

*ANNUAL FINANCIAL REPORT*

of the

**CITY OF  
HILSHIRE VILLAGE, TEXAS**

**For the Year Ended  
September 30, 2018**

(This page intentionally left blank.)

# CITY OF HILSHIRE VILLAGE, TEXAS

## TABLE OF CONTENTS

September 30, 2018

	<u>Page</u>
<b>Independent Auditors' Report</b>	1
<b>Management's Discussion and Analysis (Required Supplementary Information)</b>	5
<b><u>BASIC FINANCIAL STATEMENTS</u></b>	
<b>Government-Wide Financial Statements</b>	
Statement of Net Position	14
Statement of Activities	16
<b>Fund Financial Statements</b>	
<b>Governmental Fund Financial Statements</b>	
Balance Sheet – Governmental Funds	19
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	23
<b>Proprietary Fund Financial Statements</b>	
Statement of Net Position – Proprietary Fund	25
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund	27
Statement of Cash Flows – Proprietary Fund	29
<b>Notes to Financial Statements</b>	31
<b><u>REQUIRED SUPPLEMENTARY INFORMATION</u></b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	55
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – METRO Fund	57
Schedule of Changes in Net Pension Liability and Related Ratios – Texas Municipal Retirement System	59
Schedule of Contributions – Texas Municipal Retirement System	61
Schedule of Changes in Total OPEB Liability and Related Ratios – Texas Municipal Retirement System	63
<b><u>SCHEDULE</u></b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund	67

(This page intentionally left blank.)



## ***INDEPENDENT AUDITORS' REPORT***

To the Honorable Mayor and  
City Council Members of the  
City of Hilshire Village, Texas:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, and each major fund of the City of Hilshire Village, Texas (the "City"), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, and each major fund of the City as of September 30, 2018, and the respective changes in financial position

AUDITING TEXAS GOVERNMENTS WITH EXCELLENCE

and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

### *Change in Accounting Principle*

In 2018, the City adopted a new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedules of changes in net pension and total other postemployment liability and related ratios, and schedule of contributions, identified as Required Supplementary Information on the table of contents, 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLP  
*Certified Public Accountants*  
Houston, Texas  
March 5, 2019

***MANAGEMENT'S DISCUSSION  
AND ANALYSIS***

(This page intentionally left blank.)



**CITY OF HILSHIRE VILLAGE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2018**

occurs, regardless of the timing of related cash flows – the accrual method rather than the modified accrual method that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City's financials into two classes of activities:

1. *Governmental Activities* – Most of the City's basic services are reported here including public safety (police and fire), public works (sanitation and street maintenance), and general government. Interest payments, sales taxes, property taxes, franchise fees, intergovernmental revenue, and permit fees finance most of these activities.
2. *Business-Type Activities* – Services involving a fee for those services are reported here. These services include the City's water distribution and wastewater collection.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate cultural education facilities finance corporation and higher education finance corporation for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found after the MD&A.

## **FUND FINANCIAL STATEMENTS**

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of City funds are governmental and proprietary.

### **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 evaluating the City'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 City maintains three governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, and the METRO fund, which are considered to be major funds for reporting purposes.

The City adopts an annual appropriated budget for the general fund, the debt service fund, and the METRO fund. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with the budgets.

**CITY OF HILSHIRE VILLAGE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2018**

**Proprietary Funds**

The City maintains one type of proprietary fund, an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and wastewater operations. The proprietary fund financial statements can be found in the basic financial statements of this report.

**Notes to Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

**Other Information**

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes budgetary comparison schedules for the general fund and the METRO fund and schedules of changes in net pension and total other postemployment benefits (OPEB) liability and related ratios and a schedule of contributions for the Texas Municipal Retirement System. RSI can be found after the notes to the basic financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. Assets and deferred outflows of resources exceed liabilities by \$9,827,036 as of September 30, 2018 for the primary government. This compares to the prior year's balance of \$9,883,948. The largest portion of the City's net position (91 percent) reflects its investments in capital assets (e.g., land, City hall, and streets), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

**CITY OF HILSHIRE VILLAGE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2018**

**Statement of Net Position:**

The following table reflects the condensed Statement of Net Position:

	2018			2017		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Current and other assets	\$ 2,748,068	\$ 500,669	\$ 3,248,737	\$ 1,292,104	\$ 536,269	\$ 1,828,373
Capital assets, net	6,088,707	2,813,440	8,902,147	6,249,208	2,838,466	9,087,674
<b>Total Assets</b>	<b>8,836,775</b>	<b>3,314,109</b>	<b>12,150,884</b>	<b>7,541,312</b>	<b>3,374,735</b>	<b>10,916,047</b>
Deferred outflows - pensions	16,036	-	16,036	14,514	-	14,514
Deferred outflows - OPEB	390	-	390	-	-	-
<b>Total Deferred Outflows of Resources</b>	<b>16,426</b>	<b>-</b>	<b>16,426</b>	<b>14,514</b>	<b>-</b>	<b>14,514</b>
Long-term liabilities	2,198,841	-	2,198,841	977,308	-	977,308
Other liabilities	47,887	91,313	139,200	219	69,086	69,305
<b>Total Liabilities</b>	<b>2,246,728</b>	<b>91,313</b>	<b>2,338,041</b>	<b>977,527</b>	<b>69,086</b>	<b>1,046,613</b>
Deferred inflows - pensions	2,233	-	2,233	-	-	-
<b>Total Deferred Inflows of Resources</b>	<b>2,233</b>	<b>-</b>	<b>2,233</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net position:</b>						
Net investment in capital assets	6,122,548	2,813,440	8,935,988	5,340,529	2,838,466	8,178,995
Restricted	155,615	-	155,615	188,041	-	188,041
Unrestricted	326,077	409,356	735,433	1,049,729	467,183	1,516,912
<b>Total Net Position</b>	<b>\$ 6,604,240</b>	<b>\$ 3,222,796</b>	<b>\$ 9,827,036</b>	<b>\$ 6,578,299</b>	<b>\$ 3,305,649</b>	<b>\$ 9,883,948</b>

A portion of the City's net position, \$155,615 or 2 percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$735,433 or 7 percent, may be used to meet the City's ongoing obligation to citizens and creditors. The overall condition of the City improved primarily due to an increase in property and sales taxes.

**CITY OF HILSHIRE VILLAGE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended September 30, 2018

**Statement of Activities:**

The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2018			For the Year Ended September 30, 2017		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 196,822	\$ 459,617	\$ 656,439	\$ 218,062	\$ 444,122	\$ 662,184
Operating grants	103,000	-	103,000	104,000	-	104,000
General revenues:						
Property taxes	1,150,593	-	1,150,593	1,064,593	-	1,064,593
Sales taxes	51,098	-	51,098	41,338	-	41,338
Franchise fees	62,975	-	62,975	60,240	-	60,240
Investment income	2,391	4,272	6,663	2,364	5,945	8,309
<b>Total Revenues</b>	<b>1,566,879</b>	<b>463,889</b>	<b>2,030,768</b>	<b>1,490,597</b>	<b>450,067</b>	<b>1,940,664</b>
<b>Expenses</b>						
General government	337,399	-	337,399	256,151	-	256,151
Police protection	447,764	-	447,764	419,293	-	419,293
Fire protection	201,761	-	201,761	164,118	-	164,118
Public works	450,902	-	450,902	676,625	-	676,625
Long-term debt interest	68,249	-	68,249	20,306	-	20,306
Water and sewer	-	576,140	576,140	-	546,434	546,434
<b>Total Expenses</b>	<b>1,506,075</b>	<b>576,140</b>	<b>2,082,215</b>	<b>1,536,493</b>	<b>546,434</b>	<b>2,082,927</b>
<b>(Decrease) in Net Position Before Transfers</b>	<b>60,804</b>	<b>(112,251)</b>	<b>(51,447)</b>	<b>(45,896)</b>	<b>(96,367)</b>	<b>(142,263)</b>
Transfers in	(29,398)	29,398	-	-	68,225	68,225
<b>Change in Net Position</b>	<b>31,406</b>	<b>(82,853)</b>	<b>(51,447)</b>	<b>(45,896)</b>	<b>(28,142)</b>	<b>(74,038)</b>
Beginning net position	6,572,834	3,305,649	9,878,483	6,624,195	3,333,791	9,957,986
<b>Ending Net Position</b>	<b>\$ 6,604,240</b>	<b>\$ 3,222,796</b>	<b>\$ 9,827,036</b>	<b>\$ 6,578,299</b>	<b>\$ 3,305,649</b>	<b>\$ 9,883,948</b>

Overall, governmental activity revenues increased by \$76,282 or 5 percent over the prior year, mainly due to increases in sales and property taxes. Governmental expenses increased by \$30,418 or 2 percent compared to the prior year mainly due to an increase in expenditures related to general government and fire protection.

Revenues from business-type activities totaled \$463,889, which is an increase of \$13,822 from the prior year. Business-type expenses increased by \$29,706, which is an increase of 5 percent from the prior year.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

**Governmental Funds** – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's

**CITY OF HILSHIRE VILLAGE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2018**

financing requirements. In particular, the unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

The City's general fund reflects a fund balance of \$2,524,405, of which \$1,214,349 is unassigned and \$1,310,056 is restricted for construction. There was an increase in the fund balance for the general fund of \$1,437,691 from the prior year. The ending fund balance for the general fund is over 12 months of operating expenditures based on the 2018 fiscal year expenditures.

The City's debt service fund reflects a fund balance of \$4,000. There was a decrease in the fund balance of \$8,357 from the prior year due to an increase in interest payments which included the first interest payment for the tax maintenance note, series 2018. The fund balance is to be used for debt service payments.

The City's METRO fund reflects a fund balance of \$151,615, which is restricted for METRO-related construction. The METRO fund reported a decrease in fund balance of \$24,069 from prior year primarily due to an increase in public works expenditures.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

For the year, the general fund's actual revenues exceeded budgeted revenues by \$29,213. This net variance includes a positive variances of \$19,672 in property taxes, \$7,659 in sales tax, and \$9,627 in licenses and permits. General fund expenditures were less than the final budget by \$52,141. This was due to a positive variance of \$32,667 in general government expenditures.

### **CAPITAL ASSETS**

At the end of the year, the City's governmental and business-type activities had invested \$8,902,147, net of depreciation, in a variety of capital assets and infrastructure. This represents a net decrease of \$185,527 due to yearly depreciation and less capital asset additions compared to prior year.

More detailed information on the City's capital assets is presented in note III.C. to the financial statements.

### **LONG-TERM DEBT**

At the end of the year, the City's long-term debt consisted of certificates of obligation and a tax maintenance note with an outstanding balance of \$2,165,000, net pension liability of \$27,447, and total OPEB liability of \$6,394.

More detailed information about the City's long-term liabilities is presented in note III.D. to the financial statements.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The primary function of Government is to provide for the health, safety, and the wellbeing of the community. All of the duties of the City administration are guided by these three responsibilities. Other activities are imposed on the administration by requests of citizens, state government, and others. This work consists of maintaining infrastructure (streets, drainage, water, sewer) and other more routine functions like construction permits and inspections, citizen requests/complaints, utility billing and metering, City Council meetings (preparing, recording, and codifying ordinances), legal issues, and budget preparation and management. The following sections provide further detail on the City's governmental, business-type, and capital improvement activities during fiscal year end 2018.

**CITY OF HILSHIRE VILLAGE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2018**

**Governmental Activities**

To ensure that fire protection, law enforcement, and trash removal are maintained, the City must make sure they are adequately funded. The City continues to charge a trash collection fee to recover all associated costs of trash removal. Fire and police services continue to be funded by ad valorem and sales tax revenue.

Although this City collects minimal sales tax income, the general fund for its governmental activities is at a healthy level due to careful budgeting and diligent fiscal management. City Council approved a 2018 tax rate lower than 2017 to fund the operating budget for 2018-2019; however, increased the debt tax rate to fund additional infrastructure replacement that will take place in 2018-2019. Commercial Zone tax revenue has slightly increased due to the revision of Commercial Zoning ordinances which has incentivized commercial development. At the end of fiscal year 2018, the City had approximately twelve and one-half months of operating budget in reserves, which is a healthy level above the recommended level of six months.

**Business-Type Activities**

In the budget adoption process for 2018, the City considered water rate increases from the City of Houston over a 10-year period. Several years ago, a policy was established to review the Houston water rate each year and accordingly adjust the Hilshire Village water rate. The City increased the water rates by \$0.25 per 1000 gallons in 2018 to continue maintaining its reserve for water system maintenance while minimizing the impact on residents.

**Capital Infrastructure Improvements**

The paving, drainage, water line, and sanitary sewer rehabilitation project for Pine Creek Lane and Bridle Spur Lane were completed in the 2017 timeframe. The City was also able to include the replacement of the Friarcreek Subdivision water lines and the rehabilitation of one of Pine Creek Lane's storm sewer lines in the same contract.

Engineering is in process for replacing the aging infrastructure on Archley Drive and will also include replacement of the sewer line on Friarcreek and the water line for the remaining section of Burkhart Drive. Council approved a Tax Anticipation Note to fund the project and the funding was received in June. The bid process for the project is forecasted for the early part of October with work commencing in the November timeframe with a completion date of June/July 2019. The City's intent is to constantly maintain and replace the City's infrastructure to avoid costly emergency repairs in the future.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Susan Blevins, City Administrator, City Hall, 8301 Westview, Houston, TX, 77055, telephone (713) 973-1779. You may also visit the City's website at [www.hilshirevillagetexas.com](http://www.hilshirevillagetexas.com) for additional information.

(This page intentionally left blank.)

***BASIC FINANCIAL STATEMENTS***

# CITY OF HILSHIRE VILLAGE, TEXAS

## STATEMENT OF NET POSITION

September 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 2,681,172	\$ 389,828	\$ 3,071,000
Receivables, net	35,538	110,841	146,379
Due from other funds	31,358	-	31,358
Nondepreciable capital assets	183,352	82,446	265,798
Net depreciable capital assets	5,905,355	2,730,994	8,636,349
<b>Total Assets</b>	8,836,775	3,314,109	12,150,884
<b><u>Deferred Outflows of Resources</u></b>			
Deferred outflows - pensions	16,036	-	16,036
Deferred outflows - OPEB	390	-	390
<b>Total Deferred Outflows of Resources</b>	16,426	-	16,426
<b><u>Liabilities</u></b>			
Accounts payable and accrued liabilities	31,323	13,917	45,240
Due to other funds	16,564	14,796	31,360
Customer deposits	-	62,600	62,600
Noncurrent liabilities:			
Due within one year	305,000	-	305,000
Due in more than one year	1,893,841	-	1,893,841
<b>Total Liabilities</b>	2,246,728	91,313	2,338,041
<b><u>Deferred Inflows of Resources</u></b>			
Deferred inflows - pensions	2,233	-	2,233
<b>Total Deferred Inflows of Resources</b>	2,233	-	2,233
<b><u>Net Position</u></b>			
Net investment in capital assets	6,122,548	2,813,440	8,935,988
Restricted	155,615	-	155,615
Unrestricted	326,077	409,356	735,433
<b>Total Net Position</b>	\$ 6,604,240	\$ 3,222,796	\$ 9,827,036

See Notes to Financial Statements.



# CITY OF HILSHIRE VILLAGE, TEXAS

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government</b>			
<b>Governmental Activities</b>			
General government	\$ 337,399	\$ 95,607	\$ -
Police protection	447,764	-	-
Fire protection	201,761	-	-
Public works	450,902	101,215	103,000
Long-term debt interest and fiscal agent fees	68,249	-	-
<b>Total Governmental Activities</b>	1,506,075	196,822	103,000
<b>Business-Type Activities</b>			
Water and sewer	576,140	459,617	-
<b>Total Business-Type Activities</b>	576,140	459,617	-
<b>Total Primary Government</b>	\$ 2,082,215	\$ 656,439	\$ 103,000
<b>Component Units</b>			
Hilshire Village Cultural Education Facilities Finance Corporation	\$ -	\$ -	\$ -
Hilshire Village Higher Education Finance Corporation	-	-	-
<b>Total Component Units</b>	\$ -	\$ -	\$ -

**General Revenues:**

Taxes:  
Property taxes  
Sales taxes  
Franchise fees  
Investment income  
Transfers

**Total General Revenues**

**Change in Net Position**

Beginning net position

**Ending Net Position**

See Notes to Financial Statements.

**Net (Expense) Revenue and Changes in Net Position**

Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	HVCEFFC	HVHEFC
\$ (241,792)	\$ -	\$ (241,792)	\$ -	\$ -
(447,764)	-	(447,764)	-	-
(201,761)	-	(201,761)	-	-
(246,687)	-	(246,687)	-	-
(68,249)	-	(68,249)	-	-
<u>(1,206,253)</u>	<u>-</u>	<u>(1,206,253)</u>	<u>-</u>	<u>-</u>
-	(116,523)	(116,523)	-	-
-	(116,523)	(116,523)	-	-
<u>(1,206,253)</u>	<u>(116,523)</u>	<u>(1,322,776)</u>	<u>-</u>	<u>-</u>
-	-	-	\$ -	\$ -
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
1,150,593	-	1,150,593	\$ -	\$ -
51,098	-	51,098	-	-
62,975	-	62,975	-	-
2,391	4,272	6,663	-	-
(29,398)	29,398	-	-	-
<u>1,237,659</u>	<u>33,670</u>	<u>1,271,329</u>	<u>-</u>	<u>-</u>
31,406	(82,853)	(51,447)	-	-
6,572,834	3,305,649	9,878,483	611	1,000
<u>\$ 6,604,240</u>	<u>\$ 3,222,796</u>	<u>\$ 9,827,036</u>	<u>\$ 611</u>	<u>\$ 1,000</u>

(This page intentionally left blank.)

# CITY OF HILSHIRE VILLAGE, TEXAS

## BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2018

	General	Debt Service	METRO	Total Governmental Funds
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 2,513,378	\$ 4,679	\$ 163,115	\$ 2,681,172
Receivables	32,707	2,831	-	35,538
Due from other funds	23,416	7,942	-	31,358
<b>Total Assets</b>	<b>\$ 2,569,501</b>	<b>\$ 15,452</b>	<b>\$ 163,115</b>	<b>\$ 2,748,068</b>
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	\$ 21,253	\$ -	\$ 11,500	\$ 32,753
Due to other funds	7,943	8,621	-	16,564
<b>Total Liabilities</b>	<b>29,196</b>	<b>8,621</b>	<b>11,500</b>	<b>49,317</b>
<b><u>Deferred Inflows of Resources</u></b>				
Unavailable revenue - property taxes	15,900	2,831	-	18,731
<b><u>Fund Balances</u></b>				
Restricted for METRO	-	-	151,615	151,615
Restricted for debt service	-	4,000	-	4,000
Restricted for construction	1,310,056	-	-	1,310,056
Unassigned	1,214,349	-	-	1,214,349
<b>Total Fund Balances</b>	<b>2,524,405</b>	<b>4,000</b>	<b>151,615</b>	<b>2,680,020</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 2,569,501</b>	<b>\$ 15,452</b>	<b>\$ 163,115</b>	

**Adjustments for the Statement of Net Position:**

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.

Nondepreciable capital assets	183,352
Depreciable capital assets	8,773,168
Accumulated depreciation	(2,867,813)

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.

Deferred revenue	18,731
------------------	--------

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Accrued interest payable	1,430
Deferred outflows - pensions	16,036
Deferred inflows - pensions	(2,233)
Deferred outflows - OPEB	390
Noncurrent liabilities due within one year	(305,000)
Noncurrent liabilities due in more than one year	(1,893,841)

<b>Net Position of Governmental Activities</b>	<b>\$ 6,604,240</b>
--	---------------------

See Notes to Financial Statements.

(This page intentionally left blank.)

# CITY OF HILSHIRE VILLAGE, TEXAS

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Year Ended September 30, 2018

	General	Debt Service	METRO	Total Governmental Funds
<b><u>Revenues</u></b>				
Property taxes	\$ 1,005,284	\$ 143,927	\$ -	\$ 1,149,211
Sales taxes	51,098	-	-	51,098
Franchise fees	62,975	-	-	62,975
Licenses and permits	101,215	-	-	101,215
Investment income	899	554	938	2,391
Intergovernmental revenue	-	-	103,000	103,000
Charges for services	95,607	-	-	95,607
<b>Total Revenues</b>	<b>1,317,078</b>	<b>144,481</b>	<b>103,938</b>	<b>1,565,497</b>
<b><u>Expenditures</u></b>				
<b>Current:</b>				
General government	335,288	-	-	335,288
Police protection	447,764	-	-	447,764
Fire protection	201,761	-	-	201,761
Public works	202,514	-	128,007	330,521
<b>Debt Service:</b>				
Principal	-	125,000	-	125,000
Interest	-	27,838	-	27,838
Issuance costs	42,060	-	-	42,060
<b>Total Expenditures</b>	<b>1,229,387</b>	<b>152,838</b>	<b>128,007</b>	<b>1,510,232</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>87,691</b>	<b>(8,357)</b>	<b>(24,069)</b>	<b>55,265</b>
<b><u>Other Financing Sources (Uses)</u></b>				
Debt proceeds	1,350,000	-	-	1,350,000
Transfers in	952	-	-	952
Transfers (out)	(952)	-	-	(952)
<b>Total Other Financing Sources (Uses)</b>	<b>1,350,000</b>	<b>-</b>	<b>-</b>	<b>1,350,000</b>
<b>Net Change in Fund Balances</b>	<b>1,437,691</b>	<b>(8,357)</b>	<b>(24,069)</b>	<b>1,405,265</b>
Beginning fund balances	1,086,714	12,357	175,684	1,274,755
<b>Ending Fund Balances</b>	<b>\$ 2,524,405</b>	<b>\$ 4,000</b>	<b>\$ 151,615</b>	<b>\$ 2,680,020</b>

See Notes to Financial Statements.

(This page intentionally left blank.)

**CITY OF HILSHIRE VILLAGE, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2018**

Net change in fund balances - governmental funds \$ 1,405,265

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense (227,957)

Revenues that do not provide current financial resources are not reported as revenues in the funds. # 1,382

Net pension liability and deferred outflows related to the net pension liability are reported in the governmental funds.

Net pension liability 9,861

Net OPEB liability (929)

Deferred outflows - pensions 1,522

Deferred inflows - pensions (2,233)

Deferred outflows - OPEB 390

The issuance of long-term debt (e.g., bonds, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discount: #

amounts are deferred and amortized in the Statement of Activities.

Principal payment 125,000

Debt proceeds (1,350,000)

Accrued interest 1,649

**Change in Net Position of Governmental Activities** \$ 31,406

See Notes to Financial Statements.

(This page intentionally left blank.)

# CITY OF HILSHIRE VILLAGE, TEXAS

## STATEMENT OF NET POSITION

### PROPRIETARY FUND

September 30, 2018

	<u>Business-Type Activities Enterprise</u>
<b>Assets:</b>	
Cash and cash equivalents	\$ 389,828
Accounts receivable, net	110,841
<b>Total Current Assets</b>	<u>500,669</u>
Capital assets:	
Water	2,577,484
Sewer	1,496,998
Less: accumulated depreciation	<u>(1,343,488)</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>2,813,440</u>
<b>Total Assets</b>	<u>3,314,109</u>
<b>Liabilities:</b>	
Accounts payable and accrued liabilities	13,917
Due to other funds	14,796
Customer deposits	62,600
<b>Total Current Liabilities</b>	<u>91,313</u>
<b>Total Liabilities</b>	<u>91,313</u>
<b>Net Position:</b>	
Net investment in capital assets	2,813,440
Unrestricted	409,356
<b>Total Net Position</b>	<u>\$ 3,222,796</u>

See Notes to Financial Statements.

(This page intentionally left blank.)

# CITY OF HILSHIRE VILLAGE, TEXAS

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUND

For the Year Ended September 30, 2018

	<u>Business-Type Activities Enterprise</u>
<b><u>Operating Revenues</u></b>	
Water and sewer charges	\$ 459,617
<b>Total Operating Revenues</b>	<u>459,617</u>
<b><u>Operating Expenses</u></b>	
Water services	302,696
Sewer services	111,061
Administrative	34,938
Depreciation	127,445
<b>Total Operating Expenses</b>	<u>576,140</u>
<b>Operating (Loss)</b>	<u>(116,523)</u>
<b><u>Nonoperating Revenues (Expenses)</u></b>	
Investment income	4,272
<b>Total Nonoperating Revenues</b>	<u>4,272</u>
<b><u>Contributions</u></b>	
Capital contributions	29,398
<b>Total Contributions</b>	<u>29,398</u>
<b>Change in Net Position</b>	(82,853)
Beginning net position	3,305,649
<b>Ending Net Position</b>	<u><u>\$ 3,222,796</u></u>

See Notes to Financial Statements.

(This page intentionally left blank.)

# CITY OF HILSHIRE VILLAGE, TEXAS

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUND

For the Year Ended September 30, 2018

	<b>Business-Type Activities</b>
	<b>Enterprise Fund</b>
<b><u>Cash Flows from Operating Activities</u></b>	
Receipts from customers	\$ 454,036
Payments to suppliers	(434,617)
<b>Net Cash (Used) by Operating Activities</b>	<b>19,419</b>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>	
Capital purchases	(73,022)
<b>Net Cash (Used) by Capital and Related Financing Activities</b>	<b>(73,022)</b>
<b><u>Cash Flows from Investing Activities</u></b>	
Interest on investments	4,272
<b>Net Cash Provided by Investing Activities</b>	<b>4,272</b>
<b>Net (Decrease) in Cash and Cash Equivalents</b>	<b>(49,331)</b>
Beginning cash and cash equivalents	439,159
<b>Ending Cash and Cash Equivalents</b>	<b>\$ 389,828</b>
 <b>Reconciliation of Operating Income (Loss)</b>	
<b>to Net Cash Provided (Used) by Operating Activities</b>	
Operating (loss)	\$ (116,523)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:	
Depreciation	127,445
<b>Changes in Operating Assets and Liabilities:</b>	
<b>(Increase) Decrease in:</b>	
Accounts receivable	(13,731)
<b>Increase (Decrease) in:</b>	
Accounts payable	(719)
Due to other funds	14,797
Customer deposits	8,150
<b>Net Cash (Used) by Operating Activities</b>	<b>\$ 19,419</b>
 <b>Noncash investing, capital, and financing activities</b>	
Capital contribution	<b>\$ 29,398</b>

See Notes to Financial Statements.

(This page intentionally left blank.)

# **CITY OF HILSHIRE VILLAGE, TEXAS**

## ***NOTES TO FINANCIAL STATEMENTS***

**For the Year Ended September 30, 2018**

### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Reporting Entity**

The City of Hilshire Village, Texas (the “City”) was organized as the Town of Hilshire Village, Texas, and incorporated in 1955 as a General Law Village under Chapter 11, Title 28, Acts of the Texas Legislature, 1925 as amended (the “Act”). The incorporation papers were amended in 1973 to permit operation as a Type A General Law City under the authority of chapters one through ten of the above Act and the name changed to its present name.

The City’s primary activities include police protection, fire protection, and public works including water, sewer, and solid waste disposal services.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City’s financial reporting entity. The component units, as listed below, although legally separate, are considered part of the reporting entity. No other entities have been included in the City’s reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with the prescribed criteria considered in determining that the City’s financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under GAAP include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

#### **Discretely Presented Component Units**

##### **Hilshire Village Cultural Education Facilities Finance Corporation**

The Hilshire Village Cultural Education Facilities Finance Corporation (HVCEFFC) has been included in the reporting entity as a discretely presented component unit. In 2006, the City formed the HVCEFFC, which was evidenced by ordinance of City Council.

The HVCEFFC was created by the City under the Cultural Education Facilities Finance Corporation Act, Article 1528m, Vernon’s Texas Civil Statutes, for the purpose of benefiting and accomplishing public purposes on behalf of the City. The Board of Directors is appointed by and serves at the discretion of the City Council. City Council approval is required for annual budgets and bonded debt issuance. In the event of dissolution, net position shall be conveyed to the City.

# CITY OF HILSHIRE VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

### Hilshire Village Higher Education Finance Corporation

The Hilshire Village Higher Education Finance Corporation (HVHEFC) has been included in the reporting entity as a discretely presented component unit. In 2015, the City formed the HVHEFC, which was evidenced by ordinance of City Council.

The HVHEFC was created by the City under Section 53.35(b) of the Texas Education Code for the purpose of benefiting and accomplishing public purposes on behalf of the City. The Board of Directors is appointed by and serves at the discretion of the City Council.

### **B. 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 activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

### **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 City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and wastewater functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

### **D. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the City's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

The City reports the following governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those to be accounted for in another fund. The general fund is always considered a major fund for reporting purposes.

The *debt service fund* is used to account for the payment of interest and principal on all general obligation debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

The *special revenue fund* is used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The METRO fund is considered a major fund for reporting purposes.

# CITY OF HILSHIRE VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

The City reports the following enterprise fund:

The *enterprise fund* is used to account for the City's water and wastewater operations. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The enterprise fund is considered a major fund for reporting purposes.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and 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 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.

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 internal balances 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 and proprietary fund 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 City 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.

# **CITY OF HILSHIRE VILLAGE, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

**For the Year Ended September 30, 2018**

Property taxes, sales taxes, franchise fees, 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 City.

### **F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

#### **1. Cash and Cash Equivalents**

The City'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. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

#### **2. Investments**

Investments, except for certain investment pools, are reported at fair value. The investment pool operates in accordance with appropriate state laws and regulations and is reported at amortized cost.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. government
- Repurchase agreements
- Fully collateralized certificates of deposit
- Savings and loan association deposits backed by FSLIC
- Mutual funds of a specific type
- Statewide investment pools

#### **3. Inventories and Prepaid Items**

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to a future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

#### **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 columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of two years or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

# CITY OF HILSHIRE VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred in connection with the construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Water and sewer system	10 to 45 years
Buildings and improvements	10 to 45 years
Furniture and equipment	3 to 20 years
Vehicles	3 to 10 years
Infrastructure	20 years

### 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 City has four items that qualify for reporting in this category on the government-wide Statement of Net Position. Deferred charges have been recognized as a result of differences between the actuarial expectations and the actual economic experience and for the changes in actuarial assumptions related to the City's defined benefit pension and OPEB plans. These amounts are deferred and amortized over the average of the expected service lives of pension plan members. A deferred charge has been recognized for employer pension and OPEB plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year. This amount is deferred and recognized as a reduction to the net pension liability during the measurement period in which the contributions were made.

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 City has two items that qualifies for reporting in this category. Deferred charges have been recognized as a result of differences between the actuarial expectations and the actual economic experience related to the City's defined benefit pension plans. These amounts are deferred and amortized over the average of the expected service lives of pension plan members. Deferred inflows of resources are recognized as a result of net difference between the projected and actual investment earnings on the pension plan liability related to the City's defined benefit pension plan. This amount is deferred and amortized over a period of five years. At the fund level, the City 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 property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

# **CITY OF HILSHIRE VILLAGE, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

**For the Year Ended September 30, 2018**

### **6. Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund.

### **7. Net Position Flow Assumption**

Sometimes the City 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 City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

### **8. Fund Balance Flow Assumptions**

Sometimes the City 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 City'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.

### **9. Fund Balance Policies**

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an

# CITY OF HILSHIRE VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

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 City for specific purposes but do not meet the criteria to be classified as committed. The City 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.

### 10. Estimates

The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

### 11. Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### 12. Other Postemployment Benefits

The City participates in a single-employer, unfunded, defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDFB). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. 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. Benefit payments are treated as being equal to the employer's yearly contributions for retirees. Benefit payments and refunds are due and payable in accordance with the benefit terms. Information about the City's total other postemployment benefit (OPEB) liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense is provided by TMRS from reports prepared by their consulting actuary.

## G. 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

# CITY OF HILSHIRE VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

### 2. Property Taxes

Property taxes are levied during September of each year and are due upon receipt of the City's tax bill and become delinquent on February 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid. The procedure for collection on delinquent taxes is to send delinquent notices and a letter and then refer the delinquent accounts to the tax attorney for legal action. A penalty of seven percent is added to delinquent taxes on February 1 and increases two percent each month through September. An additional penalty of 15 percent is added in July for attorney costs. There are no discounts allowed on taxes.

### 3. 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 enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund 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

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, the debt service fund, and the METRO fund. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control is the object and purpose stated in the approved budget.

## III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

### A. Deposits and Investments

As of September 30, 2018, the City had the following investments:

<u>Investment Type</u>	<u>Value</u>	<u>Weighted Average Maturity (Years)</u>
TexPool	\$ 55,244	0.0027
<b>Total Value</b>	<u>\$ 55,244</u>	
Portfolio weighted average maturity		0.0027

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities and/or FDIC insurance. As of September 30, 2018, the City's bank balances were covered by FDIC insurance and market values of pledged securities.

# CITY OF HILSHIRE VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

### TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rates TexPool "AAAm". As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, TexPool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within TexPool. TexPool transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. TexPool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexPool's liquidity.

### **B. Receivables**

The following comprises receivable balances at year end:

	<u>General</u>	<u>Debt Service</u>	<u>Enterprise</u>
Property taxes	\$ 15,900	\$ 2,831	\$ -
Other taxes	8,849	-	-
Other receivables	7,958	-	-
Accounts	-	-	110,841
<b>Net Total Receivables</b>	<u>\$ 32,707</u>	<u>\$ 2,831</u>	<u>\$ 110,841</u>

# CITY OF HILSHIRE VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

### C. Capital Assets

A summary of changes in capital assets at year end is as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>(Decreases)</b>	<b>Ending Balance</b>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 115,896	\$ -	\$ -	\$ 115,896
Construction in progress	-	67,456	-	67,456
Total capital assets not being depreciated	115,896	67,456	-	183,352
Other capital assets:				
Buildings and improvements	276,379	-	-	276,379
Infrastructure	8,496,789	-	-	8,496,789
Total other capital assets	8,773,168	-	-	8,773,168
Less accumulated depreciation for:				
Buildings and improvements	(129,838)	(10,722)	-	(140,560)
Infrastructure	(2,510,018)	(217,235)	-	(2,727,253)
Total accumulated depreciation	(2,639,856)	(227,957)	-	(2,867,813)
Other capital assets, net	6,133,312	(227,957)	-	5,905,355
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 6,249,208</b>	<b>\$ (160,501)</b>	<b>\$ -</b>	<b>6,088,707</b>
				(2,165,000)
				2,198,841
<b>Net Investment in Capital Assets</b>				<b>\$ 6,122,548</b>

Depreciation was charged to governmental functions as follows:

General government	\$ 10,722
Public works	217,235
<b>Total Governmental Activities Depreciation Expense</b>	<b>\$ 227,957</b>

# CITY OF HILSHIRE VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

The following is a summary of changes in capital assets for business-type activities for the year:

	Beginning Balance	Increases	(Decreases)	Ending Balance
<b>Business-Type Activities:</b>				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 82,446	\$ -	\$ 82,446
Total capital assets not being depreciated	-	82,446	-	82,446
Other capital assets:				
Water system	2,577,484	-	-	2,577,484
Sewer system	1,477,026	19,972	-	1,496,998
Total other capital assets	4,054,510	19,972	-	4,074,482
Less accumulated depreciation for:				
Water system	(678,943)	(81,235)	-	(760,178)
Sewer system	(537,101)	(46,209)	-	(583,310)
Total accumulated depreciation	(1,216,044)	(127,444)	-	(1,343,488)
Other capital assets, net	2,838,466	(107,472)	-	2,730,994
<b>Business-Type Activities Capital Assets, Net</b>	\$ 2,838,466	\$ (25,026)	\$ -	\$ 2,813,440

Depreciation was charged to business-type functions as follows:

Water	\$ 81,235
Sewer	46,209
<b>Total Business-Type Activities Depreciation Expense</b>	<b>\$ 127,444</b>

### D. Long-Term Debt

In general, the City uses the debt service fund to liquidate governmental long-term liabilities. The following is a summary of changes in the City's long-term liabilities for the year ended September 30, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
<b>Governmental Activities</b>					
Bonds, notes, and other payables:					
Certificates of obligation, series 2014	\$ 940,000	\$ -	\$ 125,000	\$ 815,000	* \$ 130,000
Tax anticipation note, series 2018	-	1,350,000	-	1,350,000	*
Other liabilities:					
Net pension liability	37,308	-	9,861	27,447	-
Total OPEB liability	5,465	929	-	6,394	-
<b>Total Governmental Activities</b>	<b>\$ 982,773</b>	<b>\$ 1,350,929</b>	<b>\$ 134,861</b>	<b>\$ 2,198,841</b>	<b>\$ 305,000</b>
				<b>\$ 1,893,841</b>	
				<b>* Debt associated with capitals assets</b>	<b>\$ 2,165,000</b>

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

**CITY OF HILSHIRE VILLAGE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2018**

Long-term debt at year end was comprised of the following debt issue:

	Amounts Outstanding	Interest Rate	Maturity Interest Pmt. Dates
Certificates of obligation, series 2014	\$ 815,000	2.19%	Mar 1, Sep 1
Tax anticipation note, series 2018	1,350,000	2.91%	Mar 1, Sep 1
	\$ 2,165,000		

As of September 30, 2018, the debt service requirements on the debt outstanding is as follows:

Fiscal Year Ending Sept. 30	Principal Due	Interest Due	Total Due
2019	\$ 305,000	\$ 53,164	\$ 358,164
2020	310,000	45,152	355,152
2021	320,000	36,939	356,939
2022	330,000	28,454	358,454
2023	340,000	19,695	359,695
2024-2025	560,000	13,737	573,737
<b>Total</b>	<b>\$ 2,165,000</b>	<b>\$ 197,140</b>	<b>\$ 2,362,140</b>

The City is not obligated in any manner for special assessment debt.

**Federal Arbitrage**

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or are not performed correctly, a substantial liability to the City could result. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the rules and regulations of the IRS.

**E. Interfund Transactions**

The composition of interfund balances was as follows:

Receivable Fund	Payable Fund	Amount
Debt service fund	General fund	\$ 7,942

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

**F. Fund Equity**

The City entered into an interlocal street maintenance agreement with the Metropolitan Transit Authority (METRO) in 1992 for the purpose of improving the street network throughout the METRO region of the City. Additional expanded sales tax funding was also dedicated for street maintenance and improvement. Money received from METRO is recognized as intergovernmental revenue. The City's METRO fund has a restricted fund balance of \$151,615.

# CITY OF HILSHIRE VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

### G. Prior Period Adjustment

Beginning net position for governmental activities was restated to recognize an OPEB liability for the implementation of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

	<b>Governmental Activities</b>
Beginning net position - as reported	\$ 6,578,299
Change in total OPEB liability-TMRS	(5,465)
<b>Beginning net position - as restated</b>	<b><u>\$ 6,572,834</u></b>

## IV. OTHER INFORMATION

### A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pool (the "Pool"). The Pool purchases commercial insurance at a group rate for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three years.

### B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures that may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

### C. Pension Plan

#### Texas Municipal Retirement System

##### Plan Description

The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by 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 TMRS with a six-member Board of Trustees (the "Board"). 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

# CITY OF HILSHIRE VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

Revenue Code. TMRS issues a publicly available comprehensive annual financial report that can be obtained at [www.tmrs.com](http://www.tmrs.com).

All eligible employees of the City 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 City, 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 City-financed monetary credits, with interest, were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment 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 percent of the member's deposits and interest.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	2018	2017
Employee deposit rate	5.00%	5.00%
Matching ratio (City to employee)	2 to 1	1.5 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 20/0	60/5, 20/0
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI	70% of CPI

### Employees Covered by Benefit Terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1	
Inactive employees entitled to, but not yet receiving, benefits	1	
Active employees	2	
<b>Total</b>	4	

### Contributions

The contribution rates for employees in TMRS are either five percent, six percent, or seven percent of employee gross earnings, and the City-matching percentages are either 100 percent, 150 percent, or 200 percent, both as adopted by the governing body of the City. 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 City were required to contribute five percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.66 percent and 16.08 percent in 2017 and

# CITY OF HILSHIRE VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

2018, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2018 were \$18,957, which were equal to the required contributions.

### Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017 and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

### Actuarial Assumptions

The TPL in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.00% 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 Tables with Blue Collar Adjustment, with male rates multiplied by 109 percent and female rates multiplied by 103 percent. 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 Tables with Blue Collar Adjustment are used with male rates multiplied by 109 percent and female rates multiplied by 103 percent with a three-year set-forward for both males and females. In addition, a three percent minimum mortality rate 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 three percent floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and annuity purchase rate are based on the mortality experience investigation study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, TMRS adopted the EAN actuarial cost method and a one-time change to the amortization policy. 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, the actuary 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).

# CITY OF HILSHIRE VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
<b>Total</b>	100.00%	

### Discount Rate

The discount rate used to measure the TPL was 6.75 percent. 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 TPL.

### Changes in the NPL

	Increase (Decrease)		
	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (A) - (B)
Changes for the year:			
Service cost	\$ 9,597	\$ -	\$ 9,597
Interest	5,471	-	5,471
Changes in current period benefits	2,641	-	2,641
Difference between expected and actual experience	(215)	-	(215)
Changes in assumptions	-	-	-
Contributions - employer	-	16,193	(16,193)
Contributions - employee	-	6,051	(6,051)
Net investment income	-	5,138	(5,138)
Benefit payments, including refunds of employee contributions	(1,184)	(1,184)	-
Administrative expense	-	(27)	27
Other changes	-	(1)	1
<b>Net Changes</b>	16,310	26,171	(9,861)
Balance at December 31, 2016	74,203	36,895	37,308
<b>Balance at December 31, 2017</b>	\$ 90,513	\$ 63,066	\$ 27,447

# CITY OF HILSHIRE VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

### Sensitivity of the NPL to Changes in the Discount Rate

The following presents the NPL of the City, calculated using the discount rate of 6.75 percent, as well as what the City's NPL would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	\$ 37,355	\$ 27,447	\$ 18,898

### 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.tmrs.com](http://www.tmrs.com).

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

For the fiscal year ended September 30, 2018, the City recognized pension expense of \$9,504.

At September 30, 2018, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 430	\$ (172)
Changes in actuarial assumptions	1,135	-
Net difference between projected and actual investment earnings	-	(2,061)
Contributions subsequent to the measurement date	14,471	-
<b>Total</b>	<b>\$ 16,036</b>	<b>\$ (2,233)</b>

\$14,471 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 NPL for the fiscal year ending September 30, 2019. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended September 30	Pension Expense
2019	\$ 308
2020	163
2021	(568)
2022	(571)
Thereafter	-
<b>Total</b>	<b>\$ (668)</b>

# CITY OF HILSHIRE VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

### D. Other Postemployment Benefits

#### TMRS – Supplemental Death Benefit

##### Plan Description

The City participates in an OPEB plan administered by TMRS. TMRS administers the defined benefit group-term life insurance plan known as the SDBF. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers 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 member city contributes to the SDBF at a contractually required rate (based on the covered payroll of employee members) 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. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). As such, the SDBF is considered to be a single-employer unfunded OPEB defined benefit plan with benefit payments treated as being equal to the employer's yearly contributions for retirees.

The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund (PTF). The TMRS Act requires the PTF to allocate a five percent interest credit from investment income to the SDBF on an annual basis each December 31 based on the mean balance in the SDBF during the year.

##### Benefits

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). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated). Participation in the SDBF as of December 31, 2017 is summarized below:

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to, but not yet receiving, benefits	1
Active employees	2
<b>Total</b>	<u>4</u>

##### Total OPEB Liability

The City's total OPEB liability of \$5,465 was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

# CITY OF HILSHIRE VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

### Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 10.50% including inflation
Discount rate	3.31%*
Retirees' share of benefit-related costs	Zero
Administrative expenses	All administrative expenses are paid through the PTF 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 projects 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 rate are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

\* The discount rate is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

### Changes in the Total OPEB Liability

	<b>Total OPEB Liability</b>
Changes for the year:	
Service cost	\$ 254
Interest	211
Changes of assumptions	464
	<b>Net Changes</b>
Beginning balance	5,465
	<b>Ending Balance</b>
	\$ 6,394

\* Benefit payments are treated as being equal to the employer's yearly contributions for retirees due to the SDBF being considered an unfunded OPEB plan under GASB 75.

There were no changes of assumptions or other inputs that affected measurement of the total OPEB liability during the measurement period.

There were no changes of benefit terms that affected measurement of the total OPEB liability during the measurement period.

# CITY OF HILSHIRE VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

### Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
City's Total OPEB Liability	\$ 7,546	\$ 6,394	\$ 5,455

### OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of \$566. The City reported deferred outflows/inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in actuarial assumptions	\$ 363	\$ -
Contributions subsequent to the measurement date	27	-
<b>Total</b>	<b>\$ 390</b>	<b>\$ -</b>

\$27 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the fiscal year ending September 30, 2019.

Amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended September 30	OPEB Expense Amount
2019	\$ 101
2020	101
2021	101
2022	60
<b>Total</b>	<b>\$ 363</b>

## **E. Related Organizations and Joint Ventures**

### **Police Protection**

Police protection is provided to the City through the City of Spring Valley Village, Texas, for a fixed amount due in monthly installments.

### **Fire Protection**

On December 20, 1978, the City entered into an interlocal cooperation agreement (the "Agreement") with the cities of Bunker Hill Village, Hedwig Village, Hunters Creek Village, Piney Point Village, and Spring Valley Village, Texas, creating the Village Fire Department (VFD). The Agreement ran

# CITY OF HILSHIRE VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018

for a period of 12 years beginning January 1, 1979 and ended December 31, 1990. Effective January 1, 1991, the Agreement automatically renewed for a period of five years and will continue to renew on each expiration date unless terminated by at least one of the contracting cities. Under the terms of this Agreement, the City is liable for three percent of VFD's approved budget.

Consolidated financial information extracted from the VFD's audited financial statements for the year ended December 31, 2017, on which the VFD's auditors expressed an unqualified opinion, is as follows:

	VFD Total		City's Portion (3%)	
	Net Position	Balance Sheet	Net Position	Balance Sheet
Total assets and deferred outflows	\$ 3,671,155	\$ 411,383	\$ 110,135	\$ 12,341
Total liabilities and deferred inflows	1,963,617	43,973	58,909	1,319
<b>Total Participants' Equity</b>	<b>\$ 1,707,538</b>	<b>\$ 367,410</b>	<b>\$ 51,226</b>	<b>\$ 11,022</b>
	<b>Change in</b>	<b>Revenues and</b>	<b>Change in</b>	<b>Revenues and</b>
	<b>Net Position</b>	<b>Expenditures</b>	<b>Net Position</b>	<b>Expenditures</b>
Total revenues	\$ 5,670,828	\$ 5,670,828	\$ 170,125	\$ 170,125
Total expenditures/expenses	5,612,442	6,491,784	168,373	194,754
Revenues over/(under) expenditures	58,386	(820,956)	1,752	(24,629)
Other financing sources	-	79,717	-	2,392
Beginning participants' equity	1,649,152	1,108,649	49,475	33,259
<b>Ending Participants' Equity</b>	<b>\$ 1,707,538</b>	<b>\$ 367,410</b>	<b>\$ 51,227</b>	<b>\$ 11,022</b>
Net pension liability at 12/31/16 with TMRS	\$ 1,371,978		\$ 41,159	

### F. Conduit Debt

To accomplish its purposes, the HVCEFFC, with the approval of the City, is empowered to issue bonds for financing or refinancing of "cultural facilities" as defined by the act under which the HVCEFFC was created for the benefit of separate legal entities. The bonds are secured by a pledge of the monies to be received from the entities pursuant to the agreements. The bonds are payable solely for revenues pledged to their payment and shall not be considered as general obligations of HVCEFFC or the City. This debt, referred to as conduit debt, is not included in the City's or HVCEFFC's financial statements.

Two conduit debt instruments of HVCEFFC have been issued. The total amount of conduit debt outstanding at year end was \$7,475,909, which was issued on behalf of South Texas College of Law and St. Francis Episcopal Day School.

To accomplish its purposes, the HVHEFC is empowered to issue revenue bonds on behalf of authorized open-enrollment charter schools for the acquisition, construction, repair, or renovation of educational facilities of those schools as defined by the act under which the HVHEFC was created for the benefit of separate legal entities. The bonds are secured by a pledge of the monies to be received from the entities pursuant to the agreements. The bonds are payable solely for revenues pledged to their payment and shall not be considered as general obligations of HVHEFC or the City.

# **CITY OF HILSHIRE VILLAGE, TEXAS**

## ***NOTES TO FINANCIAL STATEMENTS (Continued)***

**For the Year Ended September 30, 2018**

This debt, referred to as conduit debt, is not included in the City's or HVHEFC's financial statements.

One conduit debt instrument of HVHEFC has been issued. The total amount of conduit debt outstanding at year end was \$3,978,000, which was issued on behalf of Kipp Austin Public Schools, Inc.

***REQUIRED SUPPLEMENTARY INFORMATION***

(This page intentionally left blank.)

**CITY OF HILSHIRE VILLAGE, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**

For the Year Ended September 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b><u>Revenues</u></b>				
Property taxes	\$ 985,612	\$ 985,612	\$ 1,005,284	\$ 19,672
Sales taxes	43,439	43,439	51,098	7,659
Franchise fees	65,795	65,795	62,975	(2,820)
Licenses and permits	91,588	91,588	101,215	9,627
Investment income	588	588	899	311
Charges for services	100,843	100,843	95,607	(5,236)
<b>Total Revenues</b>	<u>1,287,865</u>	<u>1,287,865</u>	<u>1,317,078</u>	<u>29,213</u>
<b><u>Expenditures</u></b>				
<b>Current:</b>				
<b>General government</b>	329,079	367,955	335,288	32,667
<b>Police protection</b>	450,004	450,004	447,764	2,240
<b>Fire protection</b>	198,342	201,761	201,761	-
<b>Public works</b>				
Sanitation	84,481	84,890	84,890	-
Street (Non METRO projects)	92,930	92,930	75,696	17,234
Street (METRO projects)	3,000	3,929	3,929	-
Inspections	66,094	37,999	37,999	-
<b>Total Public Works</b>	<u>246,505</u>	<u>219,748</u>	<u>202,514</u>	<u>17,234</u>
<b>Debt Service</b>				
Issuance costs	-	42,060	42,060	-
<b>Total Expenditures</b>	<u>1,223,930</u>	<u>1,281,528</u>	<u>1,229,387</u>	<u>52,141</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>63,935</u>	<u>6,337</u>	<u>87,691</u>	<u>81,354</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Debt proceeds	-	-	1,350,000	1,350,000
Transfers in	-	-	952	952
Transfers (out)	-	-	(952)	(952)
<b>Total Other Financing Sources</b>	<u>-</u>	<u>-</u>	<u>1,350,000</u>	<u>1,350,000</u>
<b>Net Change in Fund Balance</b>	<u>\$ 63,935</u>	<u>\$ 6,337</u>	<u>\$ 1,437,691</u>	<u>\$ 1,431,354</u>
Beginning fund balance			<u>1,086,714</u>	
<b>Ending Fund Balance</b>			<u>\$ 2,524,405</u>	-

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. \*Expenditures exceeded appropriations at the legal level of control.

(This page intentionally left blank.)

**CITY OF HILSHIRE VILLAGE, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**METRO FUND**

For the Year Ended September 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b><u>Revenues</u></b>				
Investment income	\$ -	\$ -	\$ 938	\$ 938
Intergovernmental	103,000	103,000	103,000	-
<b>Total Revenues</b>	<u>103,000</u>	<u>103,000</u>	<u>103,938</u>	<u>938</u>
<b><u>Expenditures</u></b>				
<b>Current:</b>				
<b>Public works</b>				
Street (METRO projects)	103,000	130,043	128,007	2,036
<b>Total Expenditures</b>	<u>103,000</u>	<u>130,043</u>	<u>128,007</u>	<u>2,036</u>
<b>Net Change in Fund Balance</b>	<u>\$ -</u>	<u>\$ (27,043)</u>	<u>\$ (24,069)</u>	<u>\$ 2,974</u>
Beginning fund balance			<u>175,684</u>	
<b>Ending Fund Balance</b>			<u>\$ 151,615</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

(This page intentionally left blank.)

**CITY OF HILSHIRE VILLAGE, TEXAS**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**For the Year Ended September 30, 2018**

	Measurement Year*			
	2014	2015	2016	2017
<b>Total Pension Liability</b>				
Service cost	\$ 978	\$ 6,151	\$ 8,675	\$ 9,597
Interest (on the total pension liability)	3,077	3,542	4,416	5,471
Changes of benefit terms	43,472	-	-	2,641
Difference between expected and actual experience	-	961	124	(215)
Change of assumptions	-	3,004	-	-
Benefit payments, including refunds of employee contributions	-	-	(197)	(1,184)
<b>Net Change in Total Pension Liability</b>	<b>47,527</b>	<b>13,658</b>	<b>13,018</b>	<b>16,310</b>
Beginning total pension liability	-	47,527	61,185	74,203
<b>Ending Total Pension Liability</b>	<b>\$ 47,527</b>	<b>\$ 61,185</b>	<b>\$ 74,203</b>	<b>\$ 90,513</b>
<b>Plan Fiduciary Net Position</b>				
Contributions - employer	\$ 1,638	\$ 10,630	\$ 13,721	\$ 16,193
Contributions - employee	628	3,948	5,395	6,051
Net investment income	-	3	1,144	5,138
Benefit payments, including refunds of employee contributions	-	-	(197)	(1,184)
Administrative expense	-	(2)	(13)	(27)
Other	-	-	(1)	(1)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>2,266</b>	<b>14,580</b>	<b>20,049</b>	<b>26,171</b>
Beginning plan fiduciary net position	-	2,266	16,846	36,895
<b>Ending Plan Fiduciary Net Position</b>	<b>\$ 2,266</b>	<b>\$ 16,846</b>	<b>\$ 36,895</b>	<b>\$ 63,066</b>
<b>Net Pension Liability</b>	<b>\$ 45,261</b>	<b>\$ 44,339</b>	<b>\$ 37,308</b>	<b>\$ 27,447</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	4.77%	27.53%	49.72%	69.68%
<b>Covered Payroll</b>	\$ 12,551	\$ 78,961	\$ 107,899	\$ 121,027
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	360.62%	56.15%	34.58%	22.68%

\*Only four years of information are currently available. The City will build this schedule over the next six-year period.

(This page intentionally left blank.)

# CITY OF HILSHIRE VILLAGE, TEXAS

## SCHEDULE OF CONTRIBUTIONS

### TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2018

	Fiscal Year*			
	2015	2016	2017	2018
Actuarially determined contribution	\$ 9,428	\$ 12,666	\$ 15,584	\$ 18,677
Contributions in relation to the actuarially determined contribution	9,754	12,666	15,584	18,677
Contribution deficiency (excess)	\$ (326)	\$ -	\$ -	\$ -
Covered payroll	\$ 72,248	\$ 99,079	\$ 117,679	\$ 122,619
Contributions as a percentage of covered payroll	13.50%	12.78%	13.24%	15.23%

\*Only four years of information is currently available. The City will build this schedule over the next six-year period.

Notes to Required Supplementary Information:

1. Valuation Date:

December 31 and become effective in January, 13 months later.

2. 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	2.50%
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.

3. Other Information:

There were no benefit changes during the year.

(This page intentionally left blank.)

**CITY OF HILSHIRE VILLAGE, TEXAS**  
**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**For the Year Ended September 30, 2018**

	Measurement Year*
	2017
<b>Total OPEB Liability</b>	
Service cost	\$ 254
Interest (on the total OPEB liability)	211
Change of assumptions	464
<b>Net Change in Total OPEB Liability</b>	<b>929</b>
Beginning total OPEB liability	5,465
<b>Ending Total OPEB Liability</b>	<b>\$ 6,394</b>
<b>Covered Payroll</b>	\$ 121,027
<b>Total OPEB Liability as a Percentage of Covered Payroll</b>	5.28%

\* Only one year of information is currently available. The City will build this schedule over the next nine-year period.

**Notes to Required Supplementary Information:**

Changes in Assumptions:

There were no changes in assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement period.

Changes in Benefits:

There were no changes in benefit terms that affected measurement of the total OPEB liability during the measurement period.

(This page intentionally left blank.)

***SCHEDULE***

(This page intentionally left blank.)

**CITY OF HILSHIRE VILLAGE, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**DEBT SERVICE FUND**

For the Year Ended September 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
<b><u>Revenues</u></b>				
Property taxes	\$ 152,970	\$ 143,927	\$ 143,927	\$ -
Investment income	-	554	554	-
<b>Total Revenues</b>	<u>152,970</u>	<u>144,481</u>	<u>144,481</u>	<u>-</u>
<b><u>Expenditures</u></b>				
Principal	125,000	125,000	125,000	-
Interest and fiscal charges	19,217	27,838	27,838	-
<b>Total Expenditures</b>	<u>144,217</u>	<u>152,838</u>	<u>152,838</u>	<u>-</u>
<b>Net Change in Fund Balance</b>	<u>\$ 8,753</u>	<u>\$ (8,357)</u>	<u>(8,357)</u>	<u>\$ -</u>
Beginning fund balance			<u>12,357</u>	
<b>Ending Fund Balance</b>			<u>\$ 4,000</u>	

(This page intentionally left blank.)