

**VILLAGE OF THE HILLS
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2012 and 2011**

VILLAGE OF THE HILLS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Aldermen
Village of The Hills, Texas

We have audited the accompanying financial statements of the governmental activities and the business-type activities, of Village of The Hills, as of and for the years ended September 30, 2012 and 2011, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of The Hills management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the business-type activities of Village of The Hills, Texas, as of September 30, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 21 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.

Jansen and Gregorczyk

January 22, 2013

VILLAGE OF THE HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2012 and 2011

Our discussion and analysis of Village of The Hills (The Village), financial performance provides an overview of The Village's financial activities for the year ended September 30, 2012. Please read it in conjunction with The Village's financial statements, which follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements: The Statement of Net Assets and the Statement of Activities provide information about the activities of The Village as a whole and present a longer-term view of The Village's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report The Village's operations in more detail than the government-wide statements by providing information about activities for which The Village acts solely as a trustee or agent for the benefit of those outside of the government.

FINANCIAL HIGHLIGHTS

- During the year, The Village's general fund had revenues of \$441,224 compared to total general fund expenses of \$343,557. This results in an increase of revenue over current expenses of \$97,667 for the year ended September 30, 2012.
- The Village's Solid Waste fund gross revenue amounted to \$186,705 for the year, with a net loss of \$(7,822).
- Total revenues for all of The Village's programs for the year ended September 30, 2012 were \$627,929 compared to \$491,445 in the year ended September 30, 2011. Property, Franchise and Other revenue increased \$55,895, while charges for services for the Waste fund increased by \$39,776. Revenue generated by sales tax this year increased by \$40,813.

Reporting The Village as a Whole

One of the most important questions asked about The Village's finances is, "Is The Village as a whole better off or worse off as a result of the year's activities"? The Statement of Net Assets and the Statement of Activities report information about The Village as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual method of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report The Village's *net assets* and changes in them. *Net assets* represent the difference between total assets and liabilities and are similar to the total owners' equity presented by a commercial enterprise. The changes in The Village's net assets are one way to measure The Village's financial health, or *financial position*. Over time, increases or decreases in The Village's net assets are one indicator of whether its *financial health* is improving or deteriorating. Other nonfinancial factors, such as changes in the District's property tax, also impact the *overall health* of The Village.

In the Statement of Net Assets and the Statement of Activities, we divide The Village into two kinds of activities:

Governmental activities- Most of The Village's basic services are reported here, including traffic control, law enforcement, deer control, maintenance of the park and perimeter fence, and general administration. Property taxes and franchise fees finance most of these activities.

Business-type activities- The Village charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Village's solid waste disposal system is reported here.

Reporting The Village's Most Significant Funds

The fund financial statements provide detailed information about the most significant funds-not The Village as a whole. Some funds are required to be established by State law. However, The Village Council establishes other funds to help it control and manage money for particular purposes. The Village's two kinds of funds -*governmental* and *proprietary*- use different accounting approaches.

Governmental funds- Most of The Village's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of The Village's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance The Village's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the right of the fund financial statements.

Proprietary funds - When The Village charges customers for the services it provides-whether to outside customers or to other units of The Village-these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statements of Net Assets and the Statement of Activities. In fact, The Village's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.

OVERVIEW OF CITY'S FINANCIAL POSITION AND OPERATIONS

The Village's net assets increased by \$89,846 in the year ended September 30, 2012. Table 1 and Table 2 below reflect the net assets and changes in net assets of governmental activities and business-type activities separately.

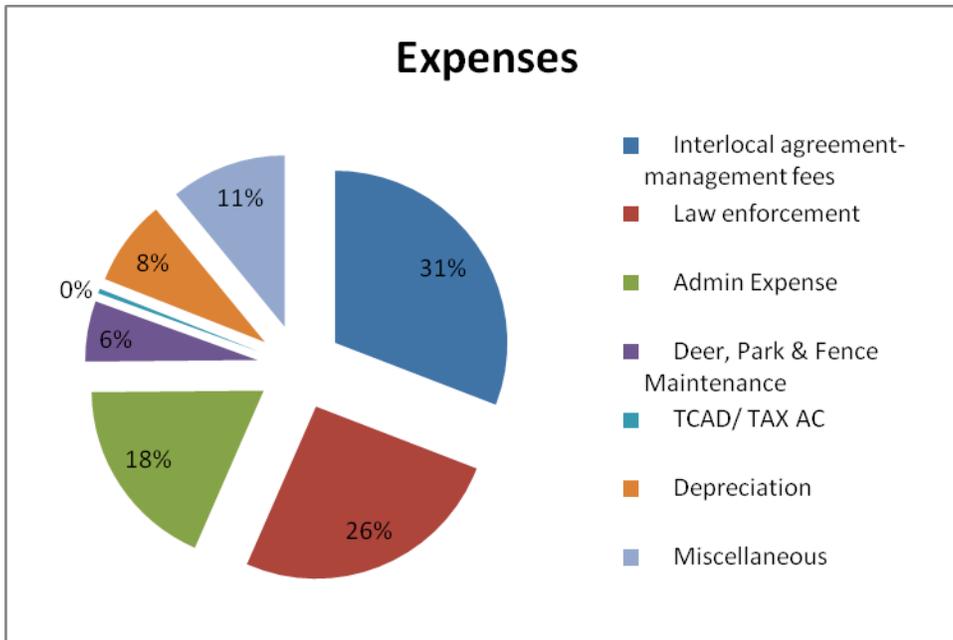
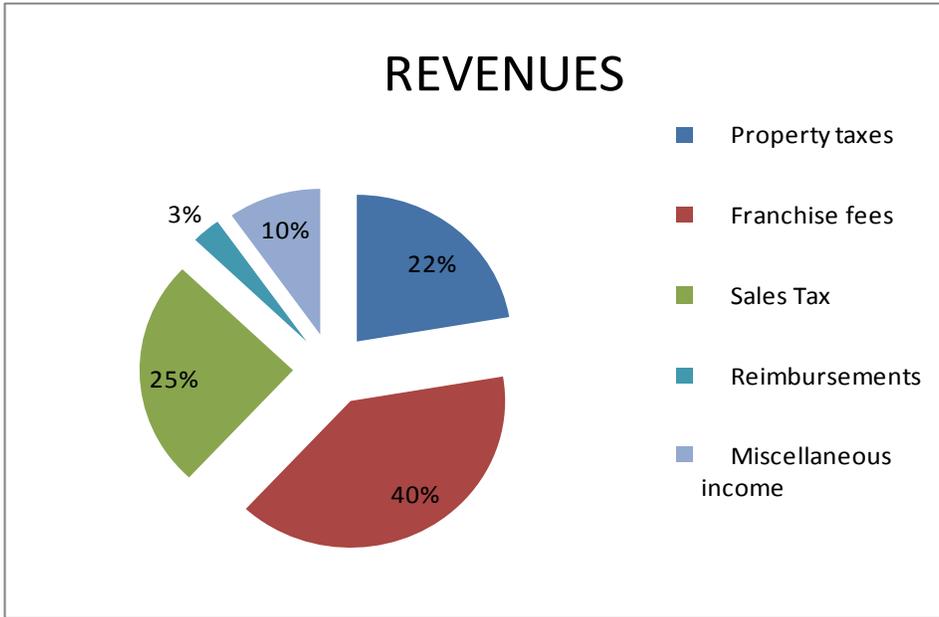
Table 1

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current assets	\$ 197,052	\$ 158,907	\$ 50,063	\$ 57,884	\$ 247,115	\$ 216,791
Capital assets	426,537	369,175	-	-	426,537	369,175
Total assets	<u>623,589</u>	<u>528,082</u>	<u>50,063</u>	<u>57,884</u>	<u>673,652</u>	<u>585,966</u>
Long-term debt outstanding	-	-	-	-	-	-
Other liabilities	11,431	13,591	-	-	11,431	13,591
Total liabilities	<u>11,431</u>	<u>13,591</u>	<u>-</u>	<u>-</u>	<u>11,431</u>	<u>13,591</u>
Net assets:						
Invested in capital assets	426,537	369,175	-	-	426,537	369,175
Unrestricted	185,621	145,316	50,063	57,784	235,684	203,100
Total net assets	<u>\$ 612,158</u>	<u>\$ 514,491</u>	<u>\$ 50,063</u>	<u>\$ 57,784</u>	<u>\$ 662,221</u>	<u>\$ 572,275</u>

**Table 2
Revenues**

Program revenues:						
Charges for services	\$ -	\$ -	\$ 186,705	\$ 146,929	\$ 186,705	\$ 146,929
General revenues						
Property and other taxes	210,623	126,432	-	-	210,623	197,281
Franchise fees	174,131	106,934	-	-	174,131	106,934
Other general revenues	56,470	111,150	-	-	56,470	170,301
Total revenues	<u>\$ 441,224</u>	<u>\$ 344,516</u>	<u>\$ 186,705</u>	<u>\$ 146,929</u>	<u>\$ 627,929</u>	<u>\$ 491,445</u>
Program expenses:						
General administration	\$ 255,185	\$ 252,799			\$ 255,185	\$ 252,799
Public safety	88,372	84,856			88,372	84,856
Waste disposal	-	-	194,526	149,073	194,526	149,073
Total expenses	<u>\$ 343,557</u>	<u>\$ 337,655</u>	<u>\$ 194,526</u>	<u>\$ 149,073</u>	<u>\$ 538,083</u>	<u>\$ 486,728</u>
Other financing sources/operating transfers in (out)	-	-	-	-	-	-
Increase (decrease) in net assets	<u>\$ 97,667</u>	<u>\$ 6,861</u>	<u>\$ (7,821)</u>	<u>\$ (2,144)</u>	<u>\$ 89,846</u>	<u>\$ 4,717</u>

GOVERNMENTAL ACTIVITIES



Total assets of the total primary governmental fund of The Village increased by \$87,686, an increase of 8.73%, primarily due to an increase in sales tax revenue and franchise fees. Investment in capital assets increased from \$369,175 to \$426,537 while unrestricted assets, those funds available for day-to-day operations, increased by \$32,584 from prior year. The Village has no debt and has sufficient funds to pay the expenses of its operations.

The net assets of the business-type activities decreased by \$7,821 from the prior year.

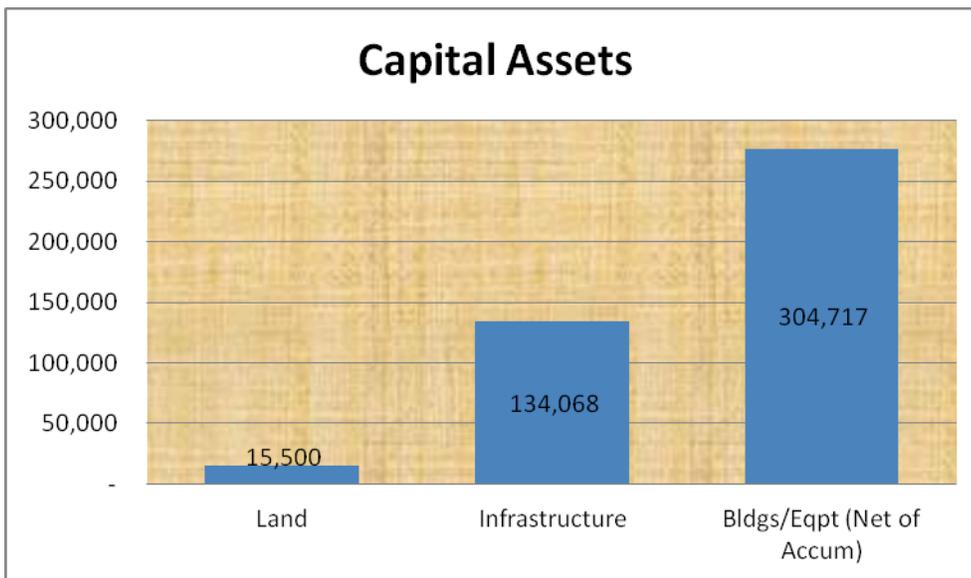
General Fund Budgetary Highlights

The Village prepares an annual operating budget in August for the coming fiscal year which begins in October. The Board of Aldermen may revise, if necessary, the Budget during the year to allocate additional resources identified during the year for additional needs that develop. The analysis of the revisions is reflected on the Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual-(Budgetary)-General Fund following the Notes to the Combined Financial Statements.

Capital Asset and Debt Administration

Capital Assets

At September 30, 2012, The Village had \$426,537 net of depreciation, invested in a broad range of capital assets, including the perimeter fence, deer trapping equipment, and park facilities. Additions in the current year were improvements to the infrastructure (parking lot).



As of September 30, 2012, The Village has not incurred any long-term debt since its inception.

Economic Factors and Next Year's Budgets and Rates

The Village's elected and appointed officials considered many factors when setting the fiscal year 2011-2012 budget, tax rates and fees that will be charged for the business-type activities. Costs of subcontracting services, such as law enforcement and solid waste pick-up, are particularly impacted by fuel and labor costs. Increases in taxable valuation are also factored into the tax rate paid by property owners.

Contacting The Village's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of The Village's Finances and to show The Village's accountability for the money it receives. If you have questions about this report or need additional financial information, contact The Village Administrator's office at:

Dan Roark
City Administrator
Village of The Hills
102 Trophy Drive
The Hills, Texas 78738
Telephone (512) 261-6281

VILLAGE OF THE HILLS
STATEMENT OF NET ASSETS
September 30, 2012 and 2011

	GOVERN- MENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	2012 TOTAL	2011 TOTAL
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 192,978	\$ 17,503	\$ 210,481	\$ 188,645
Net receivables	4,074	32,560	36,634	28,146
Total current assets	<u>197,052</u>	<u>50,063</u>	<u>247,115</u>	<u>216,791</u>
Noncurrent assets:				
Net capital assets	426,537	-	426,537	369,175
Total noncurrent assets	<u>426,537</u>	<u>-</u>	<u>426,537</u>	<u>369,175</u>
TOTAL ASSETS	<u><u>623,589</u></u>	<u><u>50,063</u></u>	<u><u>673,652</u></u>	<u><u>585,966</u></u>
LIABILITIES				
Current liabilities:				
Accounts payable	11,431	-	11,431	13,591
Total current liabilities	<u>11,431</u>	<u>-</u>	<u>11,431</u>	<u>13,591</u>
Noncurrent liabilities:				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	11,431	-	11,431	13,591
NET ASSETS				
Invested in capital assets	426,537	-	426,537	369,175
Unrestricted	185,621	50,063	235,684	203,200
TOTAL NET ASSETS	<u>612,158</u>	<u>50,063</u>	<u>662,221</u>	<u>572,375</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 623,589</u></u>	<u><u>\$ 50,063</u></u>	<u><u>\$ 673,652</u></u>	<u><u>\$ 585,966</u></u>

See accompanying notes to the financial statements

VILLAGE OF THE HILLS
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2012 and 2011

	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE) REVENUE & CHANGES IN NET ASSETS</u>		<u>PRIMARY GOVERNMENT</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Contributions</u>	<u>Govern-</u>	<u>Business-</u>	<u>2012 Total</u>	<u>2011 Total</u>
				<u>mental Activities</u>	<u>Type Activities</u>		
Functions/Programs							
Primary government							
Government Activities							
Public Safety	\$ 88,372			\$ (88,372)		\$ (88,372)	\$ (84,856)
Administrative Services	227,437		-	(227,437)		(227,437)	(227,210)
Depreciation	27,748			(27,748)		(27,748)	(25,589)
Total governmental services	<u>343,557</u>	<u>-</u>	<u>-</u>	<u>(343,557)</u>	<u>-</u>	<u>(343,557)</u>	<u>(337,655)</u>
Business Type Activities							
Waste Disposal Fund	<u>194,527</u>	<u>186,705</u>			<u>(7,821)</u>	<u>(7,821)</u>	<u>(2,144)</u>
Total Business Type Activities	<u>194,527</u>	<u>186,705</u>			<u>(7,821)</u>	<u>(7,821)</u>	<u>(2,144)</u>
Total Primary Government	<u>\$ 538,084</u>	<u>\$186,705</u>	<u>\$ -</u>	<u>\$ (343,557)</u>	<u>\$ (7,821)</u>	<u>\$ (351,378)</u>	<u>\$ (339,799)</u>
General revenues:							
Property taxes				\$ 98,961		\$ 98,961	\$ 126,432
Franchise fees				174,131		174,131	106,934
Sales Tax				111,662		111,662	70,849
Grant Income				-		-	20,374
Interest income				18	-	18	52
Reimbursements				13,343	-	13,343	13,898
Miscellaneous				43,109	-	43,109	5,977
Total general revenues				<u>441,224</u>	<u>-</u>	<u>441,224</u>	<u>344,516</u>
Other financing sources/operating transfers in (out)				-	-	-	-
Change in net assets				<u>\$ 97,667</u>	<u>\$ (7,821)</u>	<u>\$ 89,846</u>	<u>\$ 4,717</u>

VILLAGE OF THE HILLS
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2012 and 2011

	General Fund	Adjustments (Note 3)	2012 Statement of Net Assets	2011
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 192,978		\$ 192,978	\$ 155,390
Net receivables	4,074		4,074	3,517
Total current assets	197,052		197,052	158,907
Noncurrent assets:				
Net capital assets	-	426,537	426,537	369,175
Total noncurrent assets	-		426,537	369,175
TOTAL ASSETS	\$ 197,052		\$ 623,589	\$ 528,082
LIABILITIES				
Current liabilities:				
Accounts payable	11,431		11,431	13,591
Deferred revenue	4,074	(4,074)	-	-
Total current liabilities	15,505		11,431	13,591
TOTAL LIABILITIES	15,505		11,431	13,591
FUND BALANCES/NET ASSETS				
FUND BALANCES				
Fund balance-unrestricted	181,547	(181,547)	-	-
TOTAL LIABILITIES AND FUND BALANCE	197,052		-	-
NET ASSETS				
Investment in capital assets, net of debt	-	426,537	426,537	369,175
Unrestricted	-	185,621	185,621	145,316
			612,158	514,491
			\$ 623,589	\$ 528,082

See accompanying notes to the financial statements

VILLAGE OF THE HILLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 and 2011

	Total Govern- mental Funds 2012	Adjustments (Note 3)	Statement of Activities	2011
Revenues				
Property taxes	\$ 98,403	\$ 558	\$ 98,961	\$ 126,432
Franchise fees	174,131		174,131	106,934
Sales Tax	111,662		111,662	70,849
Grant Income	-		-	20,374
Reimbursements	13,343		13,343	13,898
Interest income	18		18	52
Miscellaneous income	43,109		43,109	5,977
Total revenues	440,666		441,224	344,516
Expenditures				
Current operations				
General administration	227,437		227,437	227,210
Capital Outlay	85,110	(85,110)	-	-
Depreciation	-	27,748	27,748	25,589
Public safety	88,372		88,372	84,856
Total expenditures	400,919		343,557	337,655
Excess revenues and other sources over expenditures and other uses	39,747		97,667	6,861
Fund balances at beginning of period	141,800		514,491	507,630
Fund balances at end of period	\$ 181,547		\$ 612,158	\$ 514,491

See accompanying notes to the financial statements

VILLAGE OF THE HILLS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2012 and 2011

	Business-type Activities- Enterprise Fund - Waste Disposal	
	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets		
Cash in banks	\$ 17,503	\$ 33,255
Customer accounts receivable	<u>32,560</u>	<u>24,629</u>
Total Current Assets	50,063	57,884
Noncurrent Assets		
Net capital assets	<u>0</u>	<u>0</u>
Total noncurrent assets	0	0
TOTAL ASSETS	<u><u>50,063</u></u>	<u><u>57,884</u></u>
LIABILITIES		
Current Liabilities		
Accounts payable	<u>0</u>	<u>0</u>
Total Current Liabilities	0	0
Noncurrent Liabilities	<u>0</u>	<u>0</u>
TOTAL LIABILITIES	0	0
NET ASSETS		
Invested in capital assets	0	0
Unrestricted	<u>50,063</u>	<u>57,884</u>
TOTAL NET ASSETS	<u><u>\$ 50,063</u></u>	<u><u>\$ 57,884</u></u>

See accompanying notes to the financial statements.

VILLAGE OF THE HILLS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2012 and 2011

	Business-type Activities- Enterprise Fund - Waste Disposal	
	2012	2011
OPERATING REVENUE		
Charges for services	\$ 186,705	\$ 146,929
TOTAL OPERATING REVENUE	186,705	146,929
OPERATING EXPENSE		
Administrative fees	7,200	7,200
Refuse removal	179,636	133,766
Miscellaneous	7,691	8,107
TOTAL OPERATING EXPENSE	194,527	149,073
OPERATING INCOME	(7,822)	(2,144)
NONOPERATING REVENUES		
Interest income	-	-
Change in net assets, before transfers	(7,822)	(2,144)
Transfers to general fund	-	-
Change in net assets	(7,822)	(2,144)
Net assets, beginning of period	57,885	60,029
Net assets, end of period	\$ 50,062	\$ 57,885

See accompanying notes to the financial statements.

VILLAGE OF THE HILLS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2012 and 2011

	Business-type Activities- Enterprise Fund - Waste Disposa	
	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from customers	\$ 178,775	\$ 146,929
Cash paid to suppliers	(194,527)	(149,484)
Net cash provided by operating activities	<u>(15,752)</u>	<u>(2,555)</u>
Cash flows from investing activities:		
Interest and dividends	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(15,752)	(2,555)
Cash and cash equivalents, beginning of period	<u>33,255</u>	<u>35,810</u>
Cash and cash equivalents, end of period	<u><u>17,503</u></u>	<u><u>33,255</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	(7,822)	(2,144)
Changes in assets and liabilities:		
Accounts Receivable (increase) decrease	(7,930)	(411)
Accounts payable Increase (decrease)	-	-
Transfer of assets	-	-
Net cash provided by operating activities	<u><u>\$ (15,752)</u></u>	<u><u>\$ (2,555)</u></u>

See accompanying notes to the financial statements

Village of The Hills

Notes to the Financial Statements as of September 30, 2012

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Village of The Hills (The Village) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Village applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of The Village's accounting policies are described below.

A. Financial Reporting Entity

Village of The Hills was incorporated in 1997 and is a general law city. The Village provides the following services: Public Safety, Refuse Collection, Recreation Facilities, Public Improvements, and General Administrative Services. Following The Village's incorporation, the pre-existing operations of the Hurst Creek Municipal Utility District (M.U.D.), which operates both within and outside of The Village's corporate boundaries, have continued unchanged. Accordingly, the accounts of the M.U.D. are not included in the accompanying basic financial statements of The Village.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of The Village's operations include how the budget is adopted, whether debt is secured by general obligation of The Village, The Village's duty to cover any deficits that may occur, and supervision over the accounting functions. There are no agencies, organizations or activities meeting any of the above criteria that are excluded from The Village reporting entity.

B. Basis of Presentation-Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Village's funds are grouped into a general fund and a business like fund for financial statement presentations purposes. Governmental funds include the general fund. Proprietary funds include the solid waste disposal enterprise fund.

C. Basis of Accounting

Government Wide Financial Statements

The statement of net assets and the statement of activities display information about The Village, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual method of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between government-wide statements and the statements for governmental funds.

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Financial Statements

Fund financial statements report detailed information about The Village. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

Governmental Funds

Governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Accounting and Financial Reporting

In February 2009, the GASB issued Statement No. 54 ("GASB 54"), *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of GASB 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB 54 had no impact on the financial statements as of September 30, 2012.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

Revenue Recognition

In applying the susceptible to the accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectable within the current year or within one month of year-end available to pay obligations of the current period). This includes investment earnings and state-levied locally shared taxes.

Property taxes, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property tax receivables are recorded and deferred until they become available.

Other revenues, including licenses and permits, are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of The Village as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Infrastructure such as streets, traffic signals, and signs are capitalized. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable assets are as follows: buildings - 40 years; improvements - 10 to 15 years; equipment- 5 years.

Proprietary Funds

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds.

Cash and Cash Equivalents

The Village'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. Cash and cash equivalents are combined with investments and displayed as cash in all funds.

Receivables

Receivables at September 30, 2012 consist of delinquent property taxes, and accounts (billings for user charged services). Taxes and utility charges are deemed collectible in full.

NOTE 2-COMPLIANCE AND ACCOUNTABILITY

Budget Requirements, Accounting, and Reporting

Annual budgets are adopted for all Village funds. Under State law, the mayor submits an annual budget to the Board for consideration and approval no later than the beginning of the fiscal year in which the budget applies. Such budget is based on expected expenditures by program within a fund and estimated resources by source for all funds. All budget revisions at this level are subject to final review and approval by the Board of Aldermen. Within these control levels, the Mayor may transfer appropriations without Board approval. Unencumbered appropriation balances lapse at year-end and revert to the respective funds from which they were originally appropriated, thus becoming available for future appropriation.

NOTE 3-ADJUSTMENTS TO CONVERT FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE

Unrestricted fund balance - government fund	\$ 181,547
Increase net assets for capital assets not reported in the governmental funds	426,537
Taxes receivables deferred in the fund financial statements and not in the government-wide financial statements	<u>4,074</u>
Net assets - governmental activities	<u>\$ 612,158</u>

Net change in fund balance - governmental fund	\$ 39,747
Net increase in tax receivable deferred in the fund financial statements and not in the government-wide financial statements	558
Depreciation expense not recognized in the fund financial statements	(27,748)
Capital outlays recognized as expenditures in the fund financial statements	<u>85,110</u>
Change in net assets - governmental activities	<u>\$ 97,667</u>

NOTE 4-DEPOSITS AND INVESTMENTS

At September 30, 2012 and 2011, the Governmental Fund had \$192,978 and \$155,390, respectively, invested in cash and cash equivalents.

At September 30, 2012 and 2011, the Proprietary Fund had \$17,503 and \$33,255 respectively, invested in cash and cash equivalents.

Interest Rate Risk. The Village has a formal investment policy in place. The Village's cash and cash equivalents are currently invested in short-term instruments such as certificates of deposits, money market funds and an interest-bearing checking account.

Credit Risk. The Board of Aldermen has authorized The Village to invest in compliance with V.A.T.C.S. Government Code, Title 10, Chapter 2256 (Public Funds Investment Act of 1993). Money in any fund may be placed in obligations of the United States or its instrumentalities; direct obligations of this state or its agencies; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of United States; other obligations, the principal and interest of which are unconditionally guaranteed or insured by this state or the United States or its instrumentalities; and obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, Certificates of Deposit and any other investment authorized in Chapter 2256. Accordingly, cash is invested in money market funds or interest-bearing demand deposits and is stated at fair value.

Custodial Credit Risk. In the case of deposits, this is the risk that in the event of a bank failure, The Village's deposits may not be returned to it. As of September 30, 2012, all of The Village's \$210,481 deposit balance was covered by federal depository insurance. As of September 30, 2011, all of the District's \$188,645 deposit balance was covered by federal depository insurance.

NOTE 5-CAPITAL ASSETS AND DEPRECIATION

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of The Village as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Infrastructure such as streets, traffic signals and signs are capitalized. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Estimated useful lives of the various classes of fixed assets are as follows:

Buildings and infrastructure assets	40 years
Improvements	10-15 years
Equipment	5 years

NOTE 6-CHANGES IN FIXED ASSETS

Capital asset activity for the year ended September 30, 2012 was as follows:

	9/30/11 Beginning Balance	Increases	Decreases	9/30/12 Ending Balance
Governmental activities				
Not being depreciated:				
Land	\$ 15,500	\$ -	\$ -	\$ 15,500
Subtotal	15,500	-	-	15,500
Other Capital Assets:				
Infrastructure Improvements	48,957	85,110	-	134,067
Buildings and Equipment	484,903	-	-	484,903
Subtotal	533,861	85,110	-	618,970
Accumulated Depreciation:				
Buildings and Equipment	(180,186)	-	(27,747)	(207,933)
Subtotal	(180,783)	-	(27,747)	(207,933)
Net other capital assets	353,078	85,110	(27,747)	411,037
Net capital assets	<u>\$ 368,578</u>	<u>\$ 85,110</u>	<u>\$ (27,747)</u>	<u>\$ 426,537</u>

NOTE 7-PROPERTY TAXES

The Village’s property tax is levied each October 1 on the assessed value listed as of the previous January 1 for all real and personal property located in The Village. The tax assessed value for October 2011 was \$331,655,336. The initial tax levy of October 1, 2010 set a tax rate of \$.0360 per \$100 of assessed valuation at 100% of assumed market value. The total levy was \$98,833. Taxes are due in January following the October 1 statement date. Tax collections during the year ended September 30, 2012 for the tax year 2011 were 96.6% of the total tax levy for that year. Delinquent property taxes receivable at year-end that are deemed to be ultimately collectible are recorded as deferred revenue. Assessed values are established by the County-wide Appraisal District at 100% of its appraised value and must be reviewed every three years. The Village sets tax rates on City property. If the effective tax rate, excluding tax rates for bonds and other contractual obligations and adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of The Village may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year.

NOTE 8 – GOVERNMENTAL FUND BALANCES

In the governmental fund financial statements, fund balances are classified as follows:

Unassigned – All amounts not included in other spendable classifications. All fund balances are unrestricted as described in GASB 54.

NOTE 9 – SUBSEQUENT EVENTS

As of year end, The Village had committed to several projects that as of the date of this report are still in process:

- Effective October 1, 2012 there was an increase from \$32 to \$34 for trash collection.
- A new tax rate was established effective October 1, 2012 of \$.0270 per \$100

NOTE 10 – RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which The Village carries commercial insurance. The Village has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three fiscal years

NOTE 11 – OTHER MATTERS

The organization has evaluated subsequent events through January 22, 2013, the date which the financial statements were available to be issued.

VILLAGE OF THE HILLS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
GENERAL REVENUE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

GENERAL FUND

	<u>ORIGINAL</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Revenues: Net assets - governmental activities			
Franchise fees	\$ 148,500	\$ 174,131	\$ 25,631
Property and other taxes	98,000	98,403	403
Sales Tax	53,000	111,662	58,662
Grant Income	-	-	-
Reimbursements from other Funds	7,200	13,343	6,143
Miscellaneous revenue	77,255	43,127	(34,128)
Total revenue	<u>\$ 383,955</u>	<u>\$ 440,666</u>	<u>56,711</u>
Expenditures:			
Interlocal agreement-management fees	\$ 106,000	\$ 106,000	-
Insurance and bonds	3,150	1,808	1,342
Law enforcement	87,200	88,371	(1,171)
Legal and professional	14,600	5,984	8,616
Dues and memberships	650	677	(27)
Deer Management	8,000	-	8,000
Park Maintenance	23,805	16,389	7,416
Park Improvements	8,000	1,145	6,855
Fence Maintenance	10,000	2,035	7,965
TCAD/ TAX AC	2,500	1,490	1,010
Website	4,000	3,616	384
Miscellaneous	65,050	37,588	27,462
Capital Expenditures	-	85,110	(85,110)
Contingency	50,000	50,129	(129)
Office supplies	1,000	577	423
Total expenditures	<u>\$ 383,955</u>	<u>\$ 400,919</u>	<u>\$ (16,964)</u>
Excess revenues over expenditures	-	39,748	39,747
Fund Balance-beginning of period	141,800	141,800	-
Fund Balance-end of period	<u>\$ 141,800</u>	<u>\$ 181,547</u>	<u>\$ 39,747</u>