

**VILLAGE OF THE HILLS  
ANNUAL FINANCIAL REPORT  
SEPTEMBER 30, 2011 and 2010**

# VILLAGE OF THE HILLS

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## INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Aldermen  
Village of The Hills, Texas

We have audited the accompanying financial statements of the governmental and business-type activities of the Village of The Hills, Texas (The Village) as of and for the years ended September 30, 2011 and 2010, which collectively comprise The Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of The Village's 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, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental and business-type activities of the Village of The Hills, Texas as of September 30, 2011 and 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison information on pages 3-7 and 21, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Jansen and Gregorczyk  
January 11, 2012

# VILLAGE OF THE HILLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Village of The Hills (The Village), financial performance provides an overview of The Village's financial activities for the year ended September 30, 2011. 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 \$344,516 compared to total general fund expenses of \$337,655. This results in an increase of revenue over current expenses of \$6,861 for the year ended September 30, 2011.
- The Village's Solid Waste fund gross revenue amounted to \$146,929 for the year, with a net loss of \$(2,144).
- Total revenues for all of The Village's programs for the year ended September 30, 2011 were \$491,445 compared to \$425,960 in the year ended September 30, 2010. Property, Franchise and Other revenue decreased \$28,470, while charges for services for the Waste fund decreased by \$2,732. Revenue generated by sales tax, new to this year was \$70,849 and grant income was \$20,374.

### 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 \$4,717 in the year ended September 30, 2011. 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**

	<b>Governmental Activites</b>		<b>Business-type Activites</b>		<b>Total Primary Government</b>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current assets	\$ 158,907	\$ 164,453	\$ 57,884	\$ 60,028	\$ 216,791	\$ 224,481
Capital assets	369,175	353,830	-	-	369,175	353,830
Total assets	<u>528,082</u>	<u>518,283</u>	<u>57,884</u>	<u>60,028</u>	<u>585,966</u>	<u>578,311</u>
Long-term debt outstanding	-	-	-	-	-	-
Other liabilities	13,591	10,653	-	-	13,591	10,653
Total liabilities	<u>13,591</u>	<u>10,653</u>	<u>-</u>	<u>-</u>	<u>13,591</u>	<u>10,653</u>
Net assets:						
Invested in capital assets	369,175	353,830	-	-	369,175	353,830
Unrestricted	145,316	153,800	57,784	60,028	203,100	213,828
Total net assets	<u>\$ 514,491</u>	<u>\$ 507,630</u>	<u>\$ 57,784</u>	<u>\$ 60,028</u>	<u>\$ 572,275</u>	<u>\$ 567,658</u>

**Table 2**

### Revenues

Program revenues:

Charges for services	\$ -	\$ -	\$ 146,929	\$ 144,197	\$ 146,929	\$ 144,197
General revenues				-		-
Property and other taxes	126,432	152,926	-	-	126,432	152,926
Franchise fees	106,934	104,651	-	-	106,934	104,651
Other general revenues	111,150	24,161	-	25	111,150	24,186
Total revenues	<u>\$ 344,516</u>	<u>\$ 281,738</u>	<u>\$ 146,929</u>	<u>\$ 144,222</u>	<u>\$ 491,445</u>	<u>\$ 425,960</u>

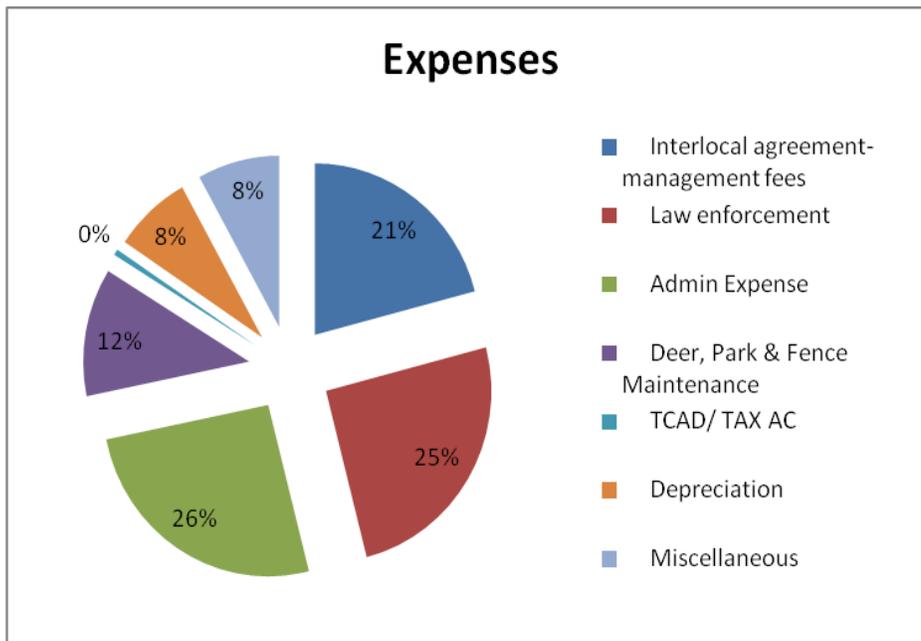
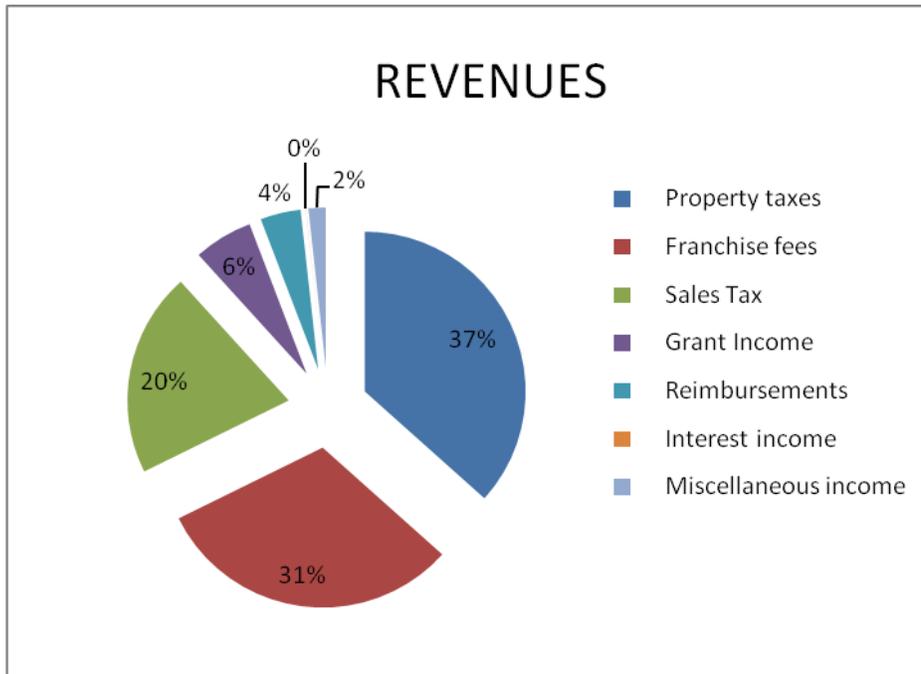
### Program expenses:

General administration	\$ 252,799	\$ 156,266		\$ -	\$ 252,799	\$ 156,266
Public safety	84,856	103,332		-	84,856	103,332
Waste disposal	-	-	149,073	137,322	149,073	137,322
Total expenses	<u>\$ 337,655</u>	<u>\$ 259,598</u>	<u>\$ 149,073</u>	<u>\$ 137,322</u>	<u>\$ 486,728</u>	<u>\$ 396,920</u>

Other financing sources/operating transfers in (out)

Other financing sources/operating transfers in (out)	-	-	-	-	-	-
Increase (decrease) in net assets	<u>\$ 6,861</u>	<u>\$ 22,140</u>	<u>\$ (2,144)</u>	<u>\$ 6,900</u>	<u>\$ 4,717</u>	<u>\$ 29,040</u>

## GOVERNMENTAL ACTIVITIES



Total assets of the governmental fund of The Village increased by \$7,655, an increase of 1.32%, primarily due to an increase in revenue (sales tax & grant income). Investment in capital assets increased from \$353,830 to \$369,175 while unrestricted assets, those funds available for day-to-day operations, decreased by \$10,628 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 \$2,144 from the prior year.

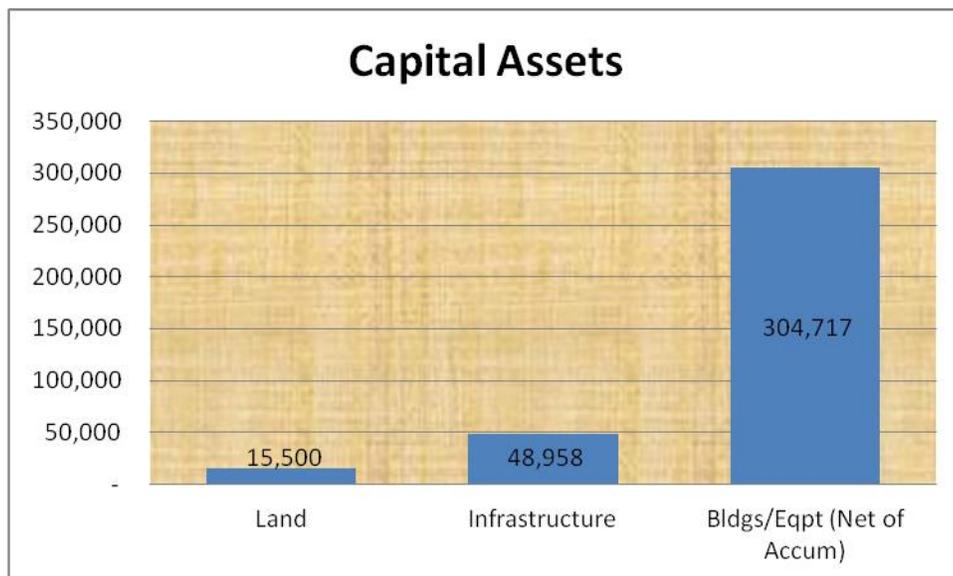
## General Fund Budgetary Highlights

The Village prepares an annual operating budget in August and September 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, 2011, The Village had \$369,175 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, 2011, 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 2010-2011 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, 2011 and 2010

	GOVERN- MENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	2011 TOTAL	2010 TOTAL
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 155,390	\$ 33,255	\$ 188,645	\$ 197,099
Net receivables	3,517	24,629	28,146	27,382
Total current assets	<u>158,907</u>	<u>57,884</u>	<u>216,791</u>	<u>224,481</u>
Noncurrent assets:				
Net capital assets	369,175	-	369,175	353,830
Total noncurrent assets	<u>369,175</u>	<u>-</u>	<u>369,175</u>	<u>353,830</u>
<b>TOTAL ASSETS</b>	<u><u>528,082</u></u>	<u><u>57,884</u></u>	<u><u>585,966</u></u>	<u><u>578,311</u></u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	13,591	-	13,591	10,653
Total current liabilities	<u>13,591</u>	<u>-</u>	<u>13,591</u>	<u>10,653</u>
Noncurrent liabilities:				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	13,591	-	13,591	10,653
<b>NET ASSETS</b>				
Invested in capital assets	369,175	-	369,175	353,830
Unrestricted	145,316	57,884	203,200	213,828
<b>TOTAL NET ASSETS</b>	<u><u>514,491</u></u>	<u><u>57,884</u></u>	<u><u>572,375</u></u>	<u><u>567,658</u></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 528,082</u></u>	<u><u>\$ 57,884</u></u>	<u><u>\$ 585,966</u></u>	<u><u>\$ 578,311</u></u>

See accompanying notes to the financial statements

VILLAGE OF THE HILLS  
STATEMENT OF ACTIVITIES  
FOR THE YEARS ENDED SEPTEMBER 30, 2011 and 2010

	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE) REVENUE &amp; CHANGES IN NET ASSETS</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>2011 Total</u>	<u>2010 Total</u>
Functions/Programs							
Primary government							
Government Activities							
Public Safety	\$ 84,856			\$ (84,856)		\$ (84,856)	\$ (75,653)
Administrative Services	227,210		-	(227,210)		(227,210)	(156,266)
Depreciation	25,589			(25,589)		(25,589)	(27,679)
Total governmental services	<u>337,655</u>	<u>-</u>	<u>-</u>	<u>(337,655)</u>	<u>-</u>	<u>(337,655)</u>	<u>(259,598)</u>
Business Type Activities							
Waste Disposal Fund	<u>149,073</u>	<u>146,929</u>			<u>(2,144)</u>	<u>(2,144)</u>	<u>6,875</u>
Total Business Type Activities	<u>149,073</u>	<u>146,929</u>			<u>(2,144)</u>	<u>(2,144)</u>	<u>6,875</u>
Total Primary Government	<u>\$ 486,728</u>	<u>\$ 146,929</u>	<u>\$ -</u>	<u>\$ (337,655)</u>	<u>\$ (2,144)</u>	<u>\$ (339,799)</u>	<u>\$ (252,723)</u>
General revenues:							
Property taxes				\$ 126,432		\$ 126,432	\$ 152,926
Franchise fees				106,934		106,934	104,651
Sales Tax				70,849		70,849	-
Grant Income				20,374		20,374	-
Interest income				52	-	52	183
Reimbursements				13,898	-	13,898	13,200
Miscellaneous				5,977	-	5,977	10,803
Total general revenues				<u>344,516</u>	<u>-</u>	<u>344,516</u>	<u>281,763</u>
Other financing sources/operating transfers in (out)				<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets				<u>\$ 6,861</u>	<u>\$ (2,144)</u>	<u>\$ 4,717</u>	<u>\$ 29,040</u>

See accompanying notes to the financial statements

VILLAGE OF THE HILLS  
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET  
GOVERNMENTAL FUNDS  
AS OF SEPTEMBER 30, 2011 and 2010

	General Fund	Adjustments (Note 3)	Statement of Net Assets 2011	2010
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 155,390		\$ 155,390	\$ 161,289
Net receivables	3,517		3,517	3,164
Total current assets	158,907		158,907	164,453
Noncurrent assets:				
Net capital assets	-	369,175	369,175	353,830
Total noncurrent assets	-		369,175	353,830
<b>TOTAL ASSETS</b>	<b>\$ 158,907</b>		<b>\$ 528,082</b>	<b>\$ 518,283</b>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	13,591		13,591	10,653
Deferred revenue	3,516	(3,516)	-	-
Total current liabilities	17,107		13,591	10,653
<b>TOTAL LIABILITIES</b>	17,107		13,591	10,653
<b>FUND BALANCES/NET ASSETS</b>				
<b>FUND BALANCES</b>				
Fund balance-unrestricted	141,800	(141,800)	-	-
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>158,907</b>			
<b>NET ASSETS</b>				
Investment in capital assets, net of debt	-	369,175	369,175	353,830
Unrestricted	-	145,316	145,316	153,800
			514,491	507,630
			<b>\$ 528,082</b>	<b>\$ 518,283</b>

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, 2011 and 2010

	<u>Total Govern- mental Funds 2011</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Activities 2011</u>	<u>2010</u>
Revenues				
Property taxes	\$ 126,080	\$ 352	\$ 126,432	\$ 152,926
Franchise fees	106,934		106,934	104,651
Sales Tax	70,849		70,849	-
Grant Income	20,374		20,374	-
Reimbursements	13,898		13,898	13,200
Interest income	52		52	158
Miscellaneous income	5,977		5,977	10,803
Total revenues	<u>344,164</u>		<u>344,516</u>	<u>281,738</u>
Expenditures				
Current operations				
General administration	227,210		227,210	156,266
Capital Outlay	40,934	(40,934)	-	-
Depreciation	-	25,589	25,589	27,679
Public safety	84,856		84,856	75,653
Total expenditures	<u>353,000</u>		<u>337,655</u>	<u>259,598</u>
Excess revenues and other sources over expenditures and other uses	(8,836)		6,861	22,140
Fund balances at beginning of period	<u>150,636</u>		<u>507,630</u>	<u>485,490</u>
Fund balances at end of period	<u>\$ 141,800</u>		<u>514,491</u>	<u>507,630</u>

See accompanying notes to the financial statements

VILLAGE OF THE HILLS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
SEPTEMBER 30, 2011 and 2010

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

	<u>2011</u>	<u>2010</u>
ASSETS		
Current Assets		
Cash in banks	\$ 33,255	\$ 35,810
Customer accounts receivable	24,629	24,218
Total Current Assets	<u>57,884</u>	<u>60,028</u>
Noncurrent Assets		
Net capital assets	<u>0</u>	<u>0</u>
Total noncurrent assets	0	0
 TOTAL ASSETS	 <u><u>57,884</u></u>	 <u><u>60,028</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>57,884</u>	<u>60,028</u>
 TOTAL NET ASSETS	 <u><u>\$ 57,884</u></u>	 <u><u>\$ 60,028</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, 2011 and 2010

	<b><u>Business-type Activities-</u></b> <b><u>Enterprise Fund - Waste Disposal</u></b>	
	<u>2011</u>	<u>2010</u>
OPERATING REVENUE		
Charges for services	\$ 146,929	\$ 144,197
TOTAL OPERATING REVENUE	<u>146,929</u>	<u>144,197</u>
OPERATING EXPENSE		
Administrative fees	7,200	7,200
Refuse removal	133,766	123,972
Miscellaneous	8,107	6,150
TOTAL OPERATING EXPENSE	<u>149,073</u>	<u>137,322</u>
OPERATING INCOME	(2,144)	6,875
NONOPERATING REVENUES		
Interest income	-	25
Change in net assets, before transfers	<u>(2,144)</u>	<u>6,900</u>
Transfers to general fund	-	-
Change in net assets	<u>(2,144)</u>	<u>6,900</u>
Net assets, beginning of period	60,028	53,128
Net assets, end of period	<u>\$ 57,884</u>	<u>\$ 60,028</u>

See accompanying notes to the financial statements.

VILLAGE OF THE HILLS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEARS ENDED SEPTEMBER 30, 2011 and 2010

	<b>Business-type Activities- Enterprise Fund - Waste Disposal</b>	
	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from customers	\$ 146,929	\$ 144,197
Cash paid to suppliers	(149,484)	(137,892)
Net cash provided by operating activities	<u>(2,555)</u>	<u>6,305</u>
Cash flows from investing activities:		
Interest and dividends	<u>-</u>	<u>25</u>
Net increase (decrease) in cash and cash equivalents	(2,555)	6,330
Cash and cash equivalents, beginning of period	<u>35,810</u>	<u>29,480</u>
Cash and cash equivalents, end of period	<u><u>33,255</u></u>	<u><u>35,810</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	(2,144)	6,875
Changes in assets and liabilities:		
Accounts Receivable (increase) decrease	(411)	-
Accounts payable Increase (decrease)	-	(570)
Transfer of assets	-	-
Net cash provided by operating activities	<u><u>\$ (2,555)</u></u>	<u><u>\$ 6,305</u></u>

See accompanying notes to the financial statements

**Village of The Hills**  
**Notes to the Financial Statements as of September 30, 2011**

**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the 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**

The 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. The Village had no nonmajor funds during the current period.

#### **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, 2011.

#### **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, 2011 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 City 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. Revisions to the budget were made throughout the year. 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	\$ 141,800
Increase net assets for capital assets not reported in the governmental funds	369,175
Taxes receivables deferred in the fund financial statements and not in the government-wide financial statements	<u>3,516</u>
Net assets - governmental activities	<u>\$ 514,491</u>

Net change in fund balance - governmental fund	\$ (8,836)
Net increase in tax receivable deferred in the fund financial statements and not in the government-wide financial statements	352
Depreciation expense not recognized in the fund financial statements	(25,589)
Capital outlays recognized as expenditures in the fund financial statements	<u>40,934</u>
Change in net assets - governmental activities	<u>\$ 6,861</u>

**NOTE 4-DEPOSITS AND INVESTMENTS**

At September 30, 2011 and 2010, the Governmental Fund had \$155,390 and \$161,289, respectively, invested in cash and cash equivalents.

At September 30, 2011 and 2010, the Proprietary Fund had \$33,255 and \$35,810 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, 2011, all of The Village’s \$188,645 deposit balance was covered by federal depository insurance. As of September 30, 2010, all of the District’s \$197,099 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, 2011 was as follows:

	9/30/10 Beginning Balance	Increases	Decreases	9/30/11 Ending Balance
<b>Governmental activities</b>				
Not being depreciated:				
Land	\$ 15,500	\$ -	\$ -	\$ 15,500
Subtotal	15,500	-	-	15,500
Other Capital Assets:				
Infrastructure Improvements	12,106	36,852	-	48,958
Buildings and Equipment	480,821	4,082	-	484,903
Subtotal	492,927	40,934	-	533,861
Accumulated Depreciation:				
Buildings and Equipment	(154,597)	-	(25,589)	(180,186)
Subtotal	(154,597)	-	(25,589)	(180,186)
Net other capital assets	338,330	40,934	(25,589)	353,675
Net capital assets	<u>\$ 353,830</u>	<u>\$ 40,934</u>	<u>\$ (25,589)</u>	<u>\$ 369,175</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 2010 was \$349,624,111. 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 \$125,864. Taxes are due in January following the October 1 statement date. Tax collections during the year ended September 30, 2011 for the tax year 2010 were 98.42% 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:

- To build a walking trail for the residents' use.
- Effective October 1, 2011 the residents began participating in a Single Stream Recycling Program through IESI.
- A new tax rate was established effective October 1, 2011 of \$.0298 per \$100
- Effective October 1, 2011 the Interlocal Agreement with Hurst Creek MUD was increased by \$3,000 per month.

## **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 11, 2012, 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, 2011

**GENERAL FUND**

	<u>ORIGINAL</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Revenues: Net assets - governmental activities			
Franchise fees	\$ 97,000	\$ 106,934	\$ 9,934
Property and other taxes	124,000	126,080	2,080
Sales Tax	45,600	70,849	25,249
Grant Income	-	20,374	20,374
Reimbursements from other Funds	8,000	13,898	5,898
Miscellaneous revenue	5,700	6,029	329
Total revenue	<u>\$ 280,300</u>	<u>\$ 344,164</u>	<u>63,864</u>
Expenditures:			
Interlocal agreement-management fees	\$ 70,600	\$ 70,600	-
Insurance and bonds	3,150	1,812	1,338
Law enforcement	84,000	84,856	(856)
Legal and professional	16,200	9,976	6,224
Dues and memberships	650	1,063	(413)
Deer Management	10,000	1,656	8,344
Park Maintenance	23,000	24,581	(1,581)
Park Improvements	2,000	1,490	510
Fence Maintenance	10,000	12,973	(2,973)
TCAD/ TAX AC	2,500	1,897	603
Website	3,000	3,497	(497)
Miscellaneous	59,000	27,116	31,884
Capital Expenditures	-	40,934	(40,934)
Contingency	154,164	70,255	83,909
Office supplies	1,000	295	705
Total expenditures	<u>\$ 439,264</u>	<u>\$ 353,000</u>	<u>\$ 86,264</u>
Excess revenues over expenditures	(158,964)	(8,836)	150,129
Fund Balance-beginning of period	150,636	150,636	-
Fund Balance-end of period	<u>\$ (8,328)</u>	<u>\$ 141,800</u>	<u>\$ 150,128</u>