

CITY OF HILLSBORO, TEXAS

AUDITOR'S REPORT

FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

CITY OF HILLSBORO, TEXAS

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of City Council
City of Hillsboro, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hillsboro, Texas, as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hillsboro's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hillsboro, Texas, as of September 30, 2009, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2010, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 9 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hillsboro, Texas' basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Pattillo, Brown & Hill, L.L.P.

June 11, 2010

Management's Discussion and Analysis

As management of the City of Hillsboro, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2009. We encourage readers to consider the information presented here in conjunction with the financial statements which can be found in the following section of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City exceed its liabilities as of September 30, 2009, by \$16,225,750 (net assets). Of this amount, \$4,872,729 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net assets increased by \$990,089.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,598,340. Approximately 88.76% of this total amount, \$4,969,301, is unreserved fund balance available for use within the City's fund designation and fiscal policies.
- As of September 30, 2009, unreserved fund balance for the general fund was \$875,620 or 12.73 percent of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements, which begin on page 10 of this report, are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, streets, library, cemetery, parks and recreation, and community development. The business-type activities of the City include water, wastewater, storm water drainage, solid waste, and airport operations.

The government-wide financial statements can be found on pages 10 – 11 of this report.

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

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

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

Beginning on page 12 of this report, information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, EDC, Debt Service and Capital Projects Funds, which are considered to be major funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the annual appropriated budget. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining fund statements and schedules elsewhere in this report.

Proprietary Funds. The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise funds to account for water, wastewater, storm water drainage, solid waste, and airport operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 21 – 24 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25 – 46 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents combining fund statements and schedules that further support the information in the financial statements. The combining fund statements and schedules for nonmajor funds are presented immediately following the notes to the financial statements beginning on page 47 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$16,225,750 as of September 30, 2009.

CITY OF HILLSBORO'S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Current assets	\$ 6,481,072	\$ 8,814,244	\$ 2,165,724	\$ 2,465,727	\$ 8,646,796	\$ 11,279,971
Capital assets	<u>12,951,692</u>	<u>10,867,381</u>	<u>10,702,567</u>	<u>10,819,844</u>	<u>23,654,259</u>	<u>21,687,225</u>
Total Assets	<u>19,432,764</u>	<u>19,681,625</u>	<u>12,868,291</u>	<u>13,285,571</u>	<u>32,301,055</u>	<u>32,967,196</u>
Liabilities	652,165	1,206,854	400,350	424,872	1,052,515	1,631,726
Noncurrent liabilities	<u>10,500,166</u>	<u>11,332,842</u>	<u>4,522,624</u>	<u>4,683,346</u>	<u>15,022,790</u>	<u>16,016,188</u>
Total Liabilities	<u>11,152,331</u>	<u>12,539,696</u>	<u>4,922,974</u>	<u>5,108,218</u>	<u>16,075,305</u>	<u>17,647,914</u>
Net assets:						
Invested in capital assets, net of related debt	4,518,512	3,166,442	6,205,470	6,163,027	10,723,982	9,329,469
Restricted	629,039	502,688	-	-	629,039	502,688
Unrestricted	<u>3,132,882</u>	<u>3,472,799</u>	<u>1,739,847</u>	<u>2,014,326</u>	<u>4,872,729</u>	<u>5,487,125</u>
Total Net Assets	\$ <u>8,280,433</u>	\$ <u>7,141,929</u>	\$ <u>7,945,317</u>	\$ <u>8,177,353</u>	\$ <u>16,225,750</u>	\$ <u>15,319,282</u>

The City uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net assets \$4,872,729 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF HILLSBORO'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
REVENUES:						
Program revenues:						
Charges for services	\$ 1,073,948	\$ 1,056,424	\$ 5,165,776	\$ 4,399,298	\$ 6,239,724	\$ 5,455,722
Operating grants	56,616	81,125	15,187	-	71,803	81,125
Capital grants and contributions	304,303	343,444	-	-	304,303	343,444
General revenues:						
Property taxes	3,080,501	2,864,966	-	-	3,080,501	2,864,966
Sales taxes	2,572,730	2,692,191	-	-	2,572,730	2,692,191
Franchise taxes	521,747	543,448	-	-	521,747	543,448
Hotel/motel taxes	379,311	450,585	-	-	379,311	450,585
Other taxes	83,132	23,715	-	-	83,132	23,715
Investment earnings	125,777	328,316	13,439	33,866	139,216	362,182
Miscellaneous	116,621	560,377	55,861	147,022	172,482	707,399
Total Revenues	<u>8,314,686</u>	<u>8,944,591</u>	<u>5,250,263</u>	<u>4,580,186</u>	<u>13,564,949</u>	<u>13,524,777</u>
EXPENSES:						
General government	1,642,858	2,039,625	-	-	1,642,858	2,039,625
Public safety	4,123,236	4,088,415	-	-	4,123,236	4,088,415
Streets	916,090	663,080	-	-	916,090	663,080
Community development	817,064	769,446	-	-	817,064	769,446
Interest on long-term debt	500,395	454,448	-	-	500,395	454,448
Water and sewer	-	-	3,535,251	3,751,369	3,535,251	3,751,369
Sanitation	-	-	813,675	817,848	813,675	817,848
Airport	-	-	226,291	403,738	226,291	403,738
Total Expenses	<u>7,999,643</u>	<u>8,015,014</u>	<u>4,575,217</u>	<u>4,972,955</u>	<u>12,574,860</u>	<u>12,987,969</u>
INCREASES IN NET ASSETS BEFORE TRANSFERS						
	315,043	929,577	675,046	(392,769)	990,089	536,808
TRANSFERS						
	<u>907,082</u>	<u>557,176</u>	<u>(907,082)</u>	<u>(- 557,176)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS						
	1,222,125	1,486,753	(232,036)	(949,945)	990,089	536,808
NET ASSETS, BEGINNING						
	<u>7,141,929</u>	<u>5,655,176</u>	<u>8,177,353</u>	<u>9,127,298</u>	<u>15,319,282</u>	<u>14,782,474</u>
PRIOR PERIOD ADJUSTMENT						
	<u>(83,621)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(83,621)</u>	<u>-</u>
NET ASSETS, ENDING						
	<u>\$ 8,280,433</u>	<u>\$ 7,141,929</u>	<u>\$ 7,945,317</u>	<u>\$ 8,177,353</u>	<u>\$ 16,225,750</u>	<u>\$ 15,319,282</u>

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the business-type activities and the government as a whole.

The government's net assets increased by \$990,089 during the current fiscal year. This increase in net assets is due to cost saving tactics used by the City. Additionally, charges for services and property tax revenue increased to cover the decrease in sales tax, other taxes, investment earnings and miscellaneous revenues.

Governmental Activities. Governmental activities increased the City's net assets by \$1,222,125, thereby accounting for 100 percent of the total growth in the net assets of the City. Key elements of this increase are as follows:

- Property tax revenue increased revenue by \$215,535
- General government expenses decreased by 396,767
- Transfers in increased by 349,906

Business-type Activities. Business-type activities decreased the City's net assets by \$232,036. This decrease was less than the prior year decrease of \$949,945. Key elements of this decrease are as follows:

- Investment earnings decreased by \$20,427.
- Transfers to governmental activities increased \$349,906 to offset shortfalls in general operating income during the year.
- However, charges for services increased and water and sewer expenses decreased resulting in a increase in net assets of \$675,046 prior to transfers to governmental activities of \$907,082.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

~~As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.~~

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,598,340. Approximately 88.76% of this total amount, \$4,969,301 constitutes unreserved fund balance. Refer to page 12 of this report for a more detailed presentation of governmental fund balances.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$875,620, while total fund balance reached \$1,373,511.

The fund balance of the City's General Fund increased by \$4,137 during the current fiscal year. Key factors in this increase are the increases in ad valorem tax revenue and fines and forfeitures as well as an increase in operating transfers in and a decrease in operating transfers out.

The Capital Projects Fund has a total fund balance of \$1,765,577. The City is completing street improvement projects, purchasing other equipment and completing park improvements from these funds.

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

Unrestricted net assets of the City's Enterprise Funds at the end of the year amounted to \$1,739,847. The decrease in net assets was \$232,036. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

No budget amendments were made to the original budget in fiscal year 2009.

Net reimbursement revenues were used to fund the differences in the budgeted expenditures without reducing the budgeted General Fund fund balance.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business type activities as of September 30, 2009, amounts to \$23,654,259 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities and infrastructure.

Major capital asset events occurring during the current fiscal year included the following:

- Various improvements of \$967,641
- Street improvements of \$1,454,484
- Acquired equipment for approximately \$491,697

Additional information on the City's capital assets can be found on pages 36 and 37 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total bonded debt of \$14,395,211. All of which represents bonded debt backed by the full faith and credit of the City.

During the fiscal year, the City issued \$156,678 in capital lease obligations. The proceeds were used for an asphalt zipper and wheel loader.

The City's General Obligation, Tax and Certificates of Obligation Bond ratings are listed below.

	<u>Standard and Poor's</u>
General Obligation Bonds	A

Additional information on the City's long term-debt can be found in pages 38 – 42 of this report.

ECONOMIC FACTORS AND BUDGETS AND RATES

The City's elected and appointed officials consider many factors when preparing the City of Hillsboro's budget for the 2010 fiscal year. The property tax rate for the fiscal year 2010 increased from .817472 to .818331 per \$100 assessed value. This negligible change of .00086 is to maintain the proper debt coverage ratio. Because of the potentially slowing economy, decreases in sales tax revenue (6%), decrease in interest income (29%) and a decrease in franchise revenue (1%) were considered.

During the current fiscal year, unreserved fund balance in the General Fund decreased to \$791,130. The City uses surplus working capital from the General Fund to supplement capital projects (e.g. street paving, code enforcement demolition, capital replacement) during the year as the needs arise and where favorable unit pricing is received on such projects. The City raised water rates to cover increases in water charges from Aquilla Water Supply District.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Jack Harper, City Manager, P.O. Box 568, Hillsboro, Texas 76645 or call (254) 582-3271.

**BASIC
FINANCIAL STATEMENTS**

CITY OF HILLSBORO, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2009

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 5,263,722	\$ 1,447,151	\$ 6,710,873
Receivables (net of allowances for uncollectibles):			
Taxes	623,624	-	623,624
Accounts	10,614	540,067	550,681
Intergovernmental	300,241	-	300,241
Other	174,771	-	174,771
Inventories	-	140,584	140,584
Deferred charges	108,100	37,922	146,022
Capital assets:			
Land	764,632	378,391	1,143,023
Buildings and improvements	5,489,579	5,216,060	10,705,639
Machinery and equipment	3,113,121	1,646,270	4,759,391
Infrastructure/water and wastewater distribution	6,190,002	14,112,004	20,302,006
Construction in progress	1,684,299	216,631	1,900,930
Less: accumulated depreciation	(4,289,941)	(10,866,789)	(15,156,730)
Total capital assets	<u>12,951,692</u>	<u>10,702,567</u>	<u>23,654,259</u>
Total assets	<u>19,432,764</u>	<u>12,868,291</u>	<u>32,301,055</u>
LIABILITIES			
Accounts payable	378,439	113,631	492,070
Accrued liabilities	156,056	16,341	172,397
Accrued interest payable	117,670	48,410	166,080
Customer deposits	-	221,968	221,968
Noncurrent liabilities:			
Due within one year	1,048,395	285,413	1,333,808
Due in more than one year	9,451,771	4,237,211	13,688,982
Total liabilities	<u>11,152,331</u>	<u>4,922,974</u>	<u>16,075,305</u>
NET ASSETS			
Invested in capital assets, net of related debt	4,518,512	6,205,470	10,723,982
Restricted for:			
Court security and technology	136,688	-	136,688
Police seizures	320,349	-	320,349
Other purposes	40,854	-	40,854
Debt service	131,148	-	131,148
Unrestricted	<u>3,132,882</u>	<u>1,739,847</u>	<u>4,872,729</u>
Total net assets	<u>\$ 8,280,433</u>	<u>\$ 7,945,317</u>	<u>\$ 16,225,750</u>

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

CITY OF HILLSBORO, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2009

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:						
Governmental activities:						
General government	\$ 1,642,858	\$ 7,796	\$ 2,763	\$ (1,530,656)	\$ -	\$ (1,530,656)
Public safety	4,123,236	48,820	227,908	(2,899,230)	-	(2,899,230)
Streets	916,090	-	-	(916,090)	-	(916,090)
Community development	817,064	-	73,632	(718,405)	-	(718,405)
Interest on long-term debt	500,395	-	-	(500,395)	-	(500,395)
Total governmental activities	7,999,643	56,616	304,303	(6,564,776)	-	(6,564,776)
Business-type activities:						
Water and sewer	3,535,251	-	-	-	308,466	308,466
Sanitation	813,675	-	-	-	337,155	337,155
Airport	226,291	15,187	-	-	(39,875)	(39,875)
Total business-type activities	4,575,217	15,187	-	-	605,746	605,746
Total	\$ 12,574,860	\$ 6,239,724	\$ 304,303	\$ (6,564,776)	\$ 605,746	\$ (5,959,030)
General revenues:						
Taxes:						
Property - general purposes				2,038,504	-	2,038,504
Property - debt service				1,041,997	-	1,041,997
Sales				2,572,730	-	2,572,730
Franchise				521,747	-	521,747
Hotel/Motel				379,311	-	379,311
Other				83,132	-	83,132
Investment earnings				125,777	13,439	139,216
Miscellaneous				116,621	55,861	172,482
Transfers				907,082	(907,082)	-
Total general revenues				7,786,901	(837,782)	6,949,119
Change in net assets				1,222,125	(232,036)	990,089
Net assets, beginning				7,141,929	8,177,353	15,319,282
Prior period adjustment				(83,621)	-	(83,621)
Net assets, ending				\$ 8,280,433	\$ 7,945,317	\$ 16,225,750

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

CITY OF HILLSBORO, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2009

	<u>General</u>	<u>Economic Development Corporation</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and investments	\$ 1,663,184	\$ 1,363,051	\$ 119,174	\$ 1,840,371	\$ 277,942	\$ 5,263,722
Receivables (net of allowance for uncollectibles)						
Taxes	455,061	34,496	28,290	-	105,777	623,624
Accounts	179,552	-	5,833	-	-	185,385
Intergovernmental	-	32,072	-	-	268,169	300,241
Due from other funds	<u>247,960</u>	<u>527,255</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>775,215</u>
Total assets	<u>\$ 2,545,757</u>	<u>\$ 1,956,874</u>	<u>\$ 153,297</u>	<u>\$ 1,840,371</u>	<u>\$ 651,888</u>	<u>\$ 7,148,187</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 270,947	\$ 1,789	\$ -	\$ 74,794	\$ 30,909	\$ 378,439
Accrued liabilities	156,056	-	-	-	-	156,056
Due to other funds	527,255	-	-	-	247,960	775,215
Deferred revenue	<u>217,988</u>	<u>-</u>	<u>22,149</u>	<u>-</u>	<u>-</u>	<u>240,137</u>
Total liabilities	<u>1,172,246</u>	<u>1,789</u>	<u>22,149</u>	<u>74,794</u>	<u>278,869</u>	<u>1,549,847</u>
Fund balances:						
Reserved for:						
Court security and technology	136,688	-	-	-	-	136,688
Police seizures	320,349	-	-	-	-	320,349
Encumbrances	40,854	-	-	-	-	40,854
Debt service	-	-	131,148	-	-	131,148
Unreserved, reported in:						
General fund	875,620	-	-	-	-	875,620
Special revenue funds	-	1,955,085	-	-	324,863	2,279,948
Capital projects funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,765,577</u>	<u>48,156</u>	<u>1,813,733</u>
Total fund balances	<u>1,373,511</u>	<u>1,955,085</u>	<u>131,148</u>	<u>1,765,577</u>	<u>373,019</u>	<u>5,598,340</u>
Total liabilities and fund balances	<u>\$ 2,545,757</u>	<u>\$ 1,956,874</u>	<u>\$ 153,297</u>	<u>\$ 1,840,371</u>	<u>\$ 651,888</u>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.						12,951,692
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.						230,567
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.						<u>(10,500,166)</u>
Net assets of governmental activities						<u>\$ 8,280,433</u>

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

CITY OF HILLSBORO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	General	Economic Development Corporation	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes:						
Ad valorem	\$ 2,018,226	\$ -	\$ 1,031,358	\$ -	\$ -	\$ 3,049,584
Sales	2,380,068	192,662	-	-	-	2,572,730
Franchise	521,747	-	-	-	-	521,747
Hotel/motel	-	-	-	-	379,311	379,311
Other	83,132	-	-	-	-	83,132
Services to others	5,429	-	-	-	-	5,429
Licenses and permits	67,189	-	-	-	-	67,189
Fines and forfeitures	778,565	-	-	-	-	778,565
Intergovernmental	8,995	32,072	-	-	257,665	298,732
Interest and penalties	63,417	16,015	19,104	24,706	2,535	125,777
Rentals	13,625	-	-	-	25,027	38,652
Charges for services	152,791	-	-	-	-	152,791
Cemetery lot sales and fees	28,400	-	-	-	-	28,400
Contributions	47,621	-	-	-	14,565	62,186
Other	84,779	25,889	5,796	-	157	116,621
Total revenues	<u>6,253,984</u>	<u>266,638</u>	<u>1,056,258</u>	<u>24,706</u>	<u>679,260</u>	<u>8,280,846</u>
EXPENDITURES						
Current:						
Personnel	4,712,646	-	-	137,263	2,379	4,852,288
Supplies	463,584	93	-	-	1,340	465,017
Services	1,113,913	28,685	2,889	-	201,407	1,346,894
Maintenance	223,494	1,432	-	-	4,458	229,384
Minor equipment	69,203	-	-	-	59,328	128,531
Capital outlay	191,954	54,741	-	1,317,221	1,015,071	2,578,987
Grant expense	5,269	-	-	-	-	5,269
Debt service:						
Principal	84,118	7,591	830,000	-	15,000	936,709
Interest	16,270	-	467,247	-	13,590	497,107
Total expenditures	<u>6,880,451</u>	<u>92,542</u>	<u>1,300,136</u>	<u>1,454,484</u>	<u>1,312,573</u>	<u>11,040,186</u>
EXCESS (DEFICIENCY) OF REVENUES						
OVER (UNDER) EXPENDITURES	<u>(626,467)</u>	<u>174,096</u>	<u>(243,878)</u>	<u>(1,429,778)</u>	<u>(633,313)</u>	<u>(2,759,340)</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from capital lease	42,978	-	-	-	-	42,978
Operating transfers out	(59,660)	(241,983)	-	-	(350,824)	(652,467)
Operating transfers in	647,286	-	276,055	-	636,208	1,559,549
Total other financing sources (uses)	<u>630,604</u>	<u>(241,983)</u>	<u>276,055</u>	<u>-</u>	<u>285,384</u>	<u>950,060</u>
NET CHANGE IN FUND BALANCES	4,137	(67,887)	32,177	(1,429,778)	(347,929)	(1,809,280)
FUND BALANCES, BEGINNING	<u>1,369,374</u>	<u>2,022,972</u>	<u>98,971</u>	<u>3,195,355</u>	<u>720,948</u>	<u>7,407,620</u>
FUND BALANCES, ENDING	<u>\$ 1,373,511</u>	<u>\$ 1,955,085</u>	<u>\$ 131,148</u>	<u>\$ 1,765,577</u>	<u>\$ 373,019</u>	<u>\$ 5,598,340</u>

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

CITY OF HILLSBORO, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2009

Amounts reported for governmental activities in the Statement of Activities (page 11) are different because:

Net change in fund balances - total governmental funds (page 13)	\$(1,809,280)
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.	2,123,235
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	33,840
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.	896,375
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.	<u>(22,045)</u>
Change in net assets of governmental activities (page 11)	<u>\$ 1,222,125</u>

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

CITY OF HILLSBORO, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Ad valorem	\$ 1,983,316	\$ 1,983,316	\$ 2,018,226	\$ 34,910
Sales, net of rebates	2,470,000	2,470,000	2,380,068	(89,932)
Franchise	554,000	554,000	521,747	(32,253)
Other	18,500	18,500	83,132	64,632
Services to others	2,500	2,500	5,429	2,929
Licenses and permits	77,800	77,800	67,189	(10,611)
Fines and forfeitures	750,345	750,345	778,565	28,220
Intergovernmental	77,252	77,252	8,995	(68,257)
Interest and penalties	113,000	113,000	63,417	(49,583)
Rentals	107,302	107,302	13,625	(93,677)
Charges for services	103,210	103,210	152,791	49,581
Cemetery lot sales and fees	29,000	29,000	28,400	(600)
Contributions	44,450	44,450	47,621	3,171
Other	24,700	24,700	84,779	60,079
Total revenues	6,355,375	6,355,375	6,253,984	(101,391)
EXPENDITURES				
Legislative:				
Personnel	867	867	712	155
Supplies	4,800	4,800	3,339	1,461
Services	31,500	31,500	37,300	(5,800)
	37,167	37,167	41,351	(4,184)
Administration:				
Personnel	216,768	216,768	243,196	(26,428)
Supplies	13,250	13,250	8,286	4,964
Services	148,740	148,740	161,871	(13,131)
Maintenance	8,150	8,150	6,703	1,447
Minor equipment	-	-	1,899	(1,899)
Capital outlay	2,000	2,000	-	2,000
	388,908	388,908	421,955	(33,047)

(continued)

CITY OF HILLSBORO, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

**GENERAL FUND
(Continued)**

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budget			Variance with Final Budget
	Original	Final	Actual	Positive (Negative)
EXPENDITURES (Continued)				
Streets:				
Personnel	262,713	262,713	266,272	(3,559)
Supplies	69,450	69,450	41,719	27,731
Services	166,635	166,635	147,597	19,038
Maintenance	53,450	53,450	15,574	37,876
Capital outlay	55,675	55,675	70,603	(14,928)
	607,923	607,923	541,765	66,158
Police:				
Personnel	1,695,970	1,695,970	1,688,416	7,554
Supplies	160,800	160,800	142,768	18,032
Services	140,000	140,000	142,654	(2,654)
Maintenance	51,500	51,500	55,181	(3,681)
Minor equipment	-	-	54,866	(54,866)
Capital outlay	84,000	84,000	34,309	49,691
	2,132,270	2,132,270	2,118,194	14,076
Library:				
Personnel	256,556	256,556	250,129	6,427
Supplies	12,400	12,400	9,311	3,089
Services	41,990	41,990	41,518	472
Maintenance	27,000	27,000	26,822	178
Capital outlay	41,000	41,000	41,553	(553)
Grant expense	6,667	6,667	5,269	1,398
	385,613	385,613	374,602	11,011
Fire:				
Personnel	1,223,738	1,223,738	1,246,219	(22,481)
Supplies	112,450	112,450	133,260	(20,810)
Services	101,500	101,500	122,492	(20,992)
Maintenance	17,050	17,050	19,822	(2,772)
Minor equipment	-	-	6,089	(6,089)
Capital outlay	-	-	31,790	(31,790)
	1,454,738	1,454,738	1,559,672	(104,934)

(continued)

CITY OF HILLSBORO, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

**GENERAL FUND
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES (Continued)				
Municipal court:				
Personnel	135,004	135,004	137,311	(2,307)
Supplies	5,400	5,400	4,273	1,127
Services	74,450	74,450	44,322	30,128
Maintenance	2,100	2,100	854	1,246
	<u>216,954</u>	<u>216,954</u>	<u>186,760</u>	<u>30,194</u>
Parks and recreation:				
Personnel	291,553	291,553	266,389	25,164
Supplies	41,750	41,750	28,080	13,670
Services	44,200	44,200	35,425	8,775
Maintenance	21,700	21,700	26,021	(4,321)
Minor equipment	-	-	1,602	(1,602)
Capital outlay	25,600	25,600	13,699	11,901
	<u>424,803</u>	<u>424,803</u>	<u>371,216</u>	<u>53,587</u>
Maintenance shop:				
Personnel	116,590	116,590	85,823	30,767
Supplies	70,125	70,125	66,622	3,503
Services	11,107	11,107	5,912	5,195
Maintenance	54,200	54,200	44,611	9,589
	<u>252,022</u>	<u>252,022</u>	<u>202,968</u>	<u>49,054</u>
Cemetery:				
Personnel	14,858	14,858	15,374	(516)
Supplies	9,625	9,625	3,853	5,772
Services	94,260	94,260	62,331	31,929
Maintenance	2,350	2,350	1,190	1,160
	<u>121,093</u>	<u>121,093</u>	<u>82,748</u>	<u>38,345</u>

(continued)

CITY OF HILLSBORO, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

**GENERAL FUND
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES (Continued)				
Community development:				
Personnel	176,140	176,140	157,470	18,670
Supplies	8,500	8,500	3,218	5,282
Services	105,135	105,135	130,037	(24,902)
Maintenance	12,200	12,200	10,750	1,450
	<u>301,975</u>	<u>301,975</u>	<u>301,475</u>	<u>500</u>
Legal:				
Personnel	30,961	30,961	30,993	(32)
Services	4,500	4,500	9,159	(4,659)
	<u>35,461</u>	<u>35,461</u>	<u>40,152</u>	<u>(4,691)</u>
Finance:				
Personnel	179,829	179,829	141,494	38,335
Supplies	5,200	5,200	5,285	(85)
Services	44,800	44,800	56,444	(11,644)
Maintenance	300	300	-	300
Minor equipment	-	-	3,257	(3,257)
	<u>230,129</u>	<u>230,129</u>	<u>206,480</u>	<u>23,649</u>
Information systems:				
Personnel	-	-	16,209	(16,209)
Supplies	200	200	175	25
Services	24,800	24,800	13,736	11,064
Maintenance	13,000	13,000	3,768	9,232
	<u>38,000</u>	<u>38,000</u>	<u>33,888</u>	<u>4,112</u>
Marketing/Business development:				
Personnel	126,646	126,646	122,060	4,586
Supplies	4,500	4,500	4,869	(369)
Services	111,325	111,325	101,375	9,950
Maintenance	6,500	6,500	10,023	(3,523)
Minor equipment	-	-	1,201	(1,201)
	<u>248,971</u>	<u>248,971</u>	<u>239,528</u>	<u>9,443</u>

(continued)

CITY OF HILLSBORO, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

GENERAL FUND

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
EXPENDITURES (Continued)				
Animal control:				
Personnel	47,266	47,266	44,579	2,687
Supplies	13,100	13,100	8,526	4,574
Services	2,700	2,700	1,740	960
Maintenance	3,000	3,000	2,175	825
Minor equipment	-	-	289	(289)
	<u>66,066</u>	<u>66,066</u>	<u>57,309</u>	<u>8,757</u>
Debt service:				
Principal	120,001	120,001	84,118	35,883
Interest	5,526	5,526	16,270	(10,744)
	<u>125,527</u>	<u>125,527</u>	<u>100,388</u>	<u>25,139</u>
Total expenditures	<u>7,067,620</u>	<u>7,067,620</u>	<u>6,880,451</u>	<u>187,169</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(712,245)</u>	<u>(712,245)</u>	<u>(626,467)</u>	<u>85,778</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	740,906	740,906	647,286	(93,620)
Proceeds from capital lease	-	-	42,978	42,978
Operating transfers (out)	(28,661)	(28,661)	(59,660)	(30,999)
Total other financing sources (uses)	<u>712,245</u>	<u>712,245</u>	<u>630,604</u>	<u>(124,619)</u>
CHANGE IN FUND BALANCES	-	-	4,137	4,137
FUND BALANCES, BEGINNING	<u>1,369,374</u>	<u>1,369,374</u>	<u>1,369,374</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 1,369,374</u>	<u>\$ 1,369,374</u>	<u>\$ 1,373,511</u>	<u>\$ 4,137</u>

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

CITY OF HILLSBORO, TEXAS

ECONOMIC DEVELOPMENT FUND

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Sales, net of rebates	215,250	215,250	192,662	(22,588)
Intergovernmental	-	-	32,072	32,072
Interest and penalties	35,000	35,000	16,015	(18,985)
Other	11,000	11,000	25,889	- 14,889
Total revenues	<u>261,250</u>	<u>261,250</u>	<u>266,638</u>	<u>5,388</u>
EXPENDITURES				
Community development:				
Supplies	200	200	93	107
Services	141,290	141,290	28,685	112,605
Maintenance	5,000	5,000	1,432	3,568
Capital outlay	1,439,600	1,439,600	54,741	1,384,859
	<u>1,586,090</u>	<u>1,586,090</u>	<u>84,951</u>	<u>1,501,139</u>
Debt service:				
Principal	3,000	3,000	7,591	(4,591)
	<u>3,000</u>	<u>3,000</u>	<u>7,591</u>	<u>(4,591)</u>
Total expenditures	<u>1,589,090</u>	<u>1,589,090</u>	<u>92,542</u>	<u>1,496,548</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,327,840)	(1,327,840)	174,096	1,501,936
OTHER FINANCING SOURCES (USES)				
Operating transfers in	1,429,690	1,429,690	-	(1,429,690)
Operating transfers (out)	(101,850)	(101,850)	(241,983)	(140,133)
Total other financing sources (uses)	<u>1,327,840</u>	<u>1,327,840</u>	<u>(241,983)</u>	<u>(1,569,823)</u>
CHANGE IN FUND BALANCES	-	-	(67,887)	(67,887)
FUND BALANCES, BEGINNING	<u>2,022,972</u>	<u>2,022,972</u>	<u>2,022,972</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 2,022,972</u>	<u>\$ 2,022,972</u>	<u>\$ 1,955,085</u>	<u>\$(67,887)</u>

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

CITY OF HILLSBORO, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2009

	Business-type Activities-Enterprise Fund			
	Water and Wastewater	Sanitation	Airport	Totals
ASSETS				
Cash and investments	\$ 1,077,653	\$ 369,398	\$ 100	\$ 1,447,151
Accounts receivable	485,640	47,698	6,729	540,067
Inventories	140,584	-	-	140,584
Other assets	37,922	-	-	37,922
Fixed assets	<u>10,104,633</u>	<u>108,198</u>	<u>489,736</u>	<u>10,702,567</u>
Total assets	<u>\$ 11,846,432</u>	<u>\$ 525,294</u>	<u>\$ 496,565</u>	<u>\$ 12,868,291</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 46,634	\$ 65,291	\$ 1,706	\$ 113,631
Customer deposits	221,968	-	-	221,968
Accrued liabilities	15,452	-	889	16,341
Accrued interest payable	48,410	-	-	48,410
Capital lease payable	35,413	-	-	35,413
Certificates of obligation payable	250,000	-	-	250,000
Total current liabilities	<u>617,877</u>	<u>65,291</u>	<u>2,595</u>	<u>685,763</u>
Long-term liabilities:				
Capital lease payable	71,684	-	-	71,684
Certificates of obligation payable	4,140,000	-	-	4,140,000
Vacation payable	24,072	-	1,455	25,527
Total long-term liabilities	<u>4,235,756</u>	<u>-</u>	<u>1,455</u>	<u>4,237,211</u>
Total liabilities	<u>4,853,633</u>	<u>65,291</u>	<u>4,050</u>	<u>4,922,974</u>
NET ASSETS				
Invested in capital assets, net of related debt	5,607,536	108,198	489,736	6,205,470
Unrestricted	1,385,263	351,805	2,779	1,739,847
Total net assets	<u>\$ 6,992,799</u>	<u>\$ 460,003</u>	<u>\$ 492,515</u>	<u>\$ 7,945,317</u>

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

CITY OF HILLSBORO, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Business-type Activities-Enterprise Fund			
	Water and Wastewater	Sanitation	Airport	Totals
OPERATING REVENUES				
Water and sewer sales	\$ 3,756,769	\$ -	\$ -	\$ 3,756,769
Other service charges	86,948	1,150,830	171,229	1,409,007
Miscellaneous income	55,861	-	-	55,861
Total operating revenues	<u>3,899,578</u>	<u>1,150,830</u>	<u>171,229</u>	<u>5,221,637</u>
OPERATING EXPENSES				
Water purchase	1,313,504	-	-	1,313,504
Personnel	764,645	-	44,400	809,045
Supplies	82,800	-	123,104	205,904
Services	422,625	803,643	21,011	1,247,279
Maintenance	214,252	7,790	5,439	227,481
Depreciation and amortization	480,236	2,242	32,337	514,815
Total operating expenses	<u>3,278,062</u>	<u>813,675</u>	<u>226,291</u>	<u>4,318,028</u>
OPERATING INCOME (LOSS)	<u>621,516</u>	<u>337,155</u>	<u>(55,062)</u>	<u>903,609</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	13,439	-	-	13,439
Contributions	-	-	15,187	15,187
Interest expense	(257,189)	-	-	(257,189)
Total nonoperating revenues (expenses)	<u>(243,750)</u>	<u>-</u>	<u>15,187</u>	<u>(-228,563)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	377,766	337,155	(39,875)	675,046
OPERATING TRANSFERS FROM (TO) OTHER FUNDS	<u>(845,121)</u>	<u>(249,888)</u>	<u>187,927</u>	<u>(907,082)</u>
CHANGE IN NET ASSETS	<u>(467,355)</u>	<u>87,267</u>	<u>148,052</u>	<u>(232,036)</u>
TOTAL NET ASSETS, BEGINNING	<u>7,460,154</u>	<u>372,736</u>	<u>344,463</u>	<u>8,177,353</u>
TOTAL NET ASSETS, ENDING	<u>\$ 6,992,799</u>	<u>\$ 460,003</u>	<u>\$ 492,515</u>	<u>\$ 7,945,317</u>

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

CITY OF HILLSBORO, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Business-type Activities - Enterprise Fund			
	Water and Wastewater	Sanitation	Airport	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 3,902,956	\$ 1,103,132	\$ 177,487	\$ 5,183,575
Cash payments to employees for services	(765,183)	-	(44,081)	(809,264)
Cash payments to suppliers for goods and services	(2,068,875)	(805,764)	(189,358)	(3,063,997)
Cash provided (used) by operating activities	<u>1,068,898</u>	<u>297,368</u>	<u>(55,952)</u>	<u>1,310,314</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash paid to other funds	(747,215)	(347,794)	187,927	(907,082)
Cash used for noncapital financing activities	<u>(747,215)</u>	<u>(347,794)</u>	<u>187,927</u>	<u>(907,082)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal repayments on debt	(240,000)	-	-	(240,000)
Capital contributions	-	-	15,187	15,187
Capital lease proceeds	113,700	-	-	113,700
Capital lease payments	(32,123)	-	-	(32,123)
Interest and fiscal charges on debt	(208,779)	-	-	(208,779)
Acquisition and construction of capital assets	(230,148)	-	(164,633)	(394,781)
Cash provided (used) by capital and related financing activities	<u>(597,350)</u>	<u>-</u>	<u>(149,446)</u>	<u>(746,796)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	13,439	-	-	13,439
Cash provided by investing activities	<u>13,439</u>	<u>-</u>	<u>-</u>	<u>13,439</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(262,228)	(50,426)	(17,471)	(330,125)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>1,339,881</u>	<u>419,824</u>	<u>17,571</u>	<u>1,777,276</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 1,077,653</u>	<u>\$ 369,398</u>	<u>\$ 100</u>	<u>\$ 1,447,151</u>

(continued)

CITY OF HILLSBORO, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Business-type Activities - Enterprise Fund			
	Water and Wastewater	Sanitation	Airport	Totals
RECONCILIATION OF OPERATING INCOME				
(LOSS) TO NET CASH PROVIDED BY				
OPERATING ACTIVITIES				
Operating income (loss)	\$ 621,516	\$ 337,155	\$(55,062)	\$ 903,609
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	480,236	2,242	32,337	514,815
Change in assets and liabilities:				
Decrease (increase) in accounts receivable	9,543	(47,698)	6,258	(31,897)
Decrease (increase) in other assets	(2,097)	-	-	(2,097)
Increase (decrease) in accounts payable	(34,713)	5,670	(39,804)	(68,847)
Increase (decrease) in accrued liabilities	1,919	-	161	2,080
Increase (decrease) in vacation payable	(2,457)	-	158	(2,299)
Increase (decrease) in customer deposits	(6,165)	-	-	(6,165)
Decrease (increase) in inventory	1,116	-	-	1,116
Total adjustments	<u>447,382</u>	<u>(39,786)</u>	<u>(890)</u>	<u>406,706</u>
Net cash provided by operating activities	<u>\$ 1,068,898</u>	<u>\$ 297,369</u>	<u>\$(55,952)</u>	<u>\$ 1,310,315</u>

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

CITY OF HILLSBORO, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The City of Hillsboro was incorporated on March 21, 1881. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, public works, public health and welfare, recreation and waterworks.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the *Governmental Accounting Standards Board (GASB)*, the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the City are described below:

Financial Reporting Entity

The accompanying financial statements comply with the provisions of the GASB Statements No. 14 and 39, "The Financial Reporting Entity," in that the financial statements include all organizations, activities, functions and component units for which the City (the "primary government") is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City. Based on the aforementioned criteria, the City of Hillsboro has a fully blended component unit, the Economic Development Corporation.

Government-wide Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-like activities*, which rely to a significant extent on fees and charges for support.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. 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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 revenue to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Governmental Funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in the proprietary fund type) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The City reports the following major governmental funds:

The General Fund – is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The Debt Service Fund – accounts for the resources accumulated and payments made for principal and interest not being financed by Proprietary Funds.

The Capital Projects Fund – accounts for financial resources to be used for the acquisition or construction of major capital projects which are not financed by Proprietary Funds.

The Economic Development Corporation Fund – accounts for financial resources to be used for the economic growth and development of the City.

Proprietary Funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is upon determination of net income and capital maintenance.

The City reports the following major proprietary funds:

The Water and Wastewater Fund – is used to account for the activities necessary for the provisions of water and wastewater services.

The Sanitation Fund – is used to account for the activities necessary for the provisions of sanitation services.

The Airport Fund – is used to account for the activities necessary for the provisions of airport services and operations.

Additionally, the City reports the following fund types:

Special Revenue Funds – The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources (other than assessments, expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. These funds include the Hotel/Motel Tax Fund, Search and Rescue Equipment Grant Fund, Main Street Fund, Industrial Development Fund, Home Grant Fund, Parks and Wildlife Grant Fund, and the Downtown Streetscape and Downtown Streetscape Phase II Fund.

Capital Projects Funds – *Capital Projects Funds* are used to account for financial resources to be used for the acquisition or construction of major capital projects which are not financed by Proprietary Funds. These funds include the Entry Monument Project Fund, Capital Construction Fund, and the Highway 77 Infrastructure Project Fund.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Enterprise Funds – *Enterprise Funds* are used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water, sewer and sanitation services to the general public on a continuing basis is financed through user charges. The Airport Fund is the only nonmajor Enterprise Fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and Enterprise Funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and wastewater function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenue. Likewise, general revenue includes all taxes.

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity

Cash and Cash Equivalents

For purpose of presenting the proprietary fund cash flow statement, cash and cash equivalents include cash demand and time deposits and investments with a maturity date within three months of the date acquired by the City.

Investments

State statutes authorize the City to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent; (5) certificates of deposit by state and national banks domiciled in this state that are (a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (b) secured by obligations that are described by (1) – (4); or, (6) fully collateralized direct repurchase agreements having a defined termination date, secured by obligations described by (1) pledged with a third-party selected or approved by the City, and placed through a primary government securities dealer.

Investments maturing within one year of date of purchase are stated at cost or amortized cost, all other investments are stated at fair value, which is based on quoted market prices.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable on or before January 31 of the following year. All unpaid taxes become delinquent February 1 of the following year. City property tax revenue is recognized when levied. An allowance is established for delinquent taxes to the extent their collectibility is improbable. For the year ended September 30, 2009, the City's property taxes were billed and collected by the Hill County Appraisal District. Receipts are remitted to the City on a monthly basis.

Ad valorem taxes for fiscal year 2009 were levied October 1, 2008, at the rate of \$.817472 per \$100 assessed valuation on a total taxable assessed valuation of \$381,213,136.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Inventories

All inventories are valued at cost (first-in, first-out method). Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$1,000 (amount not rounded) 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.

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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20 to 50
Waterworks and sanitation systems	15 to 40
Infrastructure	10 to 40
Machinery and equipment	5 to 10

Retiree Benefits

No post retirement health care benefits are provided by the City for retired employees.

Post-Employment Health Care Benefits

COBRA Benefits

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City provides health care benefits to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured on or before the tenth (10th) day of the month for the actual month covered. This program is offered for a duration of 18 months after the termination date. There is no associated cost to the City under this program, and there were no participants in the program as of September 30, 2009.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Capitalized Interest

The City capitalizes net interest cost and interest earned as part of the cost of constructing various projects when material. During the year ended September 30, 2009, no interest costs were capitalized.

Liability for Compensated Absences

The City allows employees to accumulate unused sick leave to a maximum of 90 days. Sick leave is earned at the rate of 8 hours (10.6 hours for firefighters) per month worked. Unused sick leave is canceled upon termination of employment without compensation to the employee.

Regular fulltime City employees are eligible to accrue paid vacation leave. Employees are encouraged to take regular vacation at least annually. Employees are not credited with vacation leave until the completion of six consecutive months of service with the City. Vacation leave in the amount of 40 hours (60 hours for firefighters) is credited to an employee, upon completion of the initial six-month period. Employees with up to three years of service will be entitled to 120 hours per year of vacation with pay (80 hours for firefighters); with three to nine years of service, 180 hours per year of vacation with pay (120 hours for firefighters); and with 10 years of service and longer, 240 hours per year of vacation with pay (160 hours for firefighters).

The maximum amount of unused vacation leave that an employee can accumulate is 240 hours. Any balance in excess of 240 hours is reduced to the maximum, without compensation to the employee, at the end of each fiscal year. When an employee leaves the services of the City, he or she will be paid for accrued, but unused vacation leave not to exceed 240 hours. The rate of pay will be determined by the salary rate in effect at the time of termination.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Long-term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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 disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates

(continued)

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the General Fund, Special Revenue Funds, and the Debt Service Fund. Budgets are adopted for the proprietary funds annually only as a management tool. There are no legally mandated budgetary constraints for the proprietary funds.

In May of each year, budget preparation packages are distributed to all City agencies. The agencies of the City submit requests for appropriation to the City Manager before June 15 so that a budget may be prepared. The budget is prepared by department and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. During August, the proposed budget is presented to the City Council for review. The City Council holds public hearings in September and may add to, subtract from, or change appropriations. Any changes in the budget must be within the revenue and reserves estimated as available by the City Manager or the revenue estimates must be changed by an affirmative vote of a majority of the City Council. The final budget must be adopted each year on or before September 27th as required by the City's charter.

The appropriated budget is prepared by fund, function and department. The City's management may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplementary budget appropriations that were not material during the year.

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrances are recorded when purchase orders are issued, but are not considered expenditures until liabilities for payments are incurred. Encumbrances are reported as a reservation of fund balance on the balance sheet. Encumbrances do not lapse at the close of the fiscal year, but are carried forward as reserved fund balance until liquidated.

Expenditures Over Appropriations

Expenditures exceeded appropriations in the General Fund in various departments. These excess expenditures were funded by available fund balance.

(continued)

III. DETAILED NOTES ON ALL FUNDS

Deposits and Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U. S. Treasury, certain U. S. Agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers' acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the **Public Funds Investment Act**, the City has adopted a deposit and investment policy. That policy does address the following risks:

- a. **Custodial Credit Risk** – Deposits: In the case of deposits, this is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. As of September 30, 2009, the City's \$1,906,219 deposit balance was secured by \$474,851 in FDIC insurance and the remainder was fully collateralized.
- b. **Credit Risk:** It is the City's policy to limit investments to investment types with an investment quality rating no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days. The City's investments were rated AAAM by Standard and Poor's Investors Services.
- c. **Interest Rate Risk:** In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to 90 days or less, dependent on market conditions.
- d. **Concentration of Credit Risk:** The government's investment policy states the maximum percentage allowed for each different investment instrument that can be used to make up the portfolio.

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

Deposits and Investments (Continued)

At September 30, 2009, the primary government's investments consisted of:

	<u>Fair Value</u>
TexStar	\$ 1,735,569
Texas Term	1,984,769
State Treasurer's Investment Pool (TexPool)	701,716
LOGIC	<u>493,169</u>
	<u>\$ 4,915,223</u>

At September 30, 2009 all of the above investments are not categorized by risk. TexStar, TexPool, Texas Daily, and government agencies balances are not evidenced by securities that exist in physical or book entry form, and, accordingly, are not categorized by risk. However, the nature of these funds requires that they be used to purchase investments authorized by the Texas Public Funds Investment Act of 1995. The primary objective of these investment pools is to provide a safe environment for the placement of public funds in short-term, fully collateralized investments.

Receivables

Receivables as of year-end for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental Funds</u>				<u>Enterprise Funds</u>			<u>Totals</u>
	<u>General</u>	<u>Debt Service</u>	<u>EDC</u>	<u>Nonmajor Funds</u>	<u>Water and Wastewater</u>	<u>Sanitation</u>	<u>Airport</u>	
Receivables:								
Accounts:								
Customers	\$ -	\$ -	\$ -	\$ -	\$ 485,640	\$ 47,698	\$ 6,729	\$ 540,067
Taxes:								
Property	221,400	113,161	-	-	-	-	-	334,561
Sales tax	379,620	-	34,496	-	-	-	-	414,116
Other	20,091	-	-	105,777	-	-	-	125,868
Intergovernmental	-	-	32,072	268,169	-	-	-	300,241
Other	- 1,169,917	5,833	-	-	-	-	-	1,175,750
Gross receivables	1,791,028	118,994	66,568	373,946	485,640	47,698	6,729	2,890,603
Less: allowance for uncollectibles	(1,156,415)	(84,871)	-	-	-	-	-	(1,241,286)
Net total receivables	<u>\$ 634,613</u>	<u>\$ 34,123</u>	<u>\$ 66,568</u>	<u>\$ 373,946</u>	<u>\$ 485,640</u>	<u>\$ 47,698</u>	<u>\$ 6,729</u>	<u>\$ 1,649,317</u>

Governmental funds report *deferred revenue* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>
Delinquent property taxes receivable (general fund)	\$ 43,218
Delinquent court fines receivable (general fund)	174,770
Delinquent property taxes receivable (debt service)	<u>22,149</u>
Total Governmental Funds	<u>\$ 240,137</u>

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets

Capital asset activity for the year ended September 30, 2009, was as follows:

	Beginning Balance	Increase	Decrease	Adjustment	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 764,632	\$ -	\$ -	\$ -	\$ 764,632
Construction in progress	<u>2,895,737</u>	<u>2,365,883</u>	<u>3,577,321</u>	<u>-</u>	<u>1,684,299</u>
Total assets not being depreciated	<u>3,660,369</u>	<u>2,365,883</u>	<u>3,577,321</u>	<u>-</u>	<u>2,448,931</u>
Capital assets, being depreciated:					
Buildings and improvements	5,449,967	39,612	-	-	5,489,579
Machinery and equipment	2,986,357	286,138	169,214	9,840	3,113,121
Infrastructure	<u>2,612,681</u>	<u>3,577,321</u>	<u>-</u>	<u>-</u>	<u>6,190,002</u>
Total capital assets being depreciated	<u>11,049,005</u>	<u>3,903,071</u>	<u>169,214</u>	<u>9,840</u>	<u>14,792,702</u>
Accumulated depreciation:					
Buildings and improvements	2,261,343	153,802	-	-	2,415,145
Machinery and equipment	1,501,649	326,501	169,211	48,764	1,707,703
Infrastructure	<u>79,001</u>	<u>88,092</u>	<u>-</u>	<u>-</u>	<u>167,093</u>
Total accumulated depreciation	<u>3,841,993</u>	<u>568,395</u>	<u>169,211</u>	<u>48,764</u>	<u>4,289,941</u>
Total capital assets being depreciated, net	<u>7,207,012</u>	<u>3,334,676</u>	<u>3</u>	<u>(38,924)</u>	<u>10,502,761</u>
Governmental activities capital assets, net	<u>\$ 10,867,381</u>	<u>\$ 5,700,559</u>	<u>\$ 3,577,324</u>	<u>\$(38,924)</u>	<u>\$ 12,951,692</u>
Capital assets, not being depreciated:					
Land	\$ 378,391	\$ -	\$ -	\$ -	\$ 378,391
Construction in progress - Water/Sewer	-	52,000	-	-	52,000
Construction in progress - Airport	<u>-</u>	<u>164,631</u>	<u>-</u>	<u>-</u>	<u>164,631</u>
Total assets not being depreciated	<u>378,391</u>	<u>216,631</u>	<u>-</u>	<u>-</u>	<u>595,022</u>
Capital assets, being depreciated:					
Buildings and improvements	5,216,060	-	-	-	5,216,060
Machinery and equipment	1,509,255	205,559	68,544	-	1,646,270
Infrastructure	<u>14,112,004</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,112,004</u>
Total capital assets being depreciated	<u>20,837,319</u>	<u>205,559</u>	<u>68,544</u>	<u>-</u>	<u>20,974,334</u>
Accumulated depreciation:					
Buildings and improvements	675,122	115,176	-	-	790,298
Machinery and equipment	1,096,124	79,728	68,544	27,409	1,134,717
Infrastructure	<u>8,624,620</u>	<u>317,154</u>	<u>-</u>	<u>-</u>	<u>8,941,774</u>
Total accumulated depreciation	<u>10,395,866</u>	<u>512,058</u>	<u>68,544</u>	<u>27,409</u>	<u>10,866,789</u>
Total capital assets being depreciated, net	<u>10,441,453</u>	<u>(306,499)</u>	<u>-</u>	<u>(27,409)</u>	<u>10,107,545</u>
Business-type activities capital assets, net	<u>\$ 10,819,844</u>	<u>\$(89,868)</u>	<u>\$ -</u>	<u>\$(27,409)</u>	<u>\$ 10,702,567</u>

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets (Continued)

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

Governmental activities:		
General government		\$ 175,321
Public safety		192,072
Public works		159,212
Community development		<u>41,790</u>
Total depreciation expense - governmental activities		\$ <u>568,395</u>
Business-type activities:		
Water and wastewater		\$ 477,479
Sanitation		2,242
Airport		<u>32,337</u>
Total depreciation expense - business-type activities		\$ <u>512,058</u>

Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2009, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor	\$ 247,960
Economic Development	General	<u>527,255</u>
Total		\$ <u>775,215</u>

Balances resulted from the time lag between the dates that 1) interfund goods and services are provided on reimbursable expenditures occur, and 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Interfund transfers during the year ended September 30, 2009, are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General	Nonmajor	\$ 245,436
General	EDC	101,850
General	Sanitation	300,000
Debt Service	General	50,297
Nonmajor	General	9,363
Airport	EDC	140,133
Nonmajor	Water and wastewater	521,457
Airport	Sanitation	47,794
Sanitation	Water and wastewater	97,906
Nonmajor	Nonmajor	105,388
Debt Service	Water and wastewater	<u>225,758</u>
Total		\$ <u>1,845,382</u>

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt

Long-term liability activity from the year ended September 30, 2009, was as follows:

	Debt Outstanding 09/30/08	Additions of New Debt	Retirements and Repayments	Debt Outstanding 09/30/09
<u>Governmental:</u>				
Notes payable	\$ 80,204	\$ -	\$ 33,877	\$ 46,327
Certificates of obligation	1,760,000	-	80,000	1,680,000
General obligation bonds	9,040,000	-	765,000	8,275,000
Premium	52,854	-	2,643	50,211
Capital Leases	236,868	42,978	57,833	222,013
Vacation payable	207,613	19,002	-	226,615
	<u>11,377,539</u>	<u>61,980</u>	<u>939,353</u>	<u>10,500,166</u>
<u>Enterprise Fund</u>				
Certificates of obligation	4,630,000	-	240,000	4,390,000
Capital Leases	25,520	113,700	32,123	107,097
Vacation payable	27,826	-	2,299	25,527
	<u>4,683,346</u>	<u>113,700</u>	<u>274,422</u>	<u>4,522,624</u>
Total	<u>\$ 16,016,188</u>	<u>\$ 175,680</u>	<u>\$ 1,213,775</u>	<u>\$ 14,978,093</u>

The General Fund is generally used to liquidate compensated absences for governmental activities.

L. B. Foster Agreement

During fiscal year 2002, the City entered into an agreement with the Texas Department of Housing and Community Affairs (TDHCA) and L. B. Foster to act as a pass-through agent for the purchase of a building. L. B. Foster will pay the City \$5,833 per month until March 2012, in order to purchase the building. Each month the City then pays this money to TDHCA. Under this agreement, the City is not liable for any debt should L. B. Foster default on the loan. Since the City does not own or use the building and has no liability in regards to the building, no asset or liability has been recorded on the general ledger. Also, no revenue or expense is shown for the debt payments received by the City due to its capacity as a pass-through agent.

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt

Debt outstanding as of September 30, 2009, consisted of the following:

	<u>Purpose of Issue</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>
<u>Governmental</u>				
Note payable	Fire truck	\$ 174,328	\$ 46,327	5.19%
		<u>174,328</u>	<u>46,327</u>	
Certificates of obligation:				
2005 Series	Street Improvements	600,000	520,000	4.15%
2007 Series	City Hall renovations	315,000	285,000	4.53%
2002 Series	Street improvements and acquisition of equipment	<u>1,725,000</u>	<u>875,000</u>	4.00%-4.80%
		<u>2,640,000</u>	<u>1,680,000</u>	
General obligation bonds:				
1995 Series	Refunding	1,580,000	180,000	4.50%-5.40%
1998 Series	Refunding	4,825,000	2,380,000	4.20%-4.90%
2008 Series	Various improvements	2,000,000	2,000,000	4.625%-7.00%
2008 Series Premium		52,854	50,211	
2006 Series	Street Improvements	<u>4,000,000</u>	<u>3,715,000</u>	3.75%-5.125%
		<u>12,457,854</u>	<u>8,325,211</u>	
Total Governmental Long-term		<u>15,272,182</u>	<u>10,051,538</u>	
<u>Enterprise Fund</u>				
Certificates of obligation:				
2002 Series	Improvements to sewer plant	<u>5,870,000</u>	<u>4,390,000</u>	4.00%-4.80%
		<u>5,870,000</u>	<u>4,390,000</u>	
Total Enterprise Fund		<u>5,870,000</u>	<u>4,390,000</u>	
		<u>\$ 21,142,182</u>	<u>\$ 14,441,538</u>	

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt (Continued)

Debt service requirements are as follows:

	Year Ended September 30	Principal	Interest	Total Requirements
Notes Payable:	2010	\$ 27,402	\$ 1,438	\$ 28,840
	2011	18,925	302	19,227
		<u>46,327</u>	<u>1,740</u>	<u>48,067</u>
Certificates of Obligation:	2010	90,000	72,898	162,898
	2011	90,000	69,185	159,185
	2012	100,000	65,406	165,406
	2013	100,000	61,268	161,268
	2014	110,000	57,029	167,029
	2015-2019	620,000	211,121	831,121
	2020-2024	525,000	65,512	590,512
	2025-2029	45,000	1,867	46,867
		<u>1,680,000</u>	<u>604,286</u>	<u>2,284,286</u>
General Obligation Bonds:	2010	870,000	389,420	1,259,420
	2011	725,000	345,375	1,070,375
	2012	750,000	309,010	1,059,010
	2013	790,000	271,079	1,061,079
	2014	440,000	230,889	670,889
	2015-2019	1,690,000	874,001	2,564,001
	2020-2024	1,850,000	504,424	2,354,424
	2025-2029	1,160,000	107,400	1,267,400
		<u>8,275,000</u>	<u>3,031,598</u>	<u>11,306,598</u>
Total Governmental Debt:	2010	987,402	463,756	1,451,158
	2011	833,925	414,862	1,248,787
	2012	850,000	374,416	1,224,416
	2013	890,000	332,347	1,222,347
	2014	550,000	287,918	837,918
	2015-2019	2,310,000	1,085,122	3,395,122
	2020-2024	2,375,000	569,936	2,944,936
	2025-2029	1,205,000	109,267	1,314,267
		<u>\$ 10,001,327</u>	<u>\$ 3,637,624</u>	<u>\$ 13,638,951</u>

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt (Continued)

Enterprise Fund debt requirements are as follows:

	Year Ended September 30	Principal	Interest	Total Requirements
Certificates of Obligation:	2010	\$ 250,000	\$ 192,545	\$ 442,545
	2011	260,000	182,541	442,541
	2012	275,000	172,203	447,203
	2013	290,000	161,198	451,198
	2014	305,000	149,693	454,693
	2015-2019	1,750,000	542,519	2,292,519
	2020-2024	1,260,000	122,433	1,382,433
Total		<u>\$ 4,390,000</u>	<u>\$ 1,523,132</u>	<u>\$ 5,913,132</u>

Capital Leases

The City has acquired certain capital assets for governmental and water and wastewater activities through the use of lease purchase agreements. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<u>Asset</u>
Governmental activities	
Assets:	
Roller and Dump Truck Trailer	\$ 151,000
Police Vehicles	69,282
Asphalt Zipper	42,978
Paver	93,890
Total	<u>\$ 357,150</u>
Water and Wastewater activities	
Backhoe	\$ 60,500
Wheel Loader	113,700
Total	<u>\$ 174,200</u>

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2009, were as follows:

Year Ending September 30,	Governmental Activities	Water and Wastewater Activities
2010	\$ 71,527	\$ 38,758
2011	46,942	25,160
2012	46,942	25,160
2013	46,942	25,160
2014	37,300	-
Total minimum lease payments	249,653	114,238
Less: amount representing interest	27,640	7,141
Present value of minimum lease payments	<u>\$ 222,013</u>	<u>\$ 107,097</u>

Fund Equity

Reservations of Fund Equity

Reservations of equity show amounts that are not for expenditures or are legally restricted for specific uses. Generally, the purpose for each is indicated by the account title on the face of the balance sheet. The General Fund reserve for restricted purposes includes police seizure funds and funds collected for municipal court security and technology that can only be used for these purposes.

Designated Fund Equity

Designations of equity are used to show the amounts within unreserved equity which are intended to be used for specific purposes, but are not legally restricted.

Aquilla Water Supply District

The City has entered into a contract with the Aquilla Water Supply District under which the City agrees to purchase water from the District. The terms of the agreement provide that the City will purchase a minimum amount of water each year, determined on a fiscal year ending September 30, at rates determined on an annual basis for each of the District's customers.

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

Aquilla Water Supply District (Continued)

The Aquilla Water Supply District is not a joint venture operation. It is governed by its own Board of Directors and is not governed by the entities that are serviced by it. Charges for providing water services under contracts constitute revenue for "operating and maintenance" and "debt service" costs for the facilities utilized.

The City paid \$1,313,504 for water purchased from the District during the fiscal year ending September 30, 2009.

Retirement Plan

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition the report is available on TMRS' website at www.TMRS.com.

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

	Plan Year 2008	Plan Year 2009
Employee deposit rate	5.0%	5.0%
Matching ration (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5,0/20	60/5,0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

Retirement Plan (Continued)

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

Assumptions and Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	<u>09/30/09</u>
Annual required contribution (ARC)	\$ 351,656
Interest on Net Pension Obligation	-
Adjustment to the ARC	<u>-</u>
Annual Pension Cost (APC)	351,656
Contributions made	<u>(351,656)</u>
Increase (decrease) in net pension obligation	-
Net pension obligation/(Asset), beginning of year	<u>-</u>
Net pension obligation/(Asset), end of year	<u>\$ -</u>

The required contribution rates for fiscal year 2009 were determined as part of the December 31, 2006 and 2007 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2008, also follows:

Actuarial Valuation Date	12/31/06	12/31/07	12/31/08
Actuarial Cost Method	Unit Credit	Projected Unit Credit	Projected Unit Credit
	Level percent	Level percent	Level percent
Amortization Method	of payroll	of payroll	of payroll
	25 years;	30 years;	29 years;
Remaining Amortization Period	open period	open period	open period
Asset Valuation Method	Amortized Cost	Amortized Cost	Amortized Cost
Actuarial Assumptions:			
Investment Rate of Return	7.0%	7.0%	7.5%
	Varies by	Varies by	Varies by
Projected Salary Increases	age and service	age and service	age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	NA	2.1%	2.1%

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

Retirement Plan (Continued)

Contributions (Continued)

The funded status as of December 31, 2008, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2006	\$ 4,832,482	\$ 7,058,948	68.5%	\$ 2,226,466	\$ 3,582,727	62.1%
12/31/2007	5,296,944	8,433,495	62.8%	3,136,551	3,663,235	85.6%
12/31/2008	5,867,799	9,158,178	64.1%	3,290,379	3,915,677	84.0%

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Contingencies

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Various claims and lawsuits are pending against the City. In the opinion of City management, after consultation with legal counsel, the potential loss on all claims and lawsuits will not materially affect the City's financial position.

Economic Development Fund

The Economic Development Corporation has been deemed a blended component unit for the City of Hillsboro (see note 1). The Corporation has borrowed money to help attract business to the Hillsboro area. Accounting principles prescribe the Corporation be a Special Revenue Fund.

City of Hillsboro Ordinance No. 02007-12-13 provides for an entity, other than the City, to construct water or sewer infrastructure, dedicate it to the City, and collect a pro rata cost share from intervening property owners for up to the full cost and/or up to 10 years from the date the completed project is dedicated to the City. Under terms of the Utility Developer Agreement approved by City Council in R2008-01-04, the Hillsboro Economic Development Corporation (HEDC) is the developer of the Highway 77 Utilities Project that constructed water and sewer lines and appurtenances to serve a proposed truck stop to be located on Highway 77 in the southeast quadrant of the Hwy 77/I-35 interchange. Any cost recouped from intervening property owners will be receipted into a City trust account dedicated to the project. It will then be dispersed first to the HEDC until its \$500,000 contribution has been met, and second to the City until its \$504,888 contribution has been met. The Project is scheduled for dedication in FY2009-10.

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

Risk Management

The City is a member of the Texas Municipal League's Intergovernmental Risk Pool ("Pool"). The Pool was created for the purpose of providing coverage against risks which are inherent in operating a political subdivision. The City pays annual premiums to the Pool for liability, property and workers' compensation coverage. The City's agreement with the Pool provides that the Pool will be self-sustaining through member premiums and will provide through commercial companies reinsurance contracts. The Pool agrees to handle all liability, property and workers' compensation claims and provide any defense as is necessary. The Pool makes available to the City loss control services to assist the City in following a plan of loss control that may result in reduced losses. The City agrees that it will cooperate in instituting any and all reasonable loss control recommendations made by the Pool. The City also carries commercial insurance on all other risks of loss, including employee health and accident insurance.

The City has experienced no significant reductions in coverage through the Pool over the past year.

There have been no insurance settlements exceeding Pool coverage for any of the past three years.

Prior Period Adjustments

The City made two prior period adjustments to the governmental activities in the government-wide financial statements during the current year. The first adjustment was to increase noncurrent liabilities by \$44,697 to add the balance of a capital lease that had not been added to the liabilities in the previous years. The second adjustment of \$38,924 was to properly state fixed assets and depreciation for two vehicles to adjust the original purchase amount to actual and properly record depreciation on certain public safety equipment. These adjustments had no effect on the fund financial statements.

COMBINING SCHEDULES

CITY OF HILLSBORO, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2009

	Special Revenue Funds		
	Hotel/Motel Tax	Search and Rescue Equipment Grant	Main Street
ASSETS			
Cash and investments	\$ 217,140	\$ -	\$ 6,738
Intergovernmental receivable	-	103,412	-
Taxes receivable	105,777	-	-
Total assets	\$ 322,917	\$ 103,412	\$ 6,738
LIABILITIES AND FUND EQUITY			
Liabilities			
Accounts payable	\$ 5,100	\$ 4,572	\$ -
Due to other funds	-	98,840	-
Total liabilities	5,100	103,412	-
Fund equity			
Fund balance			
Unreserved			
Designated for specific purposes	317,817	-	-
Undesignated	-	-	6,738
Total fund equity	317,817	-	6,738
Total liabilities and fund equity	\$ 322,917	\$ 103,412	\$ 6,738

Special Revenue Funds					Capital Projects
Downtown Streetscape Phase II	Industrial Development	Home Grant	Parks and Wildlife Grant	Downtown Streetscape	Entry Monument Project
\$ -	\$ 308	\$ 5,600	\$ -	\$ -	\$ 20,550
4,640	-	7,354	2,763	150,000	-
-	-	-	-	-	-
<u>\$ 4,640</u>	<u>\$ 308</u>	<u>\$ 12,954</u>	<u>\$ 2,763</u>	<u>\$ 150,000</u>	<u>\$ 20,550</u>
\$ -	\$ -	\$ 5,600	\$ -	\$ 15,637	\$ -
4,640	-	7,354	2,763	134,363	-
4,640	-	12,954	2,763	150,000	-
-	-	-	-	-	20,550
-	308	-	-	-	-
-	308	-	-	-	20,550
<u>\$ 4,640</u>	<u>\$ 308</u>	<u>\$ 12,954</u>	<u>\$ 2,763</u>	<u>\$ 150,000</u>	<u>\$ 20,550</u>

CITY OF HILLSBORO, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
(continued)
SEPTEMBER 30, 2009

	Capital Projects		Total
	Capital Construction	Highway 77 Infrastructure Project	Nonmajor Governmental Funds
ASSETS			
Cash and investments	\$ 27,606	\$ -	\$ 277,942
Intergovernmental receivable	-	-	268,169
Taxes receivable	-	-	105,777
Total assets	\$ 27,606	\$ -	\$ 651,888
LIABILITIES AND FUND EQUITY			
Liabilities			
Accounts payable	\$ -	\$ -	\$ 30,909
Due to other funds	-	-	247,960
Total liabilities	-	-	278,869
Fund equity			
Fund balance			
Unreserved			
Designated for specific purposes	27,606	-	365,973
Undesignated	-	-	7,046
Total fund equity	27,606	-	373,019
Total liabilities and fund equity	\$ 27,606	\$ -	\$ 651,888

CITY OF HILLSBORO, TEXAS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Special Revenue Funds		
	Hotel/Motel Tax	Search and Rescue Equipment Grant	Main Street
REVENUES			
Taxes	\$ 379,311	\$ -	\$ -
Intergovernmental	-	227,908	-
Interest	2,322	-	-
Rentals	25,027	-	-
Contributions	-	-	-
Other	157	-	-
Total revenues	406,817	227,908	-
EXPENDITURES			
Current:			
Personnel	2,379	-	-
Services	182,874	-	53
Supplies	1,340	-	-
Maintenance	4,458	-	-
Minor equipment	-	59,328	-
Capital outlay	169,097	168,580	-
Debt service:			
Principal	15,000	-	-
Interest	13,590	-	-
Total expenditures	388,738	227,908	53
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	18,079	-	(53)
OTHER FINANCING SOURCES(USES)			
Operating transfers in	-	-	-
Operating transfers out	(286,388)	-	-
NET CHANGE IN FUND BALANCES	(268,309)	-	(53)
FUND BALANCES, BEGINNING	586,126	-	6,791
FUND BALANCES, ENDING	\$ 317,817	\$ -	\$ 6,738

Special Revenue Funds					Capital Projects
Downtown Streetscape Phase II	Industrial Development	Home Grant	Parks and Wildlife Grant	Downtown Streetscape	Entry Monument Project
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4,640	-	7,354	2,763	15,000	-
-	-	-	-	-	-
-	-	-	-	-	14,565
-	-	-	-	-	-
<u>4,640</u>	<u>-</u>	<u>7,354</u>	<u>2,763</u>	<u>15,000</u>	<u>14,565</u>
-	-	-	-	-	-
-	-	12,954	5,526	-	-
-	-	-	-	-	-
-	-	-	-	-	-
4,640	-	-	-	41,824	100,403
-	-	-	-	-	-
-	-	-	-	-	-
<u>4,640</u>	<u>-</u>	<u>12,954</u>	<u>5,526</u>	<u>41,824</u>	<u>100,403</u>
-	-	(5,600)	(2,763)	(26,824)	(85,838)
-	-	5,600	2,763	-	106,388
-	-	-	-	(64,436)	-
-	-	-	-	(91,260)	20,550
-	308	-	-	91,260	-
<u>\$ -</u>	<u>\$ 308</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,550</u>

CITY OF HILLSBORO, TEXAS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

(continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Capital Projects		
	Capital Construction	Highway 77 Infrastructure Project	Total Nonmajor Governmental Funds
REVENUES			
Taxes	\$ -	\$ -	\$ 379,311
Intergovernmental	-	-	257,665
Interest	213	-	2,535
Rentals	-	-	25,027
Contributions	-	-	14,565
Other	-	-	157
Total revenues	213	-	679,260
EXPENDITURES			
Current:			
Personnel	-	-	2,379
Services	-	-	201,407
Supplies	-	-	1,340
Maintenance	-	-	4,458
Minor equipment	-	-	59,328
Capital outlay	-	530,527	1,015,071
Debt service:			
Principal	-	-	15,000
Interest	-	-	13,590
Total expenditures	-	530,527	1,312,573
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	213	(530,527)	(633,313)
OTHER FINANCING SOURCES(USES)			
Operating transfers in	-	521,457	636,208
Operating transfers out	-	-	(350,824)
NET CHANGE IN FUND BALANCES	213	(9,070)	(347,929)
FUND BALANCES, BEGINNING	27,393	9,070	720,948
FUND BALANCES, ENDING	\$ 27,606	\$ -	\$ 373,019

COMPLIANCE SECTION



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

The Honorable Mayor and City Council
City of Hillsboro, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hillsboro, Texas as of and for the year ended September 30, 2009, which collectively comprise the City of Hillsboro, Texas basic financial statements and have issued our report thereon dated June 11, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hillsboro, Texas internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Hillsboro, Texas ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Hillsboro, Texas internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

Pattillo, Brown & Hill, L.L.P.

June 11, 2010