

City of Hillsboro

Annual Financial Report

**For the Year Ended
September 30, 2014**



CITY OF HILLSBORO, TEXAS

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SEPTEMBER 30, 2014

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CITY OF HILLSBORO, TEXAS

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PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the City of Hillsboro, Texas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures

that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hillsboro, Texas, as of September 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2014 the City adopted new accounting guidance, GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the analysis of funding progress and budgetary comparison information on pages 4–10 and 42–51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hillsboro, Texas' basic financial statements. The combining and individual nonmajor fund financial statements 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2015, on our consideration of the City of Hillsboro, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Hillsboro, Texas' internal control over financial reporting and compliance.

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

Hillsboro, Texas
April 13, 2015

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, 2014. 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 and deferred outflows of resources of the City exceed its liabilities as of September 30, 2014, by \$25,329,397 (net position). Of this amount, \$4,140,233 (unrestricted net position) 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 position increased by \$955,277.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,500,491. Approximately 10.25% of this total amount, \$768,581, is unassigned fund balance available for use within the City's fund designation and fiscal policies.
- As of September 30, 2014, unassigned fund balance for the General Fund was \$768,581 or 9.04 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 11 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 position presents information on all of the City's assets, deferred inflows and outflows of resources and liabilities, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position 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 11 – 12 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 13 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, Hotel/Motel Tax, Debt Service and Capital Projects Funds, which are considered to be major funds. A budgetary comparison statement has been provided for the General Fund, EDC and Hotel/Motel Tax Fund to demonstrate compliance with the annual appropriated budget in the required supplementary information section. 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 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 18 – 21 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 22 – 41 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents combining fund statements that further support the information in the financial statements. The combining fund statements for nonmajor funds are presented immediately following the notes to required supplementary information beginning on page 52 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$25,329,397 as of September 30, 2014.

CITY OF HILLSBORO'S NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Current assets	\$ 8,302,794	\$ 8,549,985	\$ 3,643,225	\$ 4,223,405	\$ 11,946,019	\$ 12,773,390
Capital assets	18,747,986	17,992,124	10,272,978	9,937,175	29,020,964	27,929,299
Total Assets	<u>27,050,780</u>	<u>26,542,109</u>	<u>13,916,203</u>	<u>14,160,580</u>	<u>40,966,983</u>	<u>40,702,689</u>
Total deferred outflows of resources	-	-	29,247	32,903	29,247	32,903
Liabilities	570,386	1,417,558	584,601	934,025	1,154,987	2,351,583
Noncurrent liabilities	11,276,003	10,415,859	3,235,843	3,152,647	14,511,846	13,568,506
Total Liabilities	<u>11,846,389</u>	<u>11,833,417</u>	<u>3,820,444</u>	<u>4,086,672</u>	<u>15,666,833</u>	<u>15,920,089</u>
Net position:						
Net investment in capital assets	7,377,551	6,984,244	7,073,756	6,406,676	14,451,307	13,390,920
Restricted	6,731,910	6,386,288	5,947	-	6,737,857	6,386,288
Unrestricted	<u>1,094,930</u>	<u>1,338,160</u>	<u>3,045,303</u>	<u>3,634,329</u>	<u>4,140,233</u>	<u>4,972,489</u>
Total Net Position	<u>\$ 15,204,391</u>	<u>\$ 14,708,692</u>	<u>\$ 10,125,006</u>	<u>\$ 10,041,005</u>	<u>\$ 25,329,397</u>	<u>\$ 24,749,697</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 position \$4,140,233 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF HILLSBORO'S CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
REVENUES:						
Program revenues:						
Charges for services	\$ 1,334,648	\$ 1,675,906	\$ 5,196,715	\$ 5,326,493	\$ 6,531,363	\$ 7,002,399
Operating grants	39,307	41,409	-	48,966	39,307	90,375
Capital grants and contributions	-	289,624	360,133	-	360,133	289,624
General revenues:						
Property taxes	3,104,244	3,009,808	-	-	3,104,244	3,009,808
Sales taxes	2,831,929	2,801,660	-	-	2,831,929	2,801,660
Franchise taxes	487,250	476,554	-	-	487,250	476,554
Hotel/motel taxes	318,357	324,457	-	-	318,357	324,457
Other taxes	46,724	48,192	-	-	46,724	48,192
Investment earnings	80,017	111,469	794	1,671	80,811	113,140
Miscellaneous	142,123	118,755	72,430	66,477	214,553	185,232
Total Revenues	<u>8,384,599</u>	<u>8,897,834</u>	<u>5,630,072</u>	<u>5,443,607</u>	<u>14,014,671</u>	<u>14,341,441</u>
EXPENSES:						
General government	3,016,880	2,265,856	-	-	3,016,880	2,265,856
Public safety	4,446,236	4,560,488	-	-	4,446,236	4,560,488
Streets	751,213	727,080	-	-	751,213	727,080
Community development	510,534	609,167	-	-	510,534	609,167
Interest on long-term debt	395,756	403,101	-	-	395,756	403,101
Water and sewer	-	-	3,691,834	3,461,892	3,691,834	3,461,892
Sanitation	-	-	800,611	814,425	800,611	814,425
Airport	-	-	387,541	382,155	387,541	382,155
Total Expenses	<u>9,120,619</u>	<u>8,565,692</u>	<u>4,879,986</u>	<u>4,658,472</u>	<u>14,000,605</u>	<u>13,224,164</u>
INCREASES IN NET ASSETS BEFORE TRANSFERS AND OTHER SOURCES (USES)	(736,020)	332,142	750,086	785,135	14,066	1,117,277
SPECIAL ITEM SALE OF CAPITAL ASSETS TRANSFERS	17,500	-	-	1,400,000	17,500	1,400,000
	923,711	-	-	-	923,711	-
	<u>555,000</u>	<u>663,000</u>	<u>(555,000)</u>	<u>(663,000)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	760,191	995,142	195,086	1,522,135	955,277	2,517,277
NET POSITION, BEGINNING	14,708,692	13,713,550	10,041,005	8,518,870	24,749,697	22,232,420
PRIOR PERIOD ADJUSTMENT	(264,492)	-	(111,085)	-	(375,577)	-
NET POSITION, ENDING	<u>\$ 15,204,391</u>	<u>\$ 14,708,692</u>	<u>\$ 10,125,006</u>	<u>\$ 10,041,005</u>	<u>\$ 25,329,397</u>	<u>\$ 24,749,697</u>

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

The government's net position increased by \$955,277 during the current fiscal year which was less than the prior year increase of \$2,517,277. This was mainly due to a decrease in charges for services and investment earnings, as well as an increase in general government and water and sewer expenses. The other significant change was a decrease in income from special items offset by an increase in gains on the sale of capital assets.

Governmental Activities. Governmental activities increased the City's net position by \$760,191, thereby accounting for 79.58 percent of the total growth in the net position of the City. Key elements of this increase are as follows:

- Sale of capital assets increased by \$923,711
- Legal settlement 17,500

Business-type Activities. Business-type activities increased the City's net position by \$195,086, accounting for 20.42 percent of the total growth in the net position of the City. Key elements of this increase are as follows:

- Capital grants and contributions revenue increased by \$360,133
- Water and Sewer expenditures increased by 229,942
- Transfers decreased 108,000

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, unassigned 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 \$7,500,491. Approximately 10.25% of this total amount, \$768,581 constitutes unassigned fund balance. Refer to page 13-16 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, unassigned fund balance of the General Fund was \$768,581, while total fund balance reached \$1,084,567.

The fund balance of the City's General Fund decreased by \$239,241 during the current fiscal year. Key factors in this decrease is the decrease in fines and forfeitures revenues as well as an increase in principal debt service payments, personnel and capital outlay expenditures. This was offset by an increase in operating transfers in as well an increase in capital lease proceeds.

The fund balance of the City's Economic Development Fund increased by \$265,272 during the current fiscal year. This increase was mainly due an increase in other revenue offset by increases in services and maintenance expenditures.

The Hotel/Motel fund balance increased by \$939,839 during the current fiscal year. This increase was mainly due an increase in sale of capital assets as well as a decrease in services expenditures.

The Debt Service Fund has a total fund balance of \$172,559 which was a \$761 increase over the prior year. This was less than the prior year increase mainly due to the decrease property tax revenue.

The Capital Projects Fund has a total fund balance of \$1,436,150. 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 position of the City's Enterprise Funds at the end of the year amounted to \$3,045,303. The increase in net position was \$195,086. 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 2014.

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, 2014, amounts to \$29,020,964 (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 \$570,953
- Street improvements of \$792,933
- Acquired equipment for approximately \$1,502,339

Additional information on the City's capital assets can be found on pages 31-32 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total bonded debt of \$12,750,494. All of which represents bonded debt backed by the full faith and credit of the City.

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 33 – 37 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 2015 fiscal year. The property tax rate for the fiscal year 2015 remained at .818331 per \$100 assessed value. The fee schedule and water rates remained unchanged. A slight increase in sales tax revenue (2%), decrease in interest income and decreases in various franchise revenue were considered. Also, step increases for the year and no increase in health care costs.

During the current fiscal year, unassigned fund balance in the General Fund was \$768,581. 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.

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 Frank Johnson, City Manager, P.O. Box 568, Hillsboro, Texas 76645 or call (254) 582-3271.

**BASIC
FINANCIAL STATEMENTS**

CITY OF HILLSBORO, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 7,125,814	\$ 2,836,800	\$ 9,962,614
Receivables (net of allowances for uncollectibles):			
Taxes	656,171	-	656,171
Accounts	132,363	630,748	763,111
Intergovernmental	-	27,215	27,215
Other	282,625	-	282,625
Inventories	47,613	142,515	190,128
Prepays	7,011	5,947	12,958
Internal balances	51,197	-	51,197
Capital assets:			
Land	803,426	378,391	1,181,817
Buildings and improvements	6,223,603	5,865,461	12,089,064
Machinery and equipment	5,780,074	2,014,499	7,794,573
Infrastructure/water and wastewater distribution	11,931,125	14,407,733	26,338,858
Construction in progress	1,551,390	654,380	2,205,770
Less: accumulated depreciation	(7,541,632)	(13,047,486)	(20,589,118)
Total capital assets	18,747,986	10,272,978	29,020,964
Total assets	27,050,780	13,916,203	40,966,983
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	-	29,247	29,247
Total deferred outflows of resources	-	29,247	29,247
LIABILITIES			
Accounts payable	280,052	206,330	486,382
Accrued liabilities	176,330	28,222	204,552
Accrued interest payable	114,004	19,697	133,701
Internal balances	-	51,197	51,197
Unearned revenue	-	50,000	50,000
Customer deposits	-	229,155	229,155
Noncurrent liabilities:			
Due within one year	879,060	406,104	1,285,164
Due in more than one year	10,396,943	2,829,739	13,226,682
Total liabilities	11,846,389	3,820,444	15,666,833
NET POSITION			
Net investment in capital assets	7,377,551	7,073,756	14,451,307
Restricted for:			
Court security and technology	261,362	-	261,362
Prepays	7,011	5,947	12,958
Inventories	47,613	-	47,613
Debt service	172,559	-	172,559
Other purposes	6,243,365	-	6,243,365
Unrestricted	1,094,930	3,045,303	4,140,233
Total net position	\$ 15,204,391	\$ 10,125,006	\$ 25,329,397

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, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Primary Government:						
Governmental activities:						
General government	\$ 3,016,880	\$ 56,839	\$ 18,382	\$ -	\$(2,941,659)	\$(2,941,659)
Public safety	4,446,236	1,199,701	20,925	-	(3,225,610)	(3,225,610)
Streets	751,213	-	-	-	(751,213)	(751,213)
Community development	510,534	78,108	-	-	(432,426)	(432,426)
Interest on long-term debt	393,756	-	-	-	(393,756)	(393,756)
Total governmental activities	9,120,619	1,334,648	39,307	-	(7,746,664)	(7,746,664)
Business-type activities:						
Water and sewer	3,691,834	3,805,184	-	7,210	-	120,560
Sanitation	800,611	1,054,840	-	-	-	254,229
Airport	387,541	336,691	-	352,923	-	302,073
Total business-type activities	4,879,986	5,196,715	-	360,133	-	676,862
Total	\$ 14,000,605	\$ 6,531,363	\$ 39,307	\$ 360,133	\$(7,746,664)	\$(7,069,802)
General revenues:						
Taxes:						
Property - general purposes					2,112,238	2,112,238
Property - debt service					992,006	992,006
Sales taxes					2,831,929	2,831,929
Franchise taxes					487,250	487,250
Hotel/Motel taxes					318,357	318,357
Other taxes					46,724	46,724
Investment earnings					80,017	80,811
Miscellaneous					142,123	72,430
Legal settlements					17,500	-
Sale of capital assets					923,711	-
Transfers					555,000	(555,000)
Total general revenues					8,506,855	(481,776)
Change in net position					760,191	195,086
Net position, beginning					14,708,692	10,041,005
Prior period adjustment					(264,492)	(111,085)
Net position, ending					15,204,391	\$ 10,125,006

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

CITY OF HILLSBORO, TEXAS

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014**

	<u>General</u>	<u>Economic Development Corporation</u>	<u>Hotel/Motel Tax</u>	<u>Debt Service</u>
ASSETS				
Cash and investments	\$ 769,463	\$ 2,801,371	\$ 1,302,330	\$ 164,320
Receivables (net of allowance for uncollectibles)				
Taxes	531,779	40,321	55,943	28,128
Accounts	414,988	-	-	-
Inventory	47,613	-	-	-
Prepays	7,011	-	-	-
Due from other funds	51,197	3,394	-	-
Total assets	<u>1,822,051</u>	<u>2,845,086</u>	<u>1,358,273</u>	<u>192,448</u>
LIABILITIES				
Accounts payable	234,294	2,849	1,179	-
Accrued liabilities	173,764	2,566	-	-
Due to other funds	3,394	-	-	-
Total liabilities	<u>411,452</u>	<u>5,415</u>	<u>1,179</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	43,407	-	-	19,889
Unavailable revenue - court fines	282,625	-	-	-
Total deferred inflows of resources	<u>326,032</u>	<u>-</u>	<u>-</u>	<u>19,889</u>
FUND BALANCES				
Nonspendable:				
Inventories	47,613	-	-	-
Prepays	7,011	-	-	-
Restricted:				
Court security and technology	261,362	-	-	-
Debt service	-	-	-	172,559
Economic development	-	2,839,671	-	-
Capital projects	-	-	-	-
Industrial development	-	-	-	-
Library operations	-	-	-	-
Public safety	-	-	-	-
Tourism	-	-	1,357,094	-
Unassigned	768,581	-	-	-
Total fund balances	<u>1,084,567</u>	<u>2,839,671</u>	<u>1,357,094</u>	<u>172,559</u>
Total liabilities, deferred inflows of resources and fund balances	\$ <u>1,822,051</u>	\$ <u>2,845,086</u>	\$ <u>1,358,273</u>	\$ <u>192,448</u>

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

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

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

Net position of governmental activities

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

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 1,468,218	\$ 620,112	\$ 7,125,814
-	-	656,171
-	-	414,988
-	-	47,613
-	-	7,011
-	-	54,591
<u>1,468,218</u>	<u>620,112</u>	<u>8,306,188</u>
32,068	9,662	280,052
-	-	176,330
-	-	3,394
<u>32,068</u>	<u>9,662</u>	<u>459,776</u>
-	-	63,296
-	-	282,625
-	-	<u>345,921</u>
-	-	47,613
-	-	7,011
-	-	261,362
-	-	172,559
-	-	2,839,671
1,436,150	-	1,436,150
-	21	21
-	7,091	7,091
-	603,338	603,338
-	-	1,357,094
-	-	768,581
<u>1,436,150</u>	<u>610,450</u>	<u>7,500,491</u>
\$ <u>1,468,218</u>	\$ <u>620,112</u>	
		18,747,986
		326,349
		(11,370,435)
		<u>\$ 15,204,391</u>

CITY OF HILLSBORO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	<u>General</u>	<u>Economic Development Corporation</u>	<u>Hotel/Motel Tax</u>	<u>Debt Service</u>
REVENUES				
Taxes:				
Ad valorem	\$ 2,113,993	\$ -	\$ -	\$ 992,006
Sales	2,595,935	235,994	-	-
Franchise	487,250	-	-	-
Hotel/motel	-	-	318,357	-
Other	46,724	-	-	-
Services to others	5,075	-	-	-
Licenses and permits	72,247	-	-	-
Fines and forfeitures	651,860	-	-	-
Intergovernmental	39,307	-	-	-
Interest and penalties	45,104	11,871	45	18,589
Rentals	7,590	-	5,861	-
Charges for services	333,689	-	-	-
Cemetery lot sales and fees	25,825	-	-	-
Recreation income	5,910	-	-	-
Contributions	104,940	-	-	-
Other	23,531	118,120	472	-
Total revenues	<u>6,558,980</u>	<u>365,985</u>	<u>324,735</u>	<u>1,010,595</u>
EXPENDITURES				
Current:				
Personnel	5,284,801	23,385	-	-
Supplies	463,336	182	846	-
Services	993,584	30,737	134,598	6,250
Maintenance	257,754	32,464	2,329	-
Minor equipment	75,676	1,945	2,503	-
Capital outlay	1,186,531	-	-	-
Debt service:				
Principal	218,172	-	20,000	635,000
Interest	18,166	-	9,734	368,584
Total expenditures	<u>8,498,020</u>	<u>88,713</u>	<u>170,010</u>	<u>1,009,834</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,939,040)</u>	<u>277,272</u>	<u>154,725</u>	<u>761</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	705,597	-	-	-
Sale of capital assets	-	-	923,711	-
Capital leases	994,202	-	-	-
Legal settlements	-	-	-	-
Operating transfers out	-	(12,000)	(138,597)	-
Total other financing sources (uses)	<u>1,699,799</u>	<u>(12,000)</u>	<u>785,114</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(239,241)</u>	<u>265,272</u>	<u>939,839</u>	<u>761</u>
FUND BALANCES, BEGINNING	<u>1,323,808</u>	<u>2,574,399</u>	<u>417,255</u>	<u>171,798</u>
FUND BALANCES, ENDING	<u>\$ 1,084,567</u>	<u>\$ 2,839,671</u>	<u>\$ 1,357,094</u>	<u>\$ 172,559</u>

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

<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 3,105,999
-	-	2,831,929
-	-	487,250
-	-	318,357
-	-	46,724
-	-	5,075
-	-	72,247
-	106,887	758,747
-	-	39,307
649	3,759	80,017
-	-	13,451
-	-	333,689
-	-	25,825
-	-	5,910
-	5,109	110,049
-	-	142,123
<u>649</u>	<u>115,755</u>	<u>8,376,699</u>
118,714	34,869	5,461,769
-	2,261	466,625
-	5,274	1,170,443
-	-	292,547
-	16,964	97,088
674,219	125,525	1,986,275
-	37,114	910,286
-	5,802	402,286
<u>792,933</u>	<u>227,809</u>	<u>10,787,319</u>
(792,284)	(112,054)	(2,410,620)
-	-	705,597
-	-	923,711
-	-	994,202
17,500	-	17,500
-	-	(150,597)
<u>17,500</u>	<u>-</u>	<u>2,490,413</u>
(774,784)	(112,054)	79,793
<u>2,210,934</u>	<u>722,504</u>	<u>7,420,698</u>
\$ <u>1,436,150</u>	\$ <u>610,450</u>	\$ <u>7,500,491</u>

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, 2014

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)	\$ 79,793
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This amount by which capital outlays exceeded depreciation expense in the current period.	755,862
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(19,572)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(63,792)
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>7,900</u>
Change in net position of governmental activities (page 11)	<u>\$ 760,191</u>

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

CITY OF HILLSBORO, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2014

	Business-type Activities-Enterprise Fund			
	Water and Wastewater	Sanitation	Airport	Totals
ASSETS				
Cash and investments	\$ 2,717,788	\$ 118,912	\$ 100	\$ 2,836,800
Accounts receivable	561,842	49,986	18,920	630,748
Intergovernmental receivable	16,714	-	10,501	27,215
Inventories	95,916	-	46,599	142,515
Prepays	-	-	5,947	5,947
Fixed assets	8,907,428	97,906	1,267,644	10,272,978
Total assets	<u>12,299,688</u>	<u>266,804</u>	<u>1,349,711</u>	<u>13,916,203</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	29,247	-	-	29,247
Total deferred outflows of resources	<u>29,247</u>	<u>-</u>	<u>-</u>	<u>29,247</u>
LIABILITIES				
Current liabilities:				
Accounts payable	136,395	66,067	3,868	206,330
Customer deposits	229,155	-	-	229,155
Accrued liabilities	27,214	-	1,008	28,222
Accrued interest payable	19,697	-	-	19,697
Due to other funds	-	-	51,197	51,197
Unearned revenue	-	-	50,000	50,000
Capital lease payable	16,104	-	-	16,104
Bonds payable	390,000	-	-	390,000
Total current liabilities	<u>818,565</u>	<u>66,067</u>	<u>106,073</u>	<u>990,705</u>
Noncurrent liabilities:				
Capital lease payable	66,396	-	-	66,396
Bonds payable	2,726,722	-	-	2,726,722
Vacation payable	36,621	-	-	36,621
Total long-term liabilities	<u>2,829,739</u>	<u>-</u>	<u>-</u>	<u>2,829,739</u>
Total liabilities	<u>3,648,304</u>	<u>66,067</u>	<u>106,073</u>	<u>3,820,444</u>
NET POSITION				
Net investment in capital assets	5,708,206	97,906	1,267,644	7,073,756
Restricted for prepaids	-	-	5,947	5,947
Unrestricted	2,972,425	102,831	(29,953)	3,045,303
Total net position	<u>\$ 8,680,631</u>	<u>\$ 200,737</u>	<u>\$ 1,243,638</u>	<u>\$ 10,125,006</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, 2014

	Business-type Activities-Enterprise Fund			
	Water and Wastewater	Sanitation	Airport	Totals
OPERATING REVENUES				
Water and sewer sales	\$ 3,712,234	\$ -	\$ -	\$ 3,712,234
Other service charges	92,950	1,054,840	336,691	1,484,481
Miscellaneous income	72,430	-	-	72,430
Total operating revenues	<u>3,877,614</u>	<u>1,054,840</u>	<u>336,691</u>	<u>5,269,145</u>
OPERATING EXPENSES				
Water purchase	1,556,520	-	-	1,556,520
Personnel	866,401	-	42,324	908,725
Supplies	113,477	-	272,546	386,023
Services	321,902	792,537	40,641	1,155,080
Maintenance	312,357	6,324	10,314	328,995
Minor equipment	10,201	-	2,162	12,363
Depreciation and amortization	456,086	1,750	19,554	477,390
Total operating expenses	<u>3,636,944</u>	<u>800,611</u>	<u>387,541</u>	<u>4,825,096</u>
OPERATING INCOME (LOSS)	<u>240,670</u>	<u>254,229</u>	<u>(50,850)</u>	<u>444,049</u>
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental	7,210	-	352,923	360,133
Interest income	794	-	-	794
Interest expense	(54,890)	-	-	(54,890)
Total nonoperating revenues (expenses)	<u>(46,886)</u>	<u>-</u>	<u>352,923</u>	<u>306,037</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	193,784	254,229	302,073	750,086
OPERATING TRANSFERS FROM (TO) OTHER FUNDS	<u>(250,000)</u>	<u>(305,000)</u>	<u>-</u>	<u>(555,000)</u>
CHANGE IN NET POSITION	<u>(56,216)</u>	<u>(50,771)</u>	<u>302,073</u>	<u>195,086</u>
NET POSITION-BEGINNING	8,847,932	251,508	941,565	10,041,005
PRIOR PERIOD ADJUSTMENT	<u>(111,085)</u>	<u>-</u>	<u>-</u>	<u>(111,085)</u>
NET POSITION-ENDING	<u>\$ 8,680,631</u>	<u>\$ 200,737</u>	<u>\$ 1,243,638</u>	<u>\$ 10,125,006</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, 2014

	Business-type Activities - Enterprise Fund			
	Water and Wastewater	Sanitation	Airport	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 3,883,492	\$ 1,054,295	\$ 345,965	\$ 5,283,752
Cash payments to employees for services	(859,933)	-	(47,565)	(907,498)
Cash payments to suppliers for goods and services	(2,291,431)	(795,849)	(351,240)	(3,438,520)
Cash provided (used) by operating activities	<u>732,128</u>	<u>258,446</u>	<u>(52,840)</u>	<u>937,734</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash paid (to)/from other funds	(250,000)	(305,000)	51,197	(503,803)
Cash used for noncapital financing activities	<u>(250,000)</u>	<u>(305,000)</u>	<u>51,197</u>	<u>(503,803)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal repayments on debt	(413,777)	-	-	(413,777)
Interest and fiscal charges on debt	(56,516)	-	-	(56,516)
Acquisition and construction of capital assets	(310,013)	-	(68,668)	(378,681)
Cash provided (used) by capital and related financing activities	<u>(780,306)</u>	<u>-</u>	<u>(68,668)</u>	<u>(848,974)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	794	-	-	794
Cash provided by investing activities	<u>794</u>	<u>-</u>	<u>-</u>	<u>794</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(297,384)	(46,554)	(70,311)	(414,249)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>3,015,172</u>	<u>165,466</u>	<u>70,411</u>	<u>3,251,049</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 2,717,788</u>	<u>\$ 118,912</u>	<u>\$ 100</u>	<u>\$ 2,836,800</u>

(continued)

CITY OF HILLSBORO, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	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)	\$ 240,670	\$ 254,229	\$(50,850)	\$ 444,049
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	456,086	1,750	19,554	477,390
Change in assets and liabilities:				
Decrease (increase) in accounts receivable	(9,019)	(545)	9,274	(290)
Increase (decrease) in accounts payable	6,204	3,012	(29,103)	(19,887)
Increase (decrease) in accrued liabilities	5,592	-	(935)	4,657
Increase (decrease) in vacation payable	876	-	(4,306)	(3,430)
Increase (decrease) in customer deposits	1,235	-	-	1,235
Decrease (increase) in prepaids	-	-	(5,947)	(5,947)
Decrease (increase) in inventory	30,484	-	9,473	39,957
Total adjustments	<u>491,458</u>	<u>4,217</u>	<u>(1,990)</u>	<u>493,685</u>
Net cash provided by operating activities	\$ <u>732,128</u>	\$ <u>258,446</u>	\$(<u>52,840</u>)	\$ <u>937,734</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, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 conform to accounting principles generally accepted in the United States of America for local governments. Generally accepted accounting principles (GAAP) for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant accounting and reporting policies:

Reporting Entity

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations and are appropriately presented as funds of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the Town.

Based on these criteria, the financial information of the Economic Development Corporation has been blended within the financial statements.

Government-wide Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. 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-type activities*, which rely to a significant extent on fees and charges for support.

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.

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

The ***Hotel/Motel Tax Fund*** – accounts for receipt and allocation of the City's hotel/motel occupancy tax. Use of this tax is limited by law for the promotion of tourism within the City.

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.

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 Industrial Development Fund, Library Special Fund, Police Local Forfeiture, Police Federal Forfeiture and the Police Special Fund.

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.

Assets, Liabilities and Net Position 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 collectability is improbable. For the year ended September 30, 2014, 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 2014 were levied October 1, 2013, at the rate of \$.818331 per \$100 assessed valuation on a total taxable assessed valuation of \$342,435,388.

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 \$5,000 (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:

Assets	Years
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, 2014.

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, 2014, 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 position. 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.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

Fund Equity and Net Position

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by board resolution of the City council, the City's highest level of decision making authority. These amounts cannot be used for any other purpose unless the City council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City council.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

In the government-wide financial statements, net position represent the difference between assets, deferred outflows of resources and liabilities. Net investment in capital assets 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 position is 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.

The government-wide and fund level financial statements report restricted fund balances for amounts not available for appropriation or legally restricted for specific uses. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the City's policy to use restricted resources first, then unrestricted resources as needed. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category. It is deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items, which arises only under a modified accrual basis of

accounting that qualifies for reporting in this category. Accordingly, the item, unavailable, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and court fines. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Prior Period Adjustment – Change in Accounting Principles

As the result of implementing GASB Statement No. 65, the City has decreased beginning net position as of October 1, 2013 by \$264,492 for the governmental activities and by \$111,085 for business-type activities. These decreases result from no longer deferring and amortizing bond issuance costs.

Further, the City has reclassified its deferred loss on bond refunding, previously reported as a component of long-term debt, to deferred outflows of resources in the government-wide statements in accordance with GASB Statement No. 65. The effect of this change increases the long-term liabilities of the business-type activities by \$32,903, and corresponds to an increase in deferred outflows of resources as of October 1, 2013.

II. 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, 2014, the City's deposit balance (cash and certificates of deposit) was \$4,779,894. The City's deposits at September 30, 2014 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

- 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.

At September 30, 2014, the primary government's investments consisted of:

	Fair Value
TexStar	\$ 1,481,497
Texas Term	3,149,675
State Treasurer's Investment Pool (TexPool)	556,162
	<u>\$ 5,187,334</u>

At September 30, 2014 all of the above investments are not categorized by risk. TexStar, TexPool, Texas Term, 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:

	Governmental Funds				Enterprise Funds			Totals
	General	Debt Service	EDC	Hotel/Motel	Water and Wastewater	Sanitation	Airport	
Receivables:								
Accounts:								
Customers	\$ -	\$ -	\$ -	\$ -	\$ 561,842	\$ 49,986	\$ 18,920	\$ 630,748
Taxes:								
Property	241,616	112,514	-	-	-	-	-	354,130
Sales tax	443,536	-	40,321	55,943	-	-	-	539,800
Other	27,839	-	-	-	-	-	-	27,839
Intergovernmental	-	-	-	-	16,714	-	10,501	27,215
Other	<u>2,674,549</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,674,549</u>
Gross receivables	3,387,540	112,514	40,321	55,943	578,556	49,986	29,421	4,254,281
Less: allowance for uncollectibles	<u>(2,440,773)</u>	<u>(84,386)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,525,159)</u>
Net total receivables	<u>\$ 946,767</u>	<u>\$ 28,128</u>	<u>\$ 40,321</u>	<u>\$ 55,943</u>	<u>\$ 578,556</u>	<u>\$ 49,986</u>	<u>\$ 29,421</u>	<u>\$ 1,729,122</u>
Deferred inflows of resources								
Property taxes	43,407	19,889	-	-	-	-	-	63,296
Court fines	<u>282,625</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>282,625</u>
Total deferred inflows	<u>\$ 326,032</u>	<u>\$ 19,889</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 345,921</u>

Capital Assets

Capital asset activity for the year ended September 30, 2014, was as follows:

	Beginning Balance	Increase	Decrease	Transfers/ Completions	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 803,426	\$ -	\$ -	\$ -	\$ 803,426
Construction in progress	764,910	792,933	-	(6,453)	1,551,390
Total assets not being depreciated	<u>1,568,336</u>	<u>792,933</u>	<u>-</u>	<u>(6,453)</u>	<u>2,354,816</u>
Capital assets, being depreciated:					
Buildings and improvements	6,893,495	25,285	695,177	-	6,223,603
Machinery and equipment	4,516,319	1,263,755	-	-	5,780,074
Infrastructure	11,924,672	-	-	6,453	11,931,125
Total capital assets being depreciated	<u>23,334,486</u>	<u>1,289,040</u>	<u>695,177</u>	<u>6,453</u>	<u>23,934,802</u>
Accumulated depreciation:					
Buildings and improvements	3,048,539	209,323	222,457	-	3,035,405
Machinery and equipment	2,921,536	405,574	-	-	3,327,110
Infrastructure	940,623	238,494	-	-	1,179,117
Total accumulated depreciation	<u>6,910,698</u>	<u>853,391</u>	<u>222,457</u>	<u>-</u>	<u>7,541,632</u>
Total capital assets being depreciated, net	<u>16,423,788</u>	<u>435,649</u>	<u>472,720</u>	<u>6,453</u>	<u>16,393,170</u>
Governmental activities capital assets, net	<u>\$ 17,992,124</u>	<u>\$ 1,228,582</u>	<u>\$ 472,720</u>	<u>\$ -</u>	<u>\$ 18,747,986</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 378,391	\$ -	\$ -	\$ -	\$ 378,391
Construction in progress - Water/Sewer	78,388	153,929	-	-	232,317
Construction in progress - Airport	5,039	417,024	-	-	422,063
Total assets not being depreciated	<u>461,818</u>	<u>570,953</u>	<u>-</u>	<u>-</u>	<u>1,032,771</u>
Capital assets, being depreciated:					
Buildings and improvements	5,865,461	-	-	-	5,865,461
Machinery and equipment	1,775,915	238,584	-	-	2,014,499
Infrastructure	14,407,733	-	-	-	14,407,733
Total capital assets being depreciated	<u>22,049,109</u>	<u>238,584</u>	<u>-</u>	<u>-</u>	<u>22,287,693</u>
Accumulated depreciation:					
Buildings and improvements	1,239,762	111,933	-	-	1,351,695
Machinery and equipment	1,458,146	88,119	-	-	1,546,265
Infrastructure	9,875,844	273,682	-	-	10,149,526
Total accumulated depreciation	<u>12,573,752</u>	<u>473,734</u>	<u>-</u>	<u>-</u>	<u>13,047,486</u>
Total capital assets being depreciated, net	<u>9,475,357</u>	<u>(235,150)</u>	<u>-</u>	<u>-</u>	<u>9,240,207</u>
Business-type activities capital assets, net	<u>\$ 9,937,175</u>	<u>\$ 335,803</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,272,978</u>

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

Governmental activities		
General government		\$ 185,006
Public safety		332,804
Public works		305,700
Community development		<u>29,881</u>
Total depreciation expense - governmental activities		<u>\$ 853,391</u>
Business-type activities:		
Water and wastewater		\$ 452,430
Sanitation		1,750
Airport		<u>19,554</u>
Total depreciation expense - business-type activities		<u>\$ 473,734</u>

Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2014, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
EDC	General	\$ 3,394
General	Airport	<u>51,197</u>
Total		<u>\$ 54,591</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, 2014, are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General	Hotel/Motel	\$ 138,597
General	EDC	12,000
General	Sanitation	305,000
General	Water and wastewater	<u>250,000</u>
Total		<u>\$ 705,597</u>

Long-term Debt

Long-term liability activity from the year ended September 30, 2014, was as follows:

	Debt Outstanding 09/30/13	Additions of New Debt	Retirements and Repayments	Adjustments	Debt Outstanding 09/30/14
<u>Governmental:</u>					
Certificates of obligation	\$ 215,000	\$ -	\$ 20,000	\$ -	\$ 195,000
General obligation bonds	9,855,000	-	635,000	-	9,220,000
Premium	235,688	-	16,916	-	218,772
Capital Leases	335,963	994,202	255,286	(3,208)	1,071,671
Net OPEB obligation	280,655	3,807	-	-	284,462
Vacation payable	280,719	5,379	-	-	286,098
	<u>11,203,025</u>	<u>1,003,388</u>	<u>927,202</u>	<u>(3,208)</u>	<u>11,276,003</u>
<u>Enterprise Fund</u>					
General obligation bonds	3,320,000	-	385,000	-	2,935,000
Premium	210,499	-	28,777	-	181,722
Capital Leases	-	82,500	-	-	82,500
Vacation payable	40,051	-	3,430	-	36,621
	<u>3,570,550</u>	<u>82,500</u>	<u>417,207</u>	<u>-</u>	<u>3,235,843</u>
Total	<u>\$ 14,773,575</u>	<u>\$ 1,085,888</u>	<u>\$ 1,344,409</u>	<u>\$ (3,208)</u>	<u>\$ 14,511,846</u>

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

Debt outstanding as of September 30, 2014, consisted of the following:

	Purpose of Issue	Amount Issued	Amount Outstanding	Interest Rate
<u>Governmental</u>				
Certificates of obligation:				
2007 Series	City Hall renovations	\$ 315,000	\$ 195,000	4.53%
		<u>315,000</u>	<u>195,000</u>	
General obligation bonds:				
2006 Series	Street Improvements	4,000,000	2,890,000	3.75%-5.125%
2008 Series	Various improvements	2,000,000	1,625,000	4.625%-7.00%
2008 Series Premium		52,854	36,996	
2010 Series	Street Improvements	2,000,000	1,845,000	2.00%-4.05%
2010 Series Premium		43,967	35,174	
2010 Series	Refunding	1,525,000	295,000	2.00%-4.05%
2010 Series Premium		33,631	20,178	
2012 Series	Street Improvements	1,870,000	1,800,000	2.00%-3.00%
2012 Series Premium		87,406	78,666	
2012 Series	Refunding	895,000	765,000	2.00%-3.00%
2012 Series Premium		56,441	47,758	
		<u>12,564,299</u>	<u>9,438,772</u>	
Total Governmental Long-term		<u>12,879,299</u>	<u>9,633,772</u>	
<u>Enterprise Fund</u>				
General obligation bonds:				
2010 Series	Refunding	720,000	65,000	2.00%-4.25%
2010 Series Premium		32,895	6,579	
2012 Series	Refunding	3,520,000	2,870,000	2.00%-3.00%
2012 Series Premium		221,981	175,143	
		<u>4,494,876</u>	<u>3,116,722</u>	
Total Enterprise Fund		<u>4,494,876</u>	<u>3,116,722</u>	
		<u>\$ 17,374,175</u>	<u>\$ 12,750,494</u>	

Debt service requirements are as follows:

	<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
Certificates of Obligation:	2015	\$ 20,000	\$ 8,833	\$ 28,833
	2016	20,000	7,928	27,928
	2017	25,000	7,021	32,021
	2018	25,000	5,889	30,889
	2019	25,000	4,757	29,757
	2020-2024	<u>80,000</u>	<u>7,475</u>	<u>87,475</u>
		<u>195,000</u>	<u>41,903</u>	<u>236,903</u>
General Obligation Bonds:	2015	655,000	348,284	1,003,284
	2016	550,000	326,690	876,690
	2017	575,000	307,778	882,778
	2018	595,000	286,740	881,740
	2019	620,000	263,170	883,170
	2020-2024	3,280,000	958,880	4,238,880
	2025-2029	2,420,000	332,994	2,752,994
	2030-2034	<u>525,000</u>	<u>29,175</u>	<u>554,175</u>
		<u>9,220,000</u>	<u>2,853,711</u>	<u>12,073,711</u>
Total Governmental Debt:	2015	675,000	357,117	1,032,117
	2016	570,000	334,618	904,618
	2017	600,000	314,799	914,799
	2018	620,000	292,629	912,629
	2019	645,000	267,927	912,927
	2020-2024	3,360,000	966,355	4,326,355
	2025-2029	2,420,000	332,994	2,752,994
	2030-2034	<u>525,000</u>	<u>29,175</u>	<u>554,175</u>
	Total	<u>\$ 9,415,000</u>	<u>\$ 2,895,614</u>	<u>\$ 12,310,614</u>

Enterprise Fund debt requirements are as follows:

Year Ended September 30	Principal	Interest	Total Requirements
2015	\$ 390,000	\$ 77,594	\$ 467,594
2016	335,000	69,550	404,550
2017	345,000	62,850	407,850
2018	350,000	55,950	405,950
2019	365,000	45,450	410,450
2020-2024	<u>1,150,000</u>	<u>69,750</u>	<u>1,219,750</u>
Total	<u>\$ 2,935,000</u>	<u>\$ 381,144</u>	<u>\$ 3,316,144</u>

Advance Refunding

In 2012, the City issued \$6,285,000 of general obligation bonds, \$4,415,000 of which were to refund previous bond issuances, to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$4,525,000 of general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statements of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$47,052. This amount is being presented with the new debt and amortized over the life of the new debt, which is shorter than the refunded debt. This advanced refunding was undertaken to reduce total debt service payments over the next 13 years by \$664,834 and resulted in an economic gain of \$585,375.

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	185,635
EMS Vehicle/Equipment	250,000
HVAC system	30,000
Paver	93,890
Backhoe	119,252
Fire Laddertruck	848,215
Fire Vehicle	26,735
Total	<u>\$ 1,704,727</u>
Water and Wastewater activities	
Wheel Loader	\$ 113,700
Backhoe	82,500
Total	<u>\$ 196,200</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2014, were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>
2015	\$ 241,954
2016	241,978
2017	124,434
2018	124,434
2019	98,698
2020-2024	<u>394,793</u>
Total minimum lease payments	1,226,291
Less: amount representing interest	<u>154,620</u>
Present value of minimum lease payments	<u>\$ 1,071,671</u>

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>
2015	\$ 18,048
2016	18,048
2017	18,048
2018	18,048
2019	<u>18,047</u>
Total minimum lease payments	90,239
Less: amount representing interest	<u>7,739</u>
Present value of minimum lease payments	<u>\$ 82,500</u>

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.

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 \$1,556,520 for water purchased from the District during the fiscal year ending September 30, 2014.

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 from 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 2013	Plan Year 2014
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

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). 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 for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. 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 (i.e., the December 31, 2013 valuation will determine the contribution rate beginning January 1, 2015).

The annual pension cost and net pension obligation/(asset) are as follows:

Actuarial Valuation Date	<u>09/30/14</u>			
Annual required contribution (ARC)			\$	519,230
Interest on Net Pension Obligation				-
Adjustment to the ARC				-
Annual Pension Cost (APC)				<u>519,230</u>
Contributions made			(<u>515,423)</u>
Increase (decrease) in net pension obligation				3,807
Net pension obligation/(Asset), beginning of year				<u>280,655</u>
Net pension obligation/(Asset), end of year			\$	<u><u>284,462</u></u>
<u>Accounting Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contribution Made</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
09/30/12	\$ 497,902	\$ 461,220	93%	\$ 263,823
09/30/13	512,183	495,351	97%	280,655
09/30/14	519,230	515,423	99%	284,462

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation Date	12/31/11	12/31/12	12/31/13
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 Equivalent Single Amortization Period	26.2 years; closed period	25.2 years; closed period	20.0 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.0%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at Cost-of-Living Adjustments	3.00%	3.00%	3.00%
	2.1%	2.1%	2.1%

Funded Status and Funding Progress –

In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of the Annuity Purchase Rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2013, the most recent actuarial valuations, is presented 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
12/31/2013	12,162,167	15,430,596	78.8%	3,268,429	4,171,379	78.4%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, present 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 was completed during fiscal year 2011.

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.

**REQUIRED
SUPPLEMENTARY INFORMATION**

CITY OF HILLSBORO, TEXAS

GENERAL FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Ad valorem	\$ 2,090,000	\$ 2,090,000	\$ 2,113,993	\$ 23,993
Sales, net of rebates	2,410,000	2,410,000	2,595,935	185,935
Franchise	495,000	495,000	487,250	(7,750)
Other	39,000	39,000	46,724	7,724
Services to others	6,000	6,000	5,075	(925)
Licenses and permits	61,450	61,450	72,247	10,797
Fines and forfeitures	1,014,700	1,014,700	651,860	(362,840)
Intergovernmental	53,650	53,650	39,307	(14,343)
Interest and penalties	51,500	51,500	45,104	(6,396)
Rentals	85,000	85,000	7,590	(77,410)
Charges for services	262,000	262,000	333,689	71,689
Cemetery lot sales and fees	27,300	27,300	25,825	(1,475)
Recreation income	54,500	54,500	5,910	(48,590)
Contributions	91,560	91,560	104,940	13,380
Other	51,400	51,400	23,531	(27,869)
Total revenues	6,793,060	6,793,060	6,558,980	(234,080)
EXPENDITURES				
Legislative:				
Personnel	300	300	301	(1)
Supplies	1,300	1,300	699	601
Services	22,950	22,950	20,486	2,464
	24,550	24,550	21,486	3,064
Administration:				
Personnel	273,805	273,805	321,917	(48,112)
Supplies	6,650	6,650	10,333	(3,683)
Services	155,150	155,150	164,440	(9,290)
Maintenance	5,000	5,000	5,817	(817)
Minor equipment	2,000	2,000	14,300	(12,300)
	442,605	442,605	516,807	(74,202)

(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, 2014

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES (Continued)				
Streets:				
Personnel	238,480	238,480	250,939	(12,459)
Supplies	53,850	53,850	35,317	18,533
Services	122,415	122,415	137,202	(14,787)
Maintenance	30,100	30,100	22,056	8,044
Capital outlay	130,000	130,000	119,252	10,748
Debt service	65,800	65,800	63,036	2,764
	640,645	640,645	627,802	12,843
 Police:				
Personnel	2,053,780	2,053,780	1,988,473	65,307
Supplies	161,950	161,950	180,485	(18,535)
Services	144,350	144,350	181,308	(36,958)
Maintenance	52,000	52,000	48,945	3,055
Minor equipment	7,000	7,000	11,561	(4,561)
Capital outlay	60,000	60,000	90,890	(30,890)
	2,479,080	2,479,080	2,501,662	(22,582)
 Library:				
Personnel	285,225	285,225	280,751	4,474
Supplies	9,850	9,850	11,546	(1,696)
Services	42,145	42,145	44,350	(2,205)
Maintenance	20,200	20,200	12,530	7,670
Minor equipment	1,000	1,000	17,594	(16,594)
Capital outlay	32,500	32,500	23,016	9,484
Debt service	10,745	10,745	10,739	6
	401,665	401,665	400,526	1,139
 Fire:				
Personnel	1,173,970	1,173,970	1,269,376	(95,406)
Supplies	105,300	105,300	94,446	10,854
Services	102,700	102,700	109,231	(6,531)
Maintenance	25,500	25,500	25,828	(328)
Minor equipment	3,000	3,000	4,271	(1,271)
Capital outlay	877,100	877,100	876,204	896
Debt service	164,430	164,430	162,563	1,867
	2,452,000	2,452,000	2,541,919	(89,919)

(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, 2014**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES (Continued)				
Municipal court:				
Personnel	146,745	146,745	158,186	(11,441)
Supplies	5,800	5,800	2,947	2,853
Services	52,005	52,005	51,751	254
Maintenance	2,000	2,000	859	1,141
	206,550	206,550	213,743	(7,193)
 Parks:				
Personnel	287,920	287,920	295,613	(7,693)
Supplies	28,650	28,650	36,791	(8,141)
Services	32,465	32,465	46,564	(14,099)
Maintenance	20,600	20,600	34,385	(13,785)
Minor equipment	3,000	3,000	3,399	(399)
Capital outlay	62,500	62,500	62,694	(194)
	435,135	435,135	479,446	(44,311)
 Recreation:				
Personnel	58,500	58,500	32,447	26,053
Supplies	4,850	4,850	1,903	2,947
Services	2,650	2,650	3,058	(408)
Maintenance	19,000	19,000	1,409	17,591
Minor equipment	1,500	1,500	7,063	(5,563)
Capital outlay	-	-	9,385	(9,385)
	86,500	86,500	55,265	31,235
 Maintenance shop:				
Personnel	121,665	121,665	121,828	(163)
Supplies	74,725	74,725	65,251	9,474
Services	11,465	11,465	10,810	655
Maintenance	61,000	61,000	77,807	(16,807)
Minor equipment	5,000	5,000	4,014	986
Capital outlay	10,000	10,000	-	10,000
	283,855	283,855	279,710	4,145

(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, 2014

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES (Continued)				
Cemetery:				
Personnel	16,705	16,705	15,469	1,236
Supplies	2,950	2,950	615	2,335
Services	76,135	76,135	62,808	13,327
Maintenance	1,850	1,850	884	966
	<u>97,640</u>	<u>97,640</u>	<u>79,776</u>	<u>17,864</u>
Community development:				
Personnel	141,705	141,705	141,911	(206)
Supplies	3,000	3,000	1,979	1,021
Services	92,580	92,580	89,745	2,835
Maintenance	8,500	8,500	9,682	(1,182)
Minor Equipment	1,000	1,000	2,097	(1,097)
Capital outlay	-	-	5,090	(5,090)
	<u>246,785</u>	<u>246,785</u>	<u>250,504</u>	<u>(3,719)</u>
Legal:				
Personnel	31,630	31,630	31,987	(357)
Services	1,250	1,250	1,279	(29)
	<u>32,880</u>	<u>32,880</u>	<u>33,266</u>	<u>(386)</u>
Finance:				
Personnel	206,500	206,500	209,208	(2,708)
Supplies	4,650	4,650	4,308	342
Services	44,930	44,930	38,730	6,200
Maintenance	750	750	-	750
Minor equipment	1,500	1,500	5,576	(4,076)
	<u>258,330</u>	<u>258,330</u>	<u>257,822</u>	<u>508</u>
Information systems:				
Personnel	91,690	91,690	92,093	(403)
Supplies	2,000	2,000	2,517	(517)
Services	4,280	4,280	3,845	435
Maintenance	8,700	8,700	2,826	5,874
Minor equipment	-	-	2,843	(2,843)
Capital outlay	18,000	18,000	-	18,000
	<u>124,670</u>	<u>124,670</u>	<u>104,124</u>	<u>20,546</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, 2014

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES (Continued)				
Animal control:				
Personnel	45,915	45,915	35,234	10,681
Supplies	12,700	12,700	8,910	3,790
Services	2,850	2,850	3,061	(211)
Maintenance	10,000	10,000	9,678	322
Minor equipment	1,000	1,000	877	123
	72,465	72,465	57,760	14,705
Emergency Management:				
Personnel	1,735	1,735	1,274	461
Supplies	8,600	8,600	2,873	5,727
Services	15,750	15,750	10,058	5,692
Maintenance	500	500	-	500
Minor equipment	500	500	151	349
	27,085	27,085	14,356	12,729
Code Enforcement:				
Personnel	36,570	36,570	37,794	(1,224)
Supplies	6,350	6,350	2,416	3,934
Services	24,800	24,800	14,858	9,942
Maintenance	8,000	8,000	5,048	2,952
Minor equipment	-	-	1,930	(1,930)
	75,720	75,720	62,046	13,674
Total expenditures	8,388,160	8,388,160	8,498,020	(109,860)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,595,100)	(1,595,100)	(1,939,040)	(343,940)
OTHER FINANCING SOURCES (USES)				
Proceeds from capital lease	1,007,100.00	1,007,100.00	994,202	(12,898)
Operating transfers in	588,000	588,000	705,597	117,597
Total other financing sources (uses)	1,595,100	1,595,100	1,699,799	104,699

(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, 2014**

CHANGE IN FUND BALANCES	-	-	(239,241)	(239,241)
FUND BALANCES, BEGINNING	<u>1,323,808</u>	<u>1,323,808</u>	<u>1,323,808</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 1,323,808</u>	<u>\$ 1,323,808</u>	<u>\$ 1,084,567</u>	<u>\$ (239,241)</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, 2014

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Sales, net of rebates	209,000	209,000	235,994	26,994
Interest and penalties	7,000	7,000	11,871	4,871
Other	55,625	55,625	118,120	62,495
Total revenues	271,625	271,625	365,985	94,360
EXPENDITURES				
Community development:				
Personnel	17,655	17,655	23,385	(5,730)
Supplies	200	200	182	18
Services	1,541,390	1,541,390	30,737	1,510,653
Maintenance	12,500	12,500	32,464	(19,964)
Minor equipment	-	-	1,945	(1,945)
	1,571,745	1,571,745	88,713	1,483,032
Total expenditures	1,571,745	1,571,745	88,713	1,483,032
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,300,120)	(1,300,120)	277,272	1,577,392
OTHER FINANCING SOURCES (USES)				
Operating transfers (out)	(12,000)	(12,000)	(12,000)	-
Total other financing sources (uses)	(12,000)	(12,000)	(12,000)	-
CHANGE IN FUND BALANCES	(1,312,120)	(1,312,120)	265,272	1,577,392
FUND BALANCES, BEGINNING	2,574,399	2,574,399	2,574,399	-
FUND BALANCES, ENDING	\$ 1,262,279	\$ 1,262,279	\$ 2,839,671	\$ 1,577,392

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

CITY OF HILLSBORO, TEXAS

HOTEL MOTEL FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Hotel/motel	275,000	275,000	318,357	43,357
Interest and penalties	200	200	45	(155)
Rentals	7,000	7,000	5,861	(1,139)
Other	100	100	472	372
Total revenues	282,300	282,300	324,735	42,435
EXPENDITURES				
Community development:				
Supplies	4,600	4,600	846	3,754
Services	219,700	219,700	134,598	85,102
Maintenance	4,300	4,300	2,329	1,971
Minor equipment	2,900	2,900	2,503	397
Debt service:				
Principal	20,000	20,000	20,000	-
Interest	9,800	9,800	9,734	66
	261,300	261,300	170,010	91,290
Total expenditures	261,300	261,300	170,010	91,290
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	21,000	21,000	154,725	133,725
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	923,711	923,711
Operating transfers (out)	(21,000)	(21,000)	(138,597)	(117,597)
Total other financing sources (uses)	(21,000)	(21,000)	785,114	806,114
CHANGE IN FUND BALANCES	-	-	939,839	939,839
FUND BALANCES, BEGINNING	417,255	417,255	417,255	-
FUND BALANCES, ENDING	\$ 417,255	\$ 417,255	\$ 1,357,094	\$ 939,839

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

CITY OF HILLSBORO, TEXAS

**TMRS Analysis of Funding Progress
For the Year Ended September 30, 2014
(Unaudited)**

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
12/31/2010	10,103,860	13,027,440	77.6%	2,923,580	4,069,166	71.8%
12/31/2011	11,116,632	13,603,582	81.7%	2,486,950	4,030,361	61.7%
12/31/2012	12,162,167	15,430,596	78.8%	3,268,429	4,171,379	78.4%

CITY OF HILLSBORO, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION SEPTEMBER 30, 2014 (Unaudited)

BUDGETARY INFORMATION

The City follows these procedures annually in establishing the budgetary data reflected in the budgetary comparison schedules:

1. 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.
2. 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.
3. 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.
4. 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 nonspendable fund balance on the balance sheet. Encumbrances do not lapse at the close of the fiscal year, but are carried forward until liquidated.
5. Expenditures exceeded appropriations in the General Fund in various departments. These excess expenditures were funded by available fund balance. Expenditures exceeded appropriations in the Economic Development Fund in the personnel and minor equipment expenditures functions. These excess expenditures were funded by available fund balance. Expenditures in the Hotel/Motel Fund did not exceed appropriations in any expenditure functions.

COMBINING STATEMENTS

CITY OF HILLSBORO, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2014

	Special Revenue Funds			
	Industrial Development	Library Special	Police Local Forfeiture	Police Federal Forfeiture
ASSETS				
Cash and investments	\$ <u>21</u>	\$ <u>7,091</u>	\$ <u>574,309</u>	\$ <u>34,058</u>
Total assets	\$ <u><u>21</u></u>	\$ <u><u>7,091</u></u>	\$ <u><u>574,309</u></u>	\$ <u><u>34,058</u></u>
LIABILITIES				
Accounts payable	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>9,662</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,662</u>
FUND BALANCE				
Restricted:				
Industrial development	21	-	-	-
Library operations	-	7,091	-	-
Public safety	<u>-</u>	<u>-</u>	<u>574,309</u>	<u>24,396</u>
Total fund balances	<u><u>21</u></u>	<u><u>7,091</u></u>	<u><u>574,309</u></u>	<u><u>24,396</u></u>
Total liabilities and fund balances	\$ <u><u>21</u></u>	\$ <u><u>7,091</u></u>	\$ <u><u>574,309</u></u>	\$ <u><u>34,058</u></u>

<u>Police Special</u>	<u>Total Nonmajor Governmental Funds</u>
\$ <u>4,633</u>	\$ <u>620,112</u>
\$ <u>4,633</u>	\$ <u>620,112</u>
\$ <u>-</u>	\$ <u>9,662</u>
<u>-</u>	<u>9,662</u>
-	21
-	7,091
<u>4,633</u>	<u>603,338</u>
<u>4,633</u>	<u>610,450</u>
\$ <u>4,633</u>	\$ <u>620,112</u>

CITY OF HILLSBORO, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Special Revenue Funds			
	Industrial Development	Library Special	Police Local Forfeiture	Police Federal Forfeiture
REVENUES				
Fines and forfeitures	\$ -	\$ -	\$ 23,193	\$ 83,694
Interest	-	-	3,750	9
Contributions	-	-	-	-
Total revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,943</u>	<u>\$ 83,703</u>
EXPENDITURES				
Current:				
Personnel	-	-	34,869	-
Supplies	-	-	-	1,000
Services	-	-	5,038	-
Minor equipment	-	-	14,154	2,810
Capital outlay	-	-	56,232	69,293
Debt service:				
Principal	-	-	37,114	-
Interest	-	-	5,802	-
Total expenditures	<u>-</u>	<u>-</u>	<u>153,209</u>	<u>73,103</u>
NET CHANGE IN FUND BALANCES	-	-	(126,266)	10,600
FUND BALANCES, BEGINNING	<u>21</u>	<u>7,091</u>	<u>700,575</u>	<u>13,796</u>
FUND BALANCES, ENDING	<u>\$ 21</u>	<u>\$ 7,091</u>	<u>\$ 574,309</u>	<u>\$ 24,396</u>

<u>Police Special</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ 106,887
-	3,759
<u>5,109</u>	<u>5,109</u>
<u>\$ 5,109</u>	<u>\$ 115,755</u>
-	34,869
1,261	2,261
236	5,274
-	16,964
-	125,525
-	37,114
-	<u>5,802</u>
<u>1,497</u>	<u>227,809</u>
3,612	(112,054)
<u>1,021</u>	<u>722,504</u>
<u>\$ 4,633</u>	<u>\$ 610,450</u>

COMPLIANCE SECTION



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

To the City Council
City of Hillsboro, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hillsboro, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise City of Hillsboro, Texas' basic financial statements, and have issued our report thereon dated April 13, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Hillsboro, Texas
April 13, 2015