

**VILLAGE OF THE HILLS
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2013 and 2012**

VILLAGE OF THE HILLS

TABLE OF CONTENTS

Report of Independent Accountants	2
Management's Discussion and Analysis	4-8
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Position	9
Statement of Position	10
Fund Financial Statements	
Balance Sheet Governmental Funds	11
Statement of Revenues, Expenditures and Changes in Fund	
-Balances Governmental Funds	12
Statement of Net Assets Proprietary Funds	13
Statement of Revenues, Expenses and Changes in Fund Net	
Assets Proprietary Funds	14
Statement of Cash Flows Proprietary Funds	15
Notes to the Basic Financial Statements	16-21
Required Supplemental Information Section	
Schedule of Revenues, Expenditures, and Changes in Fund Balances	
Budget and Actual (Budgetary) General Fund	22

JANSEN AND GREGORCZYK

Telephone
(512) 268-2749

Certified Public Accountants
P.O. Box 1778
Kyle, TX 78640

Fax
(512) 268-5057

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, 2013 and 2012, 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 and the business-type activities of Village of The Hills, as of September 30, 2013 and 2012, 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 and budgetary comparison information on pages 4-8 and 22 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.

Kyle, Texas
February 4, 2014

VILLAGE OF THE HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2013 and 2012

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, 2013. 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 Position 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 \$378,631 compared to total general fund expenses of \$363,718. This results in an increase of revenue over current expenses of \$14,913 for the year ended September 30, 2013.
- The Village's Solid Waste fund gross revenue amounted to \$210,321 for the year, with a net loss of (\$887).
- Total revenues for all of The Village's programs for the year ended September 30, 2013 were \$588,952 compared to \$627,929 in the year ended September 30, 2012. Property, Franchise and Other revenue decreased \$38,977 while charges for services for the Waste fund increased by \$19,908. Revenue generated by sales tax this year increased by \$27,799.

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 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 \$14,026 in the year ended September 30, 2013. 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 Activites		Business-type Activites		Total Primary Government	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current assets	\$ 176,526	\$ 197,052	\$ 49,175	\$ 50,063	\$ 225,701	\$ 247,115
Capital assets	467,939	426,537	-	-	467,939	426,537
Total assets	<u>644,465</u>	<u>623,589</u>	<u>49,175</u>	<u>50,063</u>	<u>693,640</u>	<u>673,652</u>
Long-term debt outstanding	-	-	-	-	-	-
Other liabilities	11,431	11,431	-	-	11,431	11,431
Total liabilities	<u>11,431</u>	<u>11,431</u>	<u>-</u>	<u>-</u>	<u>11,431</u>	<u>11,431</u>
Net assets:						
Invested in capital assets	467,939	426,537	-	-	467,939	426,537
Unrestricted	159,132	185,621	49,175	50,063	208,307	235,683
Total net assets	<u>\$ 627,071</u>	<u>\$ 612,158</u>	<u>\$ 49,175</u>	<u>\$ 50,063</u>	<u>\$ 676,246</u>	<u>\$ 662,220</u>

Table 2

Revenues

Program revenues:

Charges for services	\$ -	\$ -	\$ 206,613	\$ 186,705	\$ 206,613	\$ 186,705
General revenues						
Property and other taxes	228,297	210,623	-	-	228,297	210,623
Franchise fees	121,707	174,131	-	-	121,707	174,131
Other general revenues	28,627	56,470	3,708	-	32,335	56,470
Total revenues	<u>\$ 378,631</u>	<u>\$ 441,224</u>	<u>\$ 210,321</u>	<u>\$ 186,705</u>	<u>\$ 588,952</u>	<u>\$ 627,929</u>

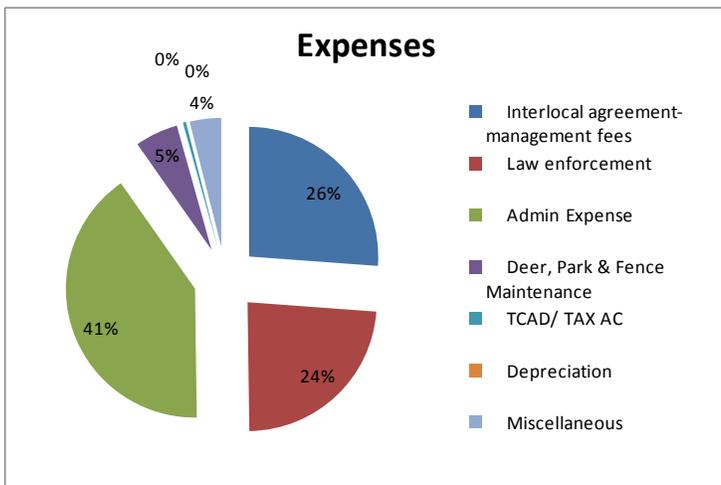
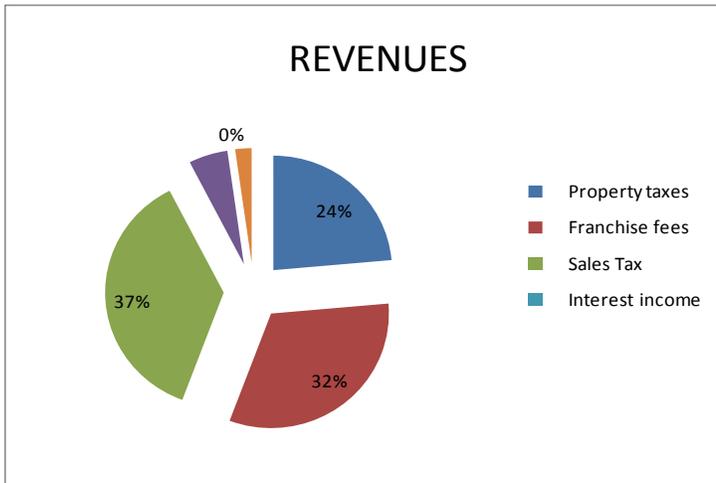
Program expenses:

General administration	\$ 268,051	\$ 255,185			\$ 268,051	\$ 255,185
Public safety	95,667	88,372			95,667	88,372
Waste disposal	-	-	211,208	194,526	211,208	194,526
Total expenses	<u>\$ 363,718</u>	<u>\$ 343,557</u>	<u>\$ 211,208</u>	<u>\$ 194,526</u>	<u>\$ 574,926</u>	<u>\$ 538,083</u>

Other financing sources/operating transfers in (out)

Increase (decrease) in net assets	<u>\$ 14,913</u>	<u>\$ 97,667</u>	<u>\$ (887)</u>	<u>\$ (7,821)</u>	<u>\$ 14,026</u>	<u>\$ 89,846</u>
-----------------------------------	------------------	------------------	-----------------	-------------------	------------------	------------------

GOVERNMENTAL ACTIVITIES



Total assets of the total primary governmental fund of The Village increased by \$19,988 an increase of 2.97%, primarily due to an increase in sales tax revenue and franchise fees. Investment in capital assets increased from \$426,537 to \$467,939 while unrestricted assets, those funds available for day-to-day operations, decreased by \$27,376 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 \$887 from the prior year.

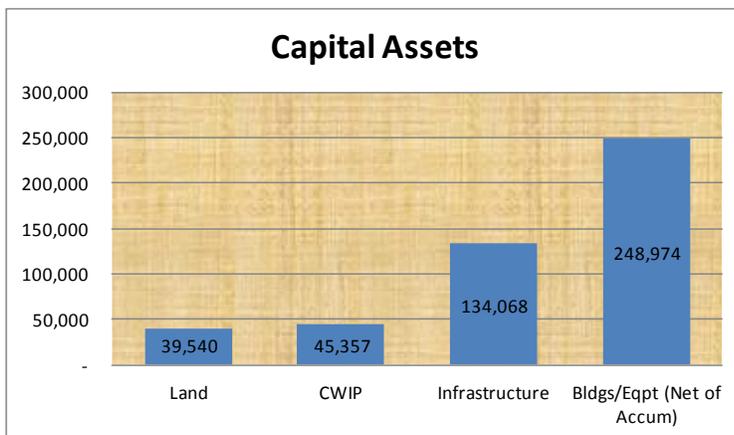
General Fund Budgetary Highlights

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, 2013, The Village had \$467,939 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, 2013, 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 2012-2013 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 POSITION
September 30, 2013 and 2012

	GOVERN- MENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	2013 TOTAL	2012 TOTAL
ASSETS				
Cash and cash equivalents	\$ 173,113	\$ 12,788	\$ 185,901	\$ 210,481
Net receivables	3,413	36,387	39,800	36,634
Capital assets:	-	-	-	-
Nondepreciable	84,897	-	84,897	15,500
Depreciable, net of accumulated depreciation	383,042	-	383,042	411,037
Total assets	<u>644,465</u>	<u>49,175</u>	<u>693,640</u>	<u>673,652</u>
LIABILITIES				
Current liabilities:				
Accounts payable	<u>17,394</u>	-	<u>17,394</u>	<u>11,431</u>
Total liabilities	17,394	-	17,394	11,431
NET POSITION				
Net investment in capital assets	467,939	-	467,939	426,537
Unrestricted	159,132	49,175	208,307	235,683
Total net position	<u>\$ 627,071</u>	<u>\$ 49,175</u>	<u>\$ 676,246</u>	<u>\$ 662,220</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF THE HILLS
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2013 and 2012

	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE) REVENUE & CHANGES IN NET ASSETS</u>		2013 Total	2012 Total
	Expenses	Charges for Services	Contributions	<u>PRIMARY GOVERNMENT</u> Govern- mental Activities	Business- Type Activities		
Functions/Programs							
Primary government							
Government Activities							
Public Safety	\$ 95,667			\$ (95,667)		\$ (95,667)	\$ (88,372)
Administrative Services	240,056		-	(240,056)		(240,056)	(227,437)
Depreciation	27,995			(27,995)		(27,995)	(27,748)
Total governmental services	363,718	-	-	(363,718)	-	(363,718)	(343,557)
Business Type Activities							
Waste Disposal Fund	211,208	206,613			(4,595)	(4,595)	(7,821)
Total Business Type Activities	211,208	206,613			(4,595)	(4,595)	(7,821)
Total Primary Government	<u>\$ 574,926</u>	<u>\$ 206,613</u>	<u>\$ -</u>	<u>\$ (363,718)</u>	<u>\$ (4,595)</u>	<u>\$ (368,313)</u>	<u>\$ (351,378)</u>
General revenues:							
Property taxes				\$ 88,836		\$ 88,836	\$ 98,961
Franchise fees				121,707		121,707	174,131
Sales Tax				139,461		139,461	111,662
Interest income				8	-	8	18
Reimbursements				20,161	-	20,161	13,343
Miscellaneous				8,458	3,708	12,166	43,109
Total general revenues				378,631	3,708	382,339	441,224
Other financing sources/operating transfers in (out)				-	-	-	-
Change in net position				<u>\$ 14,913</u>	<u>\$ (887)</u>	<u>\$ 14,026</u>	<u>\$ 89,846</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF THE HILLS
BALANCE SHEET - GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2013 and 2012

	General Fund	2012
ASSETS		
Cash and cash equivalents	\$ 173,113	\$ 192,978
Net receivables	3,413	4,074
Total assets	\$ 176,526	\$ 197,052
LIABILITIES		
Accounts payable	17,394	11,431
Total liabilities	17,394	11,431
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue	3,413	4,074
Total deferred inflows of resources	3,413	4,074
FUND BALANCES		
Unassigned	155,719	181,547
Total fund balance	155,719	181,547
Total liabilities, deferred inflows of resources and fund balances	\$ 176,526	\$ 197,052

The accompanying notes are an integral part of the financial statements.

VILLAGE OF THE HILLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 and 2012

	<u>Total Govern- mental Funds 2013</u>	<u>2012</u>
Revenues		
Property taxes	\$ 89,497	\$ 98,403
Franchise fees	121,707	174,131
Sales Tax	139,461	111,662
Reimbursements	20,161	13,343
Interest income	8	18
Miscellaneous income	8,458	43,109
Total revenues	<u>379,292</u>	<u>440,666</u>
Expenditures		
Current operations		
General administration	240,056	227,437
Capital Outlay	69,397	85,110
Depreciation	-	-
Public safety	95,667	88,372
Total expenditures	<u>405,120</u>	<u>400,919</u>
Excess revenues and other sources over expenditures and other uses	(25,828)	39,747
Fund balances - beginning	<u>181,547</u>	<u>141,800</u>
Fund balances - ending	<u><u>\$ 155,719</u></u>	<u><u>\$ 181,547</u></u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF THE HILLS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2013 and 2012

**Business-type Activities-
Enterprise Fund - Waste Disposal**

	2013	2012
ASSETS		
Cash and cash equivalents	\$ 12,788	\$ 17,503
Customer accounts receivable	36,387	32,560
Total Assets	49,175	50,063
LIABILITIES		
Current Liabilities		
Accounts payable	-	-
Total Liabilities	-	-
NET ASSETS		
Invested in capital assets	-	-
Unassigned	49,175	50,063
Total Fund Balance	\$ 49,175	\$ 50,063

The accompanying notes are an integral part of the financial statements.

VILLAGE OF THE HILLS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2013 and 2012

	Business-type Activities- Enterprise Fund - Waste Disposal	
	<u>2013</u>	<u>2012</u>
OPERATING REVENUE		
Charges for services	\$ 206,613	\$ 186,705
TOTAL OPERATING REVENUE	<u>206,613</u>	<u>186,705</u>
OPERATING EXPENSE		
Administrative fees	7,200	7,200
Refuse removal	181,512	179,636
Miscellaneous	22,496	7,691
TOTAL OPERATING EXPENSE	<u>211,208</u>	<u>194,527</u>
OPERATING INCOME	(4,595)	(7,822)
NONOPERATING REVENUES		
Other Income	3,708	-
Change in net assets, before transfers	<u>(887)</u>	<u>(7,822)</u>
Transfers to general fund	-	-
Change in net position	<u>(887)</u>	<u>(7,822)</u>
Net position - beginning	50,062	57,884
Net position - ending	<u>\$ 49,175</u>	<u>\$ 50,062</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF THE HILLS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2013 and 2012

**Business-type Activities-
Enterprise Fund - Waste Disposal**

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from customers	\$ 202,785	\$ 178,775
Cash paid to suppliers	<u>(207,500)</u>	<u>(194,527)</u>
Net cash provided by operating activities	(4,715)	(15,752)
 Cash flows from investing activities:		
Interest and dividends	<u>-</u>	<u>-</u>
 Net increase (decrease) in cash and cash equivalents	(4,715)	(15,752)
Cash and cash equivalents, beginning of period	<u>17,503</u>	<u>33,255</u>
Cash and cash equivalents, end of period	<u><u>12,788</u></u>	<u><u>17,503</u></u>
 Reconciliation of operating income to net cash provided by operating activities:		
Operating income	(887)	(7,822)
Changes in assets and liabilities:		
Accounts Receivable (increase) decrease	(3,828)	(7,930)
Accounts payable Increase (decrease)	-	-
Transfer of assets	-	-
Net cash provided by operating activities	<u><u>\$ (4,715)</u></u>	<u><u>\$ (15,752)</u></u>

The accompanying notes are an integral part of the financial statements.

Village of The Hills

Notes to the Financial Statements as of September 30, 2013

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 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.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisitions, construction or improvements of those assets. Net positions are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the organization or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the organization's policy to use restricted resources first and then unrestricted resources as they are needed. When both unassigned and committed or assigned funds are available for expenditure, committed or assigned funds are used first.

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, 2013 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

Total fund balances - governmental funds	\$ 155,719
Capital assets used in governmental activities are not financial resources and, therefore, are reported as unavailable in the funds	467,939
Taxes receivables deferred in the fund financial statements and not in the government wide	<u>3,413</u>
Net position of governmental activities	<u>\$ 627,071</u>
Net change in fund balance - governmental fund	\$ (25,828)
Net increase in tax receivable deferred in the fund financial statements and not in the government-wide financial statements	(661)
Depreciation expense not recognized in the fund financial statements	(27,995)
Capital outlays recognized as expenditures in the fund financial statements	<u>69,397</u>
Change in net assets - governmental activities	<u>\$ 14,913</u>

NOTE 4-DEPOSITS AND INVESTMENTS

The Village's deposits exposed to concentrations of credit risk consist of cash, which is deposited in a local financial institution. At September 30, 2013 all of the Village's cash was covered by FDIC insurance.

At September 30, 2013 and 2012, the Governmental Fund had \$173,113 and \$192,978, respectively, invested in cash and cash equivalents.

At September 30, 2013 and 2012, the Proprietary Fund had \$12,788 and \$17,503 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. All investments at year end were held in the Texas Local Government Investment Pool (TexPool). The State Comptroller oversees TexPool, with Federated Investors managing the daily operations of the pool under a contract with the State Comptroller. TexPool is a 2(a)7 like fund, which means that it is structured similar to a money market mutual fund. It allows shareholders the ability to deposit or withdraw funds on a daily basis. Such funds seek to maintain a constant net asset value of \$1.00, although this cannot be fully guaranteed. TexPool are rated AAAM (the highest rating a local

government investment pool can achieve) and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit. At September 30, 2013, the TexPool portfolio had a weighted average maturity of 60 days.

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, 2013 was as follows:

	9/30/12 Beginning Balance	Increases	Decreases	9/30/13 Ending Balance
Governmental activities				
Not being depreciated:				
Land	\$ 15,500	\$ 24,040	\$ -	\$ 39,540
Construction Work in Progress	-	45,357		45,357
Subtotal	<u>15,500</u>	<u>69,397</u>	<u>-</u>	<u>84,897</u>
Other Capital Assets:				
Infrastructure Improvements	134,068	-	-	134,068
Buildings and Equipment	484,903	-	-	484,903
Subtotal	<u>618,971</u>	<u>-</u>	<u>-</u>	<u>618,971</u>
Accumulated Depreciation:				
Buildings and Equipment	(207,933)	-	(27,996)	(235,929)
Subtotal	<u>(207,933)</u>	<u>-</u>	<u>(27,996)</u>	<u>(235,929)</u>
Net other capital assets	<u>411,038</u>	<u>-</u>	<u>(27,996)</u>	<u>383,042</u>
Net capital assets	<u>\$ 426,538</u>	<u>\$ 69,397</u>	<u>\$ (27,996)</u>	<u>\$ 467,939</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 2012 was \$326,921,296. The initial tax levy of October 1, 2012 set a tax rate of \$.027 per \$100 of assessed valuation at 100% of assumed market value. The total levy was \$88,269. Taxes are due in January following the October 1 statement date. Tax collections during the year ended September 30, 2013 for the tax year 2012 were 99.01% 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 – COMMITMENTS

In July 2013, The Village executed a contract with Pendleton Excavation for \$90,463 for a walking trail project.

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:

- A new tax rate was established effective October 1, 2013 of \$.0248 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 February 4, 2014, the date which the financial statements were available to be issued.

VILLAGE OF THE HILLS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
BUDGET AND ACTUAL (BUDGETARY BASIS)
GENERAL REVENUE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

GENERAL FUND

	<u>ORIGINAL</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Revenues: Net assets - governmental activities			
Franchise fees	\$ 155,000	\$ 121,707	\$ (33,293)
Property and other taxes	87,000	89,497	2,497
Sales Tax	69,646	139,461	69,815
Grant Income	-	-	-
Reimbursements from other Funds	7,200	20,161	12,961
Miscellaneous revenue	61,124	8,466	(52,658)
Total revenue	<u>\$ 379,970</u>	<u>\$ 379,292</u>	<u>\$ (678)</u>
Expenditures:			
Interlocal agreement-management fees	\$ 106,000	\$ 106,000	-
Insurance and bonds	3,150	6,217	(3,067)
Law enforcement	87,200	95,667	(8,467)
Legal and professional	10,100	11,202	(1,102)
Dues and memberships	1,000	1,055	(55)
Deer Management	3,000	-	3,000
Park Maintenance	23,370	60,570	(37,200)
Park Improvements	23,500	12,650	10,850
Fence Maintenance	10,000	4,677	5,323
TCAD/ TAX AC	3,000	1,591	1,409
Website	4,000	2,980	1,020
Miscellaneous	84,650	15,950	68,700
Capital Expenditures	-	69,397	(69,397)
Contingency	25,000	16,551	8,449
Office supplies	1,000	613	387
Total expenditures	<u>\$ 384,970</u>	<u>\$ 405,120</u>	<u>\$ (20,150)</u>
Excess revenues over expenditures	(5,000)	(25,828)	(20,828)
Beginning Net Position	181,547	181,547	-
Ending Net Position	<u>\$ 176,547</u>	<u>\$ 155,719</u>	<u>\$ (20,828)</u>