

**VILLAGE OF THE HILLS
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2017 and 2016**

VILLAGE OF THE HILLS

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INDEPENDENT AUDITORS' 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, 2017 and 2016, 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.

Auditors 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, 2017 and 2016, 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 page 22 respectively 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

Jansen and Gregorczyk

Kyle, Texas

January 2, 2018

VILLAGE OF THE HILLS

MANAGEMENT'S DISCUSSION AND ANALYSIS September 30, 2017 and 2016

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, 2017. 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 \$596,577 compared to total general fund expenses of \$511,905. This results in an increase of revenue over current expenses of \$84,672 for the year ended September 30, 2017.
- The Village's Solid Waste fund gross revenue amounted to \$221,615 for the year, expenses were \$219,850 for a net income of \$1,765.
- Total revenues for all of the Village's programs for the year ended September 30, 2017 were \$818,191 compared to \$806,670 in the year ended September 30, 2016. Total general fund revenue, increased \$17,573 while charges for services for the Waste fund decreased by \$6,151.

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 position* and changes in them. *Net position* represents 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 Position 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 Board 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 \$86,437 in the year ended September 30, 2017. Table 1 and Table 2 below reflect the net assets and changes in net assets of governmental activities and business-type activities separately.

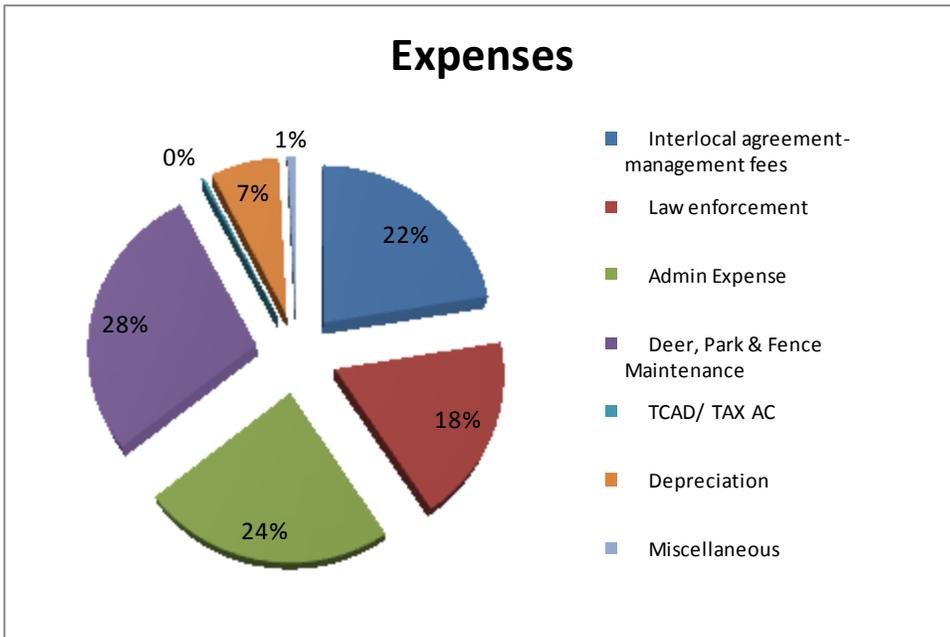
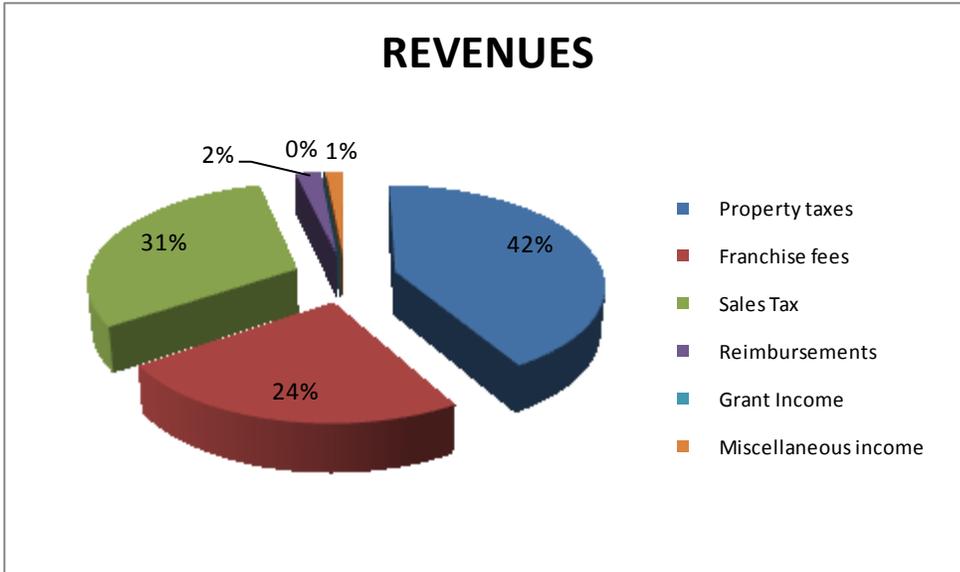
Table 1

	Governmental Activites		Business-type Activites		Total Primary Government	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current assets	\$ 298,219	\$ 214,309	\$ 90,361	\$ 88,375	\$ 388,580	\$ 302,684
Capital assets	597,725	595,787	-	-	597,725	595,787
Total assets	<u>895,944</u>	<u>810,096</u>	<u>90,361</u>	<u>88,375</u>	<u>986,305</u>	<u>898,471</u>
Long-term debt outstanding						
Other liabilities	8,988	7,813	233	16,013	9,221	23,826
Total liabilities	<u>8,988</u>	<u>7,813</u>	<u>233</u>	<u>16,013</u>	<u>9,221</u>	<u>23,826</u>
Net assets:						
Invested in capital assets	597,725	595,787	-	-	597,725	595,787
Unrestricted	289,231	206,496	74,128	72,362	363,359	278,858
Total net assets	<u>\$ 886,956</u>	<u>\$ 802,283</u>	<u>\$ 74,128</u>	<u>\$ 72,362</u>	<u>\$ 961,084</u>	<u>\$ 874,645</u>

**Table 2
Revenues**

Program revenues:						
Charges for services	\$ -	\$ -	\$ 221,615	\$ 227,766	\$ 221,615	\$ 227,766
General revenues						
Property and other taxes	431,388	395,765	-	-	431,388	395,765
Franchise fees	142,954	150,260	-	-	142,954	150,260
Other general revenues	22,235	32,979	-	-	22,235	32,979
Total revenues	<u>\$ 596,577</u>	<u>\$ 579,004</u>	<u>\$ 221,615</u>	<u>\$ 227,766</u>	<u>\$ 818,192</u>	<u>\$ 806,770</u>
Program expenses:						
General administration	\$ 417,698	\$ 389,161	\$ -	\$ -	\$ 417,698	\$ 389,161
Public safety	94,207	93,757	-	-	94,207	93,757
Waste disposal	-	-	219,850	216,868	219,850	216,868
Total expenses	<u>\$ 511,905</u>	<u>\$ 482,918</u>	<u>\$ 219,850</u>	<u>\$ 216,868</u>	<u>\$ 731,755</u>	<u>\$ 699,786</u>
Increase (decrease) in net assets	<u>\$ 84,672</u>	<u>\$ 96,086</u>	<u>\$ 1,765</u>	<u>\$ 10,898</u>	<u>\$ 86,437</u>	<u>\$ 106,984</u>

GOVERNMENTAL ACTIVITIES



Total assets of the total primary governmental fund of The Village increased by \$84,672, primarily due to an increase in sales tax revenue and franchise fees. Investment in capital assets increased from \$595,787 to \$597,725 while unrestricted assets, those funds available for day-to-day operations, increased by \$70,111 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 increased by \$1,765 from the prior year.

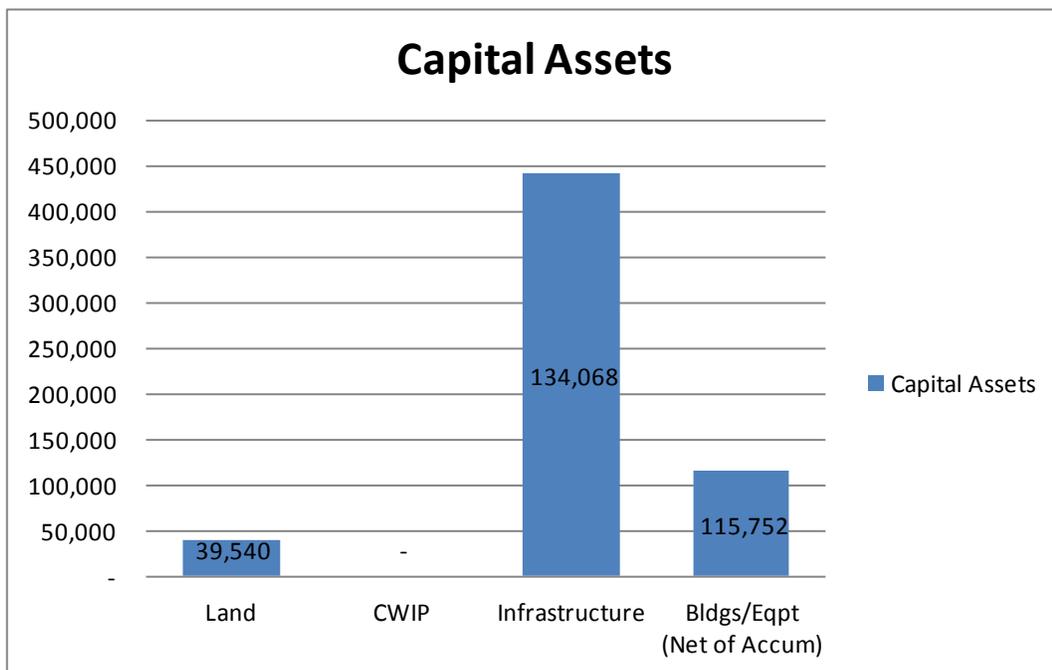
General Fund Budgetary Highlights

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, 2017, The Village had \$597,725 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, 2017, 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 2016-2017 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:

Wendy Smith, Village Manager
Village of The Hills
102 Trophy Drive The Hills, TX 78738 (512) 261-6281

VILLAGE OF THE HILLS
STATEMENT OF NET POSITION
September 30, 2017 and 2016

	GOVERN- MENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	2017 TOTAL	2016 TOTAL
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 293,017	\$ 53,789	\$ 346,806	\$ 343,392
Net Receivables	5,202	36,572	41,774	42,536
Total current assets	<u>298,219</u>	<u>90,361</u>	<u>388,580</u>	<u>385,928</u>
Non-current assets:				
Capital assets not subject to depreciation	39,540	-	39,540	39,540
Capital assets, net	558,185	-	558,185	556,247
Total non-current assets	<u>597,725</u>	<u>-</u>	<u>597,725</u>	<u>595,787</u>
Total assets	<u><u>895,944</u></u>	<u><u>90,361</u></u>	<u><u>986,305</u></u>	<u><u>981,715</u></u>
LIABILITIES				
Accounts payable	8,988	16,233	25,221	25,001
Total liabilities	<u>8,988</u>	<u>16,233</u>	<u>25,221</u>	<u>25,001</u>
NET POSITION				
Net investment in capital assets	597,725	-	597,725	595,787
Unrestricted	289,231	74,128	363,359	278,858
Total net position	<u><u>\$ 886,956</u></u>	<u><u>\$ 74,128</u></u>	<u><u>\$ 961,084</u></u>	<u><u>\$ 874,645</u></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, 2017 and 2016

	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE) REVENUE & CHANGES IN NET ASSETS</u>		2017 Total	2016 Total
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Contributions</u>	<u>PRIMARY GOVERNMENT</u> Govern- mental Activities	Business- Type Activities		
Functions/Programs							
Primary government							
Government Activities							
Public Safety	\$ 94,207			\$ (94,207)		\$ (94,207)	\$ (93,757)
Administrative Services	377,326		-	(377,326)		(377,326)	(349,722)
Wildfire Mitigation	5,000			(5,000)		(5,000)	(5,000)
Depreciation	35,372			(35,372)		(35,372)	(34,439)
Total governmental services	511,905	-	-	(511,905)	-	(511,905)	(482,918)
Business Type Activities							
Waste Disposal Fund	219,849	221,614			1,765	1,765	10,898
Total Business Type Activities	219,849	221,614			1,765	1,765	10,898
Total Primary Government	<u>\$ 731,754</u>	<u>\$ 221,614</u>	<u>\$ -</u>	<u>\$ (511,905)</u>	<u>\$ 1,765</u>	<u>\$ (510,140)</u>	<u>\$ (472,020)</u>
General revenues:							
Property taxes				\$ 248,404		\$ 248,404	\$ 238,061
Franchise fees				142,954		142,954	150,260
Sales Tax				182,984		182,984	157,704
Grant Income				-		-	500
Reimbursements				13,276	-	13,276	19,700
Miscellaneous				8,959	-	8,959	12,779
Total general revenues				596,577	-	596,577	579,004
Other financing sources/operating transfers in (out)				-	-	-	-
Change in net position				84,672	1,765	86,437	106,984
Net position - beginning				802,284	72,363	874,647	767,661
Net position - ending				<u>\$ 886,956</u>	<u>\$ 74,128</u>	<u>\$ 961,084</u>	<u>\$ 874,645</u>

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

VILLAGE OF THE HILLS
BALANCE SHEET - GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2017 and 2016

	Statement of Net Position			
	Gen Fund	Adjustments	2017	2016
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 293,017		\$ 293,017	\$ 209,773
Net receivables	5,202		5,202	4,536
Total current assets	<u>298,219</u>		<u>298,219</u>	<u>214,309</u>
Non-current assets:				
Capital assets not subject to depreciation	-	39,540	39,540	39,540
Capital assets, net	-	558,185	558,185	556,247
Total non-current assets	<u>-</u>		<u>597,725</u>	<u>595,787</u>
Total assets	<u>298,219</u>		<u>895,944</u>	<u>810,096</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	<u>8,988</u>		<u>8,988</u>	<u>7,813</u>
Total liabilities	8,988		8,988	7,813
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	<u>5,202</u>	(5,202)	<u>-</u>	<u>-</u>
Total deferred inflows of resources	<u>5,202</u>		<u>8,988</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>14,190</u>		<u>8,988</u>	<u>7,813</u>
NET POSITION				
Net investment in capital assets	-		597,725	595,787
Unrestricted	<u>284,029</u>		<u>289,231</u>	<u>206,496</u>
Total net position	<u>\$ 284,029</u>		<u>886,956</u>	<u>\$ 802,283</u>

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, 2017 and 2016

	Total Govern- mental Funds 2017	Adjustments (Note 3)	Statement of Activities 2017	Total 2016
Revenues				
Property taxes	\$ 247,738	\$ 666	\$ 248,404	\$ 238,061
Franchise fees	142,954		142,954	150,260
Sales Tax	182,984		182,984	157,704
Reimbursements	13,276		13,276	19,700
Grant Income	-		-	500
Miscellaneous income	8,959		8,959	12,779
Total revenues	<u>595,911</u>		<u>\$ 596,577</u>	<u>579,004</u>
Expenditures				
Current operations				
General administration	377,326		377,326	349,722
Capital Outlay	37,309	(37,309)	-	-
Depreciation	-	35,372	35,372	34,439
Wildfire Mitigation	5,000		5,000	5,000
Public safety	94,207		94,207	93,757
Total expenditures	<u>513,842</u>		<u>511,905</u>	<u>482,918</u>
Excess revenues and other sources over expenditures and other uses	82,069		84,672	96,086
Fund balances - beginning	<u>201,960</u>		<u>802,284</u>	<u>706,197</u>
Fund balances - ending	<u><u>\$ 284,029</u></u>		<u><u>\$ 886,956</u></u>	<u><u>\$ 802,283</u></u>

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

VILLAGE OF THE HILLS
STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2017 and 2016

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

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 53,789	\$ 50,375
Customer accounts receivable	36,572	38,000
Total Assets	90,361	88,375
LIABILITIES		
Current Liabilities		
Accounts payable	16,233	16,013
Total Liabilities	16,233	16,013
NET POSITION		
Invested in capital assets	-	-
Unassigned	74,128	72,362
Total net position	\$ 74,128	\$ 72,362

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, 2017 and 2016

	Business-type Activities- Enterprise Fund - Waste Disposal	
	<u>2017</u>	<u>2016</u>
OPERATING REVENUE		
Charges for services	\$ 221,615	\$ 227,766
TOTAL OPERATING REVENUE	<u>221,615</u>	<u>227,766</u>
OPERATING EXPENSE		
Administrative fees	9,000	9,000
Refuse removal	194,667	192,459
Miscellaneous	16,183	15,409
TOTAL OPERATING EXPENSE	<u>219,850</u>	<u>216,868</u>
OPERATING INCOME	1,765	10,898
NONOPERATING REVENUES		
Other Income	-	-
Change in net assets, before transfers	<u>1,765</u>	<u>10,898</u>
Transfers to general fund	-	-
Change in net position	<u>1,765</u>	<u>10,898</u>
Net position - beginning	72,363	61,465
Net position - ending	<u>\$ 74,128</u>	<u>\$ 72,363</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, 2017 and 2016

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

	2017	2016
Cash flows from operating activities:		
Cash received from customers	\$ 223,042	\$ 227,532
Cash paid to suppliers	(219,629)	(216,869)
Net cash provided by operating activities	3,413	10,663
Cash flows from non-capital financing activities:	1,647	-
Cash flows from capital and related financing activities:	-	-
Cash flows from investing activities:	-	-
Net increase (decrease) in cash and cash equivalents	3,413	10,663
Cash and cash equivalents, beginning of period	50,376	39,713
Cash and cash equivalents, end of period	\$ 53,789	\$ 50,376

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

Village of The Hills

Notes to the Financial Statements as of September 30, 2017

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 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 position 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.

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Receivables

Receivables at September 30, 2017 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	\$ 284,029
Capital assets used in governmental activities are not financial resources and, therefore, are reported as unavailable in the funds	597,725
Taxes receivables deferred in the fund financial statements and not in the government-wide financial statements	<u>5,202</u>
Net position of governmental activities	<u>\$ 886,956</u>
Net change in fund balance - governmental fund	\$ 82,069
Net increase in tax receivable deferred in the fund financial statements and not in the government-wide financial statements	666
Depreciation expense not recognized in the fund financial statements	(35,372)
Capital outlays recognized as expenditures in the fund financial statements	<u>37,309</u>
Change in net assets - governmental activities	<u>\$ 84,672</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, 2017 all of the Village's cash was covered by FDIC insurance or pledged securities.

At September 30, 2017 and 2016, the Governmental Fund had \$293,017 and \$209,773, respectively, invested in cash and cash equivalents.

At September 30, 2017 and 2016, the Proprietary Fund had \$53,789 and \$50,375 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.

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, 2017 was as follows:

	9/30/16 Beginning Balance	Increases	Decreases	9/30/17 Ending Balance
Governmental activities				
Not being depreciated:				
Land	\$ 39,540	\$ -	\$ -	\$ 39,540
Other Capital Assets:				
Leasehold Improvements	-	31,831	-	31,831
Infrastructure Improvements	405,124	37,309	-	442,433
Buildings and Equipment	484,903	-	-	484,903
Subtotal	<u>890,027</u>	<u>69,140</u>	<u>-</u>	<u>959,167</u>
Accumulated Depreciation:				
Buildings and Equipment	<u>(333,779)</u>	<u>-</u>	<u>(35,372)</u>	<u>(369,151)</u>
Subtotal	<u>(333,779)</u>	<u>-</u>	<u>(35,372)</u>	<u>(369,151)</u>
Net other capital assets	<u>556,248</u>	<u>69,140</u>	<u>(35,372)</u>	<u>590,016</u>
Net capital assets	<u>\$ 595,788</u>	<u>\$ 69,140</u>	<u>\$ (35,372)</u>	<u>\$ 629,556</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 2015 was \$398,404,250. The initial tax levy of October 1, 2016 set a tax rate of \$.06 per \$100 of assessed valuation at 100% of assumed market value. The total levy was \$247,971. Taxes are due in January following the October 1 statement date. Tax collections during the year ended September 30, 2017 for the tax year 2016 were 97.5% 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 – SUBSEQUENT EVENTS

The Village has evaluated subsequent events as of January 2, 2018, the date the financial statements were available to be issued.

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 – NET POSITION and FUND BALANCES

The government-wide and business-type fund financial statements utilize a net position presentation. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position is categorized as net investment in capital assets, restricted and unrestricted.

1. **Net Investment in Capital Assets** is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital assets related debt.
2. **Restricted Assets** are liquid assets (generated from revenues and not bond proceeds) which have third party (statutory, bond covenant, or granting agency) limitations on their use. The Village would typically use restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use thereof to a future project or replacement equipment acquisition.
3. **Unrestricted Assets** represent unrestricted liquid assets. The Village's management may have plans or tentative commitments to expend resources for certain purposes in future periods. Further legal action will be required to authorize the actual expense or expenditures.

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, 2017

GENERAL FUND

	<u>ORIGINAL</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Revenues: Net assets - governmental activities			
Franchise fees	\$ 143,830	\$ 142,954	\$ (876)
Property and other taxes	249,651	247,738	(1,913)
Sales Tax	103,200	182,984	79,784
Reimbursements from other Funds	9,000	13,276	4,276
Miscellaneous revenue	9,500	8,959	(541)
Total revenue	<u>\$ 515,181</u>	<u>\$ 595,911</u>	<u>\$ 80,730</u>
Expenditures:			
Interlocal agreement-management fees	\$ 220,650	\$ 114,922	105,728
Insurance and bonds	2,350	2,714	(364)
Law enforcement	98,757	94,207	4,550
Legal and professional	26,750	21,099	5,651
Payroll and related expenses	5,000	74,663	(69,663)
Dues and memberships	1,185	4,264	(3,079)
Park Maintenance	126,295	98,861	27,434
Park Improvements	1,000	2,273	(1,273)
Fence Maintenance	5,000	-	5,000
Wildlife Management	600	-	600
Wildfire Mitigation	5,000	5,000	-
TCAD/ TAX AC	532	1,227	(695)
Website	2,485	4,275	(1,790)
Miscellaneous	8,244	6,061	2,183
Capital Expenditures	900	37,309	(36,409)
Contingency	5,400	43,508	(38,108)
Office supplies	3,600	3,459	141
Total expenditures	<u>\$ 513,748</u>	<u>\$ 513,842</u>	<u>\$ (94)</u>
Excess revenues over expenditures	1,433	82,069	80,636
Beginning Net Position	201,960	201,960	-
Ending Net Position	<u>\$ 203,393</u>	<u>\$ 284,029</u>	<u>\$ 80,636</u>