

VILLAGE OF THE HILLS, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2019



SINGLETON, CLARK
& COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS

VILLAGE OF THE HILLS, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2019

TABLE OF CONTENTS

	Page
FINANCIAL SECTION	
Independent Auditor's Report	1
Management's Discussion and Analysis	5
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	15
Statement of Activities	17
Fund Financial Statements:	
Balance Sheet – Governmental Funds	20
Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Position	21
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	22
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-wide Statement of Activities	23
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	25
Statement of Net Position – Proprietary Fund	26
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund	27
Statement of Cash Flows – Proprietary Fund	29
Notes to the Financial Statements	33
Required Supplementary Information:	
Schedule of Changes in Net Pension Liability and Related Ratios	54
Schedule of Employer NPL Contributions	55
Notes to Schedule of Employer NPL Contributions	57
Schedule of Changes in Net OPEB Liability and Related Ratios	58
Schedule of Employer Net OPEB Contributions	59
Notes to Schedule of Employer Net OPEB Contributions	61
Other Reporting:	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	63
Schedule of Findings and Questioned Costs	67

FINANCIAL SECTION

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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council of the
Village of The Hills, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Village of The Hills, Texas (the "Village") as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Village'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 and the standards applicable to financial statements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village as of September 30, 2019, and the respective changes in financial position, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

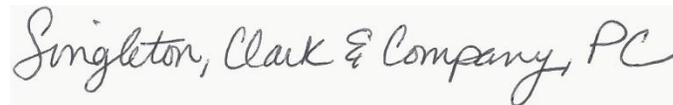
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Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis section preceding the basic financial statements and the pension and other post-employment benefit related schedules following the notes to the financials 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2020 on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Singleton, Clark & Company, PC
Cedar Park, Texas

March 6, 2020

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VILLAGE OF THE HILLS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Management's Discussion and Analysis

As management of the Village of The Hills, Texas, we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended September 30, 2019. Please read it in conjunction with the independent auditor's report on page 1 and the Village's basic financial statements which follow this section.

Financial Highlights

- The Village's adjusted net position for governmental activities increased by \$315,810 as a result of this year's operations to end at \$1,313,059. The Village's adjusted net position for business-type activities increased by \$18,285 to end at \$75,996. Total assets of the Village exceeded its total liabilities at the close of the most recent fiscal year by \$1,389,055 (*total net position*).
- As of the close of the current fiscal year, the governmental funds of the Village (the General Fund, the Street Maintenance Fund and the Capital Projects Fund) reported an overall fund balance increase of \$186,071, to end at \$604,822. The General Fund of the Village reported an overall fund balance increase of \$164,233, to end at \$448,898.
- As of September 30, 2019, the Street Maintenance Fund's fund balance was zero, a decrease of \$53,707. The decrease in fund balance was a result of capital improvements to infrastructure.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the Village of The Hills, Texas's basic financial statements. The Village's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Village of The Hills, Texas's finances, in a manner similar to a private-sector business.

The *statement of net position* presents financial information on all of the Village's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the Village's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the Village of The Hills, Texas that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Village include general government, public safety, and culture and recreation. The business-type activity of the Village consists of solid waste removal.

VILLAGE OF THE HILLS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village of The Hills, Texas, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village of The Hills, Texas can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village of The Hills, Texas maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Street Maintenance Fund, and the Capital Projects Fund, which are considered to be major funds.

The Village of The Hills, Texas adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Proprietary Funds. The Village of The Hills, Texas has the option of maintaining two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village uses an enterprise fund to account for its solid waste utility operation. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among a Village's functions. The Village is not currently utilizing an internal service fund. Because the services provided by internal service funds predominantly benefit governmental rather than business-type functions, they are usually included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the solid waste utility, which is considered to be a major fund of the Village of The Hills, Texas. Conversely, when internal service funds are utilized, they are combined into a single, aggregated presentation in the proprietary fund financial statements.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are *not* reported in the government-wide financial statements because the resources of those funds *are* not available to support the Village's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Village of The Hills, Texas does not utilize fiduciary funds.

VILLAGE OF THE HILLS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Village of The Hills, Texas's progress in funding its obligation to provide pension and OPEB benefits to its employee. Required supplementary information can be found beginning on page 52 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the Village, total assets exceeded total liabilities by \$1,313,059 at the close of the most recent fiscal year.

Table I
Village of The Hills, Texas's
Net Position

	Governmental Activities 2019	Governmental Activities 2018	Change	Business- Type Activities 2019	Business- Type Activities 2018	Change
Current & Other Assets	\$ 636,778	\$ 438,602	\$ 198,176	\$ 93,936	\$ 65,147	\$ 28,789
Capital Assets	697,677	614,772	82,905	-	-	-
Deferred Outflows	6,698	-	6,698	-	-	-
Total Assets and Deferred Outflows	<u>1,341,153</u>	<u>1,053,374</u>	<u>287,779</u>	<u>93,936</u>	<u>65,147</u>	<u>28,789</u>
Current & Other Liabilities	24,316	14,128	10,188	17,940	16,233	1,707
Long-term Liabilities	3,756	-	3,756	-	-	-
Deferred Inflows	22	-	22	-	-	-
Total Liabilities and Deferred Inflows	<u>28,094</u>	<u>14,128</u>	<u>13,966</u>	<u>17,940</u>	<u>16,233</u>	<u>1,707</u>
Net Position						
Net Investment in Capital Assets	697,677	614,772	82,905	-	-	-
Unrestricted	615,382	424,474	190,908	75,996	48,914	27,082
Total Net Position	<u>\$ 1,313,059</u>	<u>\$ 1,039,246</u>	<u>\$ 273,813</u>	<u>\$ 75,996</u>	<u>\$ 48,914</u>	<u>\$ 27,082</u>

The largest portion of the Village of The Hills, Texas's net position (53.1%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure). The Village uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending.

VILLAGE OF THE HILLS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

The Village of The Hills, Texas does not have resources that are subject to external restrictions on how they may be used. The remaining balance of \$615,382 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors. At the end of the current fiscal year, the Village is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The Village of The Hills, Texas's overall net position increased by \$334,095 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

Governmental Activities. During the current fiscal year, net position for governmental activities increased \$315,810 net after the prior period adjustment for an ending balance of \$1,313,059. The increase in the overall net position of governmental activities is the result of actual revenues exceeding budgeted revenues and actual expenditures being less than budgeted expenditures.

Table II
Village of The Hills, Texas's
Changes in Net Position

	Governmental Activities 2019	Governmental Activities 2018	Change	Business- Type Activities 2019	Business- Type Activities 2018	Change
REVENUES						
Program Revenues:						
Charges for Services	\$ 1,800	\$ -	\$ 1,800	\$ 256,728	\$ 242,881	\$ 13,847
General Revenues:						
Property Taxes	453,526	405,343	48,183	-	-	-
Other Taxes	189,329	144,296	45,033	-	-	-
Grants and Contributions Not Restricted to Specific Programs	142,438	-	142,438	-	-	-
Other	3,385	49,815	(46,430)	-	-	-
Total Revenue	811,588	599,454	212,134	256,728	242,881	13,847
EXPENSES						
General Government	276,041	342,880	(66,839)	-	-	-
Public Safety	95,669	134,524	(38,855)	-	-	-
Culture and Recreation	124,068	-	124,068	-	-	-
Solid Waste	-	-	-	238,443	231,523	6,920
Total Expenses	495,778	477,404	18,374	238,443	231,523	6,920
Increase (Decrease) in Net Position	315,810	122,050	193,760	18,285	11,358	6,927
Net Position - Beginning	1,039,246	917,196	122,050	48,914	37,556	11,358
Prior Period Adjustment	(41,997)	-	(41,997)	8,797	-	8,797
Net Position - Ending	\$ 1,313,059	\$ 1,039,246	\$ 273,813	\$ 75,996	\$ 48,914	\$ 27,082

VILLAGE OF THE HILLS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Business-type Activities. For the Village of The Hills, Texas's business-type activities, the results for the current fiscal year were positive in that overall net position increased to reach an ending balance of \$75,996. The total increase in net position for business-type activities, the Solid Waste Fund, was \$18,285 or 32% from the prior fiscal year's adjusted balance. The growth, in large part, is attributable to charges for services exceeding expenditures.

Financial Analysis of Governmental Funds

As noted earlier, the Village of The Hills, Texas uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Village of The Hills, Texas's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village of The Hills, Texas's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Village of The Hills, Texas itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Village of The Hills, Texas's Council.

At September 30, 2019, the Village of The Hills, Texas's governmental funds reported combined fund balances of \$604,822, an increase of \$186,071 in comparison with the prior year. Approximately 75% of this amount \$448,898 constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *assigned* to indicate that it is assigned for capital projects \$155,924.

The General Fund is the chief operating fund of the Village of The Hills, Texas. At the end of the current fiscal year the total fund balance consisted entirely of unassigned funds. The total fund balance of the General Fund increased to \$448,898. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance to total General Fund expenditures. Unassigned fund balance represents approximately 97% of total General Fund current year expenditures.

The fund balance of the Village of The Hills, Texas's General Fund increased by \$164,223 during the current fiscal year. The increase is the result of actual revenues exceeding budgeted revenues and actual expenditures being less than budgeted expenditures.

The Street Maintenance Fund's fund balance was zero, a decrease of \$53,707. The decrease in fund balance was a result of capital improvements to infrastructure.

The Capital Projects Fund had a \$75,555 increase in fund balance during the current fiscal year which put the overall fund balance at \$155,924. The increase in fund balance was a result of transfers from the General Fund exceeding expenditures related to capital outlay.

VILLAGE OF THE HILLS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Proprietary Funds. The Village of The Hills, Texas's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the solid waste fund increased \$18,285 to end the fiscal year at \$75,996. As noted earlier in the discussion of business-type activities, the increase for the Solid Waste Fund results from charges for services in the current year exceeding expenditures.

General Fund Budgetary Highlights

Original budget compared to final budget. During the year there was no need for any amendments to increase either the original estimated revenues or original budgeted appropriations.

Capital Assets and Debt Administration

Capital assets. The Village of The Hills, Texas's investment in capital assets for its governmental activities as of September 30, 2019, amounts to \$697,677 (net of accumulated depreciation). This investment in capital assets includes land, buildings, leasehold improvements, infrastructure, machinery, equipment, furniture, and construction in progress. The net increase in capital assets for the current fiscal year was 21% over the prior year or \$122,381.

Table III
Village of The Hills, Texas's
Capital Assets

	Governmental Activities 2019	Governmental Activities 2018	Change
Land	\$ 39,540	\$ 39,540	\$ -
Buildings and Improvements	147,211	147,211	-
Furniture and Equipment	108,821	388,470	(279,649)
Infrastructure	742,864	403,045	339,819
Construction in Progress	54,222	-	54,222
Total	1,092,658	978,266	114,392
Less Accumulated Depreciation	(394,981)	(402,970)	7,989
Capital Assets, Net of Depreciation	\$ 697,677	\$ 575,296	\$ 122,381

Additional information on the Village of The Hills, Texas's capital assets can be found in Note III.C on pages 40 of this report.

Long-term Debt. At the end of the current fiscal year, the Village of The Hills, Texas did not have any bonded debt. The Village's long-term obligations consisted entirely of pension and OPEB related obligations.

VILLAGE OF THE HILLS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Economic Factors and Next Year's Budgets and Rates

The Village considered many factors when setting the fiscal year 2019-2020 budget. The Village's General Fund budget for fiscal year 2019-2020 includes expenditures of \$761,209 which is a slight increase from fiscal year 2018-2019 total adopted expenditures. The Village maintained the tax rate for fiscal year 2019-2020 at \$0.10 per \$100 valuation.

Requests for Information

This financial report is designed to provide a general overview of the Village's finances for all those interested in the Village's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Wendy Smith May, the City Manager, at, 102 Trophy Drive, The Hills, Texas 78738, or by calling (512) 261-6281.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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VILLAGE OF THE HILLS, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2019

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 423,900	\$ 51,776	\$ 475,676
Investments - Current	200,296	-	200,296
Taxes Receivable - Delinquent	8,487	-	8,487
Allowance for Uncollectible Taxes	(847)	-	(847)
Accounts Receivable	4,942	42,160	47,102
Capital Assets, Not Being Depreciated:			
Land	39,540	-	39,540
Construction in Progress	54,222	-	54,222
Capital Assets, Being Depreciated:			
Buildings and Improvements	147,211	-	147,211
Machinery, Equipment, and Vehicles	108,821	-	108,821
Infrastructure	742,864	-	742,864
Accumulated Depreciation	(394,981)	-	(394,981)
Total Assets	<u>1,334,455</u>	<u>93,936</u>	<u>1,428,391</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows NPL/OPEB	6,698	-	6,698
Total Deferred Outflows of Resources	<u>6,698</u>	<u>-</u>	<u>6,698</u>
LIABILITIES			
Accounts Payable	24,316	17,940	42,256
Noncurrent Liabilities:			
Due in More than One Year	3,756	-	3,756
Total Liabilities	<u>28,072</u>	<u>17,940</u>	<u>46,012</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows NPL/OPEB	22	-	22
Total Deferred Inflows of Resources	<u>22</u>	<u>-</u>	<u>22</u>
NET POSITION			
Net Investment in Capital Assets	697,677	-	697,677
Unrestricted	615,382	75,996	691,378
Total Net Position	<u>\$ 1,313,059</u>	<u>\$ 75,996</u>	<u>\$ 1,389,055</u>

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

VILLAGE OF THE HILLS, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Functions/Programs:	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities:			
General Government	\$ 276,041	\$ 600	\$ -
Public Safety	95,669	-	-
Culture and Recreation	124,068	1,200	21,110
Total Governmental Activities:	495,778	1,800	21,110
Business - Type Activities:			
Solid Waste Fund	238,443	256,728	-
Total Business - Type Activities:	238,443	256,728	-
Total Primary Government	\$ 734,221	\$ 258,528	\$ 21,110
General Revenues:			
Property Taxes			
Sales Taxes			
Franchise Taxes			
Investment Earnings			
Miscellaneous			
Total General Revenues			
Change in Net Position			
Net Position - Beginning			
Prior Period Adjustment			
Net Position - Ending			

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

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (275,441)	\$ -	\$ (275,441)
(95,669)	-	(95,669)
(101,758)	-	(101,758)
<u>(472,868)</u>	<u>-</u>	<u>(472,868)</u>
-	18,285	18,285
-	18,285	18,285
<u>(472,868)</u>	<u>18,285</u>	<u>(454,583)</u>
453,526	-	453,526
189,329	-	189,329
142,438	-	142,438
296	-	296
3,089	-	3,089
<u>788,678</u>	<u>-</u>	<u>788,678</u>
315,810	18,285	334,095
1,039,246	48,914	1,088,160
<u>(41,997)</u>	<u>8,797</u>	<u>(33,200)</u>
<u>\$ 1,313,059</u>	<u>\$ 75,996</u>	<u>\$ 1,389,055</u>

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FUND BASIS FINANCIAL STATEMENTS

VILLAGE OF THE HILLS, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2019

	General Fund	Street Maintenance Fund	Capital Projects Fund	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 252,116	\$ -	\$ 171,784	\$ 423,900
Investments - Current	200,296	-	-	200,296
Taxes Receivable - Delinquent	8,487	-	-	8,487
Allowance for Uncollectible Delinquent Taxes	(847)	-	-	(847)
Accounts Receivable	4,942	-	-	4,942
Total Assets	<u>\$ 464,994</u>	<u>\$ -</u>	<u>\$ 171,784</u>	<u>\$ 636,778</u>
LIABILITIES				
Accounts Payable	\$ 8,456	\$ -	\$ 15,860	\$ 24,316
Total Liabilities	<u>8,456</u>	<u>-</u>	<u>15,860</u>	<u>24,316</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	7,640	-	-	7,640
Total Deferred Inflows of Resources	<u>7,640</u>	<u>-</u>	<u>-</u>	<u>7,640</u>
FUND BALANCES				
Assigned:				
Capital Projects	-	-	155,924	155,924
Unassigned	448,898	-	-	448,898
Total Fund Balances	<u>448,898</u>	<u>-</u>	<u>155,924</u>	<u>604,822</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 464,994</u>	<u>\$ -</u>	<u>\$ 171,784</u>	<u>\$ 636,778</u>

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

VILLAGE OF THE HILLS, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION
SEPTEMBER 30, 2019

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance of all governmental funds	\$	604,822
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Governmental capital assets	\$	1,092,658
Less accumulated depreciation		(394,981)
		697,677
<p>Other long-term assets, such as uncollected property taxes, are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.</p>		
		7,640
<p>Additional long-term liabilities related to the recognition of the net pension liability and the net OPEB liability are not reported in the funds.</p>		
		2,920
Net position of governmental activities	\$	1,313,059

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

VILLAGE OF THE HILLS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	General Fund	Street Maintenance Fund	Capital Projects Fund	Total Governmental Funds
REVENUES				
Property Taxes	\$ 451,609	\$ -	\$ -	\$ 451,609
Sales Taxes	189,329	-	-	189,329
Franchise Taxes	142,438	-	-	142,438
Licenses and Permits	1,800	-	-	1,800
Investment Earnings	296	-	-	296
Grants and contributions	21,110	-	-	21,110
Miscellaneous Revenue	3,089	-	-	3,089
Total Revenues	809,671	-	-	809,671
EXPENDITURES				
Current:				
General Government	255,336	-	-	255,336
Public Safety	86,783	-	-	86,783
Culture and Recreation	112,544	-	-	112,544
Capital Outlay	5,985	53,707	109,245	168,937
Total Expenditures	460,648	53,707	109,245	623,600
Excess (Deficiency) of Revenues Over Expenditures	349,023	(53,707)	(109,245)	186,071
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	184,800	184,800
Transfers Out	(184,800)	-	-	(184,800)
Total Other Financing Sources (Uses)	(184,800)	-	184,800	-
Net Change in Fund Balance	164,223	(53,707)	75,555	186,071
Fund Balance - Beginning	284,675	53,707	80,369	418,751
Fund Balance - Ending	\$ 448,898	\$ -	\$ 155,924	\$ 604,822

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

VILLAGE OF THE HILLS, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2019

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances for total governmental funds	\$	186,071
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.		122,381
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		1,917
The net effect of various transactions involving the net pension liability and the net OPEB liability is to decrease net position.		5,441
		5,441
Change in net position for governmental activities	\$	315,810

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

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VILLAGE OF THE HILLS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Property Taxes	\$ 449,320	\$ 449,320	\$ 451,609	\$ 2,289
Sales Taxes	149,000	149,000	189,329	40,329
Franchise Taxes	143,000	143,000	142,438	(562)
Licenses and Permits	2,275	2,275	1,800	(475)
Investment Earnings	500	500	296	(204)
Grants and Contributions	8,200	8,200	21,110	12,910
Miscellaneous Revenue	-	-	3,089	3,089
Total Revenues	752,295	752,295	809,671	57,376
EXPENDITURES				
Current:				
General Government	295,399	295,399	255,336	40,063
Public Safety	88,000	88,000	86,783	1,217
Culture and Recreation	169,700	169,700	112,544	57,156
Capital Outlay	5,985	5,985	5,985	-
Total Expenditures	559,084	559,084	460,648	98,436
Excess (Deficiency) of Revenues Over Expenditures	193,211	193,211	349,023	155,812
OTHER FINANCING SOURCES (USES)				
Transfers In	15,000	15,000	-	(15,000)
Transfers Out	(184,800)	(184,800)	(184,800)	-
Total Other Financing Sources (Uses)	(169,800)	(169,800)	(184,800)	(15,000)
Net Change in Fund Balances	23,411	23,411	164,223	140,812
Fund Balance - Beginning	284,675	284,675	284,675	-
Fund Balance - Ending	\$ 308,086	\$ 308,086	\$ 448,898	\$ 140,812

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

VILLAGE OF THE HILLS, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2019

	<u>Business-Type Activities</u>
	<u>Solid Waste Fund</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 51,776
Accounts Receivable	42,160
Total Current Assets	93,936
LIABILITIES	
Current Liabilities:	
Accounts Payable	17,940
Total Current Liabilities	17,940
NET POSITION	
Unrestricted	75,996
Total Net Position	\$ 75,996

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

VILLAGE OF THE HILLS, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>Business-Type Activities</u>
	<u>Solid Waste Fund</u>
REVENUES	
Operating Revenues:	
Solid Waste Charges	\$ 256,728
Total Operating Revenues	256,728
EXPENSES	
Operating Expenses:	
Refuse Removal	217,735
Administrative Fees	20,708
Total Operating Expenses	238,443
Operating Income (Loss)	18,285
Change in Net Position	18,285
Net Position - Beginning	48,914
Prior Period Adjustment	8,797
Net Position - Ending	\$ 75,996

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

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VILLAGE OF THE HILLS, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
SEPTEMBER 30, 2019

	<u>Business-Type Activities</u>
	<u>Solid Waste Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 251,481
Payments to Suppliers and Service Providers	(236,736)
Net Cash Provided by (Used for) Operating Activities	14,745
Net Increase (Decrease) in Cash and Cash Equivalents	14,745
Cash and Cash Equivalents - Beginning	37,031
Cash and Cash Equivalents - Ending	\$ 51,776
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used for) Operating Activities:	
Operating Income (Loss)	\$ 18,285
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:	
(Increase) Decrease in Accounts Receivable	(5,247)
(Decrease) Increase in Accounts Payable	1,707
Total Adjustments	(3,540)
Net Cash Provided by (Used for) Operating Activities	\$ 14,745

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

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NOTES TO THE FINANCIAL STATEMENTS

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VILLAGE OF THE HILLS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

I. Summary of Significant Accounting Policies

A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

B. Reporting Entity

The Village of The Hills is a municipal corporation governed by an elected mayor and five-member governing council (council).

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, and proprietary funds, even though the latter is excluded from the government-wide financial statements.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

The *Street Maintenance Fund* accounts for the repairs, maintenance, and construction of the government's street related assets.

The *Capital Projects Fund* accounts for the acquisition and construction of the government's major capital facilities, other than those financed by proprietary funds.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds or advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

VILLAGE OF THE HILLS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary, pension and other postemployment benefit trust, and private-purpose trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Agency funds have no measurement focus but utilize the *accrual basis of accounting* for reporting its assets and liabilities.

VILLAGE OF THE HILLS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

F. Budgetary Information

1. Budgetary basis of accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. The capital projects fund is appropriated on a project-length basis. Other special revenue funds and the permanent fund do not have appropriated budgets since other means control the use of these resources (e.g., grant awards and endowment requirements) and sometimes span a period of more than one fiscal year.

The appropriated budget is prepared by fund and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

2. Excess of expenditures over appropriations

For the year ended September 30, 2019, expenditures did not exceed appropriations in any of the Village's legally adopted budgets.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. 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.

2. Investments

Investments for the government are reported at fair value (generally based on quoted market prices) except for positions in Local Government Investment Pools (TexPool) when applicable. In accordance with state law, these investment pools operate in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, the pools qualify as 2a7-like pools and are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. The pools are subject to regulatory oversight by the State Treasurer, although it is not registered with the SEC.

VILLAGE OF THE HILLS, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019

3. Inventories and prepaid items

The Village does not report inventories of supplies for consumable items due to the unused amount of these items being on hand at any given time being immaterial. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, except for infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$1,500 and an estimated useful life of more than one year.

As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings	40
Machinery and Equipment	5-20
Infrastructure	15-40

5. 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. The Village currently does not have any items that qualifies for reporting in this category. 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. The government currently has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

VILLAGE OF THE HILLS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

6. Net position flow assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

7. Fund balance flow assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

8. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation. Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

H. Revenues and Expenditures/Expenses

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

VILLAGE OF THE HILLS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

2. *Property taxes*

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The Village levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll of January 1, 2018, upon which the levy for the 2018-2019 fiscal year was based, was \$458,942,520. Taxes are delinquent if not paid by February 1st of the following calendar year. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended September 30, 2019, to finance General Fund operations was \$0.10 per \$100 valuation. The total tax levy for the General Fund for the 2018-2019 fiscal year was \$458,943. Tax collections, including collections of prior year delinquent balances, for the year ended September 30, 2019, were 99% of the year end adjusted tax levy. Allowances for uncollectible taxes within the General Fund is based on historical experience in collecting taxes.

3. *Compensated absences*

Vacation

The Village does not have a vacation policy. As such vacation pay is not accumulated and no monetary obligation exists.

Sick Leave

The Village does not have a sick leave policy. As such sick leave is not accumulated and no monetary obligation exists.

4. *Proprietary funds operating and nonoperating revenues and expenses*

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Solid Waste Fund are charges to customers for services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. Stewardship, Compliance and Accountability

A. Violations of Legal or Contractual Provisions

No violations of legal or contractual provisions were noted during the current year.

B. Deficit Fund Equity

For the year ended September 30, 2019 there were no funds reported with deficit fund equity.

VILLAGE OF THE HILLS, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019

III. Detailed Notes on All Activities and Funds

A. Cash Deposits with Financial Institutions

Custodial credit risk-deposits. 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. The Village does not have a deposit policy for custodial credit risk. As of September 30, 2019, the Village’s bank balance was \$478,166, all of which was insured and collateralized with securities held by the pledging or financial institution’s trust department or agent, but not in the Village’s name.

B. Investments

The TexPool Investment Pool (Pool) operates in accordance with state law, which requires it to meet all of the requirements of Rule 2a-7 of the Securities and Exchange Commission. See note I.G.2, *Investments*, for a discussion of how the shares in the Pool are valued. The Pool has a credit rating of AAA from Standard & Poor’s Financial Services. Local government investment pools in this rating category meet the highest standards for credit quality, conservative investment policies, and safety of principal. The Pool invests in a high quality portfolio of debt securities investments legally permissible for municipalities and school districts in the state. The government utilizes a pooled investment concept for all its funds to maximize its investment program. Investment income from this internal pooling is allocated to the respective funds based upon the sources of funds invested. State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer’s Investment Pool.

As of September 30, 2019, the government had the following investments:

Investment Type	Maturity Time in Years Less than 1
TexPool Investment Pool	\$ 200,296
Total Investments	\$ 200,296

Interest rate risk. In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than ten months.

Credit risk. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the government’s policy to limit its investments in these investment types to the top rating issued by NRSROs. As of September 30, 2019, the government’s investment in the TexPool investment pool was rated AAA by Standard & Poor’s and AAA by Moody’s Investors Service.

Concentration of credit risk. The government’s investment policy does not allow for an investment in any one issuer that is in excess of 5 percent of the government’s total investments. This restriction however does not apply to government investment pools due to the low risk nature of this type of investment.

VILLAGE OF THE HILLS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Custodial credit risk-investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

C. Capital Assets

Capital assets activity for the year ended September 30, 2019, was as follows:

Governmental Activities:

	Balance 10/1/18	Increases	Decreases	Adjustments	Balance 9/30/19
Capital Assets, Not Being Depreciated:					
Land	\$ 39,540	\$ -	\$ -	\$ -	\$ 39,540
Construction in Progress	-	54,222	-	-	54,222
Total Capital Assets, Not Being Depreciated	39,540	54,222	-	-	93,762
Capital Assets, Being Depreciated:					
Buildings and Improvements	147,211	-	-	-	147,211
Machinery, Equipment, and Vehicles	388,470	5,985	(6,237)	(279,397)	108,821
Infrastructure	403,045	108,730	-	231,089	742,864
Total Capital Assets, Being Depreciated	938,726	114,715	(6,237)	(48,308)	998,896
Less Accumulated Depreciation for:					
Buildings and Improvements	(50,540)	(4,477)	-	-	(55,017)
Machinery, Equipment, and Vehicles	(76,139)	(13,611)	6,237	21,291	(62,222)
Infrastructure	(276,291)	(28,468)	-	27,017	(277,742)
Total Accumulated Depreciation	(402,970)	(46,556)	6,237	48,308	(394,981)
Total Capital Assets Being Depreciated, Net	535,756	68,159	-	-	603,915
Governmental Activities Capital Assets, Net	\$ 575,296	\$ 122,381	\$ -	\$ -	\$ 697,677

Depreciation expense was charged to the functions/programs of the governmental activities of the primary government as follows:

Governmental Activities:

General Government	\$ 26,146
Public Safety	8,886
Culture and Recreation	11,524
Total Depreciation Expense - Governmental Activities	\$ 46,556

VILLAGE OF THE HILLS, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019

D. Defined Benefit Pension Plan

Plan Description

The Village participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the Village are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the Village, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the Village-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Employees Covered by Benefit Terms

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Retirees or Beneficiaries Currently Receiving Benefits	-
Inactive Employees Entitled to but Not Yet Receiving Benefits	-
Active Employees	<u>1</u>
	<u><u>1</u></u>

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the Village matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the Village. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the Village were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the Village of the Hills were 6.0% and 6.11% in calendar years 2018 and 2019, respectively. The Village's contributions to TMRS for the year ended September 30, 2019 were \$5,975, and were equal to the required contributions.

VILLAGE OF THE HILLS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Net Pension Liability

The Village's Net Pension Liability (NPL) was measured as of December 31, 2018, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by a factor of 95%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2018, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

VILLAGE OF THE HILLS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2017	\$ 9,714	\$ 7,346	\$ 2,368
Changes for the Year:			
Service Cost	10,706	-	10,706
Interest	1,017	-	1,017
Change of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	-	-	-
Changes of Assumptions	99	-	99
Contributions - Employer	-	5,385	(5,385)
Contributions - Employee	-	5,542	(5,542)
Net Investment Income	-	(223)	223
Benefit Payments, Including Refunds of Employee Contributions	-	-	-
Administrative Expense	-	(3)	3
Other Changes	-	-	-
Net Changes	11,822	10,701	1,121
Balance at 12/31/2018	\$ 21,536	\$ 18,047	\$ 3,489

VILLAGE OF THE HILLS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the Village, calculated using the discount rate of 6.75%, as well as what the Village's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower 5.75% or 1-percentage-point higher 7.75% than the current rate:

	1% Decrease in Discount Rate 5.75%	Current Discount Rate 6.75%	1% Increase in Discount Rate 7.75%
City's Net Pension Liability	\$ 7,097	\$ 3,489	\$ 545

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2019, the Village recognized pension expense of (\$5,520).

At September 30, 2019, the Village reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Projected and Actual Investment Earnings	\$ 575	\$ -
Differences Between Expected and Actual Economic Experience	91	-
Difference in Assumption Changes	-	-
Contributions Subsequent to the Measurement Date	5,975	-
Total	\$ 6,641	\$ -

VILLAGE OF THE HILLS, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019

\$5,975 was reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year Ended Dec 31st:	Net Deferred Outflows (Inflows) of Resources
2019	\$ 152
2020	152
2021	152
2022	151
2023	8
Thereafter	51
Total	<u>\$ 666</u>

E. Other Post-Employment Benefit (OPEB) Obligations

Benefits Provided

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

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

Employees Covered by Benefit Terms

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees Currently Receiving Benefits	-
Inactive Employees Entitled to but Not Yet Receiving Benefits	-
Active Employees	<u>1</u>
	<u>1</u>

VILLAGE OF THE HILLS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Contributions

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

The Village's contributions to the TMRS SDBF for the years September 30, 2019 were \$44. The Village did not make contributions to the TMRS SDBF fund for the year ended September 30, 2018. The Village made the required contributions each year.

Plan Assets

At the December 31, 2018 valuation and measurement date, there are no assets accumulated in trust.

Actuarial Assumptions

The Total OPEB Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Salary increases	3.5%-10.5% including inflation per year
Discount rate	3.71% based on Fidelity Index's 20-year Municipal GO AA Index
Retirees' share of benefit costs	\$0

All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB No. 68. Mortality rates for service retirees are calculated using the RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB; while the mortality rate for disabled retirees are calculated using the RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females and projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor. The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

VILLAGE OF THE HILLS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	<u>100%</u>	

Schedule of Changes in the Total OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2017	\$ 114	\$ -	\$ 114
Changes for the Year:			
Service Cost	157	-	157
Interest	6	-	6
Change of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	14	-	14
Changes of Assumptions	(24)	-	(24)
Contributions - Employer	-	-	-
Contributions - Employee	-	-	-
Net Investment Income	-	-	-
Benefit Payments, Including Refunds of Employee Contributions	-	-	-
Administrative Expense	-	-	-
Other Changes	-	-	-
Net Changes	<u>153</u>	<u>-</u>	<u>153</u>
Balance at 12/31/2018	<u>\$ 267</u>	<u>\$ -</u>	<u>\$ 267</u>

VILLAGE OF THE HILLS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the Village, calculated using the discount rate of 3.71%, as well as what the Village's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower 2.71% or 1-percentage-point higher 4.71% than the current rate:

	1% Decrease in Discount Rate 2.71%	Current Discount Rate 3.71%	1% Increase in Discount Rate 4.71%
City's Net OPEB Liability	\$ 351	\$ 267	\$ 198

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2019, the Village recognized OPEB expense of \$79.

At September 30, 2019, the Village reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Projected and Actual Investment Earnings	\$ -	\$ -
Differences Between Expected and Actual Economic Experience	13	-
Difference in Assumption Changes	6	22
Contributions Subsequent to the Measurement Date	44	-
Total	\$ 63	\$ 22

\$44 was reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year Ended Dec 31st:	Net Deferred Outflows (Inflows) of Resources
2019	\$ -
2020	-
2021	-
2022	-
2023	-
Thereafter	(3)
Total	\$ (3)

VILLAGE OF THE HILLS, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019

F. Risk Management

The government is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During the year, the Village purchased commercial insurance to cover general liabilities. There are no significant reductions in coverage in the past fiscal year and no settlements exceeding insurance coverage for each of the past three fiscal years.

G. Fund Balance

Minimum fund balance policy. The City will maintain budgeted minimum reserves in the ending working capital fund balances to provide a secure, healthy financial base for the City in the event of a natural disaster or other emergency, allow stability of City operations should revenues fall short of budgeted projections, and provide available resources to implement budgeted expenditures without regard to actual timing of cash flow into the City. The City's objective is to maintain reserves at a minimum of 25% of the operating budget in the General Fund and Solid Waste Funds, respectively.

H. Interfund Transfers

The composition of interfund transfers for the year ended September 30, 2019 is as follows:

	Transfer In To:
	Governmental Funds
	Capital Projects Fund
Transfer Out From:	
General Fund	\$ 184,800
Total	\$ 184,800

During the year, recurring transfers are used to move general fund resources to provide subsidies to other funds as needs arise.

I. Contingencies

The government participates in various federal grant programs, the principal of which are subject to program compliance audits pursuant to the Single Audit Act as amended. Accordingly, the government's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the government anticipates such amounts, if any, will be immaterial.

J. Subsequent Events

As of March 6, 2020, there were no items noted requiring recording and/or disclosure.

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VILLAGE OF THE HILLS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

K. Prior Period Adjustments

During the year the Village recorded a prior period adjustment in its Solid Waste Fund as well as recording two prior period adjustments during its governmental activities conversion. The adjustment in the Solid Waste Fund relates to an increase of the carrying value of accounts receivable as of September 30, 2018. The first prior period adjustment for the Village’s governmental activities relates to the implementation of GASB 68 and GASB 75 associated with the Village’s participation in the TMRS pension and OPEB programs; the second prior period adjustment relates to a reduction in the carrying value of the Village’s depreciable assets.

Solid Waste Fund	
Net Position as Previously Stated at September 30, 2018	\$ 48,914
Prior period adjustment relates to an adjustment of accounts receivable	8,797
Net Position as Restated at September 30, 2018	<u>\$ 57,711</u>
Governmental Activities	
Net Position as Previously Stated at September 30, 2018	\$ 1,039,246
Prior period adj. relates to change in carrying value of depreciable assets	(39,476)
Prior period adjustment relates to implementation of GASB 68 and GASB 75	(2,521)
Net Position as Restated at September 30, 2018	<u>\$ 997,249</u>

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REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF THE HILLS, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Measurement Year 2017	Measurement Year 2018
A. Total Pension Liability		
1. Service Cost	\$ 7,197	\$ 10,706
2. Interest (on the Total Pension Liability)	387	1,017
3. Changes of Benefit Terms	2,130	-
4. Difference Between Expected and Actual Experience	-	99
5. Changes of Assumptions	-	-
6. Benefit Payments, Including Refunds of Employee Contributions	-	-
7. Net Change in Total Pension Liability	\$ 9,714	\$ 11,822
8. Total Pension Liability - Beginning	-	9,714
9. Total Pension Liability - Ending	\$ 9,714	\$ 21,536
B. Plan Fiduciary Net Position		
1. Contributions - Employer	\$ 3,620	\$ 5,385
2. Contributions - Employee	3,726	5,542
3. Net Investment Income	-	(223)
4. Benefit Payments, Including Refunds of Employee Contributions	-	-
5. Administrative Expense	-	(3)
6. Other Changes	-	-
7. Net Change in Plan Fiduciary Net Position	\$ 7,346	\$ 10,701
8. Plan Fiduciary Net Position - Beginning	-	7,346
9. Plan Fiduciary Net Position - Ending	\$ 7,346	\$ 18,047
C. Net Pension Liability [A.9 - B.9]	\$ 2,368	\$ 3,489
D. Plan Fiduciary Net Position as a Percentage of the Total Pension Liability [B.9 / A.9]	75.62%	83.80%
E. Covered Employee Payroll	\$ 62,101	\$ 92,371
F. Net Position as a Percentage of Covered Employee Payroll [C / E]	3.81%	3.78%

VILLAGE OF THE HILLS, TEXAS
 SCHEDULE OF EMPLOYER NPL CONTRIBUTIONS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Fiscal Year		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
Actuarially Determined Contribution	\$ 2,520	\$ 5,226	\$ 5,975
Actuarially Determined Contribution	<u>(2,520)</u>	<u>(5,226)</u>	<u>(5,975)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Employee Payroll	\$ 42,000	\$ 87,100	\$ 97,823
Contributions as a Percentage of Covered Employee Payroll	6.00%	6.00%	6.11%

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VILLAGE OF THE HILLS, TEXAS
NOTES TO THE SCHEDULE OF NPL EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Valuation Date: December 31, 2018

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method Entry Age Normal

Amortization Method Level Percentage of Payroll, Closed

Remaining
Amortization Period 6 years

Asset Valuation Method 10 Year Smoothed Market; 15% Soft Corridor

Inflation 2.5% per Year

Salary Increases 3.50% to 10.5%, Including Inflation

Investment Rate of
Return 6.75%

Retirement Age Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.

Mortality RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

Notes There were no benefit changes during the year.

VILLAGE OF THE HILLS, TEXAS
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Measurement Year 2017	Measurement Year 2018
A. Total Pension Liability		
1. Service Cost	\$ 87	\$ 157
2. Interest on Total OPEB Liability	2	6
3. Changes of Benefit Terms	16	-
4. Difference Between Expected and Actual Experience	-	14
5. Changes of Assumptions	9	(24)
6. Benefit Payments	-	-
7. Net Changes	\$ 114	\$ 153
8. Total OPEB Liability - Beginning of the Year	39	153
9. Total OPEB Liability - End of the Year	\$ 153	\$ 306
E. Covered Employee Payroll	\$ 62,101	\$ 92,371
F. Total OPEB Liability as a Percentage of Covered Payroll	0.25%	0.33%

VILLAGE OF THE HILLS, TEXAS
 SCHEDULE OF NET OPEB EMPLOYER CONTRIBUTIONS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Fiscal Year	
	2018	2019
Actuarially Determined Contribution	\$ -	\$ 44
Contributions in Relation to the Actuarially Determined Contribution	-	(44)
Contribution Deficiency (Excess)	\$ -	\$ -
Covered Employee Payroll	\$ 87,100	\$ 97,823
Contributions as a Percentage of Covered Employee Payroll	0.00%	0.04%

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VILLAGE OF THE HILLS, TEXAS
NOTES TO SCHEDULE OF NET OPEB EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Summary of Actuarial Assumptions:

Inflation	2.5%
Salary Increases	3.50% to 10.5%; Including Inflation
Discount rate*	3.71%
Retirees' Share of Benefit-related Costs	\$0
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality Rates - Service Retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality Rates - Disabled Retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

Other Information:

Notes

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2018.

The Actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

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

To the Honorable Mayor, Members of the City Council and Citizens of
the Village of The Hills, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of The Hills, Texas, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Village of The Hills, Texas's basic financial statements, and have issued our report thereon dated March 6, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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Purpose of this Report

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

A handwritten signature in black ink that reads "Singleton, Clark & Company, PC". The signature is written in a cursive style and is set against a light gray rectangular background.

Singleton, Clark & Company, PC.
Cedar Park, Texas

March 6, 2020

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VILLAGE OF THE HILLS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

SECTION I – SUMMARY OF AUDITOR’S RESULTS

FINANCIAL STATEMENTS

Type of auditor’s report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

Findings Related to Financial Statements Which are Required to be Reported in Accordance with Government Auditing Standards:

No findings or questioned costs required to be reported in accordance with *Government Auditing Standards* for the years ended September 30, 2019 and 2018.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Not applicable.