236)			(210)	(236)
Accrued Compensation	273	226			273	226
Total Outstanding Debt	\$ 27,647	\$ 21,316	\$ 150	\$ 242	\$ 27,798	\$ 21,558

For governmental activities, the City had \$27,647,228 in certificates of obligation and other debt outstanding, an increase of 30.0 percent. The City paid \$1,949,452 in principal on the outstanding long-term debt, issued loans for \$151,696 and issued \$7,655,000 in Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014.

For business-type activities, the City had \$150,278 in loans outstanding. The City paid \$162,441 in principal on the outstanding long-term debt and issued loans for \$70,901.

More detailed information about the City's long-term liabilities is presented in Notes H, I and J to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2015 budget and tax rates. The major factors are the economy, population growth, and assessed property valuation. These indicators were taken into account when adopting the General Fund budget for 2015. Amounts available for appropriation in the General Fund budget are \$5,080,109 and expenditures are estimated to be \$4,891,139.

If these estimates are realized, the City's budgetary General fund balance is expected to increase by the close of 2015.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's business office, at City of Lago Vista, Lago Vista, Texas.

BASIC FINANCIAL STATEMENTS

CITY OF LAGO VISTA, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 149,337	\$ 126,985	\$ 276,322
Investments - Current	3,376,350	567,748	3,944,098
Receivables (net of allowance for uncollectibles)	1,453,430	754,310	2,207,740
Internal Balances	(3,605,700)	3,605,700	
Inventories	3,397	221,402	224,799
Prepaid Items	15,641	13,327	28,968
Restricted Assets:			
Restricted Asset - Capital Improvements	8,094,154		8,094,154
Capital Assets:			
Land	1,052,034	3,271,843	4,323,877
Infrastructure, net	10,474,441		10,474,441
Buildings, net	1,808,850	624,463	2,433,313
Improvements other than Buildings, net	5,954,570	35,557,424	41,511,994
Machinery and Equipment, net	486,974	869,389	1,356,363
Construction in Progress	1,180,204	4,704,538	5,884,742
Intangible Asset, Net	308,673		308,673
Total Assets	<u>30,752,355</u>	<u>50,317,129</u>	<u>81,069,484</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred Charge for Refunding	\$ 210,145	\$	\$ 210,145
Total Deferred Outflows of Resources	<u>210,145</u>		<u>210,145</u>
LIABILITIES			
Accounts Payable	643,965	300,972	944,937
Intergovernmental Payable	4,395	1,551	5,946
Accrued Interest Payable	127,620		127,620
Deferred Revenues	217,394	292,518	509,912
Notes Payable - Current		87,970	87,970
Other Current Liabilities	112,083	145,873	257,956
Noncurrent Liabilities			
Due Within One Year	2,107,681		2,107,681
Due in More Than One Year	25,749,691	62,308	25,811,999
Total Liabilities	<u>28,962,829</u>	<u>891,192</u>	<u>29,854,021</u>
DEFERRED INFLOW OF RESOURCES			
Unavailable Revenue - Property Taxes	26,297		26,297
Total Deferred Inflows of Resources	<u>26,297</u>		<u>26,297</u>
NET POSITION			
Net Investment in Capital Assets	21,265,745	44,877,379	
Restricted for:			
Restricted for Retirement of Long-Term Debt	45,197		
Restricted for Capital Improvements	4,671,206		
Restricted for Special Revenue	302,806		
Unrestricted Net Position	(24,311,580)	4,548,558	
Total Net Position	<u>\$ 1,973,374</u>	<u>\$ 49,425,937</u>	<u>\$</u>

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

CITY OF LAGO VISTA, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
Administration	\$ 585,087	\$ 69,127	\$
Non Departmental	3,330		
Development Services	507,511	48,257	
Finance	269,677		
Municipal Court	88,750	75,272	
Police Department	1,408,603		6,078
Dispatching	281,110		
Public Works Streets	704,844		21,122
Solid Waste	556,461	674,443	
Building Maintenance	37,928		
Recreation	69,960	21,993	
Aviation	20,283		
Library	148,805		
Tourism	57,669		
Bond Interest	709,701		
Fiscal Agent's Fees	600		
Issuance Costs	76,556		
Capital Outlay	6,583,375		16,233,481
Total Governmental Activities:	12,110,250	889,092	16,260,681
BUSINESS-TYPE ACTIVITIES:			
Golf Course Fund	1,652,147	756,889	16,675
Utility Fund	3,666,349	4,007,404	11,616,159
Total Business-Type Activities:	5,318,496	4,764,293	11,632,834
TOTAL PRIMARY GOVERNMENT:	\$ 17,428,746	\$ 5,653,385	- \$ 27,893,515

General Revenues:

Taxes:

Property Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

Sales Taxes

Franchise Taxes

Other Taxes

Penalty and Interest

Grants and Contributions Not Restricted

Miscellaneous Revenue

Investment Earnings

Transfers In (Out)

Total General Revenues and Transfers

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
\$ (515,960)	\$ -	\$ (515,960)
(3,330)		(3,330)
(459,254)		(459,254)
(269,677)		(269,677)
(13,478)		(13,478)
(1,402,525)		(1,402,525)
(281,110)		(281,110)
(683,722)		(683,722)
117,982		117,982
(37,928)		(37,928)
(47,967)		(47,967)
(20,283)		(20,283)
(148,805)		(148,805)
(57,669)		(57,669)
(709,701)		(709,701)
(600)		(600)
(76,556)		(76,556)
9,650,106		9,650,106
<u>5,039,523</u>		<u>5,039,523</u>
	(878,583)	(878,583)
	11,957,214	11,957,214
	<u>11,078,631</u>	<u>11,078,631</u>
<u>5,039,523</u>	<u>11,078,631</u>	<u>16,118,154</u>
1,823,172		1,823,172
2,055,918		2,055,918
364,704		364,704
292,574		292,574
83,409		83,409
43,667		43,667
6,050		6,050
130,521	785,886	916,407
9,880	939	10,819
1,583,000	(1,583,000)	
<u>6,392,895</u>	<u>(796,175)</u>	<u>5,596,720</u>
11,432,418	10,282,456	21,714,874
(9,459,044)	39,143,481	29,684,437
<u>\$ 1,973,374</u>	<u>\$ 49,425,937</u>	<u>\$ 51,399,311</u>

CITY OF LAGO VISTA, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	General Fund	Capital Projects	Debt Service Fund
ASSETS			
Cash and Cash Equivalents	\$ 149,337	\$	\$
Investments - Current	2,429,179	543,862	102,523
Taxes Receivable	247,190		278,746
Receivables (Net)	200,028	518,755	
Intergovernmental Receivables	127,464		
Due from Other Funds	6,308,158		304,022
Inventories	3,398		
Prepaid Items	15,641		
Restricted Asset - Capital Improvements		8,094,154	
Total Assets	<u>\$ 9,480,395</u>	<u>\$ 9,156,771</u>	<u>\$ 685,291</u>
LIABILITIES			
Accounts Payable	\$ 430,825	\$ 139,648	\$
Wages and Salaries Payable	66,492		
Intergovernmental Payable	4,395		
Due to Other Funds	5,796,773	4,168,523	233,728
Accrued Interest Payable			127,620
Unearned Revenues	40,000	177,394	
Other Current Liabilities	112,083		
Total Liabilities	<u>6,450,568</u>	<u>4,485,565</u>	<u>361,348</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	247,190		278,746
Total Deferred Inflows of Resources	<u>247,190</u>		<u>278,746</u>
FUND BALANCES			
Restricted Fund Balance:			
Restricted for Tourism			
Capital Acquisition and Contractual Obligation		4,671,206	
Retirement of Long-Term Debt			45,197
Unassigned Fund Balance	2,782,637		
Total Fund Balances	<u>2,782,637</u>	<u>4,671,206</u>	<u>45,197</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 9,480,395</u>	<u>\$ 9,156,771</u>	<u>\$ 685,291</u>

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

Other Funds	Total Governmental Funds
\$	\$
300,786	149,337
	3,376,350
	525,936
27,877	746,660
	127,464
	6,612,180
	3,398
	15,641
	8,094,154
<u>\$ 328,663</u>	<u>\$ 19,651,120</u>
\$ 7,000	\$ 577,473
	66,492
	4,395
18,857	10,217,881
	127,620
	217,394
	12,083
<u>25,857</u>	<u>11,323,338</u>
	525,936
	<u>525,936</u>
302,806	302,806
	4,671,206
	45,197
	2,782,637
<u>302,806</u>	<u>7,801,846</u>
<u>\$ 328,663</u>	<u>\$ 19,651,120</u>

CITY OF LAGO VISTA, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2014

Total Fund Balances - Governmental Funds	\$	7,801,846
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 \$10,164,766 and the accumulated depreciation was \$2,025,725. In addition, long-term liabilities, including bonds payable, 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 decrease net position.		(13,037,954)
Current year capital outlays and long-term debt principal payments 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 2014 capital outlays and debt principal payments is to increase net position.		7,004,670
The 2014 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(348,197)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		553,009
Net Position of Governmental Activities	<u>\$</u>	<u>1,973,374</u>

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

CITY OF LAGO VISTA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	General Fund	Capital Projects	Debt Service Fund
REVENUES:			
Taxes:			
Property Taxes	\$ 1,886,111	\$	\$ 2,004,381
General Sales and Use Taxes	364,704		
Franchise Tax	292,574		
Other Taxes	5,463		
Licenses and Permits	104,033		
Intergovernmental Revenue and Grants	90,564	2,391,854	
Charges for Services	717,306		
Fines	75,272		
Investment Earnings	2,735	6,505	370
Contributions & Donations from Private Sources	6,050		
Other Revenue	143,854	979,885	
Total Revenues	3,688,666	3,378,244	2,004,751
EXPENDITURES:			
Current:			
Administration	546,692		
Non Departmental	3,100		
Development Services	480,877		
Finance	240,894		
Municipal Court	82,291		
Police Department	1,410,158		
Dispatching	260,705		
Public Works Streets	819,531		
Solid Waste	528,846		
Building Maintenance	35,304		
Recreation	68,486		
Aviation	18,880		
Library	135,413		
Culture and Recreation:			
Tourism			
Debt Service:			
Bond Principal			1,830,000
Bond Interest			704,234
Fiscal Agent's Fees			600
Issuance Costs		68,836	7,720
Capital Outlay:			
Capital Outlay		6,714,693	
Total Expenditures	4,631,177	6,783,529	2,542,554
Excess (Deficiency) of Revenues Over (Under) Expenditures	(942,511)	(3,405,285)	(537,803)
OTHER FINANCING SOURCES (USES):			
Capital-related Debt Issued (Regular Bonds)		7,655,000	
Non-Current Loans	151,696		
Transfers In	1,000,000		583,000
Premium or Discount on Issuance of Bonds		421,491	
Total Other Financing Sources (Uses)	1,151,696	8,076,491	583,000
Net Change in Fund Balances	209,185	4,671,206	45,197
Fund Balance - October 1 (Beginning)	2,573,452		
Fund Balance - September 30 (Ending)	\$ 2,782,637	\$ 4,671,206	\$ 45,197

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

Other Funds	Total Governmental Funds
\$	\$ 3,890,492
	364,704
77,946	292,574
	83,409
	104,033
	2,482,418
	717,306
270	75,272
	9,880
	6,050
	1,123,739
78,216	9,149,877
	546,692
	3,100
	480,877
	240,894
	82,291
	1,410,158
	260,705
	819,531
	528,846
	35,304
	68,486
	18,880
	135,413
53,679	53,679
	1,830,000
	704,234
	600
	76,556
	6,714,693
53,679	14,010,939
24,537	(4,861,062)
	7,655,000
	151,696
	1,583,000
	421,491
	9,811,187
24,537	4,950,125
278,269	2,851,721
\$ 302,806	\$ 7,801,846

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

CITY OF LAGO VISTA, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

Total Net Change in Fund Balances - Governmental Funds	\$	4,950,125
Current year capital outlays and long-term debt principal payments 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 removing the 2014 capital outlays and debt principal payments is to increase the change in net position.		7,004,670
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.		(348,197)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease the change in net position.		(174,180)
Change in Net Position of Governmental Activities	\$	11,432,418

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

CITY OF LAGO VISTA, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2014

	Business-Type Activities - Enterprise Funds		
	Golf Course Fund	Utility Fund	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,000	\$ 125,985	\$ 126,985
Investments - Current		567,748	567,748
Accounts Receivable-Net of Uncollectible Allowance	5,389	748,921	754,310
Due from Other Funds		5,133,679	5,133,679
Inventories	24,599	196,803	221,402
Prepaid Items	5,141	8,186	13,327
Total Current Assets	<u>36,129</u>	<u>6,781,322</u>	<u>6,817,451</u>
Noncurrent Assets:			
Capital Assets:			
Land Purchase and Improvements	935,399	2,336,444	3,271,843
Buildings	513,219	405,538	918,757
Accumulated Depreciation - Buildings	(72,740)	(221,554)	(294,294)
Improvements other than Buildings	1,547,151	46,654,534	48,201,685
Accumulated Depreciation - Other Improvements	(276,985)	(12,367,276)	(12,644,261)
Machinery and Equipment	1,506,223	2,029,987	3,536,210
Accumulated Depreciation - Machinery & Equipment	(1,154,580)	(1,512,241)	(2,666,821)
Construction in Progress	7,101	4,697,437	4,704,538
- Total Noncurrent Assets	<u>3,004,788</u>	<u>42,022,869</u>	<u>45,027,657</u>
Total Assets	<u>3,040,917</u>	<u>48,804,191</u>	<u>51,845,108</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable		55,752	55,752
Wages and Salaries Payable	32,692	38,903	71,595
Compensated Absences Payable	34,692	138,933	173,625
Intergovernmental Payable	1,551		1,551
Due to Other Funds	1,527,979		1,527,979
Unearned Revenue		292,518	292,518
Notes Payable - Current	29,122	58,848	87,970
Other Current Liabilities		145,873	145,873
Total Current Liabilities	<u>1,626,036</u>	<u>730,827</u>	<u>2,356,863</u>
NonCurrent Liabilities:			
Notes Payable - Noncurrent	13,106	49,202	62,308
Total Noncurrent Liabilities	<u>13,106</u>	<u>49,202</u>	<u>62,308</u>
Total Liabilities	<u>1,639,142</u>	<u>780,029</u>	<u>2,419,171</u>
NET POSITION			
Net Investment in Capital Assets	2,962,560	41,914,819	44,877,379
Unrestricted Net Position	(1,560,785)	6,109,343	4,548,558
Total Net Position	<u>\$ 1,401,775</u>	<u>\$ 48,024,162</u>	<u>\$ 49,425,937</u>

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

CITY OF LAGO VISTA, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

EXHIBIT D-2 (Cont'd)

	Business-Type Activities - Enterprise Funds		
	Golf Course Fund	Utility Fund	Total Enterprise Funds
OPERATING REVENUES:			
Charges for Water Services	\$ -	\$ 2,199,916	\$ 2,199,916
Charges for Sewerage Service		1,807,488	1,807,488
Charges for Services - Golf Course	756,889		756,889
Rents and Royalties	177,745		177,745
Other Revenue	152,255	455,886	608,141
Total Operating Revenues	<u>1,086,889</u>	<u>4,463,290</u>	<u>5,550,179</u>
OPERATING EXPENSES:			
Utilities Administration			
Personnel Services - Salaries and Wages		264,290	264,290
Personnel Services - Employee Benefits		90,862	90,862
Purchased Professional & Technical Services		9,902	9,902
Purchased Property Services		18,899	18,899
Other Operating Expenses		8,230	8,230
Supplies		19,814	19,814
Total Utilities Administration		<u>411,997</u>	<u>411,997</u>
Water Services			
Personnel Services - Salaries and Wages		294,434	294,434
Personnel Services - Employee Benefits		112,156	112,156
Purchased Professional & Technical Services		5,018	5,018
Purchased Property Services		117,291	117,291
Other Operating Expenses		13,731	13,731
Supplies		72,579	72,579
Total Water Services		<u>615,209</u>	<u>615,209</u>
Water Plant			
Personnel Services - Salaries and Wages		98,320	98,320
Personnel Services - Employee Benefits		41,258	41,258
Purchased Professional & Technical Services		87,806	87,806
Purchased Property Services		274,266	274,266
Other Operating Expenses		5,172	5,172
Supplies		306,438	306,438
Total Water Plant		<u>813,260</u>	<u>813,260</u>
Wastewater Services			
Personnel Services - Salaries and Wages		129,320	129,320
Personnel Services - Employee Benefits		58,678	58,678
Purchased Professional & Technical Services		22,144	22,144
Purchased Property Services		155,144	155,144
Other Operating Expenses		7,712	7,712
Supplies		59,377	59,377
Total Wastewater Services		<u>432,375</u>	<u>432,375</u>
Wastewater Plant			
Personnel Services - Salaries and Wages		98,652	98,652
Personnel Services - Employee Benefits		31,285	31,285
Purchased Professional & Technical Services		44,140	44,140
Purchased Property Services		98,408	98,408

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

CITY OF LAGO VISTA, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Business-Type Activities - Enterprise Funds		
	Golf Course Fund	Utility Fund	Total Enterprise Funds
Other Operating Expenses		1,990	1,990
Supplies		<u>20,643</u>	-
		<u>20,643</u>	
Total Wastewater Plant		<u>295,118</u>	<u>295,118</u>
Golf Course			
Personnel Services - Salaries and Wages	469,642		469,642
Personnel Services - Employee Benefits	209,960		209,960
Purchased Professional & Technical Services	126,496		126,496
Purchased Property Services	269,429		269,429
Other Operating Expenses	47,305		47,305
Supplies	<u>250,446</u>		<u>250,446</u>
Total Golf Course	<u>1,373,278</u>		<u>1,373,278</u>
Effluent Disposal			
Personnel Services - Salaries and Wages		91,238	91,238
Personnel Services - Employee Benefits		40,399	40,399
Purchased Professional & Technical Services		4,910	4,910
Purchased Property Services		63,482	63,482
Other Operating Expenses		90	90
Supplies		<u>24,098</u>	<u>24,098</u>
Total Effluent Disposal		<u>224,217</u>	<u>224,217</u>
Depreciation	<u>276,576</u>	<u>869,484</u>	<u>1,146,060</u>
Total Operating Expenses	<u>1,649,854</u>	<u>3,661,660</u>	<u>5,311,514</u>
Operating Income (Loss)	<u>{562,9652</u>	<u>801,630</u>	<u>238,665</u>
NON-OPERATING REVENUES (EXPENSES):			
Investment Earnings		939	939
Interest Expense - Non-Operating	(2,293)	(4,689)	(6,982)
Total Non-operating Revenue (Expenses)	<u>(2,293)</u>	<u>(3,750)</u>	<u>(6,043)</u>
Income (Loss) Before Contributions & Transfers	<u>(565,258)</u>	<u>797,880</u>	<u>232,622</u>
Capital Contributions	16,675	11,616,159	11,632,834
Non-Operating Transfer In	18,240		18,240
Transfers Out		<u>(1,601,240)</u>	<u>(1,601,240)</u>
Change in Net Position	<u>(530,343)</u>	<u>10,812,799</u>	<u>10,282,456</u>
Total Net Position - October 1 (Beginning)	<u>1,932,118</u>	<u>37,211,363</u>	<u>39,143,481</u>
Total Net Position - September 30 (Ending)	<u>\$ 1,401,775</u>	<u>\$ 48,024,162</u>	<u>\$ 49,425,937</u>

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

CITY OF LAGO VISTA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

EXHIBIT D-3 (Cont'd)

	Business-Type Activities		
	Golf		Total
	Course Fund	Utility Fund	Enterprise Funds
<u>Cash Flows from Operating Activities:</u>			
Cash Received from User Charges	\$ 756,889	\$ 3,875,798	\$ 4,632,687
Cash Received - Others	324,611	455,886	780,497
Cash Payments to Employees for Services	(683,173)	(1,313,445)	(1,996,618)
Cash Payments for Suppliers	(251,587)	(465,746)	(717,333)
Cash Payments for Other Operating Expenses	(113,293)	(1,126,750)	(1,240,043)
Net Cash Provided by Operating Activities	<u>33,447</u>	<u>1,425,743</u>	<u>1,459,190</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Operating Transfer Out	<u>18,240</u>	(1,601,240)	(1,583,000)
<u>Cash Flows from Capital & Related Financing Activities:</u>			
Acquisition of Capital Assets	(16,675)	(12,050,856)	(12,067,531)
Capital Contributed by Other Funds	16,675	11,616,159	11,632,834
Notes Issued		70,901	70,901
Principal Payments - Notes	(49,394)	(113,047)	(162,441)
Interest Paid	(2,293)	(4,690)	(6,983)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>-</u>	<u>-</u>	<u>(533,220)</u>
<u>Cash Flows from Investing Activities:</u>	<u>2</u>	<u>2</u>	
Interest and Dividends on Investments		939	939
Net Increase (Decrease) in Cash and Cash		(656,091)	(656,091)
Equivalents Cash and Cash Equivalents at Beginning of the Year:	<u>1,000</u>	1,349,824	1,350,824
	\$ 1,000	\$ 693,733	\$ 694,733
Cash and Cash Equivalents at the End of the Year:			

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

CITY OF LAGO VISTA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

EXHIBIT D-3

	Business-Type Activities		
	Golf Course Fund	Utility Fund	Total Enterprise Funds
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>			
<u>Provided By Operating Activities:</u>			
Operating Income (Loss):	\$ (562,965)	\$ 801,630	\$ 238,665
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	276,576	869,484	1,146,060
Effect of Increases and Decreases in Current Assets and Liabilities:			
Decrease (increase) in Receivables	(5,389)	(131,606)	(136,995)
Decrease (increase) in Inventories	(1,084)	36,755	35,671
Increase (decrease) in Accounts Payable	(57)	448	391
Increase (decrease) in Other Current Liabilities		15,363	15,363
Increase (decrease) in Wages Payable	2,064	(609)	1,455
Increase (decrease) in Compensated Absences	(5,635)	38,056	32,421
Decrease (increase) in Due from Other Funds	330,717	(203,778)	126,939
Increase (decrease) in Intergovernmental	(780)		(780)
Net Cash Provided by Operating Activities	<u>\$ 33,447</u>	<u>\$ 1,425,743</u>	<u>\$ 1,459,190</u>

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

CITY OF LAGO VISTA, TEXAS
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2014

	Total Pension Trust Fund
<hr/>	
ASSETS	
Restricted Asset - Deferred Compensation Plan	\$ 718,970
Total Assets	<u>718,970</u>
LIABILITIES	
Due to Others	<u>718,970</u>
Total Liabilities	<u>718,970</u>

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

CITY OF LAGO VISTA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Lago Vista, Texas, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The *Government Accounting Standards Board* (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting principles. The more significant of the City's accounting policies are described below:

A. Reporting Entity

In evaluating how to define the government, for financial 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 GASB Statement 14. The definition of the reporting entity is based primarily on the concept of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. Based on the foregoing criteria, there were no component units identified that would require inclusion in this report.

B. Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the City of Lago Vista nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, sales tax, franchise tax, municipal court fines, charges for services and other miscellaneous revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for services.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City.

Interfund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental and proprietary. The City considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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 use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e. revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year-end.

Revenues from local sources consist primarily of property taxes, franchise taxes and user charges. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept; that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the City to refund all or part of the unused amount.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the governmental-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the 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 City has elected not to follow Financial Accounting Standards Board ("FASB") statements and interpretations issued after November 30, 1989 for its business-type and enterprise fund activities.

D. Fund Accounting

The City reports the following major governmental funds:

1. **The General Fund** - The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Debt Service Fund** - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

3. **Capital Projects Fund** - The Capital Projects Fund is used to account for the financial resources used for acquisition of major capital improvements.

Additionally, the City reports the following fund type(s):

Governmental Funds:

1. **Special Revenue Funds** - The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

Proprietary Fund:

1. **Enterprise Funds** - The Utility Fund and Golf Course Fund are operated as Enterprise Funds.

E. Other Accounting Policies

1. In the government-wide financial statements 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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

2. The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.
3. All inventories are valued at cost using the weighted average cost method. The consumption method is used to account for governmental fund type inventories. Under the consumption method, inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.
4. Capital assets, which include land, buildings, furniture and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with 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 costs 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.

Buildings, furniture and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30-50
Improvements	10-30
Equipment	3-10

Pursuant to GASB Statement Number 34, an extended period of deferral is available before the requirement to record and depreciate infrastructure assets (e.g., roads, bridges, and similar items) acquired before the implementation date becomes effective. Therefore, infrastructure assets acquired prior to October 1, 2001 have not yet been capitalized.

5. Beginning with fiscal year end September 30, 2011, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Non-spendable fund balance – amounts that are not in non-spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or other purposes).

6. Implementation of new GASB Accounting Standard:

The City has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* as well as the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Under GASB 63 and 65, amounts previously reported as deferred charges as a part of total assets and deferred amounts from refunded debt have been reported in a separate section as deferred outflows of resources and amounts previously reported as deferred revenue as a part of total liabilities have been reported in a separate section as deferred inflows of resources.

7. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
8. The original budget is adopted by the City Council prior to the beginning of the fiscal year through passage of an ordinance. The budget includes proposed expenditures and the means of financing them.

Budgeted amounts for expenditures from the various funds may not exceed the beginning balances of those funds plus the anticipated revenues for the fiscal year. The final amended budget has been presented in this report. Unencumbered appropriations lapse at the end of each year.

NOTE II. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the **Depository Contract Law**. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At September 30, 2014, the carrying amount of the City's deposits was \$274,172 and the bank balance was \$779,310. The City's cash deposits held at Security State Bank at September 30, 2014 and during the year ended September 30, 2014 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Temporary investments:

	Carrying Amount	Market Value	FDIC Coverage	Pledged Securities
LOGIC	\$ 12,038,252	\$ 12,038,252	\$ - 0 -	\$ - 0 -

Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool.

Policies Governing Deposits and Investments

In compliance with the **Public Funds Investment Act**, the City has adopted a deposit and investment policy. That policy does address the following risks:

Custodial Credit Risk - Deposits: This is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City was not exposed to custodial credit risk since its deposits at year-end and during the year ended September 30, 2014 were covered by depository insurance or by pledged collateral held by the City's agent bank in the City's name.

Custodial Credit Risk - Investments: This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Thus positions in external investment pools are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

Other Credit Risk: There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To minimize credit risk, Logic Investment Pool invests only in investments authorized under the Public Funds Investment Act. Logic's portfolio has low market (credit) risk due to restrictions on weighted average maturity and maximum maturity of any one investment. The investment manager is required to maintain a stable \$1.00 net position value and must take immediate action if the net position value of the portfolio falls below \$.995 or rises above \$1.005.

B. Property Taxes

The city levies taxes on real property within the city on October 1 each year, which is the lien date. Such taxes become delinquent the following February 1. On January 1 of each year, a tax lien attaches to the property to secure the payment of all taxes, penalties and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period. The Travis County Appraisal District appraises and collects taxes for the city. For the 2013 tax roll, the tax rate was \$.3151 for maintenance and operations and \$.3349 for interest and sinking. The total tax rate was \$.65 per \$100 valuation and the total property valuation was \$607,667,363.

C. Court Fines and Fees Receivable

In accordance with GASB Statement Number 34, the City has determined the amount of court fines and fees receivable to be \$177,900. Based on historical collection rates for the various courts, the City has booked an allowance for uncollectible court fines and fees of \$124,530, resulting in a net receivable of \$53,370.

D. Restricted Assets

Restricted assets represent cash that has been set aside for future payment of revenue bonds and capital improvements. A summary of restricted assets at September 30, 2014 appears below:

<i>Capital Projects Fund -</i>	
Airport Taxiway	20,008
Austin Boulevard Paving	26,465
2014 Certificates of Obligation	6,677,264
Series 2006 Construction	30,777
Hollows/Centex LOC	369,690
LVISD Utility Improvements	130,224
PIO Offset Utilities	25,552
Jonestown/LV/Centex Settlement	349,651
LCRA Hollows Water Quality Impr	330,244
Drought Emergency Fund	134,279
<i>Pension Trust Fund-</i>	
Deferred Compensation Plan	718,970
Total Restricted Assets	<u>\$ 8,813,124</u>

E. Capital Asset Activity

Changes in Governmental fixed assets during the year ended September 30, 2014 were as follows:

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Governmental Activities:				
Land	\$ 1,052,035	\$	\$	\$ 1,052,035
Buildings & Streets	2,748,278	9,856,236		12,604,514
Machinery & Equipment	833,362	154,678		988,040
Autos & Trucks	755,326	65,607		820,933
Furniture & Fixtures	98,623			98,623
Improvements	3,445,246	3,125,153		6,570,399
Construction in Progress	1,231,896	25,825	77,516	1,180,205
Totals at Historic Cost	\$ 10,164,766	\$ 13,227,499	\$ 77,516	\$ 23,314,749
Less Accumulated Depreciation	<u>(2,025,725)</u>	<u>(331,951)</u>		<u>(2,357,676)</u>
Governmental Activities				
Capital Assets, Net	\$ <u>8,139,041</u>	\$ <u>12,895,548</u>	\$ <u>77,516</u>	\$ 20,957,073

F. Property, Plant and Equipment

Capital asset activity for the Enterprise Funds for the year ended September 30, 2014, was as follows:

	Balance 10/01/13	Additions	Deletions	Balance 09/30/14
Land	\$ 3,271,843	\$	\$	\$ 3,271,843
Buildings	872,223	46,534		918,757
Improvements	1,534,652	10,539,431		12,074,083
Water Treatment Plant	7,714,198			7,714,198
Construction in Progress	3,317,808	2,153,157	(766,426)	4,704,539
Water and Sewer System	28,413,405			28,413,405
Machinery & Equipment	3,441,375	94,835		3,536,210
Totals	\$ 48,565,504	\$ 12,833,957	\$ (766,426)	\$ 60,633,035
Accumulated Depreciation	(14,459,318)	(1,146,060)		(15,605,378)
Fixed Assets, Net	\$ 34,106,186	\$ 11,687,897	\$ (766,426)	\$ 45,027,657

G. Intangible Asset

On December 3, 2012, the City purchased a 20-year public access to the school facilities from the Lago Vista Independent School District. The easement is being amortized over the contract period (20 years). The unamortized balance as of September 30, 2014 was \$308,673.

H. Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Bonds Payable	\$ 20,990,000	\$ 7,655,000	1,830,000	\$ 26,815,000	\$ 2,006,000
Premium on Bonds	170,537	421,491	19,992	572,036	
Accrued Compensation	226,087	46,703		272,790	
Loans Payable	165,304	151,696	119,452	197,548	101,681
Less: Deferred Loss on Refunding Bonds	(235,606)		(25,460)	(210,146)	
Governmental Activity Long-Term Debt	\$ 21,316,322	\$ 8,274,890	\$ 1,943,984	\$ 27,647,228	\$ 2,107,681
<u>Business-Type Activities</u>					
Loans Payable -					
Water & Sewer Fund	\$ 150,195	\$ 70,901	113,033	\$ 108,063	\$ 58,848
Golf Courses Fund	91,623		49,408	42,215	29,122
Business Type Activity Long-Term Debt	\$ 241,818	\$ 70,901	\$ 162,441	\$ 150,278	\$ 87,970
TOTAL ACTIVITIES	\$ 21,558,140	\$ 8,345,791	\$ 2,106,425	\$ 27,797,506	\$ 2,195,651

I. Bonds Payable

A detail of General Long-Term Debt is as follows :

	Balance at 9/30/14	Due within one Year
\$9,960,000 General Obligation Refunding Bonds, Series 2005 Date of Issue: April 1, 2005 Interest Rate 3.00% to 4.25% Balance, September 30, 2014	\$ 7,445,000	\$ 920,000
\$6,515,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2006 Date of Issue: October 5, 2006 Interest Rate 4.13% Balance, September 30, 2014	5,055,000	400,000
\$2,000,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2008 Date of Issue: July 3, 2008 Interest Rate 3.87% Balance, September 30, 2014	1,535,000	84,000
\$2,340,000 General Obligation Refunding Bonds, Series 2009 Date of Issue: August 20, 2009 Interest Rate 3.30% Balance, September 30, 2014	790,000	147,000
\$4,535,000 General Obligation Refunding Bonds, Series 2011 Date of Issue: December 1, 2011 Interest Rate: 2.0% Balance, September 30, 2014	4,335,000	455,000
\$7,655,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014 Date of Issue: August 19, 2014 Interest Rate: 2.0-4.50% Balance, September 30, 2014	7,655,000	
TOTAL BONDS PAYABLE	\$ 26,815,000	\$ 2,006,000

The annual requirements to amortize the obligation outstanding at September 30, 2014 follow :

General Long-Term Debt

September 30,	Principal	Interest	Total
2015	\$ 2,006,000	989,667	\$ 2,995,667
2016	2,098,000	921,603	3,019,603
2017	2,064,000	846,357	2,910,357
2018	2,076,000	768,557	2,844,557
2019	2,157,000	688,146	2,845,146
2020-2024	7,208,000	2,364,776	9,572,776
2025-2029	3,766,000	1,507,519	5,273,519
2030-2034	4,435,000	685,025	5,120,025
2035-2039	1,005,000	22,613	1,027,613
Totals	\$ 26,815,000	\$ 8,794,263	\$ 35,609,263

J. Notes Payable

The following is a summary of notes payable:

	Balance at 9/30/14	Due Within One Year
UTILITY FUND		
Security State Bank, secured by 2012 Ford F350, original amount \$37,849, payable in quarterly installments of \$3,310 (including interest at 3.0%) through January 2015.	6,538	6,538
Security State Bank, secured by John Deere Mower, original amount \$48,439, payable in quarterly installments of \$4,236 (including interest at 3.0%) through December 2014.	4,185	4,185
Security State Bank, secured by 2012 Chevrolet Colorado, original amount \$21,319, payable in quarterly installments of \$1,864 (including interest at 3.0%) through January 2015.	3,661	3,661
Security State Bank, secured by Kubota Tractor, original amount \$28,950, payable in quarterly installments of \$2,554 (including interest at 3.5%) through January 2016.	12,359	7,396
Security State Bank, secured by Land Pride Shredder, original amount \$2,600, payable in quarterly installments of \$229 (including interest at 3.5%) through January 2016.	1,110	664
Security State Bank, secured by 2009 Doosan Lift Truck, original amount \$17,894, payable in quarterly installments of \$1,586 (including interest at 3.5%) through January, 2017	15,098	5,887
Security State Bank, secured by 2014 Equipment Trailer, original amount \$8,875, payable in quarterly installments of \$783 (including interest at 3.5%) through January, 2017	7,451	2,905
Security State Bank, secured by Magnum Light Tower, original amount \$8,500, payable in quarterly installments of \$750 (including interest at 3.5%) through January, 2017	7,136	2,782
Security State Bank, secured by 2014 Coats Spin Tire Balancer, original amount \$3,000, payable in quarterly installments of \$265 (including interest at 3.5%) through January, 2017	2,519	982
Security State Bank, secured by 2014 Chevrolet 3500 Truck, original amount \$32,542, payable in quarterly installments of \$2,871 (including interest at 3.5%) through March, 2017	27,328	10,655

	Balance at 9/30/14	Due Within One Year
Security State Bank, secured by Kubota Utility Vehicle, original amount \$16,950, payable in quarterly installments of \$1,495 (including interest at 3.5%) through January 2016.	7,236	4,330
Security State Bank, secured by Rock Bucket, original amount \$995, payable in quarterly installments of \$88 (including interest at 3.5%) through January 2016.	425	254
Security State Bank, secured by 2012 Chevy 2500 Truck, original amount \$25,388 payable in quarterly installments of \$2,239 (including interest at 3.5%) through January 2016.	13,017	8,609
GOLF COURSE FUND		
Security State Bank, secured by NSL JD Loader, original amount \$4,419, payable in quarterly installments of \$386 (including interest at 3.0%) through December, 2014	382	382
Security State Bank, secured by Bunker and Field Rake, original amount \$11,081, payable in quarterly installments of \$969 (including interest at 3.0%) through December, 2014	957	957
Security State Bank, secured by JD Greens Mower, original amount \$24,477, payable in quarterly installments of \$2,141 (including interest at 3.0%) through December, 2014	2,115	2,115
Security State Bank, secured by John Deere Trim Mower, original amount \$26,707, payable in quarterly installments of \$2,356 (including interest at 3.5%) through February, 2016	13,676	9,056
Security State Bank, secured by John Deere Trim Mower, original amount \$26,707, payable in quarterly installments of \$2,356 (including interest at 3.5%) through February, 2016	13,676	9,056
Security State Bank, secured by Salsco Green Roller, original amount \$13,940, payable in quarterly installments of \$1,230 (including interest at 3.5%) through February, 2016	7,138	4,727
Security State Bank, secured by John Deere Gator, original amount \$8,342, payable in quarterly installments of \$736 (including interest at 3.5%) through February, 2016	4,271	2,829
TOTAL ENTERPRISE FUNDS	\$ 150,278	\$ 87,970

	Balance at 9/30/14	Due Within One Year
GOVERNMENTAL FUNDS		
Security State Bank, secured by Morbark Seever M12R Chipper, original amount \$34,200, payable in quarterly installments of \$2,991 (including interest at 3.0%) through December, 2014	2,955	2,955
Security State Bank, secured by 2011 Crown Victoria, original amount \$35,962, payable in quarterly installments of \$3,145 (including interest at 3.0%) through December, 2014	3,107	3,107
Security State Bank, secured by 2011 Crown Victoria, original amount \$35,962, payable in quarterly installments of \$3,145 (including interest at 3.0%) through December, 2014	3,107	3,107
Security State Bank, secured by 2011 Crown Victoria, original amount \$35,962, payable in quarterly installments of \$3,145 (including interest at 3.0%) through January, 2015	6,176	6,176
Security State Bank, secured by 2011 Crown Victoria, original amount \$36,362, payable in quarterly installments of \$3,180 (including interest at 3.0%) through January, 2015	6,245	6,245
Security State Bank, secured by 2013 Silverado, original amount \$39,943, payable in quarterly installments of \$3,523 (including interest at 3.5%) through March, 2016	20,423	13,548
Security State Bank, secured by Pro Turn 260 mower, original amount \$8,099, payable in quarterly installments of \$714 (including interest at 3.5%) through December, 2015	3,465	2,771
Security State Bank, secured by 2006 Chevrolet bucket truck, original amount \$41,970, payable in quarterly installments of \$3,702 (including interest at 3.5%) through January, 2016	21,525	14,231
Security State Bank, secured by 2014 Ford Explorer, original amount \$40,321, payable in quarterly installments of \$3,557 (including interest at 3.5%) through June, 2017	37,093	13,085
Security State Bank, secured by 2014 Case 580N Backhoe, original amount \$86,089, payable in quarterly installments of \$7,594 (including interest at 3.5%) through January, 2017	72,235	28,179
Security State Bank, secured by 2014 Chevrolet 2500 Truck, original amount \$25,286, payable in quarterly installments of \$2,231 (including interest at 3.5%) through January, 2017	<u>21,217</u>	<u>8,277</u>
TOTAL GENERAL LONG-TERM DEBT	<u>\$ 197,548</u>	<u>\$ 101,681</u>
TOTAL NOTES PAYABLE	<u>\$ 347,826</u>	<u>\$ 189,651</u>

The annual requirements to amortize the notes outstanding at September 30, 2014 follow:

September 30,	Principal	Interest	Total
2015	\$ 189,651	\$ 9,362	\$ 199,013
2016	116,209	4,070	120,279
2017	41,966	865	42,831
Totals	\$ 347,826	\$ 14,297	\$ 362,123

K. Risk Management

The City of Lago Vista is exposed to various risks of loss relating to general liability, accidental loss of real and personal property, damage to assets, errors, and omissions, acts of God and personnel risks which relate to workers compensation.

The City contracts with the Texas Municipal League (TML) to provide insurance coverage for identified risks. **TML** is a multi-government group that provides for a combination of modified self-insurance and stop-loss coverage. Contributions are sent annually to TML. Liability by the City is generally limited to the contributed amounts. Contributions for the year ended September 30, 2014 were \$133,557.

L. Defined Benefit Pension Plan

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2013	Plan Year 2014
Employee Deposit Rate:	6%	6%
Matching Ratio (City to Employee)	2 - 1	2 - 1
Years required for Vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be

sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e., the December 31, 2013 valuation will determine the contribution rate beginning January 1, 2015). The annual pension cost and net pension obligation/(asset) are as follows:

Three-Year Trend Information					
Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/(Asset)	
2012	\$ 228,411	\$ 228,411	100%	- 0 -	
2013	213,991	213,991	100%	- 0 -	
2014	219,839	219,839	100%	- 0 -	

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Calculation Date	12/31/11	12/31/12	12/31/13
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	20.8 years; closed period	18.5 years; closed period	25.0 years; closed period
Amortization Period for new Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return *	7.0%	7.0%	7.0%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	0%	0%	0%

Funded Status and Funding Progress

In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of the Annuity Purchase Rate Factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2013, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3)	Unfunded AAL (UAAL) (4)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6)
			(1)/(2)	(2) - (1)		(4)/(5)
12/31/2013	\$ 6,643,744	6,944,898	95.7%	301,154	3,120,243	9.7%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

M. Supplemental Death Benefits Fund

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

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

Contributions

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

The City's contributions to the TMRS SDBF for the year ended 2014, 2013 and 2012 were \$6,477, \$5,482 and \$5,740, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates:
(RETIREE-only portion of the rate)

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2011	0.01%	0.01%	100.0%
2012	0.01%	0.01%	100.0%
2013	0.02%	0.02%	100.0%
2014	0.02%	0.02%	100.0%

N. Deferred Compensation Plan

The City offers its employees deferred compensation programs through Nationwide Retirement Solutions, Inc. The plan, created in accordance with Internal Revenue Code Section 457, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City, subject only to the claims of the City's general creditors. Participants' rights under the plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

The City has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

O. Employee Insurance Benefits

All regular full time employees of the city are eligible for coverage under the group hospitalization, medical, dental and life insurance program provided by the city through TML Group Benefits Risk Pool. The city pays the premium for eligible employees and employees, at their option, may authorize payroll withholdings to pay premiums for eligible family members.

P. Interfund Transactions

Interfund balances at September 30, 2014 consisted of the following:

	Receivable	Payable
General Fund	\$ 6,308,158	\$ 5,796,773
Debt Service Fund	304,023	233,728
Special Revenue Fund		18,857
Capital Projects Fund		4,168,523
Golf Course Fund		1,527,979
Utility Fund	5,133,679	
TOTALS	\$ 11,745,860	\$ 11,745,860

During the year ended September 30, 2014, the City's transfers between funds consisted of:

	Transfers In	Transfers Out
General Fund	\$ 1,000,000	\$
Debt Service Fund	583,000	
Impact Fee Fund		583,000
Golf Course	18,240	
Utility Fund		1,018,240
TOTALS	\$ 1,601,240	\$ 1,601,240

Q. Long-Term Debt-Advance Refundings

General Obligation Refunding Bonds - Series 2011

During 2012, the City advance refunded a portion of several of the City's obligations with one refunding, general obligation refunding bonds – Series 2011 (\$4,535,000). The various bonds were called and were redeemed on December 1, 2011 by purchasing \$4,612,372 in U.S. State and Local Government securities. The various bonds have been defeased and removed as a liability of the City. The Series 2011 bonds mature on February 15, in each of the years 2012 through 2023, bearing interest at 2.0% and 3.0%. The refunding bonds resulted in a gross debt service savings of \$351,141 and the net present value savings of \$293,664. The following obligations are considered to be defeased and the liability removed from the accompanying financial statements:

Description	Refunded Amount	Balance 9/30/2014
Combination Tax & Limited Revenue – Refunding Bonds - Series 2003	\$ 4,050,000	\$ 4,050,000
Limited Tax Notes - Series 2010	<u>295,000</u>	<u>184,000</u>
Total Amount refunded	\$ 4,345,000	\$ <u>4,234,000</u>

General Obligation Refunding Bonds - Series 2009

During 2009, the City advance refunded a portion of several of the City's obligations with one refunding, general obligation refunding bonds - Series 2009 (\$2,340,000). The various bonds were called and were redeemed on August 20, 2009 by purchasing \$2,305,790 in U.S. State and Local Government securities. The various bonds have been defeased and removed as a liability of the City. The Series 2009 bonds mature on February 15, in each of the years 2010 through 2019, bearing interest at 3.3%. The following obligations are considered to be defeased and the liability removed from the accompanying financial statements:

Description	Refunded Amount	Balance, 9/30/14
Combination Tax & Limited Revenue Refunding Bonds - Series 1999	\$ 1,440,000	\$ 800,000
General Obligation Bonds - Series 1999	<u>855,000</u>	
Total Amount Refunded	\$ <u>2,295,000</u>	\$ <u>800,000</u>

General Obligation Refunding Bonds - Series 2005

During 2005, the City advance refunded a portion of several of the City's obligations with one refunding, general obligation refunding bonds - Series 2005 (\$9,960,000). The net proceeds of \$9,774,741 was deposited with the escrow agent to provide for all future debt service payments on the refunded obligations. The following obligations are considered to be defeased and the liability removed from the accompanying financial statements:

Description	Refunded Amount	Balance, 9/30/14
Combination Tax and Limited Pledge Revenue Certificates of Obligation -		
Series 1999	\$ 1,010,000	\$ 560,000
Series 2000	7,530,000	6,245,000
General Obligation Refunding Bonds -		
Series 1999	135,000	
General Obligation Bonds -		
Series 2001	585,000	585,000
Total Amount Refunded	\$ 9,260,000	\$ 7,390,000

R. Negative Unrestricted Net Position

The unrestricted net position for the governmental activities reflects a large negative balance. Since the City finances utility fund improvements with taxes, the assets are reflected in the utility fund while the debt is shown in the governmental activities. This causes a large negative balance for unrestricted net position in the governmental activities as shown below:

Long-term debt used to finance utility (enterprise) fund improvements -	\$ (26,815,000)
Unrestricted Net Position	2,503,420
As Reported on Exhibit A-1	\$ <u>(24,311,580)</u>

S. Contingent Liabilities

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

T. Cash Flows Statement - Supplemental Disclosures

Since the City is tax exempt, no income tax was paid in 2014 and 2013. The City paid interest in the amount of \$6,983 in 2014 and \$12,036 in 2013.

U. Public Improvement Districts

On May 11, 2012, the City granted a petition to create Tessera on Lake Travis Public Improvement District. The Petitioners proposed the District be managed by the City with, at the option of the City, the assistance of other parties as determined by the City. The costs and expenses of the services of such other parties shall be part of the cost of operating and administering the District. The City will not be obligated to provide any funds to finance construction of authorized improvements. All design and construction costs of authorized improvements will be paid from assessments and from other sources of funds, if any, available to the Petitioners.

On September 11, 2014 Hines Lake Travis Land II Limited Partnership conveyed Phase I assets of Tessera on Lake Travis Public Improvement District to the City. The governmental assets totaled \$12,798,379 in infrastructure, improvements and buildings and the proprietary fund assets (Utility Fund) totaled \$4,949,459 in system improvements. The total assets conveyed were \$17,747,838.

V. Excess of Expenditures Over Appropriations

Actual expenditures exceeded appropriations in the General Fund line items Finance and Public Works Streets but not in total.

W. Subsequent Events

The City has evaluated subsequent events through March 21, 2015, the date which the financial statements were available to be issued. The City is considering a \$2.1 million tax notes issue to complete the utility system improvements. The City is not aware of any other subsequent events that materially impact the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAGO VISTA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

EXHIBIT G-1

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 1,891,027	\$ 1,891,027	\$ 1,886,111	\$ (4,916)
General Sales and Use Taxes	290,640	290,640	364,704	74,064
Franchise Tax	308,570	308,570	292,574	(15,996)
Other Taxes	13,000	9,000	5,463	(3,537)
Licenses and Permits	160,300	144,100	104,033	(40,067)
Intergovernmental Revenue and Grants	108,000	20,000	90,564	70,564
Charges for Services	674,220	674,220	717,306	43,086
Fines	125,000	125,000	75,272	(49,728)
Investment Earnings	6,000	6,000	2,735	(3,265)
Contributions & Donations from Private Sources			6,050	6,050
Other Revenue	63,128	55,128	143,854	88,726
Total Revenues	<u>3,639,885</u>	<u>3,523,685</u>	<u>3,688,666</u>	<u>164,981</u>
EXPENDITURES:				
Current:				
Administration	402,683	570,001	546,692	23,309
Non Departmental	3,000	3,100	3,100	
Development Services	439,544	522,314	480,877	41,437
Finance	243,139	240,341	240,894	(553)
Municipal Court	114,052	112,647	82,291	30,356
Police Department	1,434,384	1,432,627	1,410,158	22,469
Dispatching	311,147	306,798	260,705	46,093
Public Works Streets	748,414	743,736	819,531	(75,795)
Solid Waste	520,601	529,058	528,846	212
Building Maintenance	44,132	44,132	35,304	8,828
Recreation	81,444	79,944	68,486	11,458
Aviation	18,769	21,319	18,880	2,439
Library	145,007	145,008	135,413	9,595
Total Expenditures	<u>4,506,316</u>	<u>4,751,025</u>	<u>4,631,177</u>	<u>119,848</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(866,431)</u>	<u>(1,227,340)</u>	<u>(942,511)</u>	<u>284,829</u>
OTHER FINANCING SOURCES (USES):				
Non-Current Loans			151,696	151,696
Transfers In	1,000,000	1,000,000	1,000,000	
Total Other Financing Sources (Uses)	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,151,696</u>	<u>151,696</u>
Net Change in Fund Balances	133,569	(227,340)	209,185	436,525
Fund Balance - October 1 (Beginning)	<u>2,573,452</u>	<u>2,573,452</u>	<u>2,573,452</u>	
Fund Balance - September 30 (Ending)	<u>\$ 2,707,021</u>	<u>\$ 2,346,112</u>	<u>\$ 2,782,637</u>	<u>\$ 436,525</u>

CITY OF LAGO VISTA, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION

Texas Municipal Retirement System

Schedule of Funding Progress:

(unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
(1)	(2)	(3)	(4)	(5)	(6)	(7)
			(1)/(2)	(3)-(1)		(3)/(5)
12/31/2011	\$ 5,399,866	\$ 5,705,694	94.6%	\$ 305,828	\$ 2,960,275	10.3%
12/31/2012	5,977,644	6,037,049	99.	59,405	2,970,807	2.0
12/31/2013	6,643,744	6,944,898	95.7	301,154	3,120,243	9.7

SUPPLEMENTARY INFORMATION

NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.

Certified Public Accountants

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

Independent Auditor's Report

Honorable Mayor and
Members of the City Council
City of Lago Vista, Texas
Lago Vista, TX 78645

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lago Vista, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Lago Vista, Texas's basic financial statements, and have issued our report thereon dated March 21, 2015.

Internal Control Over Financial Reporting

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

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

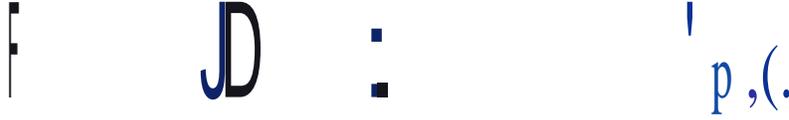
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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



Fredericksburg, Texas

March 21, 2015

NEFFENDORF, KNOPP, Doss & COMPANY, P.C.

Certified Public Accountants

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March 21, 2015

Honorable Mayor and
Members of the City Council
City of Lago Vista, Texas
Lago Vista, TX 78645

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lago Vista, Texas for the year ended September 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 14, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Lago Vista, Texas are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 21, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We did find non-material weakness, included for informational purposes as follows:

Current Year Recommendations:

Due To and Due From Accounts

The City utilizes due to and due from accounts. These accounts were out of balance at year-end. The accounts should be reviewed and cleared periodically. We recommend these accounts be reviewed prior to yearend and reconciled.

Prior Year Recommendations

Bank Reconciliation Items

There are a number of immaterial old outstanding checks on the Accounts Payable bank reconciliation and the Payroll Account bank reconciliation. We again recommend the items be researched and cleared.

Deferred Revenues – Capital Projects Contributions

The City maintains a subsidiary ledger for all CIP projects which reconcile to the general ledger for funds received and expenditures. However, the general ledger is not adjusted at year-end for deferred revenues on the CIP projects. We again recommend that the general ledger be adjusted at year-end for any deferred revenues.

This information is intended solely for the use of the City Council and management of City of Lago Vista and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Neffendorf, Knopp, Doss & Company, P.C.

NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.
Fredericksburg, Texas