

ANNUAL FINANCIAL REPORT

of the

Town of Westover Hills, Texas

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

Town of Westover Hills, Texas

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September 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the Town Council
Town of Westover Hills, Texas:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Emphasis of Matter

As discussed in Note V.E. to the financial statements, due to the implementation of GASB No. 75, the City restated its beginning net position within governmental activities to properly reflect the total OPEB liability and related deferred outflows and inflows of resources, as prescribed by this accounting standard. In addition, the City restated the beginning fund balance in the general fund to correct an accounting error. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability (asset) and related ratios, schedule of employer contributions to pension plan, schedule of changes in the other postemployment benefits liability and the budgetary comparison information 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.



Brooks Watson & Co., PLLC
Certified Public Accountants
Houston, Texas
May 14, 2019

*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

Town of Westover Hills, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2018

As management of the Town of Westover Hills, Texas (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended September 30, 2018.

Financial Highlights

- The Town's total combined net position is \$5,929,951 at September 30, 2018. Of this, \$1,631,577 (unrestricted net position) may be used to meet the Town's ongoing obligations to its citizens and creditors.
- At the close of the current fiscal year, the Town's governmental funds reported a combined fund balance of \$2,941,744, an increase of \$2,713,254.
- As of the end of the year, the unassigned fund balance of the general fund was \$497,977 or 20% of total general fund expenditures.
- The Town had an overall increase in net position of \$62,986, which is primarily due to water and sewer revenue exceeding current year expenses.
- At the end of the fiscal year, the Town's net pension asset amounted to \$66,344. The Town's OPEB liability was \$109,744 as of year end.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to 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 financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Town's assets, liabilities, and deferred inflows/outflows 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 Town is improving or deteriorating. Other non-financial factors, such as the Town's property tax base and the condition of the Town's infrastructure, need to be considered in order to assess the overall health of the Town.

Town of Westover Hills, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2018

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, public works, culture and recreation, and community development. The business-type activities of the Town include water and sewer operations.

The government-wide financial statements include only the Town itself (known as the *primary government*).

The government-wide financial statements can be found on pages 17 through 19 of this report.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the Town of Westover Hills. They are usually segregated for specific activities or objectives. The Town of Westover Hills uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of Town 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 year. Such information may be useful in evaluating the Town'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*.

Town of Westover Hills, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

The Town of Westover Hills maintains two individual governmental funds, the general fund and the capital projects fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be the only major fund.

The Town of Westover Hills adopts an annual appropriated budget for its general and water and sewer fund. A budgetary comparison schedule has been provided to demonstrate compliance with the general fund budget.

Proprietary Funds

The Town maintains one type of proprietary fund which is considered an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its provision of water and sewer services to residential users in the Town. The basic 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 that GASB Statement No. 34 requires includes a budgetary comparison schedule for the general fund and schedule of changes in net pension liability and related ratios for Texas Municipal Retirement System. The RSI can be found after the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the Town's financial position. For the Town of Westover Hills, assets exceeded liabilities by \$5,929,951 as of September 30, 2018, in the primary government.

The largest portion of the Town's net position, \$4,280,864, reflects its investments in capital assets (e.g., land, town hall, vehicles and equipment, streets, and sewer systems, as well as the public works facilities), less any debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should

Town of Westover Hills, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2018			2017		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 3,006,531	\$ 1,364,141	\$ 4,370,672	\$ 318,502	\$ 1,165,097	\$ 1,483,599
Net pension asset	66,344	-	66,344	-	-	-
Capital assets, net	1,834,650	2,636,396	4,471,046	1,973,827	2,697,255	4,671,082
Total Assets	4,907,525	4,000,537	8,908,062	2,292,329	3,862,352	6,154,681
Deferred Outflows of Resources	34,304	-	34,304	126,224	-	126,224
Other liabilities	204,365	78,063	282,428	132,137	75,954	208,091
Long-term liabilities	2,609,487	44,256	2,653,743	199,106	-	199,106
Total Liabilities	2,813,852	122,319	2,936,171	331,243	75,954	407,197
Deferred Inflows of Resources	76,244	-	76,244	6,743	-	6,743
Net Position:						
Net investment in capital assets	1,701,869	2,578,995	4,280,864	1,973,827	2,697,255	4,671,082
Restricted	17,510	-	17,510	-	-	-
Unrestricted	332,354	1,299,223	1,631,577	106,740	1,089,143	1,195,883
Total Net Position	\$ 2,051,733	\$ 3,878,218	\$ 5,929,951	\$ 2,080,567	\$ 3,786,398	\$ 5,866,965

Current and other assets for governmental activities increased by \$2,688,029 primarily due to increased cash on hand, as the City issued \$2,500,000 certificates of obligation bonds. Long-term liabilities for governmental activities increased by \$2,410,381 due to the aforementioned bond issuance in the current year.

Town of Westover Hills, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

Statement of Activities:

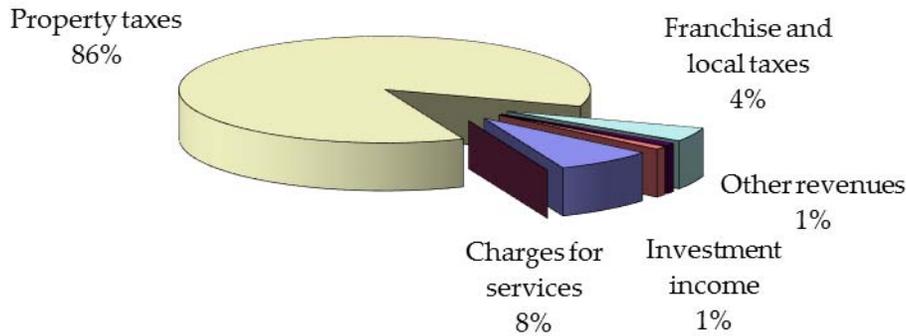
The following table provides a summary of the Town's changes in net position:

	For the Year Ended September 30, 2018			For the Year Ended September 30, 2017		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 181,114	\$ 1,293,150	\$ 1,474,264	\$ 175,900	\$ 1,094,635	\$ 1,270,535
General revenues:						
Property taxes	2,036,251	-	2,036,251	1,979,185	-	1,979,185
Franchise and local taxes	103,804	-	103,804	98,820	-	98,820
Investment income	19,452	14,345	33,797	5,280	7,276	12,556
Other revenues	23,207	-	23,207	24,928	-	24,928
Total Revenues	2,363,828	1,307,495	3,671,323	2,284,113	1,101,911	3,386,024
Expenses						
General government	557,891	-	557,891	505,284	-	505,284
Public safety	1,408,756	-	1,408,756	1,453,773	-	1,453,773
Public works	542,824	-	542,824	596,726	-	596,726
Sanitation	53,198	-	53,198	45,149	-	45,149
Interest and fiscal charges	27,436	1,007	28,443	-	-	-
Building inspections	89,476	-	89,476	88,404	-	88,404
Water & sewer	-	927,749	927,749	-	902,028	902,028
Total Expenses	2,679,581	928,756	3,608,337	2,689,336	902,028	3,591,364
Change in Net Position Before Transfers	(315,753)	378,739	62,986	(405,223)	199,883	(205,340)
Transfers	286,919	(286,919)	-	237,996	(237,996)	-
Change in Net Position	(28,834)	91,820	62,986	(167,227)	(38,113)	(205,340)
Beginning Net Position	2,080,567	3,786,398	5,866,965	2,247,794	3,824,511	6,072,305
Ending Net Position	\$ 2,051,733	\$ 3,878,218	\$ 5,929,951	\$ 2,080,567	\$ 3,786,398	\$ 5,866,965

Town of Westover Hills, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the Town's activities.

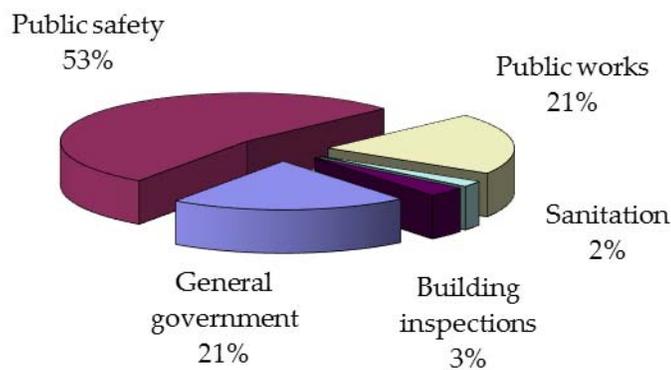
Governmental Activities - Revenues



For the year ended September 30, 2018, revenues from governmental activities totaled \$2,363,828, an increase of \$79,715 from the prior year. Property tax is the Town's largest revenue source. Property tax increased \$57,066 or 3% due to an increase in the taxable appraisal value of properties. Investment income increased by \$14,172 due to an increase in interest bearing investment balances. All other revenues remained relatively stable when compared to the previous year.

This graph shows the governmental function expenses of the Town:

Governmental Activities - Expenses

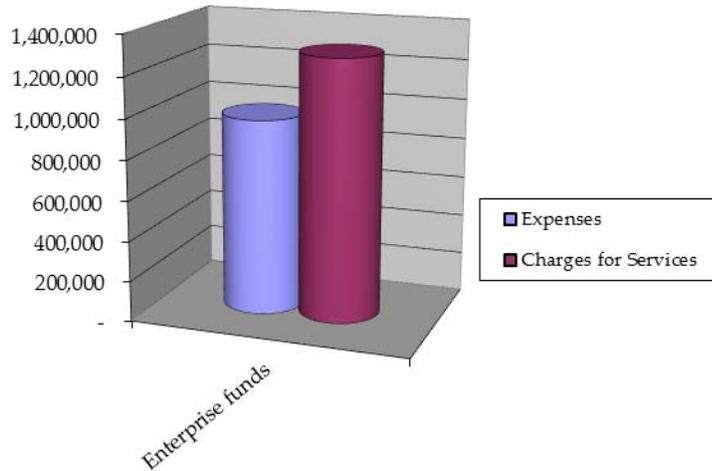


For the year ended September 30, 2018, expenses for governmental activities totaled \$2,679,581. This represents a decrease of \$9,755 or 0% from the prior year. The Town's largest functional expense is public safety for \$1,408,756, which primarily consists of salaries and benefits. Public safety expenses remained relatively consistent compared to the prior year. Public works expenses decreased by \$53,902 or 9% primarily due to nonrecurring landscaping expenses incurred in the prior year.

Town of Westover Hills, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

Business-type activities are shown comparing operating costs to revenues generated by related services.

Business-Type Activities - Revenues and Expenses



For the year ended September 30, 2018, charges for services by business-type activities totaled \$1,293,150. This is an increase of \$198,515 or 18% from the previous year, which is primarily a result of increased water and sewer consumption.

Total expenses increased \$26,728 or 3%, which is primarily due to increased water purchases.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

Governmental Funds - The focus of the Town's governmental funds is to provide information of near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the Town's net resources available for spending at the end of the year.

As of the end of the year the general fund reflected a total fund balance of \$497,977. The entire general fund balance is considered unassigned. The general fund increased by \$269,487 primarily due to transfer in from the water and sewer fund for personnel and administrative services.

As of the end of the year the capital projects fund reflected a total fund balance of \$2,443,767. The fund balance increased by the same amount from the prior year, as fiscal year 2018 was the initial year this fund was created. The increase was primarily related to the \$2,500,000 in bond proceeds issued in the current year.

Town of Westover Hills, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

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

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total positive budget variance of \$140,903 in the general fund. This was primarily the result of positive expenditure variances totaling \$66,020. All expenditures were less than budgeted with the exception of public safety.

The final budgeted expenditures decreased by \$47,687 compared to the original budget.

CAPITAL ASSETS

As of the end of the year, the Town's governmental activities funds had invested \$1,834,650 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The Town's business-type activities funds had invested \$2,636,396 in a variety of capital assets and infrastructure, net of accumulated depreciation.

Major capital asset events during the current year include the following:

- Purchase of backhoe for \$73,560 through lease financing.
- Purchase of two new vehicles for \$70,748 through lease financing.
- Hidden Creek road construction investment of \$41,650.
- Purchase of new evidence lockers for the police department totaling \$15,470.

More detailed information about the Town's capital assets is presented in note IV. D. to the financial statements.

LONG-TERM DEBT

At the end of the current year, the Town had total bonds and leases outstanding of \$2,628,149. The Town issued \$2,500,000 of Certificates of Obligation bonds and entered into new lease agreements totaling \$144,308 in the current year. During the year, the Town made principal payments on bonds and leases of \$16,159. More detailed information about the Town's long-term liabilities is presented in note IV.E. to the financial statements.

Town of Westover Hills, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and Town Council are committed to maintaining and improving the overall wellbeing of the Town of Westover Hills and improving services provided to their public citizens. The Town is budgeting for no significant changes in the upcoming year.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Town of Westover Hills's finances for all those with an interest in the Town's finances. Questions concerning this report or requests for additional financial information should be directed to the Mayor, 5824 Merrymount Road, Fort Worth, Texas 76107.

FINANCIAL STATEMENTS

Town of Westover Hills, Texas

STATEMENT OF NET POSITION

September 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 2,988,390	\$ 1,209,232	\$ 4,197,622
Receivables, net	23,941	149,109	173,050
Internal balances	(5,800)	5,800	-
Total Current Assets	3,006,531	1,364,141	4,370,672
Net pension asset	66,344	-	66,344
Capital assets:			
Non-depreciable assets (land)	22,873	20,873	43,746
Net depreciable capital assets	1,811,777	2,615,523	4,427,300
Total Noncurrent Assets	1,900,994	2,636,396	4,537,390
Total Assets	4,907,525	4,000,537	8,908,062
<u>Deferred Outflows of Resources</u>			
Pension contributions	16,226	-	16,226
Pension assumption changes	11,184	-	11,184
OPEB contributions	1,321	-	1,321
OPEB gains/losses	5,573	-	5,573
Total Deferred Outflows of Resources	34,304	-	34,304
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	60,024	56,599	116,623
Unearned revenue	-	8,319	8,319
Compensated absences	66,002	-	66,002
Long-term debt due within one year	78,339	13,145	91,484
Total Current Liabilities	204,365	78,063	282,428
Noncurrent liabilities:			
Long-term debt due in more than one year	2,492,409	44,256	2,536,665
Compensated absences	7,334	-	7,334
OPEB liability	109,744	-	109,744
Total Noncurrent Liabilities	2,609,487	44,256	2,653,743
Total Liabilities	2,813,852	122,319	2,936,171
<u>Deferred Inflows of Resources</u>			
Pension experience vs. assumption	30,003	-	30,003
Pension investment earnings	46,241	-	46,241
Total Deferred Inflows of Resources	76,244	-	76,244
<u>Net Position</u>			
Net investment in capital assets	1,701,869	2,578,995	4,280,864
Restricted for pension	17,510	-	17,510
Unrestricted	332,354	1,299,223	1,631,577
Total Net Position	\$ 2,051,733	\$ 3,878,218	\$ 5,929,951

See Notes to Financial Statements.

Town of Westover Hills, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Primary Government		
			Governmental Activities	Business-Type Activities	Total
Primary Government					
Governmental Activities					
General government	\$ 647,367	\$ 73,100	\$ (574,267)	\$ -	\$ (574,267)
Public safety	1,408,756	53,291	(1,355,465)	-	(1,355,465)
Public works	542,824	-	(542,824)	-	(542,824)
Sanitation	53,198	54,723	1,525	-	1,525
Interest and fiscal charges	27,436	-	(27,436)	-	(27,436)
Total Governmental Activities	2,679,581	181,114	(2,498,467)	-	(2,498,467)
Business-Type Activities					
Water & Sewer	928,756	1,293,150	-	364,394	364,394
Total Business-Type Activities	928,756	1,293,150	-	364,394	364,394
Total Primary Government	\$ 3,608,337	\$ 1,474,264	(2,498,467)	364,394	(2,134,073)
General Revenues:					
Taxes					
Property taxes			2,036,251	-	2,036,251
Franchise and local taxes			103,804	-	103,804
Investment income			19,452	14,345	33,797
Other revenues			23,207	-	23,207
Transfers			286,919	(286,919)	-
Total Transfers and General Revenues			2,469,633	(272,574)	2,197,059
Change in Net Position			(28,834)	91,820	62,986
Beginning Net Position			2,080,567	3,786,398	5,866,965
Ending Net Position			\$ 2,051,733	\$ 3,878,218	\$ 5,929,951

See Notes to Financial Statements.

Town of Westover Hills, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2018

	General	Capital Projects	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 538,823	\$ 2,449,567	\$ 2,988,390
Receivables, net	23,941	-	23,941
Total Assets	\$ 562,764	\$ 2,449,567	\$ 3,012,331
 <u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 60,024	\$ -	\$ 60,024
Due to other funds	-	5,800	5,800
Total Liabilities	60,024	5,800	65,824
 <u>Deferred Inflows of Resources</u>			
Unavailable revenue - property taxes	4,763	-	4,763
Total Deferred Inflows of Resources	4,763	-	4,763
 <u>Fund Balances</u>			
Restricted for:			
Capital outlay	-	2,443,767	2,443,767
Unassigned reported in:			
General fund	497,977	-	497,977
Total Fund Balance	497,977	2,443,767	2,941,744
Total Liabilities, Deferred Inflows of Resources and Fund			
Balance	\$ 562,764	\$ 2,503,791	\$ 3,006,531

See Notes to Financial Statements.

Town of Westover Hills, Texas

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION GOVERNMENTAL FUNDS

September 30, 2018

Fund Balances - Total Governmental Funds	\$ 2,941,744
Adjustments for the Statement of Net Position:	
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.	
Capital assets - non-depreciable	22,873
Capital assets - net depreciable	1,811,777
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	
Property taxes	4,763
Net pension asset	66,344
Deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenues) until that time	
Pension experience vs. assumption	(30,003)
Pension investment earnings	(46,241)
Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense/ expenditure) until then.	
Pension contributions	16,226
OPEB contributions	1,321
Pension assumption changes	11,184
OPEB gains/losses	5,573
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Compensated absences	(73,336)
Non-current liabilities due in one year	(78,339)
Non-current liabilities due in more than one year	(2,492,409)
OPEB liability	(109,744)
Net Position of Governmental Activities	\$ 2,051,733

See Notes to Financial Statements.

Town of Westover Hills, Texas

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

For the Year Ended September 30, 2018

	General	Capital Projects	Total
<u>Revenues</u>			
Property tax	\$ 2,044,482	\$ -	\$ 2,044,482
Franchise and local taxes	103,804	-	103,804
Sanitation revenue	54,723	-	54,723
License and permits	73,100	-	73,100
Fines and forfeitures	20,326	-	20,326
Investment income	12,283	7,169	19,452
Other revenue	56,172	-	56,172
Total Revenues	2,364,890	7,169	2,372,059
<u>Expenditures</u>			
Current:			
General government	475,369	20	475,389
Public safety	1,268,481	-	1,268,481
Municipal court	43,030	-	43,030
Building inspections and permits	89,172	-	89,172
Public works	468,145	-	468,145
Sanitation	53,198	-	53,198
Capital outlay	70,748	20,873	91,621
Debt service:			
Bond issuance costs	-	27,436	27,436
Total Expenditures	2,468,143	48,329	2,516,472
Excess (Deficiency) of Revenues Over (Under)			
 Expenditures	(103,253)	(41,160)	(144,413)
<u>Other Financing (Uses)</u>			
Transfers in from Water and Sewer Fund for personnel and administrative services	301,992	-	301,992
Transfers (out)	-	(15,073)	(15,073)
Proceeds from bond issuance	-	2,500,000	2,500,000
Proceeds from capital lease	70,748	-	70,748
Total Other Financing Sources (Uses)	372,740	2,484,927	2,857,667
Net Change in Fund Balance	269,487	2,443,767	2,713,254
Beginning fund balances	228,490	-	228,490
Ending Fund Balance	\$ 497,977	\$ 2,443,767	\$ 2,941,744

See Notes to Financial Statements.

Town of Westover Hills, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

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

Net changes in fund balances - total governmental funds	\$ 2,713,254
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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.

Capital outlay	107,091
Depreciation expense	(246,268)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	(8,231)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	(12,093)
Pension expense	(5,052)
OPEB expense	(6,787)

The issuance of long-term debt (e.g. bonds, leases) 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 they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these debt and related items.

Issuance of capital lease	(70,748)
Bond issuance	(2,500,000)

Change in Net Position of Governmental Activities	\$ (28,834)
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See Notes to Financial Statements.

Town of Westover Hills, Texas

STATEMENT OF NET POSITION

WATER AND SEWER FUND

September 30, 2018

	<u>Water and Sewer</u>
<u>Assets</u>	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 1,209,232
Receivables, net	149,109
Due from other funds	5,800
Total Current Assets	<u>1,364,141</u>
<u>Noncurrent Assets</u>	
Capital assets:	
Non-depreciable	20,873
Net depreciable capital assets	2,615,523
Total Noncurrent Assets	<u>2,636,396</u>
Total Assets	<u>4,000,537</u>
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts payable and accrued liabilities	56,599
Unearned revenue	8,319
Long-term debt due within one year	13,145
Total Current Liabilities	<u>78,063</u>
<u>Noncurrent Liabilities</u>	
Long-term debt due in more than one year	44,256
Total Liabilities	<u>122,319</u>
<u>Net Position</u>	
Net investment in capital assets	2,578,995
Unrestricted	1,299,223
Total Net Position	<u>\$ 3,878,218</u>

See Notes to Financial Statements.

Town of Westover Hills, Texas

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION WATER AND SEWER FUND For the Year Ended September 30, 2018

	Water and Sewer
<u>Operating Revenues</u>	
Water sales	\$ 1,070,104
Sewer sales	223,046
Total Operating Revenues	1,293,150
 <u>Operating Expenses</u>	
Cost of water	623,769
Cost of sewer	73,047
Repairs and maintenance	26,643
Materials and supplies	8,129
Other operating expenses	26,232
Depreciation	169,529
Total Operating Expenses	927,349
Operating Income	365,801
 <u>Nonoperating Revenues (Expenses)</u>	
Interest income	14,345
Interest (expense)	(1,007)
Other (expense)	(400)
Total Nonoperating Revenues	12,938
Income Before Transfers	378,739
 <u>Transfers</u>	
Transfers in	15,073
Transfers (out) to General Fund for personnel and administrative services	(301,992)
Change in Net Position	91,820
Beginning net position	3,786,398
Ending Net Position	\$ 3,878,218

See Notes to Financial Statements.

Town of Westover Hills, Texas

STATEMENT OF CASH FLOWS WATER AND SEWER FUND (Page 1 of 2) For the Year Ended September 30, 2018

	<u>Water and Sewer</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 1,298,467
Payments to suppliers and employees	(776,156)
Net Cash Provided (Used) by Operating Activities	<u>522,311</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfers (out) to General Fund for personnel and administrative services	(301,992)
Transfers in	15,073
Net Cash (Used) by Noncapital Financing Activities	<u>(286,919)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Purchases of capital assets	(35,110)
Capital lease principal payments	(16,159)
Interest and other paid on capital lease	(1,407)
Net Cash (Used) by Capital and Related Financing Activities	<u>(52,676)</u>
<u>Cash Flows from Investing Activities</u>	
Interest on investments	14,345
Net Cash Provided by Investing Activities	<u>14,345</u>
Net Increase (Decrease) in Cash and Cash Equivalents	197,061
Beginning cash and cash equivalents	<u>1,012,171</u>
Ending Cash and Cash Equivalents	<u>\$ 1,209,232</u>

See Notes to Financial Statements.

Town of Westover Hills, Texas

STATEMENT OF CASH FLOWS WATER AND SEWER FUND (Page 2 of 2) For the Year Ended September 30, 2018

	<u>Water and Sewer</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</u>	
Operating Income (Loss)	\$ 365,801
Adjustments to reconcile operating income to net cash provided:	
Depreciation	169,529
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	3,817
Increase (Decrease) in:	
Accounts payable and accrued liabilities	(12,536)
Unearned revenue	1,500
Due from other funds	(5,800)
Net Cash Provided (Used) by Operating Activities	\$ 522,311
 <u>Schedule of Non-Cash Capital and Related Financing Activities</u>	
Capital lease	\$ 73,560

See Notes to Financial Statements.

Town of Westover Hills, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

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

B. Reporting Entity

The Town of Westover Hills, Texas (the "Town") was incorporated in 1937. Since 1939, the Town has operated under an aldermanic form of government as a Type A general law municipality. The Town provides the following services: public safety, public improvements, sanitation, building inspection, general administration services, and water and sewer utilities.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the Town's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the Town is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the Town'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 is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles 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.

C. Basis of Presentation Government-Wide and Fund Financial Statements

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

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The fund financial statements provide information about the government's funds. Separate statements for each fund category—governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

The government reports the following governmental funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, franchise taxes, licenses and permits, and fines. Expenditures include general government, public safety, municipal court, building inspections and permits, public works, and sanitation. The general fund is considered the only major fund for reporting purposes.

Capital Projects Fund

The capital projects fund accounts for the acquisition and construction of the government's major capital investments, other than those financed by proprietary funds. This fund is considered a major fund.

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of water, cost of sewer, public works, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB) and all financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the Town accounts for its enterprise funds as presented by GASB.

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

The proprietary fund types used by the Town include enterprise funds.

The government reports the following major enterprise fund:

Water and Sewer Fund

This fund is used to account for the provision of water and sewer services to the residents of the Town. Activities of the fund include administration, operations and maintenance of the water production and distribution system, and the water collection and treatment systems. All costs are financed through charges to utility customers.

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

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

D. Measurement Focus and Basis of Accounting

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

1. Deposits and Investments

The Town'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.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the Town reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

The Town has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code.

In summary, the Town is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

2. Fair Value

The Town has applied Governmental Accounting Standards Board (“GASB”) Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

3. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either “interfund receivables/payables” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds” in the fund financial statements. If the transactions are between the primary government, these receivables and payables are classified as “due to/from primary government.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds are offset by a fund balance reserve account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of any allowance for uncollectible amounts.

4. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Penalties are calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the Town.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, water and sewer systems, drainage systems, and lighting systems) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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

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

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Machinery and equipment	2 - 10 years
Improvements	10 - 15 years
Infrastructure	30 years
Water and sewer system	20 - 33 years
Buildings and improvements	30 years

6. 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. An example is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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. An example which arises only under a modified accrual basis of accounting, relates to the accounting for uncollected property taxes. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows of resources can also occur at the government wide level due to differences between investment gains and losses realized on pension investments compared to assumptions used within the pension actuarial valuation model.

7. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., 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.

8. Fund Balance Flow Assumptions

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

9. Fund Balance Policies

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (council) has by resolution authorized the Town Administrator to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

10. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation and comp time balances. All vacation pay and comp time is accrued when incurred in the government-wide and proprietary fund financial statements, if applicable. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

It is the Town's policy to liquidate compensated absences with future revenues rather than with currently available expendable resources. Accordingly, the Town's governmental funds recognize accrued compensated absences when it is paid.

11. Long-Term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The non-current liabilities consists of net pension liability and accrued compensated absences.

Long-term debt for governmental funds, if any, is not reported as liabilities in the fund financial statements until due. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

The net pension liability is included within non-current liabilities. This liability is valued using an actuarial model and represents the difference between the plan fiduciary net position and the net pension liability consistent with GASB statement no. 68. The portion of this liability presented as a current liability is based on actuarially calculations for estimated future payments of benefits and refunds over the twelve months following yearend.

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

12. Pensions

For purposes of measuring the net pension liability (asset), 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.

13. Other Postemployment Benefits ("OPEB")

The Town has implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement applies to the individual employers (TMRS cities) in the TMRS Supplemental Death Benefits (SDB) plan, with retiree coverage. The TMRS SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB No. 75 (i.e., no assets are accumulated for OPEB) as such the SDBF is considered to be an unfunded OPEB plan. For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single employer, defined benefit OPEB plan. 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 on which TMRS deposits are made, for the 12-month period preceding the month of death. The death benefit amount for retirees is \$7,500. GASB No. 75 requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

14. Estimates

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, if any, are not due and payable in the current period and, therefore, are not reported in the funds.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, "Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds."

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and the water and sewer fund. Capital projects fund budgets are appropriated on a project-length basis.

The appropriated budget is prepared by fund, function, and department. The legal level of control is the department level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the fiscal year, except for capital budget. Several supplemental budget appropriations were made during the fiscal year.

Expenditures exceeded appropriations at the legal level of control as follows:

General fund:	
Public safety	\$ 9,073

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2018, the primary government had the following investments:

<u>Investment Type</u>	<u>Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Credit Rating</u>
External investment pools	\$ 4,012,054	0.08	AAAm
Total value	<u>\$ 4,012,054</u>		
Portfolio weighted average maturity		0.08	

Interest rate risk – In accordance with its investment policy, the Town manages its exposure to declines in fair values by limiting the weighted average of maturity not to exceed five years; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk – The Town’s investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than “A” or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service. As of September 30, 2018, the Town’s investment in TexPool was rated AAAM by Standard & Poor’s.

Custodial credit risk – deposits: In the case of deposits, this is the risk that in the event of a bank failure, the Town’s deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2018, the market values of pledged securities and FDIC exceeded bank balances.

Custodial credit risk – investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town’s investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

payment to ensure that securities are deposited in the Town's safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate 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. At September 30, 2018, the fair value of the position in TexPool approximates fair value of the shares. There were no limitations or restrictions on withdrawals.

B. Fair Value Measurement

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Town's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

C. Receivables

The following comprise receivable balances of the primary government at year end:

	General	Water & Sewer	Total
Property taxes	\$ 4,763	\$ -	\$ 4,763
Franchise and local taxes	9,069	-	9,069
Accounts	10,109	158,946	169,055
Allowance	-	(9,837)	(9,837)
	<u>\$ 23,941</u>	<u>\$ 149,109</u>	<u>\$ 173,050</u>

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

D. Capital Assets

A summary of changes in governmental activities capital assets for the year end was as follows:

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 2,000	\$ -	\$ -	\$ 2,000
Construction in progress	-	20,873	-	20,873
Total capital assets not being depreciated	<u>2,000</u>	<u>20,873</u>	<u>-</u>	<u>22,873</u>
Capital assets, being depreciated:				
Buildings and improvements	294,610	-	-	294,610
Furniture & equipment	514,376	15,470	-	529,846
Vehicles	491,299	70,748	-	562,047
Infrastructure	2,182,937	-	-	2,182,937
Total capital assets being depreciated	<u>3,483,222</u>	<u>86,218</u>	<u>-</u>	<u>3,569,440</u>
Less accumulated depreciation				
Buildings and improvements	125,649	22,149	-	147,798
Furniture & equipment	231,027	47,077	-	278,104
Vehicles	364,564	43,627	-	408,191
Infrastructure	790,155	133,415	-	923,570
Total accumulated depreciation	<u>1,511,395</u>	<u>246,268</u>	<u>-</u>	<u>1,757,663</u>
Net capital assets being depreciated	<u>1,971,827</u>	<u>(160,050)</u>	<u>-</u>	<u>1,811,777</u>
Total Capital Assets	<u><u>\$ 1,973,827</u></u>	<u><u>\$ (139,177)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,834,650</u></u>

Depreciation was charged to governmental functions as follows:

General government	\$ 26,489
Public safety	147,565
Public works	72,214
Total Governmental Activities Depreciation Expense	<u><u>\$ 246,268</u></u>

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

A summary of changes in business-type activities capital assets for the year end was as follows:

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 20,873	\$ -	\$ 20,873
Total capital assets not being depreciated	-	20,873	-	20,873
Capital assets, being depreciated:				
Water and sewer system	4,268,406	-	-	4,268,406
Vehicles and equipment	574,664	87,797	-	662,461
Total capital assets being depreciated	4,843,070	87,797	-	4,930,867
Less accumulated depreciation				
Water and sewer system	1,889,766	138,325	-	2,028,091
Vehicles and equipment	256,049	31,204	-	287,253
Total accumulated depreciation	2,145,815	169,529	-	2,315,344
Net capital assets being depreciated	2,697,255	(81,732)	-	2,615,523
Total Capital Assets	\$ 2,697,255	\$ (60,859)	\$ -	\$ 2,636,396

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

E. Long-term Liabilities

The following is a summary of changes in the Town's total governmental long-term liabilities for the year ended. In general, the Town uses the general fund to liquidate governmental long-term liabilities.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Bonds, notes and other payables:					
Certificates of Obligation Bonds	\$ -	\$ 2,500,000	\$ -	\$ 2,500,000	\$ 65,000
Vehicle lease	-	70,748	-	70,748	13,339
Other liabilities:					
Compensated Absences	61,243	73,336	(61,243)	73,336	66,002
Total Governmental Activities	<u>\$ 61,243</u>	<u>\$ 2,644,084</u>	<u>\$ (61,243)</u>	<u>\$ 2,644,084</u>	<u>\$ 144,341</u>
Long-term liabilities due in more than one year				<u>\$ 2,499,743</u>	
Business-Type Activities:					
Bonds, notes and other payables:					
Capital lease	\$ -	\$ 73,560	\$ (16,159)	\$ 57,401	\$ 13,145
Total Business-Type Activities	<u>\$ -</u>	<u>\$ 73,560</u>	<u>\$ (16,159)</u>	<u>\$ 57,401</u>	<u>\$ 13,145</u>
Long-term liabilities due in more than one year				<u>\$ 44,256</u>	

Long-term liabilities applicable to the Town'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, if any, is not accrued in governmental funds, but rather is recognized as an expenditure when due. The Town does not hold any long-term debt.

The Town issued \$2,500,000 of Series 2018 Certificates of Obligation bonds in August 2018. Principal payments are due in annual installments through 2030. The bonds bear an interest rate of 2.83%.

In January 2018, the Town entered into a lease agreement for acquisition of public safety and public works vehicles for \$70,748. Principal payments are due in annual installments through 2023. The lease bears an interest rate of 2.95%.

In June 2018, the Town entered into a lease agreement for acquisition of equipment for \$73,560. Principal payments are due in annual installments through 2022. The lease bears an interest rate of 5.87%.

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

The annual requirements to amortize governmental activities debt issues outstanding at year end were as follows:

Governmental Activities				
Year ending	General Obligation Bonds		Capital Leases	
September 30,	Principal	Interest	Principal	Interest
2019	\$ 65,000	\$ 70,101	\$ 13,339	\$ 2,087
2020	95,000	67,638	13,733	1,694
2021	125,000	64,522	14,138	1,288
2022	155,000	60,555	14,555	871
2023	185,000	55,739	14,984	442
2024	210,000	50,144	-	-
2025	230,000	43,912	-	-
2026	250,000	37,112	-	-
2027	270,000	29,747	-	-
2028	290,000	21,814	-	-
2029	305,000	13,386	-	-
2030	320,000	4,533	-	-
Total	\$ 2,500,000	\$ 519,202	\$ 70,748	\$ 6,383

The annual requirements to amortize business-type activities debt issues outstanding at year end were as follows:

Business-Type Activities		
Year ending	Capital Leases	
September 30,	Principal	Interest
2019	\$ 13,145	\$ 3,374
2020	13,918	2,601
2021	14,736	1,783
2022	15,602	917
Total	\$ 57,401	\$ 8,674

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

F. Interfund Transactions

Transfers between the primary government funds during the 2018 fiscal year were as follows:

Transfer In:	Transfer Out	
	Water and Sewer	Capital Projects
General	\$ 301,992	\$ -
Water and sewer	-	15,073
Total	\$ 301,992	15,073

Transfers between funds were primarily to support water and sewer personnel and administrative expenses.

Payable fund:	Receivable fund:
	Water and Sewer
Capital projects	\$ 5,800
Total	\$ 5,800

V. OTHER INFORMATION

A. Risk Management

The Town 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 Town participates along with 2,800 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The Town has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The Town has not significantly reduced insurance coverage or had settlements which 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 amounts of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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. The Town did not experience any claims during the fiscal year and does not have any claim liabilities.

C. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage 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 at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed correctly, a substantial liability to the Town could result. The Town does not maintain any debt, and therefore will not hold any arbitrage liabilities.

D. Defined Benefit Pension Plans

1. Plan Description

The Town of Westover Hills participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

2. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the Town, 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 Town-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The plan provisions are adopted by the governing body of the Town, within the options available in the state statutes governing TMRS.

Plan provisions for the Town were as follows:

	<u>Plan Year 2017</u>	<u>Plan Year 2016</u>
Employee deposit rate	5.0%	5.0%
Matching ratio (town to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/25	60/5, 0/25
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	24
Inactive employees entitled to but not yet receiving benefits	12
Active employees	22
Total	58

3. Contributions

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

Employees for the Town of Westover Hills were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the Town of Westover Hills were 1.84% and 1.72% in calendar years 2017 and 2018, respectively. The Town's

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

contributions to TMRS for the year ended September 30, 2018, were \$24,877, and were equal to the required contributions.

4. Net Pension Liability (Asset)

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

Actuarial assumptions:

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

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

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

(expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
Total	100.0%	4.37%

Discount Rate:

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

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Changes in the Net Pension Liability (Asset):

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
Balance at 12/31/16	\$ 1,883,772	\$ 1,788,021	\$ 95,751
Changes for the year:			
Service Cost	75,188	-	75,188
Interest	125,303	-	125,303
Difference between expected and actual experience	(35,683)	-	(35,683)
Changes of assumptions	-	-	-
Contributions – employer	-	21,684	(21,684)
Contributions – employee	-	58,926	(58,926)
Net investment income	-	247,643	(247,643)
Benefit payments, including refunds of emp. contributions	(130,042)	(130,042)	-
Administrative expense	-	(1,284)	1,284
Other changes	-	(66)	66
Net changes	34,766	196,861	(162,095)
Balance at 12/31/17	\$ 1,918,538	\$ 1,984,882	\$ (66,344)

Sensitivity of the net pension liability (asset) to changes in the discount rate

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

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 153,022	\$ (66,344)	\$ (249,808)

Pension Plan Fiduciary Net Position:

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

5. Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended September 30, 2018, the Town recognized pension expense of \$26,434.

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Difference between projected and investment earnings	\$ -	\$ (46,241)
Changes in actuarial assumptions	11,184	-
Differences between expected and actual economic experience	-	(30,003)
Contributions subsequent to the measurement date	16,226	-
Total	<u>\$ 27,410</u>	<u>\$ (76,244)</u>

The Town reported \$16,226 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability (asset) for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2018	5,249
2019	(11,605)
2020	(33,311)
2021	(25,393)
2022	-
Thereafter	-
	<u>\$ (65,060)</u>

6. Other Postemployment Benefits

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

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

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	19
Inactive employees entitled to but not yet receiving benefits	5
Active employees	22
Total	46

The Town's retiree contribution rates to the TMRS SDBF for the years ended 2018, 2017 and 2016 are as follows:

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2016	0.13%	0.13%	100.0%
2017	0.13%	0.13%	100.0%
2018	0.14%	0.14%	100.0%

The Town's contributions to the TMRS SDBF for the years ended 2018, 2017 and 2016 were \$1,652, \$1,506, and \$2,930, respectively, which equaled the required contributions each year.

Total OPEB Liability

The Town's Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2017, and the Total OPEB Liability was determined by an actuarial valuation as of that date.

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 10.5%, including inflation per year
Discount rate	3.31%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68

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

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 3.31%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

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

The following presents the total OPEB liability of the Town, calculated using the discount rate of 3.31%, as well as what the Town's total OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current rate:

1% Decrease (2.31%)	Current Single Rate Assumption 3.31%	1% Increase (4.31%)
\$ 127,902	\$ 109,744	\$ 95,433

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 12/31/16	\$ 97,231
Changes for the year:	
Service Cost	3,182
Interest	3,707
Changes of assumptions	7,156
Benefit payments	(1,532)
Net changes	12,513
Balance at 12/31/17	\$ 109,744

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

For the year ended September 30, 2018, the Town recognized OPEB expense of \$8,472.

At September 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to the OPEB liability from the following sources:

	Deferred Outflows of Resources
Differences between expected and actual economic experience	\$ 5,573
Contributions subsequent to measurement date	1,321
Total	\$ 6,894

The Town reported \$1,321 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the OPEB liability for the year ending September 30, 2019.

Town of Westover Hills, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:		
2018	\$	1,583
2019		1,583
2020		1,583
2021		824
2022		-
Thereafter		-
	<u>\$</u>	<u>5,573</u>

E. Restatement

Due to the implementation of GASB No. 75, the Town restated its beginning net position within governmental activities to properly reflect the total OPEB liability and related deferred outflows and inflows of resources, as prescribed by this accounting standard. This adjustment was recorded at the government-wide level for governmental activities. In addition, the Town restated the beginning fund balance in the general fund to correct an accounting error relating to franchise taxes. The restatement of beginning net position and fund balance is as follows:

	<u>Governmental Activities</u>	<u>General</u>
Prior year ending net position/fund balance, as reported	\$ 2,239,640	\$ 291,500
Impact of implementation of GASB 75	(96,063)	-
Correction to franchise fees	(63,010)	(63,010)
Restated beginning net position/fund balance	<u>\$ 2,080,567</u>	<u>\$ 228,490</u>

F. Subsequent Events

There were no material subsequent events through May 14, 2019, the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

Town of Westover Hills, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended September 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Property tax	\$ 2,049,245	\$ 2,049,245	\$ 2,044,482	\$ (4,763)
Franchise and local taxes	100,000	100,000	103,804	3,804
Sanitation revenue	-	-	54,723	54,723
License and permits	55,000	55,000	73,100	18,100
Fines and forfeitures	30,000	30,000	20,326	(9,674)
Investment income	2,000	2,000	12,283	10,283
Other revenue	124,502	124,502	56,172	(68,330)
Total Revenues	<u>2,360,747</u>	<u>2,360,747</u>	<u>2,364,890</u>	<u>4,143</u>
<u>Expenditures</u>				
Current:				
General government	563,312	515,625	475,369	40,256
Public safety	1,259,408	1,259,408	1,268,481	(9,073) *
Municipal court	48,000	48,000	43,030	4,970
Building inspections and permits	99,919	99,919	89,172	10,747
Public works	533,097	533,097	521,343	11,754
Capital outlay	78,114	78,114	70,748	7,366
Total Expenditures	<u>2,581,850</u>	<u>2,534,163</u>	<u>2,468,143</u>	<u>66,020</u>
Revenues Over (Under)	<u>(221,103)</u>	<u>(173,416)</u>	<u>(103,253)</u>	<u>70,163</u>
<u>Other Financing Sources (Uses)</u>				
Transfers in	302,000	302,000	301,992	(8)
Proceeds from capital lease	-	-	70,748	70,748
Total Other Financing Sources	<u>302,000</u>	<u>302,000</u>	<u>372,740</u>	<u>70,740</u>
Net Change in Fund Balance	<u>\$ 80,897</u>	<u>\$ 128,584</u>	<u>269,487</u>	<u>\$ 140,903</u>
Beginning fund balance			228,490	
Ending Fund Balance			<u>\$ 497,977</u>	

Notes to Required Supplementary Information

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

* Expenditures in excess of appropriations.

Town of Westover Hills, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS Years Ended December 31,

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability				1
Service cost	\$ 75,188	\$ 71,968	\$ 62,841	\$ 61,613
Interest	125,303	122,826	121,579	118,987
Differences between expected and actual experience	(35,683)	(9,054)	4,277	(7,947)
Changes of assumptions	-	-	47,263	-
Benefit payments, including refunds of participant contributions	(130,042)	(171,255)	(144,188)	(128,304)
Net change in total pension liability	<u>34,766</u>	<u>14,485</u>	<u>91,772</u>	<u>44,349</u>
Total pension liability - beginning	<u>1,883,772</u>	<u>1,869,287</u>	<u>1,777,515</u>	<u>1,733,166</u>
Total pension liability - ending (a)	<u>1,918,538</u>	<u>1,883,772</u>	<u>1,869,287</u>	<u>1,777,515</u>
Plan fiduciary net position				
Contributions - employer	\$ 21,684	\$ 13,835	\$ 14,039	\$ 7,509
Contributions - members	58,926	55,275	50,924	49,401
Net investment income	247,643	119,686	2,730	104,020
Benefit payments, including refunds of participant contributions	(130,042)	(171,255)	(144,188)	(128,304)
Administrative expenses	(1,284)	(1,352)	(1,663)	(1,086)
Other	(66)	(73)	(82)	(89)
Net change in plan fiduciary net position	<u>196,861</u>	<u>16,116</u>	<u>(78,240)</u>	<u>31,451</u>
Plan fiduciary net position - beginning	<u>1,788,021</u>	<u>1,771,905</u>	<u>1,850,145</u>	<u>1,818,694</u>
Plan fiduciary net position - ending (b)	<u>\$ 1,984,882</u>	<u>\$ 1,788,021</u>	<u>\$ 1,771,905</u>	<u>\$ 1,850,145</u>
Fund's net pension liability (asset) - ending (a) - (b)	<u>\$ (66,344)</u>	<u>\$ 95,751</u>	<u>\$ 97,382</u>	<u>\$ (72,630)</u>
Plan fiduciary net position as a percentage of the total pension liability	103.46%	94.92%	94.79%	104.09%
Covered payroll	\$ 1,178,492	\$ 1,105,493	\$ 1,018,486	\$ 988,017
Fund's net pension liability as a percentage of covered payroll	-5.63%	8.66%	9.56%	-7.35%

Notes to schedule:

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

Town of Westover Hills, Texas

SCHEDULE OF CHANGES IN POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) LIABILITY AND RELATED RATIOS

TEXAS MUNICIPAL RETIREMENT SYSTEM

Years Ended December 31,

	2017	¹
Total OPEB liability		
Service cost	\$ 3,182	
Interest	3,707	
Changes of assumptions	7,156	
Benefit payments	(1,532)	
Net changes	12,513	
Total OPEB liability - beginning	97,231	
Total OPEB liability - ending (a)	\$ 109,744	²
Covered employee payroll	\$ 1,178,492	
Total OPEB Liability as a percentage of covered employee payroll	9.31%	

Notes to schedule:

- ¹ This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.
- ² No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement No. 75 to pay related benefits.