

City of
Hillsboro, Texas



Bond's Alley

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2015**

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CITY OF HILLSBORO, TEXAS

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SEPTEMBER 30, 2015

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P A T T I L L O , B R O W N & H I L L , 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 City of Hillsboro, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2015, 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 I to the financial statements, in 2015 the City adopted new accounting guidance, Governmental Accounting Standards (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and Governmental Accounting Standards (GASB) Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, and the schedule of contributions on pages 4 – 10 and 46 – 56 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 27, 2016, 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 the City of Hillsboro, Texas' internal control over financial reporting and compliance.

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

Hillsboro, Texas
April 27, 2016

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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, 2015. 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 and deferred inflows of resources as of September 30, 2015, by \$25,037,890 (net position). Of this amount, \$1,776,541 (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 in the current year by \$1,581,079.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,329,925. Approximately 14.51% of this total amount, \$1,063,673, is unassigned fund balance available for use within the City's fund designation and fiscal policies.
- As of September 30, 2015, unassigned fund balance for the General Fund was \$1,063,673 or 14.88 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 and Debt Service 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 – 45 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 57 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 \$25,037,890 as of September 30, 2015.

CITY OF HILLSBORO'S NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Current assets	\$ 8,667,473	\$ 8,302,794	\$ 3,204,368	\$ 3,643,225	\$ 11,871,841	\$ 11,946,019
Capital assets	18,718,931	18,747,986	10,984,472	10,272,978	29,703,403	29,020,964
Total Assets	<u>27,386,404</u>	<u>27,050,780</u>	<u>14,188,840</u>	<u>13,916,203</u>	<u>41,575,244</u>	<u>40,966,983</u>
Total deferred outflows of resources	<u>427,273</u>	<u>-</u>	<u>99,868</u>	<u>29,247</u>	<u>527,141</u>	<u>29,247</u>
Liabilities	819,549	570,386	768,150	584,601	1,587,699	1,154,987
Noncurrent liabilities	12,216,636	11,276,003	3,169,947	3,235,843	15,386,583	14,511,846
Total Liabilities	<u>13,036,185</u>	<u>11,846,389</u>	<u>3,938,097</u>	<u>3,820,444</u>	<u>16,974,282</u>	<u>15,666,833</u>
Total deferred outflows of resources	<u>76,853</u>	<u>-</u>	<u>13,360</u>	<u>-</u>	<u>90,213</u>	<u>-</u>
Net position:						
Net investment in capital assets	8,806,706	7,377,551	8,220,171	7,073,756	17,026,877	14,451,307
Restricted	6,234,472	6,731,910	-	5,947	6,234,472	6,737,857
Unrestricted	(340,539)	1,094,930	2,117,080	3,045,303	1,776,541	4,140,233
Total Net Position	<u>\$ 14,700,639</u>	<u>\$ 15,204,391</u>	<u>\$ 10,337,251</u>	<u>\$ 10,125,006</u>	<u>\$ 25,037,890</u>	<u>\$ 25,329,397</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 \$1,776,541 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	
	2015	2014	2015	2014	2015	2014
REVENUES:						
Program revenues:						
Charges for services	\$ 1,583,233	\$ 1,334,648	\$ 5,216,465	\$ 5,196,715	\$ 6,799,698	\$ 6,531,363
Operating grants	14,607	39,307	-	-	14,607	39,307
Capital grants and contributions	81,405	-	474,576	360,133	555,981	360,133
General revenues:						
Property taxes	3,407,362	3,104,244	-	-	3,407,362	3,104,244
Sales taxes	2,797,640	2,831,929	-	-	2,797,640	2,831,929
Franchise taxes	496,830	487,250	-	-	496,830	487,250
Hotel/motel taxes	328,770	318,357	-	-	328,770	318,357
Other taxes	50,286	46,724	-	-	50,286	46,724
Investment earnings	88,368	80,017	1,426	794	89,794	80,811
Miscellaneous	185,359	142,123	36,614	72,430	221,973	214,553
Total Revenues	<u>9,033,860</u>	<u>8,384,599</u>	<u>5,729,081</u>	<u>5,630,072</u>	<u>14,762,941</u>	<u>14,014,671</u>
EXPENSES:						
General government	1,927,350	3,016,880	-	-	1,927,350	3,016,880
Public safety	4,492,380	4,446,236	-	-	4,492,380	4,446,236
Streets	906,176	751,213	-	-	906,176	751,213
Community development	807,485	510,534	-	-	807,485	510,534
Interest on long-term debt	366,847	395,756	-	-	366,847	395,756
Water and sewer	-	-	3,593,989	3,691,834	3,593,989	3,691,834
Sanitation	-	-	808,906	800,611	808,906	800,611
Airport	-	-	289,482	387,541	289,482	387,541
Total Expenses	<u>8,500,238</u>	<u>9,120,619</u>	<u>4,692,377</u>	<u>4,879,986</u>	<u>13,192,615</u>	<u>14,000,605</u>
INCREASES IN NET ASSETS BEFORE TRANSFERS AND OTHER SOURCES (USES)	533,622	(736,020)	1,036,704	750,086	1,570,326	14,066
SPECIAL ITEM SALE OF CAPITAL ASSETS TRANSFERS	-	17,500	-	-	-	17,500
	10,753	923,711	-	-	10,753	923,711
	<u>505,000</u>	<u>555,000</u>	<u>(505,000)</u>	<u>(555,000)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	1,049,375	760,191	531,704	195,086	1,581,079	955,277
NET POSITION, BEGINNING	15,204,391	14,708,692	10,125,006	10,041,005	25,329,397	24,749,697
PRIOR PERIOD ADJUSTMENT	(1,553,127)	(264,492)	(319,459)	(111,085)	(1,872,586)	(375,577)
NET POSITION, ENDING	<u>\$ 14,700,639</u>	<u>\$ 15,204,391</u>	<u>\$ 10,337,251</u>	<u>\$ 10,125,006</u>	<u>\$ 25,037,890</u>	<u>\$ 25,329,397</u>

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position for the business-type activities; however, the unrestricted net position for governmental activities went negative in the current year due to the inclusion of the net pension liability which reduces the unrestricted net position and is new this year.

The government's net position increased by \$1,581,079 during the current fiscal year which was more than the prior year increase of \$955,277. This was mainly due to an increase in charges for services and property tax revenue, as well as a decrease in general government, water and sewer and airport expenses. The other significant change was a decrease in income from the sale of capital assets.

Governmental Activities. Governmental activities increased the City's net position by \$1,049,375, thereby accounting for 66.37% of the total growth in the net position of the City. Key elements of this increase are as follows:

- Charges for services increased by \$248,575
- General government expenses decreased by 1,089,530

Business-type Activities. Business-type activities increased the City's net position by \$531,704, accounting for 33.63% of the total growth in the net position of the City. Key elements of this increase are as follows:

- Capital grants and contributions increased by \$114,443
- Water and Sewer expenses increased by 97,845
- Airport expenses decreased by 98,059

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 \$7,329,925. Approximately 14.51% of this total amount, \$1,063,673 constitutes unassigned fund balance. Refer to pages 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 \$1,063,673, while total fund balance reached \$1,394,383.

The fund balance of the City's General Fund increased by \$309,816 during the current fiscal year. Key factors in this increase is the increase in fines and forfeitures revenues as well as a decrease in supplies, minor equipment and capital outlay expenditures. This was offset by a decrease in operating transfers in as well as a decrease in capital lease proceeds.

The fund balance of the City's Economic Development Corporation fund balance increased by \$140,329 during the current fiscal year. This increase was less than the prior year increase of \$265,272 primarily due to an increase in personnel and services expenditures.

The Hotel/Motel Tax fund balance increased by \$103,004 during the current fiscal year. This increase is less than the prior year increase of \$939,839 mainly due to a decrease in sale of capital assets as well as a decrease in operating transfers out.

The Debt Service Fund has a total fund balance of \$188,439 which was a \$15,880 increase over the prior year. This was more than the prior year increase mainly due to the increase in property tax revenue.

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 \$2,117,080. The increase in net position was \$531,704. 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 2015.

Total revenues exceeded budgeted revenues by \$69,816 and total appropriations exceeded expenditures by \$317,492.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business type activities as of September 30, 2015, amounts to \$29,703,403 (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 \$1,166,633
- Street improvements of \$752,763
- Acquired equipment for approximately \$72,237

Additional information on the City's capital assets can be found on pages 32-33 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total bonded debt of \$11,285,000. 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 34 – 38 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 2016 fiscal year. The property tax rate for the fiscal year 2016 decreased to .8064 per \$100 assessed value. The fee schedule and water rates anticipate a slight increase (2%). A slight increase in sales tax revenue (2.7%), decrease in interest income and decreases in various franchise revenue were considered. Also, step increases for the year and an 8.3% increase in health care costs.

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.

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**BASIC
FINANCIAL STATEMENTS**

CITY OF HILLSBORO, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 7,292,228	\$ 2,225,493	\$ 9,517,721
Receivables (net of allowances for uncollectibles):			
Taxes	827,449	-	827,449
Accounts	90,555	647,961	738,516
Intergovernmental	43,416	169,882	213,298
Other	382,045	-	382,045
Inventories	31,780	161,032	192,812
Capital assets:			
Land	803,426	378,391	1,181,817
Buildings and improvements	6,235,603	6,495,476	12,731,079
Machinery and equipment	5,644,095	1,802,297	7,446,392
Infrastructure/water and wastewater distribution	11,931,125	14,252,573	26,183,698
Construction in progress	2,304,153	1,190,352	3,494,505
Less: accumulated depreciation	(8,199,471)	(13,134,617)	(21,334,088)
Total capital assets	18,718,931	10,984,472	29,703,403
Total assets	27,386,404	14,188,840	41,575,244
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	-	25,591	25,591
Deferred outflow related to TMRS	427,273	74,277	501,550
Total deferred outflows of resources	427,273	99,868	527,141
LIABILITIES			
Accounts payable	503,481	437,117	940,598
Accrued liabilities	213,429	35,132	248,561
Accrued interest payable	102,639	18,805	121,444
Customer deposits	-	44,630	44,630
Customer deposits	-	232,466	232,466
Noncurrent liabilities:			
Due within one year	782,335	350,768	1,133,103
Due in more than one year	11,434,301	2,819,179	14,253,480
Total liabilities	13,036,185	3,938,097	16,974,282
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow related to TMRS	76,853	13,360	90,213
Total deferred inflows of resources	76,853	13,360	90,213
NET POSITION			
Net investment in capital assets	8,806,706	8,220,171	17,026,877
Restricted for:			
Court security and technology	298,930	-	298,930
Debt service	188,439	-	188,439
Other purposes	5,747,103	-	5,747,103
Unrestricted	(340,539)	2,117,080	1,776,541
Total net position	\$ 14,700,639	\$ 10,337,251	\$ 25,037,890

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, 2015

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 1,927,350	\$ 39,324	\$ 14,607	\$ -	\$(1,873,419)	\$ -	\$(1,873,419)
Public safety	4,492,380	1,469,779	-	-	(3,022,601)	-	(3,022,601)
Streets	906,176	-	-	81,405	(824,771)	-	(824,771)
Community development	807,485	74,130	-	-	(733,355)	-	(733,355)
Interest on long-term debt	366,847	-	-	-	(366,847)	-	(366,847)
Total governmental activities	8,500,238	1,583,233	14,607	81,405	(6,820,993)	-	(6,820,993)
Business-type activities:							
Water and sewer	3,593,989	3,862,828	-	253,026	-	521,865	521,865
Sanitation	808,906	1,072,620	-	-	-	263,714	263,714
Airport	289,482	281,017	-	221,550	-	213,085	213,085
Total business-type activities	4,692,377	5,216,465	-	474,576	-	998,664	998,664
Total	\$ 13,192,615	\$ 6,799,698	\$ 14,607	\$ 555,981	(6,820,993)	998,664	(5,822,329)
General revenues:							
Taxes:							
Property - general purposes					2,347,038	-	2,347,038
Property - debt service					1,060,324	-	1,060,324
Sales taxes					2,797,640	-	2,797,640
Franchise taxes					496,830	-	496,830
Hotel/Motel taxes					328,770	-	328,770
Other taxes					50,286	-	50,286
Investment earnings					88,368	1,426	89,794
Miscellaneous					185,359	36,614	221,973
Sale of capital assets					10,753	-	10,753
Transfers					505,000	(505,000)	-
Total general revenues					7,870,368	(466,960)	7,403,408
Change in net position					1,049,375	531,704	1,581,079
Net position, beginning					15,204,391	10,125,006	25,329,397
Prior period adjustment					(1,553,127)	(319,459)	(1,872,586)
Net position ending					\$ 14,700,639	\$ 10,337,251	\$ 25,037,890

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

CITY OF HILLSBORO, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2015

	<u>General</u>	<u>Economic Development Corporation</u>	<u>Hotel/Motel Tax</u>	<u>Debt Service</u>
ASSETS				
Cash and investments	\$ 1,234,721	\$ 2,930,856	\$ 1,411,492	\$ 183,602
Receivables (net of allowance for uncollectibles)				
Taxes	651,452	45,379	51,622	78,996
Accounts	472,600	-	-	-
Intergovernmental	-	-	-	-
Inventory	31,780	-	-	-
Due from other funds	38,200	7,529	-	-
Total assets	<u>2,428,753</u>	<u>2,983,764</u>	<u>1,463,114</u>	<u>262,598</u>
LIABILITIES				
Accounts payable	271,614	620	3,016	-
Accrued liabilities	208,748	3,144	-	-
Due to other funds	7,529	-	-	-
Total liabilities	<u>487,891</u>	<u>3,764</u>	<u>3,016</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	164,433	-	-	74,159
Unavailable revenue - court fines	382,046	-	-	-
Total deferred inflows of resources	<u>546,479</u>	<u>-</u>	<u>-</u>	<u>74,159</u>
FUND BALANCE				
Nonspendable:				
Inventory	31,780	-	-	-
Restricted:				
Court security and technology	298,930	-	-	-
Debt service	-	-	-	188,439
Economic development	-	2,980,000	-	-
Capital improvements	-	-	-	-
Industrial development	-	-	-	-
Library operations	-	-	-	-
Public Safety	-	-	-	-
Tourism	-	-	1,460,098	-
Unassigned	<u>1,063,673</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>1,394,383</u>	<u>2,980,000</u>	<u>1,460,098</u>	<u>188,439</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,428,753</u>	<u>\$ 2,983,764</u>	<u>\$ 1,463,114</u>	<u>\$ 262,598</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 (net pension liability, bonds payable, and etc.) are not due and payable in the current period and therefore have not been included in the fund financial statements. Also, the premium on the issuance of bonds and deferred resources related to the net pension liability are not reported in the funds.

Net position of governmental activities

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

Other Governmental Funds	Total Governmental Funds
\$ 1,531,557	\$ 7,292,228
-	827,449
-	472,600
43,416	43,416
-	31,780
-	45,729
<u>1,574,973</u>	<u>8,713,202</u>
228,231	503,481
1,537	213,429
38,200	45,729
<u>267,968</u>	<u>762,639</u>
-	238,592
-	382,046
-	<u>620,638</u>
-	31,780
-	298,930
-	188,439
-	2,980,000
765,626	765,626
21	21
7,591	7,591
533,767	533,767
-	1,460,098
-	1,063,673
<u>1,307,005</u>	<u>7,329,925</u>
\$ <u>1,574,973</u>	
	18,718,931
	517,999
	(<u>11,866,216</u>)
	\$ <u>14,700,639</u>

CITY OF HILLSBORO, TEXAS

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

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>General</u>	<u>Economic Development Corporation</u>	<u>Hotel/Motel Tax</u>	<u>Debt Service</u>
REVENUES				
Taxes:				
Ad valorem	\$ 2,226,012	\$ -	\$ -	\$ 1,006,054
Sales	2,564,503	233,137	-	-
Franchise	496,830	-	-	-
Hotel/motel	-	-	328,770	-
Other	50,286	-	-	-
Services to others	5,584	-	-	-
Licenses and permits	64,846	-	-	-
Fines and forfeitures	912,040	-	-	-
Intergovernmental	14,107	-	-	-
Investment earnings	51,081	14,064	70	19,360
Rentals	4,035	-	9,284	-
Charges for services	325,243	-	-	-
Cemetery lot sales and fees	25,702	-	-	-
Contributions	129,809	-	-	-
Other	<u>79,228</u>	<u>82,205</u>	<u>930</u>	<u>-</u>
Total revenues	<u>6,949,306</u>	<u>329,406</u>	<u>339,054</u>	<u>1,025,414</u>
EXPENDITURES				
Current:				
Personnel	5,257,358	79,981	7,300	-
Supplies	382,429	332	991	-
Services	999,295	60,525	171,039	6,250
Maintenance	222,127	46,992	4,538	-
Minor equipment	21,216	-	2,351	-
Capital outlay	66,826	-	-	-
Debt service:				
Principal	165,015	-	20,000	655,000
Interest	<u>34,023</u>	<u>-</u>	<u>8,831</u>	<u>348,284</u>
Total expenditures	<u>7,148,289</u>	<u>187,830</u>	<u>215,050</u>	<u>1,009,534</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(198,983)</u>	<u>141,576</u>	<u>124,004</u>	<u>15,880</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	538,000	-	-	-
Sale of capital assets	-	10,753	-	-
Operating transfers out	<u>(29,201)</u>	<u>(12,000)</u>	<u>(21,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>508,799</u>	<u>(1,247)</u>	<u>(21,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	309,816	140,329	103,004	15,880
FUND BALANCES, BEGINNING	<u>1,084,567</u>	<u>2,839,671</u>	<u>1,357,094</u>	<u>172,559</u>
FUND BALANCES, ENDING	<u>\$ 1,394,383</u>	<u>\$ 2,980,000</u>	<u>\$ 1,460,098</u>	<u>\$ 188,439</u>

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

Other Governmental Funds	Total Governmental Funds
\$ -	\$ 3,232,066
-	2,797,640
-	496,830
-	328,770
-	50,286
-	5,584
-	64,846
7,269	919,309
81,405	95,512
3,793	88,368
-	13,319
-	325,243
-	25,702
500	130,309
<u>22,996</u>	<u>185,359</u>
<u>115,963</u>	<u>8,759,143</u>
19,005	5,363,644
13,183	396,935
120,116	1,357,225
-	273,657
12,680	36,247
676,859	743,685
38,926	878,941
3,990	395,128
<u>884,759</u>	<u>9,445,462</u>
(768,796)	(686,319)
29,201	567,201
-	10,753
-	(62,201)
<u>29,201</u>	<u>515,753</u>
(739,595)	(170,566)
<u>2,046,600</u>	<u>7,500,491</u>
\$ <u>1,307,005</u>	\$ <u>7,329,925</u>

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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, 2015

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

Net change in fund balances - total governmental funds	\$(170,566)
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 is the amount by which depreciation exceeded capital outlay in the current period	(29,055)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	274,717
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when 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.	976,404
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.	(2,125)
Change in net assets of governmental activities	<u>\$ 1,049,375</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, 2015

ASSETS	Business-type Activities-Enterprise Fund			
	Water and Wastewater	Sanitation	Airport	Totals
Cash and investments	\$ 2,083,096	\$ 126,507	\$ 15,890	\$ 2,225,493
Accounts receivable	586,399	50,420	11,142	647,961
Intergovernmental receivable	169,882	-	-	169,882
Inventories	125,752	-	35,280	161,032
Capital assets	9,442,491	97,906	1,444,075	10,984,472
Total assets	<u>12,407,620</u>	<u>274,833</u>	<u>1,506,387</u>	<u>14,188,840</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	25,591	-	-	25,591
Deferred outflow related to TMRS	71,270	-	3,007	74,277
Total deferred outflows of resources	<u>96,861</u>	<u>-</u>	<u>3,007</u>	<u>99,868</u>
LIABILITIES				
Current liabilities:				
Accounts payable	368,740	65,382	2,995	437,117
Customer deposits	232,466	-	-	232,466
Accrued liabilities	32,527	-	2,605	35,132
Accrued interest payable	18,805	-	-	18,805
Unearned revenue	-	-	44,630	44,630
Capital lease payable	15,768	-	-	15,768
Bonds payable	335,000	-	-	335,000
Total current liabilities	<u>1,003,306</u>	<u>65,382</u>	<u>50,230</u>	<u>1,118,918</u>
Noncurrent liabilities:				
Capital lease payable	50,588	-	-	50,588
Bonds payable	2,362,945	-	-	2,362,945
Net pension liability	351,532	-	14,843	366,375
Vacation payable	39,271	-	-	39,271
Total long-term liabilities	<u>2,804,336</u>	<u>-</u>	<u>14,843</u>	<u>2,819,179</u>
Total liabilities	<u>3,807,642</u>	<u>65,382</u>	<u>65,073</u>	<u>3,938,097</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflow related to TMRS	12,819	-	541	13,360
Total deferred inflows of resources	<u>12,819</u>	<u>-</u>	<u>541</u>	<u>13,360</u>
NET POSITION				
Net investment in capital assets	6,678,190	97,906	1,444,075	8,220,171
Unrestricted	2,005,830	111,545	(295)	2,117,080
Total net position	<u>\$ 8,684,020</u>	<u>\$ 209,451</u>	<u>\$ 1,443,780</u>	<u>\$ 10,337,251</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 NET POSITION

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Business-type Activities-Enterprise Fund			
	Water and Wastewater	Sanitation	Airport	Totals
OPERATING REVENUES				
Water and sewer sales	\$ 3,767,741	\$ -	\$ -	\$ 3,767,741
Other service charges	95,087	1,072,620	281,017	1,448,724
Miscellaneous income	36,614	-	-	36,614
Total operating revenues	<u>3,899,442</u>	<u>1,072,620</u>	<u>281,017</u>	<u>5,253,079</u>
OPERATING EXPENSES				
Water purchase	1,648,444	-	-	1,648,444
Personnel	911,277	-	36,365	947,642
Supplies	100,115	-	173,330	273,445
Services	236,036	801,976	31,771	1,069,783
Maintenance	185,833	6,930	12,914	205,677
Minor equipment	426	-	2,935	3,361
Depreciation and amortization	462,028	-	32,167	494,195
Total operating expenses	<u>3,544,159</u>	<u>808,906</u>	<u>289,482</u>	<u>4,642,547</u>
OPERATING INCOME (LOSS)	<u>355,283</u>	<u>263,714</u>	<u>(8,465)</u>	<u>610,532</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	1,426	-	-	1,426
Contributions	253,026	-	221,550	474,576
Interest expense	(49,830)	-	-	(49,830)
Total nonoperating revenues (expenses)	<u>204,622</u>	<u>-</u>	<u>221,550</u>	<u>426,172</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	559,905	263,714	213,085	1,036,704
Transfer out	(250,000)	(255,000)	-	(505,000)
CHANGE IN NET POSITION	309,905	8,714	213,085	531,704
TOTAL NET POSITION, BEGINNING	8,680,631	200,737	1,243,638	10,125,006
PRIOR PERIOD ADJUSTMENT	(306,516)	-	(12,943)	(319,459)
TOTAL NET POSITION, ENDING	<u>\$ 8,684,020</u>	<u>\$ 209,451</u>	<u>\$ 1,443,780</u>	<u>\$ 10,337,251</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, 2015

	Business-type Activities - Enterprise Fund			
	Water and Wastewater	Sanitation	Airport	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 3,878,196	\$ 1,072,186	\$ 293,926	\$ 5,244,308
Cash payments to employees for services	(876,930)	-	(34,539)	(911,469)
Cash payments to suppliers for goods and services	(2,008,164)	(809,591)	(205,352)	(3,023,107)
Cash provided (used) by operating activities	<u>993,102</u>	<u>262,595</u>	<u>54,035</u>	<u>1,309,732</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash paid to other funds	(250,000)	(255,000)	-	(505,000)
Cash used for noncapital financing activities	<u>(250,000)</u>	<u>(255,000)</u>	<u>-</u>	<u>(505,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal repayments on debt	(434,921)	-	-	(434,921)
Capital grants	99,858	-	221,550	321,408
Interest and fiscal charges on debt	(50,722)	-	(51,197)	(101,919)
Acquisition and construction of capital assets	(993,435)	-	(208,598)	(1,202,033)
Cash provided (used) by capital and related financing activities	<u>(1,379,220)</u>	<u>-</u>	<u>(38,245)</u>	<u>(1,417,465)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	1,426	-	-	1,426
Cash provided by investing activities	<u>1,426</u>	<u>-</u>	<u>-</u>	<u>1,426</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(634,692)	7,595	15,790	(611,307)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>2,717,788</u>	<u>118,912</u>	<u>100</u>	<u>2,836,800</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 2,083,096</u>	<u>\$ 126,507</u>	<u>\$ 15,890</u>	<u>\$ 2,225,493</u>

(continued)

CITY OF HILLSBORO, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	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)	\$ 355,283	\$ 263,714	\$(8,465)	\$ 610,532
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	462,028	-	32,167	494,195
Change in assets and liabilities:				
Decrease (increase) in accounts receivable	(24,557)	(434)	7,778	(17,213)
Decrease (increase) in inventory	(29,836)	-	11,319	(18,517)
Decrease (increase) in prepaid expenses	-	-	5,947	5,947
Decrease (increase) in due from other governments	-	-	10,501	10,501
Decrease (increase) in deferred outflow related to TMRS	(71,270)	-	(3,007)	(74,277)
Increase (decrease) in accounts payable	232,345	(685)	(873)	230,787
Increase (decrease) in accrued liabilities	5,313	-	1,597	6,910
Increase (decrease) in unearned revenue	-	-	(5,370)	(5,370)
Increase (decrease) in customer deposits	3,311	-	-	3,311
Increase (decrease) in vacation payable	2,650	-	-	2,650
Increase (decrease) in net pension liability	45,016	-	1,900	46,916
Decrease (increase) in deferred inflow related to TMRS	12,819	-	541	13,360
Total adjustments	<u>637,819</u>	<u>(1,119)</u>	<u>62,500</u>	<u>699,200</u>
Net cash provided by operating activities	<u>\$ 993,102</u>	<u>\$ 262,595</u>	<u>\$ 54,035</u>	<u>\$ 1,309,732</u>

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

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CITY OF HILLSBORO, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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.

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, Police Special Fund, Main Street Fund, Texas Capital Fund and the Capital Projects 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, 2015, 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 2015 were levied October 1, 2014, at the rate of \$.818331 per \$100 assessed valuation on a total taxable assessed valuation of \$394,667,779.

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.

Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions.

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, 2015.

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, 2015, 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 80 hours per year of vacation with pay (120 hours for firefighters); with three to nine years of service, 120 hours per year of vacation with pay (180 hours for firefighters); and with 10 years of service and longer, 160 hours per year of vacation with pay (240 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 and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category.

- Deferred charges on refundings – 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.
- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five year period.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from 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. The City also has one type of item that qualifies for reporting in this category in the government-wide financial statements. The difference in expected and actual pension experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

Prior Period Adjustment – Change in Accounting Principles

The GASB has issued Statement No. 68, "Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27," which became effective for fiscal year 2015. This statement changes the focus of pension accounting for employers from whether they are responsibly funding their plan over time to a point-in-time liability that is reflected in the employer's financial statements for any actuarially unfunded portion of pension benefits earned to date.

The implementation of Statement No. 68 resulted restatement of beginning net position for the elimination of the previously reported net pension obligation, the recording of the beginning net pension liability and the beginning deferred outflow for contributions made after the measurement date.

Applying these changes resulted in the following prior period adjustments in the fund financial statements:

- In the Water and Wastewater Fund, a \$306,516 prior period adjustment was made which resulted in a restated beginning net position of \$8,374,115.
- In the Airport Fund, a \$12,943 prior period adjustment was made which resulted in a restated beginning net position of \$1,230,695.

Applying these changes resulted in the following prior period adjustments in the government-wide financial statements:

- In the Governmental Activities, a \$1,553,127 prior period adjustment was made which resulted in a restated beginning net position of \$13,651,264.
- In the Business-Type Activities, a \$319,459 prior period adjustment was made which resulted in a restated beginning net position of \$9,805,547.

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, 2015, the City’s deposit balance (cash and certificates of deposit) was \$5,553,100. The City’s deposits at September 30, 2015 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, 2015, the primary government’s investments consisted of:

	<u>Fair Value</u>
TexStar	\$ 732,349
Texas Term	2,603,189
State Treasurer's Investment Pool (TexPool)	<u>556,590</u>
	<u>\$ 3,892,128</u>

At September 30, 2015 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	Nonmajor Funds	Water and Wastewater	Sanitation	Airport	
Receivables:									
Accounts:									
Customers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 586,399	\$ 50,420	\$ 11,142	\$ 647,961
Taxes:									
Property	233,133	105,328	-	-	-	-	-	-	338,461
Sales tax	450,660	-	40,969	51,622	-	-	-	-	543,251
Other	25,942	-	-	-	-	-	-	-	25,942
Intergovernmental	-	-	-	-	43,416	169,882	-	-	213,298
Other	3,224,310	-	4,410	-	-	-	-	-	3,228,720
Gross receivables	3,934,045	105,328	45,379	51,622	43,416	756,281	50,420	11,142	4,997,633
Less: allowance for uncollectibles	(2,809,993)	(26,332)	-	-	-	-	-	-	(2,836,325)
Net total receivables	\$ 1,124,052	\$ 78,996	\$ 45,379	\$ 51,622	\$ 43,416	\$ 756,281	\$ 50,420	\$ 11,142	\$ 2,161,308
Deferred inflows of resources									
Property taxes	164,433	74,159	-	-	-	-	-	-	238,592
Court fines	382,046	-	-	-	-	-	-	-	382,046
Total deferred inflows	\$ 546,479	\$ 74,159	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 620,638

Capital Assets

Capital asset activity for the year ended September 30, 2015, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 803,426	\$ -	\$ -	\$ 803,426
Construction in progress	1,551,390	752,763	-	2,304,153
Total assets not being depreciated	2,354,816	752,763	-	3,107,579
Capital assets, being depreciated:				
Buildings and improvements	6,223,603	12,000	-	6,235,603
Machinery and equipment	5,780,074	36,839	(172,818)	5,644,095
Infrastructure	11,931,125	-	-	11,931,125
Total capital assets being depreciated	23,934,802	48,839	(172,818)	23,810,823
Accumulated depreciation:				
Buildings and improvements	(3,035,405)	(196,749)	-	(3,232,154)
Machinery and equipment	(3,327,110)	(395,415)	172,818	(3,549,707)
Infrastructure	(1,179,117)	(238,493)	-	(1,417,610)
Total accumulated depreciation	(7,541,632)	(830,657)	172,818	(8,199,471)
Total capital assets being depreciated, net	16,393,170	(781,818)	-	15,611,352
Governmental activities capital assets, net	\$ 18,747,986	\$ (29,055)	\$ -	\$ 18,718,931

Business-type activities:

Capital assets, not being depreciated:				
Land	\$ 378,391	\$ -	\$ -	\$ 378,391
Construction in progress - Water/Sewer	232,317	958,035	-	1,190,352
Construction in progress - Airport	422,063	208,598	(630,661)	-
Total assets not being depreciated	<u>1,032,771</u>	<u>1,166,633</u>	<u>(630,661)</u>	<u>1,568,743</u>
Capital assets, being depreciated:				
Buildings and improvements	5,865,461	630,661	(646)	6,495,476
Machinery and equipment	2,014,499	35,398	(247,600)	1,802,297
Infrastructure	14,407,733	-	(155,160)	14,252,573
Total capital assets being depreciated	<u>22,287,693</u>	<u>666,059</u>	<u>(403,406)</u>	<u>22,550,346</u>
Accumulated depreciation:				
Buildings and improvements	(1,351,695)	(124,546)	646	(1,475,595)
Machinery and equipment	(1,546,265)	(102,841)	247,600	(1,401,506)
Infrastructure	(10,149,526)	(263,150)	155,160	(10,257,516)
Total accumulated depreciation	<u>(13,047,486)</u>	<u>(490,537)</u>	<u>403,406</u>	<u>(13,134,617)</u>
Total capital assets being depreciated, net	<u>9,240,207</u>	<u>175,522</u>	<u>-</u>	<u>9,415,729</u>
Business-type activities capital assets, net	<u>\$ 10,272,978</u>	<u>\$ 1,342,155</u>	<u>\$(630,661)</u>	<u>\$ 10,984,472</u>

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

Governmental activities		
General government		\$ 171,648
Public safety		326,386
Public works		245,521
Community development		<u>87,102</u>
Total depreciation expense - governmental activities		<u>\$ 830,657</u>
Business-type activities:		
Water and wastewater		\$ 458,370
Airport		<u>32,167</u>
Total depreciation expense - business-type activities		<u>\$ 490,537</u>

Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2015, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
EDC	General	\$ 7,529
General	Nonmajor	<u>38,200</u>
Total		<u>\$ 45,729</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, 2015, are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General	Hotel/Motel	\$ 21,000
General	EDC	12,000
General	Sanitation	255,000
General	Water and wastewater	250,000
Nonmajor	General	<u>29,201</u>
Total		<u>\$ 567,201</u>

Long-term Debt

Long-term liability activity from the year ended September 30, 2015, was as follows:

	<u>Debt Outstanding 09/30/14</u>	<u>Additions of New Debt</u>	<u>Retirements and Repayments</u>	<u>Adjustments</u>	<u>Debt Outstanding 09/30/15</u>
<u>Governmental:</u>					
Certificates of obligation	\$ 195,000	\$ -	\$(20,000)	\$ -	\$ 175,000
General obligation bonds	9,220,000	-	(655,000)	-	8,565,000
Premium	218,772	-	(16,916)	-	201,856
Capital Leases	1,071,671	-	(203,941)	-	867,730
Net Pension Liability	2,165,069	-	(57,607)	-	2,107,462
Vacation payable	<u>286,098</u>	<u>13,490</u>	<u>-</u>	<u>-</u>	<u>299,588</u>
	<u>13,156,610</u>	<u>13,490</u>	<u>(953,464)</u>	<u>-</u>	<u>12,216,636</u>
<u>Enterprise Fund</u>					
General obligation bonds	2,935,000	-	(390,000)	-	2,545,000
Premium	181,722	-	(28,777)	-	152,945
Capital Leases	82,500	-	(16,144)	-	66,356
Net Pension Liability	376,390	-	(10,015)	-	366,375
Vacation payable	<u>36,621</u>	<u>2,650</u>	<u>-</u>	<u>-</u>	<u>39,271</u>
	<u>3,612,233</u>	<u>2,650</u>	<u>(444,936)</u>	<u>-</u>	<u>3,169,947</u>
Total	<u>\$ 16,768,843</u>	<u>\$ 16,140</u>	<u>\$(1,398,400)</u>	<u>\$ -</u>	<u>\$ 15,386,583</u>

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

Debt outstanding as of September 30, 2015, 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	\$ 175,000	4.53%
		<u>315,000</u>	<u>175,000</u>	
General obligation bonds:				
2006 Series	Street Improvements	4,000,000	2,700,000	3.75%-5.125%
2008 Series	Various improvements	2,000,000	1,540,000	4.625%-7.00%
2008 Series Premium		52,854	34,353	
2010 Series	Street Improvements	2,000,000	1,755,000	2.00%-4.05%
2010 Series Premium		43,967	32,976	
2010 Series	Refunding	1,525,000	140,000	2.00%-4.05%
2010 Series Premium		33,631	16,815	
2012 Series	Street Improvements	1,870,000	1,735,000	2.00%-3.00%
2012 Series Premium		87,406	74,295	
2012 Series	Refunding	895,000	695,000	2.00%-3.00%
2012 Series Premium		56,441	43,417	
		<u>12,564,299</u>	<u>8,766,856</u>	
Total Governmental Long-term		<u>12,879,299</u>	<u>8,941,856</u>	
<u>Enterprise Fund</u>				
General obligation bonds:				
2012 Series	Refunding	3,520,000	2,545,000	2.00%-3.00%
2012 Series Premium		221,981	152,945	
		<u>4,494,876</u>	<u>2,697,945</u>	
Total Enterprise Fund		<u>4,494,876</u>	<u>2,697,945</u>	
		<u>\$ 17,374,175</u>	<u>\$ 11,639,801</u>	

Debt service requirements are as follows:

	Year Ended September 30	Principal	Interest	Total Requirements
Certificates of Obligation:	2016	\$ 20,000	\$ 7,928	\$ 27,928
	2017	25,000	7,022	32,022
	2018	25,000	5,889	30,889
	2019	25,000	4,757	29,757
	2020	25,000	3,624	28,624
	2021-2025	<u>55,000</u>	<u>3,849</u>	<u>58,849</u>
		<u>175,000</u>	<u>33,069</u>	<u>208,069</u>
General Obligation Bonds:	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	630,000	240,895	870,895
	2021-2025	3,340,000	832,991	4,172,991
	2026-2030	2,000,000	235,612	2,235,612
	2031-2035	<u>255,000</u>	<u>11,550</u>	<u>266,550</u>
		<u>8,565,000</u>	<u>2,505,426</u>	<u>11,070,426</u>
Total Governmental Debt:	2016	570,000	334,618	904,618
	2017	600,000	314,800	914,800
	2018	620,000	292,629	912,629
	2019	645,000	267,927	912,927
	2020	655,000	244,519	899,519
	2021-2025	3,395,000	836,840	4,231,840
	2026-2030	2,000,000	235,612	2,235,612
	2031-2035	<u>255,000</u>	<u>11,550</u>	<u>266,550</u>
	Total	<u>\$ 8,740,000</u>	<u>\$ 2,538,495</u>	<u>\$ 11,278,495</u>

Enterprise Fund debt requirements are as follows:

	Year Ended September 30	Principal	Interest	Total Requirements
	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	370,000	34,500	404,500
	2021-2025	<u>780,000</u>	<u>35,250</u>	<u>815,250</u>
	Total	<u>\$ 2,545,000</u>	<u>\$ 303,550</u>	<u>\$ 2,848,550</u>

Capital Leases

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

The assets acquired through capital leases are as follows:

	<u>Asset</u>
Governmental activities	
Assets:	
Roller and Dump Truck Trailer	\$ 151,000
Police Vehicles	185,635
EMS Vehicle/Equipment	250,000
HVAC system	30,000
Paver	93,890
Backhoe	119,252
Fire Laddertruck	848,215
Fire Vehicle	<u>26,735</u>
Total	<u>\$ 1,704,727</u>
Water and Wastewater activities	
Wheel Loader	\$ 113,700
Backhoe	<u>82,500</u>
Total	<u>\$ 196,200</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2015, were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>
2016	\$ 241,978
2017	124,434
2018	124,434
2019	98,698
2020	98,698
2021-2025	<u>296,096</u>
Total minimum lease payments	984,338
Less: amount representing interest	<u>116,608</u>
Present value of minimum lease payments	<u>\$ 867,730</u>
<u>Year Ending September 30,</u>	<u>Business-type Activities</u>
2016	\$ 18,048
2017	18,048
2018	18,048
2019	<u>18,047</u>
Total minimum lease payments	72,191
Less: amount representing interest	<u>5,835</u>
Present value of minimum lease payments	<u>\$ 66,356</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 \$1,648,444 for water purchased from the District during the fiscal year ending September 30, 2015.

Retirement Plan

Texas Municipal Retirement System

Plan Description - The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agency multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.org.

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

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in over of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Beginning in 1996, the City granted an annually repeating (automatic) basis a monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 1996, the City provided on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

A summary of plan provisions for the City are as follows:

Employee deposit rate	5%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	20 years to any age, 5 years at age 60 and above
Updated service credit	100% Repeating, Transfers
Annuity increase to retirees	70% of CPI Repeating

Employees covered by benefit terms

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	54
Inactive employees entitled to but not yet receiving benefits	64
Active employees	<u>105</u>
	<u><u>223</u></u>

Contributions

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

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 11.65% and 11.23% in calendar years 2014 and 2015, respectively. The City’s contributions to TMRS for the year ended September 30, 2015, were \$495,901, and were equal to the required contributions.

Net Pension Liability

The City’s Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering the 2009 through 2011, and the dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension
	(a)	(b)	(a) - (b)
Balance at 12/31/2013	\$ 15,430,596	\$ 12,889,137	\$ 2,541,459
Changes for the year:			
Service cost	438,226	-	438,226
Interest	1,074,600	-	1,074,600
Difference between expected and actual experience	(118,737)	-	(118,737)
Contributions - employer	-	512,630	(512,630)
Contributions - employee	-	220,014	(220,014)
Net investment income	-	737,398	(737,398)
Benefit payments, including refunds of employee contributions	(596,553)	(596,553)	-
Administrative expense	-	(7,698)	7,698
Other changes	-	(633)	633
Net changes	<u>797,536</u>	<u>865,158</u>	<u>(67,622)</u>
Balance at 12/31/2014	<u>\$ 16,228,132</u>	<u>\$ 13,754,295</u>	<u>\$ 2,473,837</u>

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) of 1-percentage-higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's net pension liability	\$ 5,134,356	\$ 2,473,837	\$ 333,378

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. The report may be obtained on the Internet at www.tmr.org.

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

For the year ended September 30, 2015, the City recognized pension expense of \$403,348.

At September 30, 2015, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 90,213
Difference between projected and actual investment earnings	131,874	-
Contributions subsequent to the measurement date	<u>369,676</u>	<u>-</u>
Total	<u>\$ 501,550</u>	<u>\$ 90,213</u>

\$369,676 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ending December 31,	
2015	\$ 4,445
2016	4,445
2017	4,445
2018	28,326
2019	-
Thereafter	-

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

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

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Ad valorem	\$ 2,175,000	\$ 2,175,000	\$ 2,226,012	\$ 51,012
Sales, net of rebates	2,458,200	2,458,200	2,564,503	106,303
Franchise	486,000	486,000	496,830	10,830
Other	41,230	41,230	50,286	9,056
Services to others	6,500	6,500	5,584	(916)
Licenses and permits	65,450	65,450	64,846	(604)
Fines and forfeitures	1,018,450	1,018,450	912,040	(106,410)
Intergovernmental	7,500	7,500	14,107	6,607
Interest and penalties	54,500	54,500	51,081	(3,419)
Rentals	87,000	87,000	4,035	(82,965)
Charges for services	290,000	290,000	325,243	35,243
Cemetery lot sales and fees	27,550	27,550	25,702	(1,848)
Recreation income	5,000	5,000	-	(5,000)
Contributions	128,160	128,160	129,809	1,649
Other	28,950	28,950	79,228	50,278
Total revenues	6,879,490	6,879,490	6,949,306	69,816
EXPENDITURES				
Legislative:				
Personnel	310	310	338	(28)
Supplies	1,300	1,300	1,749	(449)
Services	22,250	22,250	23,179	(929)
	23,860	23,860	25,266	(1,406)
Administration:				
Personnel	338,879	338,879	241,776	97,103
Supplies	6,650	6,650	5,742	908
Services	179,550	179,550	196,395	(16,845)
Maintenance	6,200	6,200	8,036	(1,836)
Minor equipment	4,000	4,000	3,161	839
	535,279	535,279	455,110	80,169
Streets:				
Personnel	357,740	357,740	290,795	66,945
Supplies	53,510	53,510	30,458	23,052
Services	129,415	129,415	126,218	3,197
Maintenance	28,650	28,650	22,164	6,486
Debt service - principal	22,500	22,500	22,451	49
Debt service - interest	3,280	3,280	3,285	(5)
	595,095	595,095	495,371	99,724

(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, 2015**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES (Continued)				
Police:				
Personnel	2,119,760	2,119,760	2,076,879	42,881
Supplies	167,700	167,700	126,464	41,236
Services	149,700	149,700	146,781	2,919
Maintenance	47,500	47,500	56,278	(8,778)
Minor equipment	7,000	7,000	6,428	572
	<u>2,491,660</u>	<u>2,491,660</u>	<u>2,412,830</u>	<u>78,830</u>
Library:				
Personnel	296,353	296,353	292,569	3,784
Supplies	12,050	12,050	8,737	3,313
Services	48,925	48,925	61,703	(12,778)
Maintenance	20,000	20,000	13,713	6,287
Minor equipment	1,000	1,000	544	456
Capital outlay	52,500	52,500	35,487	17,013
Debt service - principal	9,845	9,845	9,852	(7)
Debt service - interest	900	900	887	13
	<u>441,573</u>	<u>441,573</u>	<u>423,492</u>	<u>18,081</u>
Fire:				
Personnel	1,127,050	1,127,050	1,176,049	(48,999)
Supplies	107,800	107,800	105,162	2,638
Services	108,500	108,500	116,086	(7,586)
Maintenance	22,700	22,700	16,201	6,499
Minor equipment	3,000	3,000	6,451	(3,451)
Capital outlay	-	-	21,500	(21,500)
Debt service - principal	133,090	133,090	132,712	378
Debt service - interest	29,640	29,640	29,851	(211)
	<u>1,531,780</u>	<u>1,531,780</u>	<u>1,604,012</u>	<u>(72,232)</u>
Municipal court:				
Personnel	160,787	160,787	162,096	(1,309)
Supplies	5,050	5,050	3,864	1,186
Services	47,400	47,400	59,176	(11,776)
Maintenance	1,500	1,500	1,476	24
	<u>214,737</u>	<u>214,737</u>	<u>226,612</u>	<u>(11,875)</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, 2015**

	Budget			Variance with Final Budget
	Original	Final	Actual	Positive (Negative)
EXPENDITURES (Continued)				
Parks:				
Personnel	295,085	295,085	298,170	(3,085)
Supplies	33,150	33,150	26,097	7,053
Services	32,745	32,745	38,624	(5,879)
Maintenance	27,600	27,600	25,326	2,274
Minor equipment	3,000	3,000	-	3,000
Capital outlay	10,000	10,000	9,839	161
	401,580	401,580	398,056	3,524
Recreation:				
Personnel	7,000	7,000	2,788	4,212
Supplies	500	500	1,578	(1,078)
Services	-	-	1,425	(1,425)
	7,500	7,500	5,791	1,709
Maintenance shop:				
Personnel	124,466	124,466	108,720	15,746
Supplies	74,475	74,475	57,767	16,708
Services	11,055	11,055	7,489	3,566
Maintenance	61,000	61,000	49,554	11,446
Minor equipment	5,000	5,000	-	5,000
	275,996	275,996	223,530	52,466
Cemetery:				
Personnel	16,895	16,895	16,040	855
Supplies	2,700	2,700	344	2,356
Services	58,945	58,945	58,716	229
Maintenance	1,850	1,850	412	1,438
	80,390	80,390	75,512	4,878
Community development:				
Personnel	182,130	182,130	177,401	4,729
Supplies	3,000	3,000	1,553	1,447
Services	106,650	106,650	102,344	4,306
Maintenance	9,000	9,000	15,083	(6,083)
Minor equipment	500	500	1,675	(1,175)
Capital outlay	7,000	7,000	-	7,000
	308,280	308,280	298,056	10,224

(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, 2015

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES (Continued)				
Legal:				
Personnel	31,630	31,630	31,978	(348)
Services	1,500	1,500	1,677	(177)
	33,130	33,130	33,655	(525)
 Finance:				
Personnel	206,380	206,380	206,882	(502)
Supplies	4,900	4,900	4,121	779
Services	43,990	43,990	34,434	9,556
Maintenance	750	750	-	750
Minor equipment	10,000	10,000	493	9,507
	266,020	266,020	245,930	20,090
 Information systems:				
Personnel	96,650	96,650	93,907	2,743
Supplies	3,500	3,500	1,575	1,925
Services	10,490	10,490	5,566	4,924
Maintenance	4,900	4,900	3,127	1,773
Minor equipment	1,000	1,000	2,464	(1,464)
Capital outlay	10,000	10,000	-	10,000
	126,540	126,540	106,639	19,901
 Animal control:				
Personnel	41,540	41,540	40,677	863
Supplies	13,450	13,450	6,398	7,052
Services	2,350	2,350	1,208	1,142
Maintenance	10,500	10,500	10,713	(213)
Minor equipment	400	400	-	400
	68,240	68,240	58,996	9,244

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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, 2015**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
EXPENDITURES (Continued)				
Code Enforcement:				
Personnel	38,770	38,770	40,293	(1,523)
Supplies	5,350	5,350	820	4,530
Services	20,550	20,550	18,274	2,276
Maintenance	1,160	1,160	44	1,116
	65,830	65,830	59,431	6,399
 Total expenditures	 7,467,490	 7,467,490	 7,148,289	 317,492
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	 (588,000)	 (588,000)	 (198,983)	 389,017
OTHER FINANCING SOURCES (USES)				
Operating transfers in	588,000	588,000	538,000	(50,000)
Operating transfers (out)	-	-	(29,201)	(29,201)
Total other financing sources (uses)	588,000	588,000	508,799	(79,201)
CHANGE IN FUND BALANCES	-	-	309,816	309,816
FUND BALANCES, BEGINNING	1,084,567	1,084,567	1,084,567	-
FUND BALANCES, ENDING	\$ 1,084,567	\$ 1,084,567	\$ 1,394,383	\$ 309,816

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, 2015

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Sales, net of rebates	213,180	213,180	233,137	19,957
Interest and penalties	9,000	9,000	14,064	5,064
Other	10,000	10,000	82,205	72,205
Total revenues	232,180	232,180	329,406	97,226
EXPENDITURES				
Community development:				
Personnel	73,265	73,265	79,981	(6,716)
Supplies	200	200	332	(132)
Services	491,690	491,690	60,525	431,165
Maintenance	1,051,000	1,051,000	46,992	1,004,008
Total expenditures	1,616,155	1,616,155	187,830	1,428,325
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,383,975)	(1,383,975)	141,576	1,525,551
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	-	-
Sale of capital assets	-	-	10,753	10,753
Operating transfers (out)	(12,000)	(12,000)	(12,000)	-
Total other financing sources (uses)	(12,000)	(12,000)	(1,247)	10,753
CHANGE IN FUND BALANCES	(1,395,975)	(1,395,975)	140,329	1,536,304
FUND BALANCES, BEGINNING	2,839,671	2,839,671	2,839,671	-
FUND BALANCES, ENDING	\$ 1,443,696	\$ 1,443,696	\$ 2,980,000	\$ 1,536,304

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, 2015

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Hotel/motel	\$ 275,000	\$ 275,000	\$ 328,770	\$ 53,770
Investment earnings	-	-	70	70
Rentals	6,000	6,000	9,284	3,284
Other	490	490	930	440
Total revenues	281,490	281,490	339,054	57,564
EXPENDITURES				
Community development:				
Personnel	-	-	7,300	(7,300)
Supplies	2,405	2,405	991	1,414
Services	222,200	222,200	171,039	51,161
Maintenance	4,300	4,300	4,538	(238)
Minor equipment	2,750	2,750	2,351	399
Debt service:				
Principal	20,000	20,000	20,000	-
Interest	8,835	8,835	8,831	4
Total expenditures	260,490	260,490	215,050	45,440
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	21,000	21,000	124,004	103,004
OTHER FINANCING SOURCES (USES)				
Operating transfers (out)	(21,000)	(21,000)	(21,000)	-
Total other financing sources (uses)	(21,000)	(21,000)	(21,000)	-
CHANGE IN FUND BALANCES	-	-	103,004	103,004
FUND BALANCES, BEGINNING	1,357,094	1,357,094	1,357,094	-
FUND BALANCES, ENDING	\$ 1,357,094	\$ 1,357,094	\$ 1,460,098	\$ 103,004

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS**

FOR THE YEAR ENDED SEPTEMBER 30, 2015

Plan Year	<u>2014</u>
A. Total pension liability	
Service Cost	\$ 438,226
Interest (on the Total Pension Liability)	1,074,600
Change of benefit terms	-
Difference between expected and actual experience	(118,737)
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(596,553)
Net change in total pension liability	797,536
Total pension liability - beginning	<u>15,430,596</u>
Total pension liability - ending (a)	<u>\$ 16,228,132</u>
B. Plan fiduciary net position	
Contributions - employer	\$ 512,630
Contributions - employee	220,014
Net investment income	737,398
Benefit payments, including refunds of employee contributions	(596,553)
Administrative expenses	(7,698)
Other	<u>(633)</u>
Net change in plan fiduciary net position	865,158
Plan fiduciary net position - beginning	<u>12,889,137</u>
Plan fiduciary net position - ending (b)	<u>\$ 13,754,295</u>
C. Net pension liability - ending (a) - (b)	<u>\$ 2,473,837</u>
D. Plan fiduciary net position as a percentage of total pension liability	84.76%
E. Covered employee payroll	\$ 4,400,270
F. Net position liability as a percentage of covered employee payroll	56.22%

CITY OF HILLSBORO TEXAS
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Fiscal Year	<u>2014</u>
Actuarial determined contribution	\$ 512,630
Contributions in relation to the actuarially determined contribution	<u>512,630</u>
Contribution deficiency (excess)	-
Covered employee payroll	4,400,270
Contributions as a percentage of covered employee payroll	11.65%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	19 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.00%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis of with BB.

Other Information There were no benefit changes during the year.

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CITY OF HILLSBORO, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION SEPTEMBER 30, 2015 (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 excess appropriations in other departments. Expenditures exceeded appropriations in the Economic Development Fund in the personnel and supplies expenditures functions. These excess expenditures were funded by excess appropriations in other functions. Expenditures in the Hotel/Motel Fund in the personnel and maintenance expenditures functions. These excess expenditures were funded by excess appropriations in other functions.

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COMBINING STATEMENTS

CITY OF HILLSBORO, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	Special Revenue Funds			
	Industrial Development	Library Special Fund	Police Local Forfeiture	Police Federal Forfeiture
ASSETS				
Cash and investments	\$ 21	\$ 7,591	\$ 514,158	\$ 15,963
Intergovernmental receivable	-	-	-	-
Total assets	21	7,591	514,158	15,963
LIABILITIES				
Accounts payable	-	-	-	-
Accrued liabilities	-	-	-	-
Due to other funds	-	-	-	-
Total liabilities	-	-	-	-
FUND BALANCE				
Resticted for:				
Capital improvements	-	-	-	-
Industrial development	21	-	-	-
Library operations	-	7,591	-	-
Public Safety	-	-	514,158	15,963
Total fund balances	21	7,591	514,158	15,963
Total liabilities and fund equity	\$ 21	\$ 7,591	\$ 514,158	\$ 15,963

			Capital Projects	
Police Special	Main Street	Texas Capital Fund	Capital Projects	Total Nonmajor Governmental Funds
\$ 3,646	\$ 4,438	\$ 211	\$ 985,529	\$ 1,531,557
-	-	43,416	-	43,416
<u>3,646</u>	<u>4,438</u>	<u>43,627</u>	<u>985,529</u>	<u>1,574,973</u>
-	2,901	5,427	219,903	228,231
-	1,537	-	-	1,537
-	-	38,200	-	38,200
<u>-</u>	<u>4,438</u>	<u>43,627</u>	<u>219,903</u>	<u>267,968</u>
-	-	-	765,626	765,626
-	-	-	-	21
-	-	-	-	7,591
<u>3,646</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>533,767</u>
<u>3,646</u>	<u>-</u>	<u>-</u>	<u>765,626</u>	<u>1,307,005</u>
\$ <u>3,646</u>	\$ <u>4,438</u>	\$ <u>43,627</u>	\$ <u>985,529</u>	\$ <u>1,574,973</u>

CITY OF HILLSBORO, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Special Revenue Funds			
	Industrial Development	Library Special Fund	Police Local Forfeiture	Police Federal Forfeiture
REVENUES				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Fines and forfeitures	-	-	7,269	-
Investment earnings	-	-	2,932	6
Contributions	-	500	-	-
Other	-	-	-	-
Total revenues	<u>-</u>	<u>500</u>	<u>10,201</u>	<u>6</u>
EXPENDITURES				
Current:				
Personnel	-	-	3,692	-
Services	-	-	3,814	2,884
Supplies	-	-	5,379	1,926
Minor equipment	-	-	9,051	3,629
Capital outlay	-	-	5,500	-
Debt service:				
Principal	-	-	38,926	-
Interest	-	-	3,990	-
Total expenditures	<u>-</u>	<u>-</u>	<u>70,352</u>	<u>8,439</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>500</u>	<u>(60,151)</u>	<u>(8,433)</u>
OTHER FINANCING SOURCES(USES)				
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>500</u>	<u>(60,151)</u>	<u>(8,433)</u>
FUND BALANCES, BEGINNING	<u>21</u>	<u>7,091</u>	<u>574,309</u>	<u>24,396</u>
FUND BALANCES, ENDING	<u>\$ 21</u>	<u>\$ 7,591</u>	<u>\$ 514,158</u>	<u>\$ 15,963</u>

			Capital Projects	
Police Special	Main Street	Texas Capital Fund	Capital Projects	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 81,405	\$ -	\$ 81,405
-	-	-	-	7,269
-	20	-	835	3,793
-	-	-	-	500
-	22,996	-	-	22,996
-	23,016	81,405	835	115,963
-	15,313	-	-	19,005
68	31,734	81,616	-	120,116
919	4,959	-	-	13,183
-	-	-	-	12,680
-	-	-	671,359	676,859
-	-	-	-	38,926
-	-	-	-	3,990
987	52,006	81,616	671,359	884,759
(987)	(28,990)	(211)	(670,524)	(768,796)
-	28,990	211	-	29,201
(987)	-	-	(670,524)	(739,595)
4,633	-	-	1,436,150	2,046,600
\$ 3,646	\$ -	\$ -	\$ 765,626	\$ 1,307,005

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