

ANNUAL FINANCIAL REPORT

of the

**CITY OF
HILSHIRE VILLAGE, TEXAS**

**For the Year Ended
September 30, 2021**

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CITY OF HILSHIRE VILLAGE, TEXAS

TABLE OF CONTENTS

September 30, 2021

	<u>Page</u>
Independent Auditors' Report	5
Management's Discussion and Analysis (Required Supplementary Information)	9
<u>BASIC FINANCIAL STATEMENTS</u>	
Government-Wide Financial Statements	
Statement of Net Position	18
Statement of Activities	20
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet – Governmental Funds	23
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	25
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	27
Proprietary Fund Financial Statements	
Statement of Net Position – Proprietary Fund	29
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund	31
Statement of Cash Flows – Proprietary Fund	33
Notes to Financial Statements	35
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	59
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – METRO Fund	61
Schedule of Changes in Net Pension Liability and Related Ratios – Texas Municipal Retirement System	62
Schedule of Contributions – Texas Municipal Retirement System	64
Schedule of Changes in Total OPEB Liability and Related Ratios – Texas Municipal Retirement System	67
<u>SCHEDULE</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund	71

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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, 2021, 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, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedules of changes in net pension and total other postemployment benefits 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, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
March 14, 2022

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

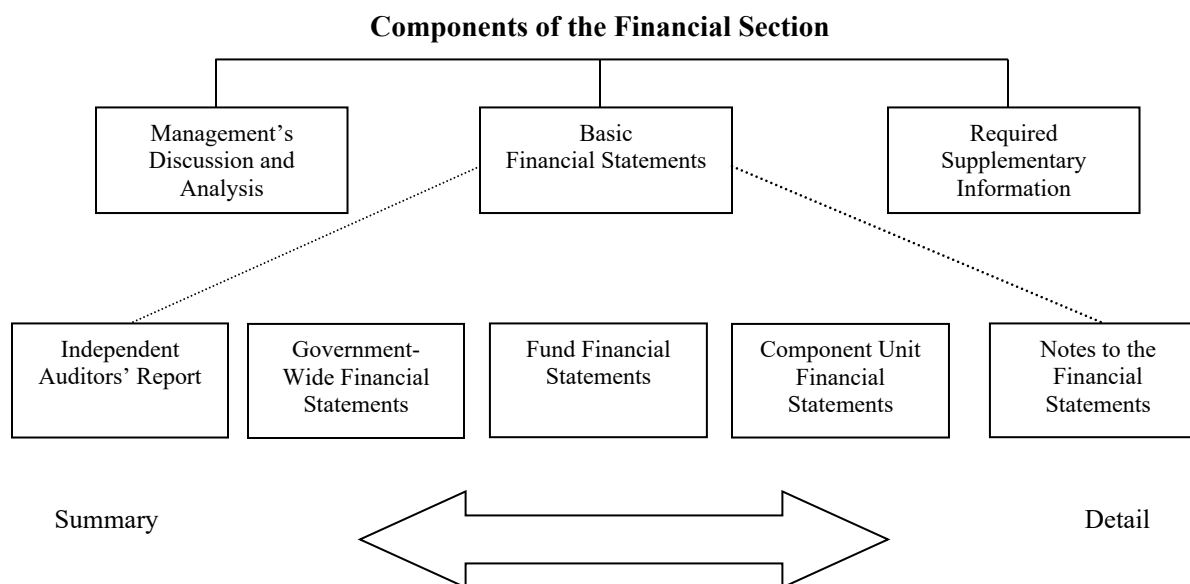
CITY OF HILSHIRE VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2021

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Hilshire Village, Texas (the "City") for the year ending September 30, 2021. The analysis is based on currently known facts, decisions, or economic conditions. It presents short- and long-term analyses of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other nonfinancial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered to assess the overall health of the City.

CITY OF HILSHIRE VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2021

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – 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.

CITY OF HILSHIRE VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2021

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.

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 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 and deferred inflows by \$10,375,410 as of September 30, 2021 for the primary government. This compares to the prior year's balance of \$10,082,584. The largest portion of the City's net position (79 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, 2021

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

	2021			2020		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Current and other assets	\$ 1,908,612	\$ 542,501	\$ 2,451,113	\$ 1,553,826	\$ 424,980	\$ 1,978,806
Capital assets, net	6,838,596	2,547,256	9,385,852	7,108,747	2,634,114	9,742,861
Total Assets	8,747,208	3,089,757	11,836,965	8,662,573	3,059,094	11,721,667
Deferred outflows - pensions	12,355	-	12,355	14,200	-	14,200
Deferred outflows - OPEB	1,641	-	1,641	1,003	-	1,003
Total Deferred Outflows of Resources	13,996	-	13,996	15,203	-	15,203
Long-term liabilities	1,241,858	-	1,241,858	1,568,665	-	1,568,665
Other liabilities	26,519	203,092	229,611	1,319	80,470	81,789
Total Liabilities	1,268,377	203,092	1,471,469	1,569,984	80,470	1,650,454
Deferred inflows - pensions	3,766	-	3,766	3,572	-	3,572
Deferred inflows - OPEB	316	-	316	260	-	260
Total Deferred Inflows of Resources	4,082	-	4,082	3,832	-	3,832
Net position:						
Net investment in capital assets	5,608,596	2,547,256	8,155,852	5,558,747	2,634,114	8,192,861
Restricted	345,383	-	345,383	224,047	-	224,047
Unrestricted	1,534,766	339,409	1,874,175	1,321,166	344,510	1,665,676
Total Net Position	\$ 7,488,745	\$ 2,886,665	\$ 10,375,410	\$ 7,103,960	\$ 2,978,624	\$ 10,082,584

A portion of the City's net position, \$345,383 or 3 percent, represents resources that are subject to external restriction on how they may be used.

CITY OF HILSHIRE VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2021

Statement of Activities

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

	For the Year Ended September 30, 2021			For the Year Ended September 30, 2020		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 189,654	\$ 486,309	\$ 675,963	\$ 191,877	\$ 484,282	\$ 676,159
Operating grants	133,689	-	133,689	103,000	-	103,000
General revenues:						
Property taxes	1,519,252	-	1,519,252	1,428,660	-	1,428,660
Sales taxes	66,830	-	66,830	70,127	-	70,127
Franchise fees	56,391	-	56,391	56,957	-	56,957
Investment income	2,560	2,193	4,753	10,487	2,818	13,305
Total Revenues	<u>1,968,376</u>	<u>488,502</u>	<u>2,456,878</u>	<u>1,861,108</u>	<u>487,100</u>	<u>2,348,208</u>
Expenses						
General government	363,845	-	363,845	359,804	-	359,804
Police protection	522,030	-	522,030	501,845	-	501,845
Fire protection	215,490	-	215,490	246,425	-	246,425
Public works	442,846	-	442,846	519,533	-	519,533
Long-term debt interest	39,380	-	39,380	46,955	-	46,955
Water and sewer	-	580,461	580,461	-	527,041	527,041
Total Expenses	<u>1,583,591</u>	<u>580,461</u>	<u>2,164,052</u>	<u>1,674,562</u>	<u>527,041</u>	<u>2,201,603</u>
Change in Net Position	384,785	(91,959)	292,826	186,546	(39,941)	146,605
Beginning net position	<u>7,103,960</u>	<u>2,978,624</u>	<u>10,082,584</u>	<u>6,917,414</u>	<u>3,018,565</u>	<u>9,935,979</u>
Ending Net Position	<u>\$ 7,488,745</u>	<u>\$ 2,886,665</u>	<u>\$ 10,375,410</u>	<u>\$ 7,103,960</u>	<u>\$ 2,978,624</u>	<u>\$ 10,082,584</u>

Overall governmental activity revenues increased by \$107,268, or 6 percent, over the prior year, mainly due to the increase in property taxes and the addition of grants related to COVID-19. Governmental expenses decreased by \$90,971, or 5 percent, compared to the prior year mainly due to a decrease in expenditures related to fire protection, public works, and long-term debt interest.

Revenues from business-type activities totaled \$488,502, which is an increase of \$1,402 from the prior year. Business-type activities expenses increased by \$53,420, which is an increase of 10 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.

CITY OF HILSHIRE VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2021

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 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 \$1,502,983, of which \$7,778 is restricted for child safety and \$1,495,205 is unassigned. There was an increase in the fund balance for the general fund of \$211,951 from the prior year. Unassigned fund balance for the general fund is approximately 14 months of operating expenditures based on the 2021 fiscal year expenditures.

The City's debt service fund reflects a fund balance of \$20,040. There was an increase in the fund balance of \$10,520 from the prior year. The fund balance is restricted for debt service payments.

The City's METRO fund reflects a fund balance of \$317,565, which is restricted for METRO-related street maintenance and improvement. The METRO fund reported an increase in fund balance of \$103,038 from prior year primarily due to a decrease in public works expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

For the year, the general fund's actual revenues exceeded budgeted revenues by \$84,923. This net variance includes a positive variances of \$40,608 in property taxes, \$30,769 in charges for services and \$12,996 in sales tax. General fund expenditures were less than the final budget by \$95,912. This was due to a positive variance of \$65,717 in general government expenditures.

CAPITAL ASSETS

At the end of the year, the City's governmental and business-type activities had invested \$9,385,852, net of depreciation, in a variety of capital assets and infrastructure. This represents a net decrease of \$357,009 due to depreciation exceeding capital asset additions.

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 \$1,230,000.

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 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 such as construction permits and inspections; citizen requests and complaints; utility metering and billing; City Council meetings; preparing, recording and codifying ordinances; legal matters; and budget preparation and management. The following sections provide further detail on the governmental, business-type, and capital improvement activities for the City.

CITY OF HILSHIRE VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2021

Governmental Activities

To ensure that fire protection, law enforcement, and trash removal services are sustained, the City must make sure that they are adequately funded. The City continues to charge a trash collection fee to recover all associated costs of trash removal. Essential services from the Fire and Police departments, the City's largest expenditures, continue to be funded by ad valorem and sales tax revenue.

The general fund, used for its governmental activities, is at a healthy level. This is attributable to careful budgeting and diligent fiscal management. The City Council approved the 2021 tax rate to fund the operating budget for fiscal year 2022. The total tax rate was increased by \$0.012194 to fund the anticipated expenses in fiscal year 2022 and for the payment of the City's Tax Anticipation Notes. The Village Fire Department will complete their remodeling of their facilities in the first half of 2022. The City does not anticipate that the Fire Department will need any additional funding. However, if funding is required to complete the project, the City will use a portion of its fiscal year 2022 Operating Budget Reserve.

The City collects minimal funds via sales tax revenue. There has been a slight increase in sales tax revenue over the past few years.

Business-Type Activities

An existing policy is in effect to review the City of Houston's water rates each year and to adjust the City's water rates accordingly. The City increased the water rate by \$0.25 per 1,000 gallons in fiscal year 2021 to continue maintaining its reserve for water system maintenance while minimizing the impact on residents. In the budget adoption process for fiscal year 2022, the City studied the proposed water rate increase by the City of Houston to establish new rates for the City.

Capital Infrastructure Improvements

The City did not budget any new paving, drainage, water, or sanitary sewer rehabilitation projects for the 2021 nor the 2022 budget time frame. The City will be planning the next infrastructure project in the beginning of fiscal year 2022.

The City's intent is to continually maintain and replace the City's infrastructure to avoid costly emergency repairs in the future.

City Office – COVID-19

The City office continues to operate with safety first and foremost for its employees, Council, residents, and visitors. The City staff established remote access to office programs and accounting software in order to conduct City business during quarantine periods. The Council resumed in-person meetings in September, but the City continued to offer a virtual environment for attendees who were interested. The City established methods for issuing construction permits remotely and accepting credit cards online. The City will continue to make the necessary adjustments to remain operational while providing a safe environment for all.

Grants

The City Administrator continues to seek grants to help fund projects to benefit the City. A grant was awarded to improve technology from the Coronavirus Relief Fund and the City was also awarded \$200,211 from the American Rescue Plan to be used on utility infrastructure.

CITY OF HILSHIRE VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2021

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 for additional information.

BASIC FINANCIAL STATEMENTS

CITY OF HILSHIRE VILLAGE, TEXAS

STATEMENT OF NET POSITION

September 30, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 1,944,295	\$ 317,069	\$ 2,261,364
Receivables, net	63,291	117,452	180,743
Prepaid expenses	1,132	7,874	9,006
Due from other funds	-	100,106	100,106
Nondepreciable capital assets	115,896	-	115,896
Net depreciable capital assets	6,722,700	2,547,256	9,269,956
Total Assets	8,747,208	3,089,757	11,836,965
<u>Deferred Outflows of Resources</u>			
Deferred outflows - pensions	12,355	-	12,355
Deferred outflows - OPEB	1,641	-	1,641
Total Deferred Outflows of Resources	13,996	-	13,996
<u>Liabilities</u>			
Accounts payable and accrued liabilities	26,519	23,261	49,780
Customer deposits	-	79,725	79,725
Unearned revenue	-	100,106	100,106
Noncurrent liabilities:			
Due within one year	330,000	-	330,000
Due in more than one year	911,858	-	911,858
Total Liabilities	1,268,377	203,092	1,471,469
<u>Deferred Inflows of Resources</u>			
Deferred inflows - pensions	3,766	-	3,766
Deferred inflows - OPEB	316	-	316
Total Deferred Inflows of Resources	4,082	-	4,082
<u>Net Position</u>			
Net investment in capital assets	5,608,596	2,547,256	8,155,852
Restricted	345,383	-	345,383
Unrestricted	1,534,766	339,409	1,874,175
Total Net Position	\$ 7,488,745	\$ 2,886,665	\$ 10,375,410

See Notes to Financial Statements.

HVCEFFC

HVHEFC

CITY OF HILSHIRE VILLAGE, TEXAS

STATEMENT OF ACTIVITIES For the Year Ended September 30, 2021

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 363,845	\$ 928	\$ 30,689
Police protection	522,030	3,521	-
Fire protection	215,490	-	-
Public works	442,846	185,205	103,000
Long-term debt interest and fiscal agent fees	39,380	-	-
Total Governmental Activities	<u>1,583,591</u>	<u>189,654</u>	<u>133,689</u>
Business-Type Activities			
Water and sewer	580,461	486,309	-
Total Business-Type Activities	<u>580,461</u>	<u>486,309</u>	<u>-</u>
Total Primary Government	<u>\$ 2,164,052</u>	<u>\$ 675,963</u>	<u>\$ 133,689</u>

General Revenues:

Taxes:

Property taxes

Sales taxes

Franchise fees

Investment income

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
\$ (332,228)	\$ -	\$ (332,228)	\$ -	\$ -
(518,509)	-	(518,509)	-	-
(215,490)	-	(215,490)	-	-
(154,641)	-	(154,641)	-	-
(39,380)	-	(39,380)	-	-
(1,260,248)	-	(1,260,248)	-	-
-	(94,152)	(94,152)	-	-
-	(94,152)	(94,152)	-	-
(1,260,248)	(94,152)	(1,354,400)	-	-
1,519,252	-	1,519,252	-	-
66,830	-	66,830	-	-
56,391	-	56,391	-	-
2,560	2,193	4,753	-	-
1,645,033	2,193	1,647,226	-	-
384,785	(91,959)	292,826	-	-
7,103,960	2,978,624	10,082,584	576	965
<u>\$ 7,488,745</u>	<u>\$ 2,886,665</u>	<u>\$ 10,375,410</u>	<u>\$ 576</u>	<u>\$ 965</u>

CITY OF HILSHIRE VILLAGE, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2021

	General	Debt Service	METRO	Total Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 1,606,690	\$ 20,040	\$ 317,565	\$ 1,944,295
Receivables	53,606	9,685	-	63,291
Prepaid expenses	1,132	-	-	1,132
Total Assets	\$ 1,661,428	\$ 29,725	\$ 317,565	\$ 2,008,718
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 23,894	\$ -	\$ -	\$ 23,894
Due to other funds	100,106	-	-	100,106
Total Liabilities	124,000	-	-	124,000
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	34,445	9,685	-	44,130
<u>Fund Balances</u>				
Restricted for METRO	-	-	317,565	317,565
Restricted for debt service	-	20,040	-	20,040
Restricted for child safety	7,778	-	-	7,778
Unassigned	1,495,205	-	-	1,495,205
Total Fund Balances	1,502,983	20,040	317,565	1,840,588
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,661,428	\$ 29,725	\$ 317,565	

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	115,896
Depreciable capital assets	10,369,799
Accumulated depreciation	(3,647,099)

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

Deferred revenue	44,130
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Accrued interest payable	(2,625)
Deferred outflows - pensions	12,355
Deferred inflows - pensions	(3,766)
Deferred outflows - OPEB	1,641
Deferred inflows - OPEB	(316)
Noncurrent liabilities due within one year	(330,000)
Noncurrent liabilities due in more than one year	(911,858)

Net Position of Governmental Activities	\$ 7,488,745
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See Notes to Financial Statements.

CITY OF HILSHIRE VILLAGE, TEXAS

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

For the Year Ended September 30, 2021

	General	Debt Service	METRO	Total Governmental Funds
<u>Revenues</u>				
Property taxes	\$ 1,153,117	\$ 359,647	\$ -	\$ 1,512,764
Sales taxes	66,830	-	-	66,830
Franchise fees	56,391	-	-	56,391
Licenses and permits	102,927	-	-	102,927
Investment income	680	1,842	38	2,560
Intergovernmental revenue	-	-	103,000	103,000
Charges for services	117,416	-	-	117,416
Total Revenues	<u>1,497,361</u>	<u>361,489</u>	<u>103,038</u>	<u>1,961,888</u>
<u>Expenditures</u>				
Current:				
General government	359,602	-	-	359,602
Police protection	522,030	-	-	522,030
Fire protection	215,490	-	-	215,490
Public works	182,288	-	-	182,288
Debt Service:				
Principal	-	320,000	-	320,000
Interest	-	36,969	-	36,969
Total Expenditures	<u>1,279,410</u>	<u>356,969</u>	<u>-</u>	<u>1,636,379</u>
Excess of Revenues				
Over Expenditures	<u>217,951</u>	<u>4,520</u>	<u>103,038</u>	<u>325,509</u>
<u>Other Financing Sources Proceeds (Uses)</u>				
Transfers in (out)	(6,000)	6,000	-	-
Total Other Financing Sources				
Proceeds (Uses)	<u>(6,000)</u>	<u>6,000</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	211,951	10,520	103,038	325,509
Beginning fund balances	1,291,032	9,520	214,527	1,515,079
Ending Fund Balances	<u>\$ 1,502,983</u>	<u>\$ 20,040</u>	<u>\$ 317,565</u>	<u>\$ 1,840,588</u>

See Notes to Financial Statements.

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, 2021

Net change in fund balances - governmental funds	\$	325,509
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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		(270,151)
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Revenues that do not provide current financial resources are not reported as revenues in the funds.

		6,488
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Net pension and total other postemployment benefits (OPEB) liability and related deferred outflows/inflows are reported in the governmental funds.

Net pension liability		8,289
Total OPEB liability		(1,482)
Deferred outflows - pensions		(1,845)
Deferred inflows - pensions		(194)
Deferred outflows - OPEB		638
Deferred inflows - OPEB		(56)

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, discounts, and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the Statement of Activities.

Principal payment		320,000
Accrued interest		(2,411)

Change in Net Position of Governmental Activities	\$	<u>384,785</u>
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See Notes to Financial Statements.

CITY OF HILSHIRE VILLAGE, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2021

	Business-Type Activities
	Enterprise Fund
Assets:	
Cash and cash equivalents	\$ 317,069
Accounts receivable, net	117,452
Prepaid items	7,874
Due from other funds	100,106
Total Current Assets	542,501
Capital assets:	
Water	2,587,695
Sewer	1,693,889
Less: accumulated depreciation	(1,734,328)
Total Capital Assets,	
Net of Accumulated Depreciation	2,547,256
Total Noncurrent Assets	2,547,256
Total Assets	3,089,757
Liabilities:	
Accounts payable and accrued liabilities	23,261
Customer deposits	79,725
Unearned revenue	100,106
Total Current Liabilities	203,092
Total Liabilities	203,092
Net Position:	
Net investment in capital assets	2,547,256
Unrestricted	339,409
Total Net Position	\$ 2,886,665

See Notes to Financial Statements.

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CITY OF HILSHIRE VILLAGE, TEXAS

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

For the Year Ended September 30, 2021

	<u>Business-Type Activities Enterprise Fund</u>
<u>Operating Revenues</u>	
Water and sewer charges	\$ 486,309
Total Operating Revenues	<u>486,309</u>
<u>Operating Expenses</u>	
Water services	317,840
Sewer services	119,841
Administrative	10,321
Depreciation	132,459
Total Operating Expenses	<u>580,461</u>
Operating (Loss)	<u>(94,152)</u>
<u>Nonoperating Revenues (Expenses)</u>	
Investment income	2,193
Total Nonoperating Revenues	<u>2,193</u>
Change in Net Position	(91,959)
Beginning net position	2,978,624
Ending Net Position	<u><u>\$ 2,886,665</u></u>

See Notes to Financial Statements.

CITY OF HILSHIRE VILLAGE, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended September 30, 2021

	Business-Type Activities Enterprise Fund
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 363,799
Payments to suppliers	(439,641)
Net Cash (Used) by Operating Activities	(75,842)
<u>Cash Flows from Noncapital and Related Financing Activities</u>	
Due from other funds	100,106
Net Cash Provided by Noncapital and Related Financing Activities	100,106
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital purchases	(45,601)
Net Cash (Used) by Capital and Related Financing Activities	(45,601)
<u>Cash Flows from Investing Activities</u>	
Interest on investments	2,193
Net Cash Provided by Investing Activities	2,193
Net (Decrease) in Cash and Cash Equivalents	(19,144)
Beginning cash and cash equivalents	336,213
Ending Cash and Cash Equivalents	\$ 317,069
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating (loss)	\$ (94,152)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:	
Depreciation	132,459
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(14,155)
Prepaid items	(7,874)
Due from other funds	(100,106)
Increase (Decrease) in:	
Accounts payable	22,891
Due to other funds	(14,530)
Customer deposits	(375)
Net Cash Provided by Operating Activities	\$ (75,842)

See Notes to Financial Statements.

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2021

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 general administration, 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 (the “State”) 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 generally accepted accounting principles (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.

The HVCEFFC was created by the City in 2006 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, 2021

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.

The HVHEFC was created by the City in 2015 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 fund. Separate financial statements are provided for governmental 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, 2021

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 fund) 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, 2021

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. Investments in nonparticipating interest earning contracts, such as certificates of deposits, are reported at 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. Prepaid Items

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, 2021

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:

Asset Description	Estimated Useful Life
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. 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.

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension/other postemployment benefits (OPEB) activities are amortized over the average of the expected service lives of pension/OPEB plan members, except for the net differences between the projected and actual investment earnings on the pension/OPEB plan assets, which are amortized over a period of five years.
- For employer pension/OPEB plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year, the amount is deferred and recognized as a reduction to the net pension/OPEB liability during the measurement period in which the contributions were made.

At the fund level, the City only has 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.

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.

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2021

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 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.

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2021

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

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2021

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, 2021, the City had the following investments:

Investment Type	Value	Weighted Average Maturity (Years)
Certificates of deposit	\$ 1,000,485	0.19
TexPool	57,080	0.10
Total Value	\$ 1,057,565	
Portfolio weighted average maturity		0.01

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

Credit risk. The City's policy requires that investment pools must be rated no lower than 'AAA' or 'AAA-m'. As of September 30, 2021, the City's investments in TexPool was rated 'AAAm' by Standard & Poor's.

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2021

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, 2021, the City's bank balances were covered by FDIC insurance and market values of pledged securities.

TexPool

TexPool was established as a trust company with the Treasurer of the State 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:

	General	Debt Service	Enterprise
Property taxes	\$ 34,445	\$ 9,685	\$ -
Other taxes	12,985	-	-
Other receivables	6,176	-	-
Accounts	-	-	117,452
Total Receivables	\$ 53,606	\$ 9,685	\$ 117,452

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2021

C. Capital Assets

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

	Beginning Balance	Increases	(Decreases)	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 115,896	\$ -	\$ -	\$ 115,896
Total capital assets not being depreciated	115,896	-	-	115,896
Other capital assets:				
Buildings and improvements	276,379	-	-	276,379
Infrastructure	10,093,420	-	-	10,093,420
Total other capital assets	10,369,799	-	-	10,369,799
Less accumulated depreciation for:				
Buildings and improvements	(162,004)	(9,593)		(171,597)
Infrastructure	(3,214,944)	(260,558)	-	(3,475,502)
Total accumulated depreciation	(3,376,948)	(270,151)	-	(3,647,099)
Other capital assets, net	6,992,851	(270,151)	-	6,722,700
Governmental Activities Capital Assets, Net	\$ 7,108,747	\$ (270,151)	\$ -	6,838,596
			Less related debt	(1,230,000)
			Net Investment in Capital Assets	<u>\$ 5,608,596</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 9,593
Public works	260,558
Total Governmental Activities Depreciation Expense	<u>\$ 270,151</u>

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2021

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

	Beginning Balance	Increases	(Decreases)	Ending Balance
Business-Type Activities:				
Capital assets:				
Water system	\$ 2,580,570	\$ 7,125	\$ -	\$ 2,587,695
Sewer system	1,655,413	38,476	-	1,693,889
Total other capital assets	4,235,983	45,601	-	4,281,584
Less accumulated depreciation for:				
Water system	(921,733)	(80,558)	-	(1,002,291)
Sewer system	(680,136)	(51,901)	-	(732,037)
Total accumulated depreciation	(1,601,869)	(132,459)	-	(1,734,328)
Other capital assets, net	2,634,114	(86,858)	-	2,547,256
Business-Type Activities				
Capital Assets, Net	\$ 2,634,114	\$ (86,858)	\$ -	\$ 2,547,256

Depreciation was charged to business-type functions as follows:

Water	\$ 80,558
Sewer	51,901
Total Business-Type Activities Depreciation Expense	\$ 132,459

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, 2021:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Governmental Activities					
Bonds, notes, and other payables:					
Certificates of obligation, series 2014	\$ 555,000	\$ -	\$ 135,000	\$ 420,000	* \$ 135,000
Tax anticipation note, series 2018	995,000	-	185,000	810,000	*
Other liabilities:					
Net pension liability	10,854	-	8,289	2,565	-
Total OPEB liability	7,811	1,482	-	9,293	-
Total Governmental Activities	\$ 1,568,665	\$ 1,482	\$ 328,289	\$ 1,241,858	\$ 330,000
Long-term liabilities due in more than one year				\$ 911,858	
* Debt associated with capitals assets				\$ 1,230,000	

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, 2021

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	\$ 420,000	2.19%	Mar 1, Sep 1
Tax anticipation note, series 2018	810,000	2.91%	Mar 1, Sep 1
	\$ 1,230,000		

As of September 30, 2021, the debt service requirements on the debt outstanding is as follows:

Fiscal Year Ending Sept. 30	Principal Due	Interest Due	Total Due
2022	\$ 330,000	\$ 28,453	\$ 358,453
2023	340,000	19,695	359,695
2024	350,000	10,682	360,682
2025	210,000	3,055	213,055
Total	\$ 1,230,000	\$ 61,885	\$ 1,291,885

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
Enterprise fund	General fund	\$ 100,106

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

Transfers between the primary government funds during the year were as follows:

Transfer Out	Transfer In	Amount
General fund	Debt Service	\$ 6,000

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2021

F. Fund Equity

The City entered into an interlocal street maintenance agreement with the Metropolitan Transit Authority of Harris County, Texas (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 \$317,565.

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.

The continued spread of the COVID-19 pandemic has given a rise in uncertainties that may have a significant negative impact on the operating activities and results of the City. The occurrence and extent of such impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) the effects on the financial markets, and (iv) the effects on the economy overall, all of which are uncertain.

C. Pension Plan

Texas Municipal Retirement System

Plan Description

The City participates as one of 895 plans in the defined benefit cash-balance plan administered by TMRS. TMRS is a statewide public retirement plan created by the State 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 employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member,

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2021

Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State. TMRS issues a publicly available Annual Comprehensive Financial Report that can be obtained at 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:

	<u>2021</u>	<u>2020</u>
Employee deposit rate	5.00%	5.00%
Matching ratio (City to employee)	2 to 1	2 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, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1
Active employees	2
Total	<u>3</u>

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 City's contribution rate is based on the liabilities created from the benefit plan options selected by the City and any changes in benefits or actual experience over time.

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2021

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 11.22 percent and 9.97 percent in 2020 and 2021, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2021 were \$15,066, which were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2020 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, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	2.75% 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 are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-Distinct 2019 Municipal Retirees of Texas mortality tables. The rates for active members, healthy retirees, and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a four-year set-forward for males and a three-year set-forward for females. In addition, a 3.5 percent and 3.0 percent minimum mortality rate is applied for males and females, respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The postretirement mortality assumption for annuity purchase rates is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. 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, 2021

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)
Global Equity	30%	5.30%
Core Fixed Income	10%	1.25%
Non-Core Fixed Income	20%	4.14%
Real Return	10%	3.85%
Real Estate	10%	4.00%
Absolute Return	10%	3.48%
Private Equity	10%	7.75%
Total	100%	

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 TMRS 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	\$ 14,995	\$ -	\$ 14,995
Interest	9,425	-	9,425
Difference between expected and actual experience	(255)	-	(255)
Contributions - employer	-	15,871	(15,871)
Net investment income	-	9,416	(9,416)
Benefit payments, including refunds of employee contributions	(3,563)	(3,563)	-
Administrative expense	-	(60)	60
Other changes	-	(3)	3
Net Changes	20,602	28,891	(8,289)
Balance at December 31, 2019	133,913	123,059	10,854
Balance at December 31, 2020	\$ 154,515	\$ 151,950	\$ 2,565

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2021

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	\$ 20,265	\$ 2,565	\$ (12,306)

Pension Plan Fiduciary Net Position

Detailed information about the TMRS fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

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

For the fiscal year ended September 30, 2021, the City recognized pension expense of \$8,809.

At September 30, 2021, 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	\$ 443	\$ (224)
Changes in actuarial assumptions	973	-
Net difference between projected and actual investment earnings	-	(3,542)
Contributions subsequent to the measurement date	10,939	-
Total	\$ 12,355	\$ (3,766)

\$10,939 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, 2022. 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
2022	\$ (261)
2023	(83)
2024	(1,785)
2025	(221)
Total	\$ (2,350)

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2021

D. Other Postemployment Benefits

TMRS Supplemental Death Benefit

Plan Description

The City participates in a 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, 2020 is summarized below:

Inactive employees or beneficiaries currently receiving benefits	1
Active employees	2
Total	<u>3</u>

Total OPEB Liability

The City's total OPEB liability of \$9,293 was measured as of December 31, 2020 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, 2021

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2020 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 11.50% including inflation
Discount rate	2.00%*
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 68.
Mortality rates-service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates-disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a four-year set-forward for males and a three-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

* The discount rate is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2020.

The actuarial assumptions used in the December 31, 2020 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

	Total OPEB Liability
Changes for the year:	
Service cost	\$ 390
Interest	219
Difference between expected and actual experience	(183)
Changes of assumptions	1,114
Benefit payments*	(58)
Net Changes	1,482
Beginning balance	7,811
Ending Balance	\$ 9,293

* 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 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, 2021

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 (1.00%)	Discount Rate (2.00%)	1% Increase in Discount Rate (3.00%)
City's Total OPEB Liability	\$ 11,100	\$ 9,293	\$ 7,851

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

For the year ended September 30, 2021, the City recognized OPEB expense of \$1,005. 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	\$ 1,551	\$ -
Difference between expected and actual experience	-	(316)
Contributions subsequent to the measurement date	90	-
Total	\$ 1,641	\$ (316)

\$90 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, 2022.

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

Fiscal Year Ended September 30	OPEB Expense
2022	\$ 355
2023	357
2024	400
2025	123
Total	\$ 1,235

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.

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2021

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 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, 2020, 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	\$ 8,581,916	\$ 4,505,112	\$ 257,457	\$ 135,153
Total liabilities and deferred inflows	1,762,750	645,679	52,883	19,370
Total Participants' Equity	\$ 6,819,166	\$ 3,859,433	\$ 204,574	\$ 115,783
	Change in Net Position	Revenues and Expenditures	Change in Net Position	Revenues and Expenditures
Total revenues	\$ 8,671,058	\$ 8,750,463	\$ 260,132	\$ 262,514
Total expenditures/expenses	6,158,092	8,879,749	184,743	266,392
Revenues over/(under) expenditures	2,512,966	(129,286)	75,389	(3,879)
Other financing sources	-	67,395	-	2,022
Beginning participants' equity	4,306,200	3,921,324	129,186	117,640
Ending Participants' Equity	\$ 6,819,166	\$ 3,859,433	\$ 204,575	\$ 115,783

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 \$5,517,273, 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, 2021

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 \$3,078,000, which was issued on behalf of Kipp Austin Public Schools, Inc.

REQUIRED SUPPLEMENTARY INFORMATION

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, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Property taxes	\$ 1,110,886	\$ 1,106,509	\$ 1,153,117	\$ 46,608
Sales taxes	54,033	53,834	66,830	12,996
Franchise fees	55,000	56,391	56,391	-
Licenses and permits	102,700	103,057	102,927	(130)
Investment income	918	-	680	680
Charges for services	88,901	86,647	117,416	30,769
Total Revenues	1,412,438	1,406,438	1,497,361	90,923
<u>Expenditures</u>				
Current:				
General government	429,880	419,319	359,602	59,717
Police protection	522,030	522,030	522,030	-
Fire protection	231,490	231,490	215,490	16,000
Public works				
Sanitation	84,035	84,035	81,595	2,440
Street (Non METRO projects)	64,887	69,448	63,408	6,040
Street (METRO projects)	3,000	3,000	-	3,000
Inspections	40,000	40,000	37,285	2,715
Total Public Works	191,922	196,483	182,288	14,195
Total Expenditures	1,375,322	1,369,322	1,279,410	89,912
Excess of Revenues Over Expenditures	37,116	37,116	217,951	180,835
<u>Other Financing Sources (Uses)</u>				
Transfers (out)	-	(6,000)	(6,000)	-
Total Other Financing (Uses)	-	(6,000)	(6,000)	-
Net Change in Fund Balance	\$ 37,116	\$ 31,116	211,951	\$ 180,835
Beginning fund balance			1,291,032	
Ending Fund Balance			\$ 1,502,983	

Notes to Required Supplementary Information:

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

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, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Investment income	\$ -	\$ -	\$ 38	\$ 38
Intergovernmental	103,000	103,000	103,000	-
Total Revenues	103,000	103,000	103,038	38
<u>Expenditures</u>				
Current:				
Public works				
Street (METRO projects)	103,000	103,000	-	103,000
Total Expenditures	103,000	103,000	-	103,000
Net Change in Fund Balance	\$ -	\$ -	\$ 103,038	\$ 103,038
Beginning fund balance			214,527	
Ending Fund Balance			\$ 317,565	

Notes to Required Supplementary Information:

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

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, 2021

	Measurement Year*			
	2014	2015	2016	2017
Total Pension Liability				
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)
Net Change in Total Pension Liability	47,527	13,658	13,018	16,310
Beginning total pension liability	-	47,527	61,185	74,203
Ending Total Pension Liability	\$ 47,527	\$ 61,185	\$ 74,203	\$ 90,513
Plan Fiduciary Net Position				
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)
Net Change in Plan Fiduciary Net Position	2,266	14,580	20,049	26,171
Beginning plan fiduciary net position	-	2,266	16,846	36,895
Ending Plan Fiduciary Net Position	\$ 2,266	\$ 16,846	\$ 36,895	\$ 63,066
Net Pension Liability	\$ 45,261	\$ 44,339	\$ 37,308	\$ 27,447
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	4.77%	27.53%	49.72%	69.68%
Covered Payroll	\$ 12,551	\$ 78,961	\$ 107,899	\$ 121,027
Net Pension Liability as a Percentage of Covered Payroll	360.62%	56.15%	34.58%	22.68%

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

Measurement Year*		
2018	2019	2020
\$ 13,355	\$ 14,352	\$ 14,995
6,520	7,864	9,425
-	-	-
723	785	(255)
-	2,169	-
(1,184)	(1,184)	(3,563)
19,414	23,986	20,602
90,513	109,927	133,913
<u>\$ 109,927</u>	<u>\$ 133,913</u>	<u>\$ 154,515</u>
\$ 20,373	\$ 17,554	\$ 15,871
6,206	6,757	7,230
(1,902)	13,490	9,416
(1,184)	(1,184)	(3,563)
(37)	(76)	(60)
(2)	(2)	(3)
23,454	36,539	28,891
63,066	86,520	123,059
<u>\$ 86,520</u>	<u>\$ 123,059</u>	<u>\$ 151,950</u>
<u>\$ 23,407</u>	<u>\$ 10,854</u>	<u>\$ 2,565</u>
78.71%	91.89%	98.34%
\$ 124,114	\$ 135,137	\$ 144,605
18.86%	8.03%	1.77%

CITY OF HILSHIRE VILLAGE, TEXAS

SCHEDULE OF CONTRIBUTIONS

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2021

	Fiscal Year*			
	2015	2016	2017	2018
Actuarially determined contribution	\$ 9,754	\$ 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)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
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 seven years of information is currently available. The City will build this schedule over the next three-year period.

Notes to Required Supplementary Information:

1. Valuation Date:

Actuarially determined contribution rates are calculated as of 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; 12% soft corridor
Inflation	2.50%
Salary increases	3.50% to 11.50% 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 2020 valuation pursuant to an experience study of the period 2014-2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

3. Other Information:

There were no benefit changes during the year.

Fiscal Year*		
2019	2020	2021
\$ 18,130	\$ 16,400	\$ 15,066
18,130	16,400	15,066
\$ -	\$ -	\$ -
\$ 132,270	\$ 142,815	\$ 149,780
13.71%	11.48%	10.06%

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, 2021

	Measurement Year*			
	2017	2018	2019	2020
Total OPEB Liability				
Service cost	\$ 254	\$ 298	\$ 270	\$ 390
Interest (on the total OPEB liability)	211	216	235	219
Difference between expected and actual experience	-	(255)	(148)	(183)
Change of assumptions	464	(398)	1,290	1,114
Benefit payments**	-	(37)	(54)	(58)
Net Change in Total OPEB Liability	929	(176)	1,593	1,482
Beginning total OPEB liability	5,465	6,394	6,218	7,811
Ending Total OPEB Liability	\$ 6,394	\$ 6,218	\$ 7,811	\$ 9,293
Covered Payroll	\$ 121,027	\$ 124,114	\$ 135,137	\$ 144,605
Total OPEB Liability as a Percentage of Covered Payroll	5.28%	5.01%	5.78%	6.43%

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

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

Notes to Required Supplementary Information:

1. Valuation Date:

Actuarially determined rates are calculated as of 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
Inflation	2.50%
Salary increases	3.50% to 11.50% including inflation
Discount rate	2.00%
Administrative expenses	All administrative expenses are paid through the PTF and accounted for under reporting requirements under GASB Statement No. 68.
Mortality - service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

3. Other Information:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75 to pay related benefits.

The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2020.

The actuarial assumptions used in the December 21, 2020 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

There were no benefit changes during the year.

SCHEDULE

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, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Property taxes	\$ 359,938	\$ 358,912	\$ 359,647	\$ 735
Investment income	-	1,026	1,842	816
Total Revenues	359,938	359,938	361,489	1,551
<u>Expenditures</u>				
Principal	320,000	320,000	320,000	-
Interest and fiscal charges	36,939	36,969	36,969	-
Total Expenditures	356,939	356,969	356,969	-
Excess of Revenue Over Expenditures	2,999	2,969	4,520	1,551
<u>Other Financing Sources (Uses)</u>				
Transfers in	-	-	6,000	6,000
Total Other Financing Sources	-	-	6,000	6,000
Net Change in Fund Balance	\$ 2,999	\$ 2,969	10,520	\$ 7,551
Beginning fund balance			9,520	
Ending Fund Balance			\$ 20,040	

Notes to Required Supplementary Information:

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

