

City of Hillsboro, Texas



ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2017**

CITY OF HILLSBORO, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2017

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CITY OF HILLSBORO, TEXAS

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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 and
Members of the City Council
City of Hillsboro, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hillsboro, Texas (the "City"), as of and for the year ended September 30, 2017, 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

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

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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is 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 May 10, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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's internal control over financial reporting and compliance.

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

Waco, Texas
May 10, 2018

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Management's Discussion and Analysis

As management of the City of Hillsboro, Texas (the "City"), 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, 2017. 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, 2017, by \$27,387,711 (net position).
- The City's total net position increased in the current year by \$1,249,858.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,868,740. Approximately 15% of this total amount, \$1,045,518, is unassigned fund balance available for use within the City's fund designation and fiscal policies.
- As of September 30, 2017, unassigned fund balance for the General Fund was \$1,317,027 or 16% 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, Texas Capital Fund, Debt Service and Capital Projects Funds, which are considered to be major funds. A budgetary comparison schedule has been provided for the General Fund, EDC and Hotel/Motel Tax Funds 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 – 42 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 53 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, net position was \$27,387,711 as of September 30, 2017.

NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Current assets	\$ 7,860,337	\$ 8,193,777	\$ 1,223,485	\$ 1,989,635	\$ 9,083,822	\$ 10,183,412
Capital assets	20,543,326	19,303,818	12,067,091	11,902,373	32,610,417	31,206,191
Total Assets	<u>28,403,663</u>	<u>27,497,595</u>	<u>13,290,576</u>	<u>13,892,008</u>	<u>41,694,239</u>	<u>41,389,603</u>
Total deferred outflows of resources	<u>1,013,390</u>	<u>1,205,224</u>	<u>164,415</u>	<u>198,155</u>	<u>1,177,805</u>	<u>1,403,379</u>
Liabilities	1,550,690	1,507,924	832,053	600,825	2,382,743	2,108,749
Noncurrent liabilities	10,883,997	11,569,577	2,125,699	2,900,138	13,009,696	14,469,715
Total Liabilities	<u>12,434,687</u>	<u>13,077,501</u>	<u>2,957,752</u>	<u>3,500,963</u>	<u>15,392,439</u>	<u>16,578,464</u>
Total deferred inflows of resources	<u>78,923</u>	<u>65,702</u>	<u>12,971</u>	<u>10,963</u>	<u>91,894</u>	<u>76,665</u>
Net position:						
Net investment in capital assets	11,940,857	10,226,139	10,077,045	9,511,060	22,017,902	19,737,199
Restricted	5,705,472	5,836,121	-	-	5,705,472	5,836,121
Unrestricted	(742,886)	(502,644)	407,223	1,067,177	(335,663)	564,533
Total Net Position	<u>\$ 16,903,443</u>	<u>\$ 15,559,616</u>	<u>\$ 10,484,268</u>	<u>\$ 10,578,237</u>	<u>\$ 27,387,711</u>	<u>\$ 26,137,853</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.

CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
REVENUES:						
Program revenues:						
Charges for services	\$ 1,552,393	\$ 1,280,875	\$ 5,248,612	\$ 5,175,592	\$ 6,801,005	\$ 6,456,467
Operating grants	39,648	11,511	-	-	39,648	11,511
Capital grants and contributions	144,888	513,847	11,670	384,000	156,558	897,847
General revenues:						
Property taxes	3,524,475	3,429,504	-	-	3,524,475	3,429,504
Sales taxes	3,318,098	3,004,748	-	-	3,318,098	3,004,748
Franchise taxes	489,115	468,741	-	-	489,115	468,741
Hotel/motel taxes	355,577	356,840	-	-	355,577	356,840
Other taxes	39,189	48,011	-	-	39,189	48,011
Investment earnings	106,030	95,224	7,686	4,216	113,716	99,440
Miscellaneous	190,908	96,415	36,628	41,829	227,536	138,244
Total Revenues	<u>9,760,321</u>	<u>9,305,716</u>	<u>5,304,596</u>	<u>5,605,637</u>	<u>15,064,917</u>	<u>14,911,353</u>
EXPENSES:						
General government	2,134,681	2,019,231	-	-	2,134,681	2,019,231
Public safety	4,662,556	4,860,854	-	-	4,662,556	4,860,854
Streets	1,334,230	1,009,922	-	-	1,334,230	1,009,922
Community development	647,751	734,949	-	-	647,751	734,949
Interest on long-term debt	247,276	308,233	-	-	247,276	308,233
Water and sewer	-	-	3,620,721	3,668,390	3,620,721	3,668,390
Sanitation	-	-	828,296	826,006	828,296	826,006
Airport	-	-	339,548	383,805	339,548	383,805
Total Expenses	<u>9,026,494</u>	<u>8,933,189</u>	<u>4,788,565</u>	<u>4,878,201</u>	<u>13,815,059</u>	<u>13,811,390</u>
INCREASES IN NET POSITION BEFORE TRANSFERS	733,827	372,527	516,031	727,436	1,249,858	1,099,963
TRANSFERS	<u>610,000</u>	<u>486,450</u>	<u>(610,000)</u>	<u>(486,450)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	1,343,827	858,977	(93,969)	240,986	1,249,858	1,099,963
NET POSITION, BEGINNING	<u>15,559,616</u>	<u>14,700,639</u>	<u>10,578,237</u>	<u>10,337,251</u>	<u>26,137,853</u>	<u>25,037,890</u>
NET POSITION, ENDING	<u>\$ 16,903,443</u>	<u>\$ 15,559,616</u>	<u>\$ 10,484,268</u>	<u>\$ 10,578,237</u>	<u>\$ 27,387,711</u>	<u>\$ 26,137,853</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 remained negative in the current year.

The City's net position increased by \$1,249,858 during the current fiscal year, which was slightly less than the prior year increase of \$1,099,963. This was mainly due to increases in general government, public safety, streets and airport expenses as well as a decrease in charges for services. This was offset by increases in capital grants and contributions and sales tax revenue.

Governmental Activities. Governmental activities increased the City's net position by \$1,343,827. This increase was more than the prior year increase of \$858,977. Key elements of this are as follows:

- Sales tax revenue increased by \$313,350
- Transfer from enterprise funds 610,000
- Charges for services increased by 271,518

Business-type Activities. Business-type activities decreased the City's net position by \$93,969. Key elements of this decrease are as follows:

- Capital grants and contributions decreased by \$299,310
- Charges for services increased by 73,020
- Total expenses decreased by 89,636

FINANCIAL ANALYSIS OF THE CITY'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 \$6,868,740. Approximately 15% of this total amount, \$1,045,518 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 \$1,317,027, while total fund balance reached \$1,712,132.

The fund balance of the City's General Fund increased by \$200,000 during the current fiscal year. This increase was more than the prior year increase of \$117,749. A key factor in this change is from proceeds from the issuance of capital leases.

The fund balance of the City's Economic Development Corporation fund balance decreased by \$70,729 during the current fiscal year. This decrease was primarily due to a decrease in other revenue.

The Hotel/Motel Tax fund balance increased by \$105,269 during the current fiscal year. This increase is due to the consistent efforts of keeping expenditures down.

The Texas Capital Fund fund balance decreased by \$2,180 during the current fiscal year. This decrease is primarily due to a decrease in revenue of \$368,959 offset by a decrease in expenditures of \$367,349.

The Debt Service Fund has a total fund balance of \$177,268, which was a \$28,408 decrease over the prior year. This was mainly due to decreased 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 \$407,223. The decrease in net position was \$93,969. 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 2017.

Budgeted revenues exceeded actual revenues by \$482,406 while total expenditures exceeded appropriations by \$185,503.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2017, amounts to \$32,610,417 (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:

- Street improvements of \$917,014
- Acquired equipment for \$524,972

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

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total bonded debt of \$9,555,000. All of this represents bonded debt backed by the full faith and credit of the City.

The City's General Obligation Bond rating is listed below.

	Standard and Poor's
General Obligation Bonds	A

Additional information on the City's long term-debt can be found in pages 33 – 35 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when preparing the City's budget for the 2018 fiscal year. The property tax rate for the fiscal year 2018 remained the same at 0.806400 per \$100 assessed value. The fee schedule and water rates anticipate a slight increase (2%). A slight increase in sales tax revenue (8%), decrease in interest income and decreases in various franchise revenue were

also considered. Additionally, step increases for the year and an 8% increase in health care costs were included.

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 its 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**

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CITY OF HILLSBORO, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 6,427,993	\$ 449,654	\$ 6,877,647
Receivables (net of allowances for uncollectibles):			
Taxes	865,569	-	865,569
Accounts	171,985	577,404	749,389
Intergovernmental	31,759	-	31,759
Other	289,106	-	289,106
Internal balances	14,703	(14,703)	-
Inventories	26,907	204,669	231,576
Prepays	32,315	6,461	38,776
Capital assets:			
Land	803,137	378,391	1,181,528
Buildings and improvements	6,235,603	6,495,476	12,731,079
Machinery and equipment	5,923,026	1,787,297	7,710,323
Infrastructure/water and wastewater distribution	12,859,872	17,477,046	30,336,918
Construction in progress	4,241,406	54,935	4,296,341
Less: accumulated depreciation	(9,519,718)	(14,126,054)	(23,645,772)
Total capital assets	20,543,326	12,067,091	32,610,417
Total assets	28,403,663	13,290,576	41,694,239
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	124,279	18,280	142,559
Deferred outflow related to pensions	889,111	146,135	1,035,246
Total deferred outflows of resources	1,013,390	164,415	1,177,805
LIABILITIES			
Accounts payable	395,456	147,075	542,531
Accrued liabilities	75,442	12,192	87,634
Accrued interest payable	66,229	14,720	80,949
Unearned revenue	-	34,220	34,220
Customer deposits	-	242,558	242,558
Noncurrent liabilities:			
Due within one year	1,013,563	381,288	1,394,851
Due in more than one year	10,883,997	2,125,699	13,009,696
Total liabilities	12,434,687	2,957,752	15,392,439
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow related to pensions	78,923	12,971	91,894
Total deferred inflows of resources	78,923	12,971	91,894
NET POSITION			
Net investment in capital assets	11,940,857	10,077,045	22,017,902
Restricted for:			
Economic development	2,994,163	-	2,994,163
Tourism	1,641,724	-	1,641,724
Court security and technology	366,883	-	366,883
Debt service	177,268	-	177,268
Other purposes	525,434	-	525,434
Unrestricted	(742,886)	407,223	(335,663)
Total net position	\$ 16,903,443	\$ 10,484,268	\$ 27,387,711

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

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CITY OF HILLSBORO, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 2,134,681	\$ 34,206	\$ 5,023	\$ -	\$(2,095,452)	\$ -	\$(2,095,452)
Public safety	4,662,556	1,464,461	34,625	-	(3,163,470)	-	(3,163,470)
Streets	1,334,230	-	-	144,888	(1,189,342)	-	(1,189,342)
Community development	647,751	53,726	-	-	(594,025)	-	(594,025)
Interest on long-term debt	<u>247,276</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(247,276)</u>	<u>-</u>	<u>(247,276)</u>
Total governmental activities	<u>9,026,494</u>	<u>1,552,393</u>	<u>39,648</u>	<u>144,888</u>	<u>(7,289,565)</u>	<u>-</u>	<u>(7,289,565)</u>
Business-type activities:							
Water and sewer	3,620,721	3,832,383	-	-	-	211,662	211,662
Sanitation	828,296	1,108,438	-	-	-	280,142	280,142
Airport	<u>339,548</u>	<u>307,791</u>	<u>-</u>	<u>11,670</u>	<u>-</u>	<u>(20,087)</u>	<u>(20,087)</u>
Total business-type activities	<u>4,788,565</u>	<u>5,248,612</u>	<u>-</u>	<u>11,670</u>	<u>-</u>	<u>471,717</u>	<u>471,717</u>
Total	\$ <u>13,815,059</u>	\$ <u>6,801,005</u>	\$ <u>39,648</u>	\$ <u>156,558</u>	(<u>7,289,565</u>)	471,717	(<u>6,817,848</u>)
General revenues:							
Taxes:							
Property - general purposes					2,697,902	-	2,697,902
Property - debt service					826,573	-	826,573
Sales					3,318,098	-	3,318,098
Franchise					489,115	-	489,115
Hotel/motel					355,577	-	355,577
Other					39,189	-	39,189
Investment earnings					106,030	7,686	113,716
Miscellaneous					190,908	36,628	227,536
Transfers					<u>610,000</u>	<u>(610,000)</u>	<u>-</u>
Total general revenues and transfers					<u>8,633,392</u>	<u>(565,686)</u>	<u>8,067,706</u>
Change in net position					1,343,827	(93,969)	1,249,858
Net position, beginning					<u>15,559,616</u>	<u>10,578,237</u>	<u>26,137,853</u>
Net position ending					<u>\$ 16,903,443</u>	<u>\$ 10,484,268</u>	<u>\$ 27,387,711</u>

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

CITY OF HILLSBORO, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2017

	General	Economic Development Corporation	Hotel/Motel Tax
ASSETS			
Cash and investments	\$ 936,413	\$ 2,799,499	\$ 1,587,378
Receivables (net of allowance for uncollectibles):			
Taxes	688,344	47,882	62,532
Accounts	445,820	6,221	-
Intergovernmental	31,759	-	-
Inventory	26,907	-	-
Due from other funds	634,947	142,587	-
Prepaid items	1,315	1,500	29,500
Total assets	2,765,505	2,997,689	1,679,410
LIABILITIES			
Accounts payable	380,894	755	8,186
Accrued liabilities	73,205	1,271	-
Due to other funds	142,587	-	-
Total liabilities	596,686	2,026	8,186
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	135,822	-	-
Unavailable revenue - grants	31,759	-	-
Unavailable revenue - court fines	289,106	-	-
Total deferred inflows of resources	456,687	-	-
FUND BALANCE			
Nonspendable:			
Inventory	26,907	-	-
Prepaid items	1,315	1,500	29,500
Restricted:			
Court security and technology	366,883	-	-
Debt service	-	-	-
Economic development	-	2,994,163	-
Industrial development	-	-	-
Library operations	-	-	-
Public safety	-	-	-
Tourism	-	-	1,641,724
Capital projects	-	-	-
Unassigned	1,317,027	-	-
Total fund balances	1,712,132	2,995,663	1,671,224
Total liabilities, deferred inflows of resources and fund balances	\$ 2,765,505	\$ 2,997,689	\$ 1,679,410

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.

Texas Capital Fund	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 284,654	\$ 175,219	\$ 108,622	\$ 536,208	\$ 6,427,993
-	66,811	-	-	865,569
-	-	-	9,050	461,091
-	-	-	-	31,759
-	-	-	-	26,907
-	-	-	-	777,534
-	-	-	-	32,315
<u>284,654</u>	<u>242,030</u>	<u>108,622</u>	<u>545,258</u>	<u>8,623,168</u>
-	750	-	4,871	395,456
-	-	-	966	75,442
<u>236,834</u>	<u>-</u>	<u>380,131</u>	<u>3,279</u>	<u>762,831</u>
<u>236,834</u>	<u>750</u>	<u>380,131</u>	<u>9,116</u>	<u>1,233,729</u>
-	64,012	-	-	199,834
-	-	-	-	31,759
-	-	-	-	289,106
<u>-</u>	<u>64,012</u>	<u>-</u>	<u>-</u>	<u>520,699</u>
-	-	-	-	26,907
-	-	-	-	32,315
-	-	-	-	366,883
-	177,268	-	-	177,268
-	-	-	-	2,994,163
-	-	-	21	21
-	-	-	7,591	7,591
47,820	-	-	470,002	517,822
-	-	-	-	1,641,724
-	-	-	58,528	58,528
-	-	(271,509)	-	1,045,518
<u>47,820</u>	<u>177,268</u>	<u>(271,509)</u>	<u>536,142</u>	<u>6,868,740</u>
\$ <u>284,654</u>	\$ <u>242,030</u>	\$ <u>108,622</u>	\$ <u>545,258</u>	
				20,543,326
				454,470
				(10,963,093)
				\$ <u>16,903,443</u>

CITY OF HILLSBORO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General	Economic Development Corporation	Hotel/Motel Tax
REVENUES			
Taxes:			
Ad valorem	\$ 2,727,312	\$ -	\$ -
Sales	3,041,590	276,508	-
Franchise	489,115	-	-
Hotel/motel	-	-	355,577
Other	39,189	-	-
Fines and forfeitures	855,496	-	-
Intergovernmental	7,889	-	-
Charges for services	431,821	-	-
Licenses and permits	48,126	-	-
Investment earnings	67,847	15,461	942
Rentals	2,900	-	5,600
Cemetery lot sales and fees	22,210	-	-
Contributions	108,843	-	-
Other	95,958	68,166	3,918
Total revenues	7,938,296	360,135	366,037
EXPENDITURES			
Current:			
Personnel	5,334,024	85,147	7,590
Supplies	467,039	171	956
Services	998,860	31,462	159,325
Maintenance	393,116	52,084	4,297
Minor equipment	22,300	-	-
Capital outlay	616,107	-	-
Debt service:			
Principal	165,228	-	-
Interest	23,719	-	-
Total expenditures	8,020,393	168,864	172,168
EXCESS (DEFICIENCY) OF REVENUES			
OVER (UNDER) EXPENDITURES	(82,097)	191,271	193,869
OTHER FINANCING SOURCES (USES)			
Capital lease	408,000	-	-
Transfers in	666,600	-	-
Transfers out	(792,503)	(262,000)	(88,600)
Total other financing sources (uses)	282,097	(262,000)	(88,600)
NET CHANGE IN FUND BALANCES	200,000	(70,729)	105,269
FUND BALANCES, BEGINNING	1,512,132	3,066,392	1,565,955
FUND BALANCES, ENDING	\$ 1,712,132	\$ 2,995,663	\$ 1,671,224

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

<u>Texas Capital Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 835,813	\$ -	\$ -	\$ 3,563,125
-	-	-	-	3,318,098
-	-	-	-	489,115
-	-	-	-	355,577
-	-	-	-	39,189
-	-	-	17,443	872,939
144,888	-	-	-	152,777
-	-	-	-	431,821
-	-	-	-	48,126
-	16,589	1,213	3,978	106,030
-	-	-	-	8,500
-	-	-	-	22,210
-	-	-	-	108,843
-	-	-	23,155	191,197
<u>144,888</u>	<u>852,402</u>	<u>1,213</u>	<u>44,576</u>	<u>9,707,547</u>
-	-	-	55,841	5,482,602
-	-	-	20,045	488,211
4,068	5,500	-	31,274	1,230,489
-	-	-	332	449,829
-	-	-	15,422	37,722
143,000	-	770,970	622,943	2,153,020
-	660,000	-	-	825,228
-	215,310	-	-	239,029
<u>147,068</u>	<u>880,810</u>	<u>770,970</u>	<u>745,857</u>	<u>10,906,130</u>
(2,180)	(28,408)	(769,757)	(701,281)	(1,198,583)
-	-	-	-	408,000
-	-	498,248	588,255	1,753,103
-	-	-	-	(1,143,103)
-	-	498,248	588,255	1,018,000
(2,180)	(28,408)	(271,509)	(113,026)	(180,583)
<u>50,000</u>	<u>205,676</u>	<u>-</u>	<u>649,168</u>	<u>7,049,323</u>
<u>\$ 47,820</u>	<u>\$ 177,268</u>	<u>\$ (271,509)</u>	<u>\$ 536,142</u>	<u>\$ 6,868,740</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, 2017

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

Net change in fund balances - total governmental funds	\$(180,583)
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 capital outlay exceeded depreciation in the current period.	1,239,508
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	53,063
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.	241,767
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(9,928)</u>
Change in net position of governmental activities	<u>\$ 1,343,827</u>

CITY OF HILLSBORO, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2017

ASSETS	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Sanitation	Airport	Totals
Cash and investments	\$ 306,863	\$ 142,791	\$ -	\$ 449,654
Accounts receivable	517,970	50,783	8,651	577,404
Prepaid expenses	495	-	5,966	6,461
Inventories	172,312	-	32,357	204,669
Capital assets	<u>10,547,472</u>	<u>97,906</u>	<u>1,421,713</u>	<u>12,067,091</u>
Total assets	<u>11,545,112</u>	<u>291,480</u>	<u>1,468,687</u>	<u>13,305,279</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	18,280	-	-	18,280
Deferred outflows related to pensions	<u>134,178</u>	<u>-</u>	<u>11,957</u>	<u>146,135</u>
Total deferred outflows of resources	<u>152,458</u>	<u>-</u>	<u>11,957</u>	<u>164,415</u>
LIABILITIES				
Current liabilities:				
Accounts payable	63,380	66,694	17,001	147,075
Customer deposits	242,558	-	-	242,558
Accrued liabilities	11,179	-	1,013	12,192
Due to other funds	-	-	14,703	14,703
Accrued interest payable	14,720	-	-	14,720
Unearned revenue	-	-	34,220	34,220
Accrued compensated absences	14,419	-	-	14,419
Capital lease payable	16,869	-	-	16,869
Bonds payable	<u>350,000</u>	<u>-</u>	<u>-</u>	<u>350,000</u>
Total current liabilities	<u>713,125</u>	<u>66,694</u>	<u>66,937</u>	<u>846,756</u>
Noncurrent liabilities:				
Capital lease payable	17,908	-	-	17,908
Bonds payable	1,623,549	-	-	1,623,549
Net pension liability	431,381	-	38,442	469,823
Accrued compensated absences	<u>14,419</u>	<u>-</u>	<u>-</u>	<u>14,419</u>
Total long-term liabilities	<u>2,087,257</u>	<u>-</u>	<u>38,442</u>	<u>2,125,699</u>
Total liabilities	<u>2,800,382</u>	<u>66,694</u>	<u>105,379</u>	<u>2,972,455</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	<u>11,910</u>	<u>-</u>	<u>1,061</u>	<u>12,971</u>
Total deferred inflows of resources	<u>11,910</u>	<u>-</u>	<u>1,061</u>	<u>12,971</u>
NET POSITION				
Net investment in capital assets	8,557,426	97,906	1,421,713	10,077,045
Unrestricted	<u>327,852</u>	<u>126,880</u>	<u>(47,509)</u>	<u>407,223</u>
Total net position	<u>\$ 8,885,278</u>	<u>\$ 224,786</u>	<u>\$ 1,374,204</u>	<u>\$ 10,484,268</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, 2017

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Sanitation	Airport	Totals
OPERATING REVENUES				
Water and sewer sales	\$ 3,732,280	\$ -	\$ -	\$ 3,732,280
Other service charges	100,103	1,108,438	307,791	1,516,332
Miscellaneous	36,628	-	-	36,628
Total operating revenues	<u>3,869,011</u>	<u>1,108,438</u>	<u>307,791</u>	<u>5,285,240</u>
OPERATING EXPENSES				
Water purchases	1,673,328	-	-	1,673,328
Personnel	892,574	-	70,809	963,383
Supplies	91,126	-	180,174	271,300
Services	272,244	822,956	38,184	1,133,384
Maintenance	132,701	5,340	17,631	155,672
Minor equipment	3,762	-	675	4,437
Depreciation and amortization	514,149	-	32,075	546,224
Total operating expenses	<u>3,579,884</u>	<u>828,296</u>	<u>339,548</u>	<u>4,747,728</u>
OPERATING INCOME (LOSS)	<u>289,127</u>	<u>280,142</u>	<u>(31,757)</u>	<u>537,512</u>
NONOPERATING REVENUES (EXPENSES)				
Investment income	7,686	-	-	7,686
Grants	-	-	11,670	11,670
Interest expense	(40,837)	-	-	(40,837)
Total nonoperating revenues (expenses)	<u>(33,151)</u>	<u>-</u>	<u>11,670</u>	<u>(21,481)</u>
INCOME (LOSS) BEFORE TRANSFERS	255,976	280,142	(20,087)	516,031
Transfers out	<u>(330,000)</u>	<u>(280,000)</u>	<u>-</u>	<u>(610,000)</u>
CHANGE IN NET POSITION	<u>(74,024)</u>	<u>142</u>	<u>(20,087)</u>	<u>(93,969)</u>
TOTAL NET POSITION, BEGINNING	<u>8,959,302</u>	<u>224,644</u>	<u>1,394,291</u>	<u>10,578,237</u>
TOTAL NET POSITION, ENDING	<u>\$ 8,885,278</u>	<u>\$ 224,786</u>	<u>\$ 1,374,204</u>	<u>\$ 10,484,268</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, 2017

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Sanitation	Airport	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 3,918,670	\$ 1,108,571	\$ 330,778	\$ 5,358,019
Cash payments to employees for services	(826,453)	-	(69,844)	(896,297)
Cash payments to suppliers for goods and services	(2,430,140)	(832,445)	(254,307)	(3,516,892)
Cash provided (used) by operating activities	<u>662,077</u>	<u>276,126</u>	<u>6,627</u>	<u>944,830</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash received from other funds	-	-	14,703	14,703
Cash paid to other funds	(330,000)	(280,000)	-	(610,000)
Cash provided (used) by noncapital financing activities	<u>(330,000)</u>	<u>(280,000)</u>	<u>14,703</u>	<u>(595,297)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal repayments on debt	(382,987)	-	-	(382,987)
Capital grants	67,346	-	11,670	79,016
Interest and fiscal charges on debt	(42,910)	-	-	(42,910)
Acquisition and construction of capital assets	(674,287)	-	(33,000)	(707,287)
Cash provided (used) by capital and related financing activities	<u>(1,032,838)</u>	<u>-</u>	<u>(21,330)</u>	<u>(1,054,168)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	<u>7,686</u>	<u>-</u>	<u>-</u>	<u>7,686</u>
Cash provided by investing activities	<u>7,686</u>	<u>-</u>	<u>-</u>	<u>7,686</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(693,075)</u>	<u>(3,874)</u>	<u>-</u>	<u>(696,949)</u>
CASH AND CASH EQUIVALENTS, BEGINNING	<u>999,938</u>	<u>146,665</u>	<u>-</u>	<u>1,146,603</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 306,863</u>	<u>\$ 142,791</u>	<u>\$ -</u>	<u>\$ 449,654</u>

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

CITY OF HILLSBORO, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-type Activities - Enterprise Fund			
	Water and Wastewater	Sanitation	Airport	Totals
RECONCILIATION OF OPERATING INCOME				
(LOSS) TO NET CASH PROVIDED (USED) BY				
OPERATING ACTIVITIES				
Operating income (loss)	\$ 289,127	\$ 280,142	\$(31,757)	\$ 537,512
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	514,149	-	32,075	546,224
Change in assets and liabilities:				
Decrease (increase) in accounts receivable	46,737	133	8,228	55,098
Decrease (increase) in inventory	(77,041)	-	(4,093)	(81,134)
Decrease (increase) in prepaid expenses	(495)	-	(5,966)	(6,461)
Decrease (increase) in due from other governments	-	-	19,649	19,649
Decrease (increase) in deferred outflows related to pensio	27,378	-	2,707	30,085
Increase (decrease) in accounts payable	(104,598)	(4,149)	(6,060)	(114,807)
Increase (decrease) in accrued liabilities	(29,260)	-	(1,952)	(31,212)
Increase (decrease) in unearned revenue	-	-	(4,890)	(4,890)
Increase (decrease) in customer deposits	2,922	-	-	2,922
Increase (decrease) in vacation payable	(461)	-	-	(461)
Increase (decrease) in net pension liability	(8,240)	-	(1,463)	(9,703)
Decrease (increase) in deferred inflow related to pensions	1,859	-	149	2,008
Total adjustments	<u>372,950</u>	<u>(4,016)</u>	<u>38,384</u>	<u>407,318</u>
Net cash provided (used) by operating activities	<u>\$ 662,077</u>	<u>\$ 276,126</u>	<u>\$ 6,627</u>	<u>\$ 944,830</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, 2017

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 City.

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 ***Texas Capital Fund*** – accounts for the receipt and allocation of funds from the State of Texas for infrastructure improvements in support of economic development projects.

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

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

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

The City reports the following major proprietary funds:

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

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

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

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 City. 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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources 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 investments in pools are stated at net asset value, which approximates fair value.

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, 2017, 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 2017 were levied October 1, 2016, at the rate of \$.806400 per \$100 assessed valuation on a total taxable assessed valuation of \$452,958,774.

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 acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

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

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 TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 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 and inflows 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 any unspent debt 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 and/or balance sheet 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 only one type of item that qualifies for reporting in this category. 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.

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 City's deposits may not be returned to it. As of September 30, 2017, the City's deposit balance (cash and certificates of deposit) was \$3,985,711. The City's deposits at September 30, 2017 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 City'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, 2017, the City's investments consisted of:

	<u>Net Asset Value</u>
TexStar	\$ 136,001
Texas Term	2,192,384
State Treasurer's Investment Pool (TexPool)	<u>563,551</u>
	<u>\$ 2,891,936</u>

TexStar, TexPool, and Texas Term 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 City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental Funds</u>				<u>Enterprise Funds</u>			<u>Totals</u>	
	<u>General</u>	<u>Debt Service</u>	<u>EDC</u>	<u>Hotel/Motel</u>	<u>Nonmajor Funds</u>	<u>Water and Wastewater</u>	<u>Sanitation</u>		<u>Airport</u>
Receivables:									
Accounts:									
Customers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 517,970	\$ 50,783	\$ 8,651	\$ 577,404
Taxes:									
Property	453,564	208,990	-	-	-	-	-	-	662,554
Sales tax	526,702	-	47,882	62,532	-	-	-	-	637,116
Other	16,645	-	-	-	-	-	-	-	16,645
Other receivables	<u>3,441,255</u>	<u>-</u>	<u>6,221</u>	<u>-</u>	<u>9,050</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,456,526</u>
Gross receivables	<u>4,438,166</u>	<u>208,990</u>	<u>54,103</u>	<u>62,532</u>	<u>9,050</u>	<u>517,970</u>	<u>50,783</u>	<u>8,651</u>	<u>5,350,245</u>
Less: allowance for uncollectibles	<u>(3,272,243)</u>	<u>(142,179)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,414,422)</u>
Net total receivable	<u>\$ 1,165,923</u>	<u>\$ 66,811</u>	<u>\$ 54,103</u>	<u>\$ 62,532</u>	<u>\$ 9,050</u>	<u>\$ 517,970</u>	<u>\$ 50,783</u>	<u>\$ 8,651</u>	<u>\$ 1,935,823</u>

Capital Assets

Capital asset activity for the year ended September 30, 2017, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 803,426	\$ -	\$(289)	\$ 803,137
Construction in progress	3,653,643	917,014	(329,251)	4,241,406
Total assets not being depreciated	<u>4,457,069</u>	<u>917,014</u>	<u>(329,540)</u>	<u>5,044,543</u>
Capital assets, being depreciated:				
Buildings and improvements	6,235,603	-	-	6,235,603
Machinery and equipment	5,595,693	524,972	(197,639)	5,923,026
Infrastructure	11,931,125	928,747	-	12,859,872
Total capital assets being depreciated	<u>23,762,421</u>	<u>1,453,719</u>	<u>(197,639)</u>	<u>25,018,501</u>
Accumulated depreciation:				
Buildings and improvements	(3,421,587)	(189,433)	-	(3,611,020)
Machinery and equipment	(3,837,981)	(355,184)	197,639	(3,995,526)
Infrastructure	(1,656,104)	(257,068)	-	(1,913,172)
Total accumulated depreciation	<u>(8,915,672)</u>	<u>(801,685)</u>	<u>197,639</u>	<u>(9,519,718)</u>
Total capital assets being depreciated, net	<u>14,846,749</u>	<u>652,034</u>	<u>-</u>	<u>15,498,783</u>
Governmental activities capital assets, net	<u>\$ 19,303,818</u>	<u>\$ 1,569,048</u>	<u>\$(329,540)</u>	<u>\$ 20,543,326</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 378,391	\$ -	\$ -	\$ 378,391
Construction in progress - Water/Sewer	-	13,054	-	13,054
Construction in progress - Airport	8,881	33,000	-	41,881
Total assets not being depreciated	<u>387,272</u>	<u>46,054</u>	<u>-</u>	<u>433,326</u>
Capital assets, being depreciated:				
Buildings and improvements	6,495,476	-	-	6,495,476
Machinery and equipment	1,802,297	-	(15,000)	1,787,297
Infrastructure	16,815,813	661,233	-	17,477,046
Total capital assets being depreciated	<u>25,113,586</u>	<u>661,233</u>	<u>(15,000)</u>	<u>25,759,819</u>
Accumulated depreciation:				
Buildings and improvements	(1,600,141)	(124,547)	-	(1,724,688)
Machinery and equipment	(1,477,263)	(66,386)	15,000	(1,528,649)
Infrastructure	(10,521,081)	(351,636)	-	(10,872,717)
Total accumulated depreciation	<u>(13,598,485)</u>	<u>(542,569)</u>	<u>15,000</u>	<u>(14,126,054)</u>
Total capital assets being depreciated, net	<u>11,515,101</u>	<u>118,664</u>	<u>-</u>	<u>11,633,765</u>
Business-type activities capital assets, net	<u>\$ 11,902,373</u>	<u>\$ 164,718</u>	<u>\$ -</u>	<u>\$ 12,067,091</u>

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

Governmental activities		
General government	\$	158,396
Public safety		326,186
Public works		286,756
Community development		<u>30,347</u>
Total depreciation expense - governmental activities	\$	<u><u>801,685</u></u>
Business-type activities:		
Water and wastewater	\$	510,494
Airport		<u>32,075</u>
Total depreciation expense - business-type activities	\$	<u><u>542,569</u></u>

Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2017, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
EDC	General	\$ 142,587
General	Capital Projects	380,131
General	Airport	14,703
General	Nonmajor	3,279
General	Texas Capital Fund	<u>236,834</u>
Total		<u><u>\$ 777,534</u></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, 2017, are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General	EDC	\$ 12,000
General	Hotel/Motel	44,600
General	Sanitation	280,000
Nonmajor	EDC	250,000
Nonmajor	Hotel/Motel	44,000
General	Water and wastewater	330,000
Capital Projects	General	498,248
Nonmajor	General	<u>294,255</u>
Total		<u><u>\$ 1,753,103</u></u>

Long-term Debt

Long-term liability activity from the year ended September 30, 2017, was as follows:

	Debt			Debt	
	Outstanding	Additions	Retirements	Outstanding	Due Within
	09/30/16			09/30/17	One Year
<u>Governmental:</u>					
General obligation bonds	\$ 8,350,000	\$ -	\$ (660,000)	\$ 7,690,000	\$ 675,000
Premium	153,230	-	(14,273)	138,957	-
Capital leases	655,019	408,000	(165,228)	897,791	182,399
Net pension liability	2,873,805	384,483	(399,804)	2,858,484	-
Compensated absences	<u>300,064</u>	<u>237,552</u>	<u>(225,288)</u>	<u>312,328</u>	<u>156,164</u>
	<u>12,332,118</u>	<u>1,030,035</u>	<u>(1,464,593)</u>	<u>11,897,560</u>	<u>1,013,563</u>
<u>Enterprise Fund</u>					
General obligation bonds	2,210,000	-	(345,000)	1,865,000	350,000
Premium	130,747	-	(22,198)	108,549	-
Capital leases	50,566	-	(15,789)	34,777	16,869
Net pension liability	479,526	56,009	(65,712)	469,823	-
Compensated absences	<u>29,299</u>	<u>27,171</u>	<u>(27,632)</u>	<u>28,838</u>	<u>14,419</u>
	<u>2,900,138</u>	<u>83,180</u>	<u>(476,331)</u>	<u>2,506,987</u>	<u>381,288</u>
Total	\$ <u>15,232,256</u>	\$ <u>1,113,215</u>	\$ <u>(1,940,924)</u>	\$ <u>14,404,547</u>	\$ <u>1,394,851</u>

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

Debt outstanding as of September 30, 2017, consisted of the following:

	Purpose of Issue	Amount Issued	Amount Outstanding	Interest Rate
<u>Governmental</u>				
General obligation bonds:				
2008 Series	Various improvements	\$ 2,000,000	\$ 100,000	4.625%-7.00%
2010 Series	Street Improvements	2,000,000	1,570,000	2.00%-4.05%
2010 Series Premium		43,967	28,579	
2010 Series	Refunding	1,525,000	85,000	2.00%-4.05%
2010 Series Premium		33,631	10,090	
2012 Series	Street Improvements	1,870,000	1,570,000	2.00%-3.00%
2012 Series Premium		87,406	65,555	
2012 Series	Refunding	895,000	560,000	2.00%-3.00%
2012 Series Premium		56,441	34,733	
2016 Series	Refunding	<u>4,155,000</u>	<u>3,805,000</u>	1.65%
Total governmental		\$ <u>12,666,445</u>	\$ <u>7,828,957</u>	
<u>Business-type</u>				
General obligation bonds:				
2012 Series	Refunding	\$ 3,520,000	\$ 1,865,000	2.00%-3.00%
2012 Series Premium		<u>221,981</u>	<u>108,549</u>	
Total business-type		\$ <u>3,741,981</u>	\$ <u>1,973,549</u>	

Governmental general obligation bonds future requirements are as follows:

<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2018	\$ 675,000	\$ 197,164	\$ 872,164
2019	690,000	176,896	866,896
2020	695,000	161,596	856,596
2021	720,000	146,146	866,146
2022	750,000	129,031	879,031
2023-2027	3,005,000	401,171	3,406,171
2028-2032	<u>1,155,000</u>	<u>94,773</u>	<u>1,249,773</u>
Total	<u>\$ 7,690,000</u>	<u>\$ 1,306,777</u>	<u>\$ 8,996,777</u>

Business-type general obligation bonds future requirements are as follows:

<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2018	\$ 350,000	\$ 55,950	\$ 405,950
2019	365,000	45,450	410,450
2020	370,000	34,500	404,500
2021	385,000	23,400	408,400
2022	<u>395,000</u>	<u>11,850</u>	<u>406,850</u>
Total	<u>\$ 1,865,000</u>	<u>\$ 171,150</u>	<u>\$ 2,036,150</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:	
Roller and dump truck trailer	\$ 151,000
Police vehicles	485,635
EMS vehicle/equipment	250,000
HVAC system	30,000
Paver	93,890
Backhoe	119,252
Fire laddertruck	848,215
Fire vehicle	26,735
Semi-truck	<u>108,000</u>
Total	<u>\$ 2,112,727</u>
Business-type 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, 2017, were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>
2018	\$ 212,577
2019	186,988
2020	186,988
2021	186,988
2022	122,476
2023-2027	<u>98,203</u>
Total minimum lease payments	994,220
Less: amount representing interest	<u>96,429</u>
Present value of minimum lease payments	<u>\$ 897,791</u>
<u>Year Ending September 30,</u>	<u>Business-type Activities</u>
2018	\$ 18,048
2019	<u>18,546</u>
Total minimum lease payments	36,594
Less: amount representing interest	<u>1,817</u>
Present value of minimum lease payments	<u>\$ 34,777</u>

Commitments

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 \$1,673,328 for water purchased from the District during the fiscal year ending September 30, 2017.

Retirement Plan

Texas Municipal Retirement System

Plan Description - The City participates as one of 872 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, 2016, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	56
Inactive employees entitled to but not yet receiving benefits	74
Active employees	<u>100</u>
	<u><u>230</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 10.75% and 11.34% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2017, were \$503,274, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, 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, 2016, actuarial valuation was determined using the following actuarial assumptions:

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

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

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010, through December 31, 2014. 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. 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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of 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
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

Discount Rate

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

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension	Plan Fiduciary	Net Pension
	Liability	Net Position	Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2015	\$ 17,250,315	\$ 13,896,984	\$ 3,353,331
Changes for the year:			
Service cost	485,437	-	485,437
Interest	1,166,069	-	1,166,069
Difference between expected and actual experience	(66,470)	-	(66,470)
Contributions - employer	-	465,516	(465,516)
Contributions - employee	-	216,520	(216,520)
Net investment income	-	939,202	(939,202)
Benefit payments, including refunds of employee contributions	(435,866)	(435,866)	-
Administrative expense	-	(10,607)	10,607
Other changes	-	(571)	571
Net changes	<u>1,149,170</u>	<u>1,174,194</u>	<u>(25,024)</u>
Balance at 12/31/2016	<u>\$ 18,399,485</u>	<u>\$ 15,071,178</u>	<u>\$ 3,328,307</u>

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, 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 (5.75%) of 1-percentage-higher (7.75%) than the current rate:

	1% Decrease in	1% Increase in	
	Discount	Discount	Discount
	Rate (5.75%)	Rate (6.75%)	Rate (7.75%)
City's net pension liability	\$ 6,254,974	\$ 3,328,307	\$ 964,218

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 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, 2017, the City recognized pension expense of \$682,129.

At September 30, 2017, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 91,894
Changes in actuarial assumptions	7,385	-
Difference between projected and actual investment earnings	630,517	-
Contributions subsequent to the measurement date	<u>397,344</u>	<u>-</u>
Total	<u>\$ 1,035,246</u>	<u>\$ 91,894</u>

\$397,344 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, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ending December 31,	
2018	\$ 174,011
2019	198,089
2020	174,140
2021	(<u>232</u>)
	<u>\$ 546,008</u>

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 Corporation Fund

The Hillsboro Economic Development Corporation has been determined to be a blended component unit of the City (see note 1). Accounting principles prescribe the Corporation be presented as 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.

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**REQUIRED
SUPPLEMENTARY INFORMATION**

CITY OF HILLSBORO, TEXAS

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

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Ad valorem	\$ 2,701,340	\$ 2,701,340	\$ 2,727,312	\$ 25,972
Sales	2,675,000	2,675,000	3,041,590	366,590
Franchise	478,000	478,000	489,115	11,115
Other	44,000	44,000	39,189	(4,811)
Services to others	5,000	5,000	5,306	306
Licenses and permits	58,550	58,550	48,126	(10,424)
Fines and forfeitures	955,500	955,500	855,496	(100,004)
Intergovernmental	-	-	7,889	7,889
Interest and penalties	52,000	52,000	67,847	15,847
Rentals	5,000	5,000	2,900	(2,100)
Charges for services	315,000	315,000	426,515	111,515
Cemetery lot sales and fees	24,800	24,800	22,210	(2,590)
Contributions	120,200	120,200	108,843	(11,357)
Other	21,500	21,500	95,958	74,458
Total revenues	<u>7,455,890</u>	<u>7,455,890</u>	<u>7,938,296</u>	<u>482,406</u>
EXPENDITURES				
Legislative:				
Personnel	310	310	329	(19)
Supplies	1,100	1,100	273	827
Services	22,750	22,750	15,232	7,518
Maintenance	-	-	262	(262)
	<u>24,160</u>	<u>24,160</u>	<u>16,096</u>	<u>8,064</u>
Administration:				
Personnel	273,550	273,550	273,695	(145)
Supplies	6,775	6,775	9,261	(2,486)
Services	164,900	164,900	175,279	(10,379)
Maintenance	6,700	6,700	6,775	(75)
Minor equipment	3,500	3,500	1,640	1,860
	<u>455,425</u>	<u>455,425</u>	<u>466,650</u>	<u>(11,225)</u>
Streets:				
Personnel	268,750	268,750	251,203	17,547
Supplies	43,500	43,500	19,307	24,193
Services	141,520	141,520	133,239	8,281
Maintenance	67,900	67,900	42,587	25,313
Capital outlay	25,000	25,000	151,405	(126,405)
Debt service - principal	24,100	24,100	24,106	(6)
Debt service - interest	1,700	1,700	1,630	70
	<u>572,470</u>	<u>572,470</u>	<u>623,477</u>	<u>(51,007)</u>

CITY OF HILLSBORO, TEXAS

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

**GENERAL FUND
(Continued)**

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
EXPENDITURES (Continued)				
Police:				
Personnel	\$ 2,309,760	\$ 2,309,760	\$ 2,084,115	\$ 225,645
Supplies	155,250	155,250	158,680	(3,430)
Services	160,800	160,800	180,406	(19,606)
Maintenance	54,300	54,300	68,258	(13,958)
Minor equipment	7,000	7,000	4,980	2,020
Capital outlay	106,695	106,695	381,814	(275,119)
Debt service - principal	-	-	62,422	(62,422)
Debt service - interest	-	-	2,091	(2,091)
	<u>2,793,805</u>	<u>2,793,805</u>	<u>2,942,766</u>	<u>(148,961)</u>
Library:				
Personnel	325,845	325,845	298,467	27,378
Supplies	12,050	12,050	9,104	2,946
Services	52,625	52,625	56,243	(3,618)
Maintenance	18,000	18,000	34,367	(16,367)
Minor equipment	6,000	6,000	6,408	(408)
Capital outlay	58,500	58,500	44,572	13,928
	<u>473,020</u>	<u>473,020</u>	<u>449,161</u>	<u>23,859</u>
Fire:				
Personnel	1,186,620	1,186,620	1,199,068	(12,448)
Supplies	162,250	162,250	149,299	12,951
Services	134,500	134,500	129,230	5,270
Maintenance	18,500	18,500	25,443	(6,943)
Minor equipment	5,000	5,000	450	4,550
Capital outlay	16,000	16,000	4,630	11,370
Debt service - principal	78,510	78,510	78,700	(190)
Debt service - interest	20,200	20,200	19,998	202
	<u>1,621,580</u>	<u>1,621,580</u>	<u>1,606,818</u>	<u>14,762</u>
Municipal court:				
Personnel	180,755	180,755	179,425	1,330
Supplies	4,850	4,850	3,986	864
Services	64,100	64,100	55,249	8,851
Maintenance	18,400	18,400	20,060	(1,660)
	<u>268,105</u>	<u>268,105</u>	<u>258,720</u>	<u>9,385</u>

CITY OF HILLSBORO, TEXAS

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

**GENERAL FUND
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES (Continued)				
Parks:				
Personnel	\$ 279,685	\$ 279,685	\$ 285,961	\$(6,276)
Supplies	28,500	28,500	23,108	5,392
Services	38,770	38,770	39,658	(888)
Maintenance	33,500	33,500	34,710	(1,210)
Minor equipment	3,000	3,000	2,496	504
Capital outlay	<u>5,000</u>	<u>5,000</u>	<u>1,899</u>	<u>3,101</u>
	<u>388,455</u>	<u>388,455</u>	<u>387,832</u>	<u>623</u>
Recreation:				
Personnel	6,480	6,480	9,912	(3,432)
Supplies	3,600	3,600	10,705	(7,105)
Services	1,850	1,850	2,248	(398)
Minor equipment	1,000	1,000	214	786
Capital outlay	<u>1,000</u>	<u>1,000</u>	<u>4,202</u>	<u>(3,202)</u>
	<u>13,930</u>	<u>13,930</u>	<u>27,281</u>	<u>(13,351)</u>
Maintenance shop:				
Personnel	107,735	107,735	112,708	(4,973)
Supplies	73,825	73,825	67,567	6,258
Services	10,555	10,555	8,624	1,931
Maintenance	71,000	71,000	90,084	(19,084)
Minor equipment	<u>2,000</u>	<u>2,000</u>	<u>45</u>	<u>1,955</u>
	<u>265,115</u>	<u>265,115</u>	<u>279,028</u>	<u>(13,913)</u>
Cemetery:				
Personnel	17,815	17,815	13,834	3,981
Supplies	1,850	1,850	237	1,613
Services	60,190	60,190	59,730	460
Maintenance	<u>1,050</u>	<u>1,050</u>	<u>1,168</u>	<u>(118)</u>
	<u>80,905</u>	<u>80,905</u>	<u>74,969</u>	<u>5,936</u>
Community development:				
Personnel	149,015	149,015	138,494	10,521
Supplies	2,250	2,250	1,871	379
Services	20,750	20,750	16,543	4,207
Maintenance	8,500	8,500	4,412	4,088
Minor equipment	<u>1,000</u>	<u>1,000</u>	<u>13</u>	<u>987</u>
	<u>181,515</u>	<u>181,515</u>	<u>161,333</u>	<u>20,182</u>

CITY OF HILLSBORO, TEXAS

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

**GENERAL FUND
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES (Continued)				
Legal:				
Personnel	\$ 33,180	\$ 33,180	\$ 32,385	\$ 795
Services	1,800	1,800	3,053	(1,253)
Maintenance	-	-	523	(523)
	<u>34,980</u>	<u>34,980</u>	<u>35,961</u>	<u>(981)</u>
Finance:				
Personnel	196,400	196,400	225,190	(28,790)
Supplies	5,000	5,000	4,743	257
Services	45,940	45,940	35,983	9,957
Maintenance	750	750	1,400	(650)
Minor equipment	3,665	3,665	181	3,484
	<u>251,755</u>	<u>251,755</u>	<u>267,497</u>	<u>(15,742)</u>
Information systems:				
Personnel	116,165	116,165	101,555	14,610
Supplies	2,800	2,800	1,140	1,660
Services	10,890	10,890	3,897	6,993
Maintenance	4,900	4,900	44,337	(39,437)
Minor equipment	1,000	1,000	1,133	(133)
Capital outlay	6,000	6,000	27,541	(21,541)
	<u>141,755</u>	<u>141,755</u>	<u>179,603</u>	<u>(37,848)</u>
Animal control:				
Personnel	47,100	47,100	41,660	5,440
Supplies	11,400	11,400	5,813	5,587
Services	2,900	2,900	2,566	334
Maintenance	10,500	10,500	11,101	(601)
Minor equipment	500	500	3,115	(2,615)
	<u>72,400</u>	<u>72,400</u>	<u>64,255</u>	<u>8,145</u>

CITY OF HILLSBORO, TEXAS

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

**GENERAL FUND
(Continued)**

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
EXPENDITURES (Continued)				
Code Enforcement:				
Personnel	\$ 77,305	\$ 77,305	\$ 86,023	\$(8,718)
Supplies	5,350	5,350	1,945	3,405
Services	98,400	98,400	81,680	16,720
Maintenance	9,260	9,260	7,629	1,631
Minor equipment	2,200	2,200	1,625	575
Capital outlay	3,000	3,000	44	2,956
	195,515	195,515	178,946	16,569
 Total expenditures	 7,834,890	 7,834,890	 8,020,393	 (185,503)
 EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	 (379,000)	 (379,000)	 (82,097)	 296,903
 OTHER FINANCING SOURCES (USES)				
Capital lease	-	-	408,000	408,000
Transfers in	666,600	666,600	666,600	-
Transfers out	(287,600)	(287,600)	(792,503)	(504,903)
Total other financing sources (uses)	379,000	379,000	282,097	(96,903)
 NET CHANGE IN FUND BALANCE	 -	 -	 200,000	 200,000
 FUND BALANCES, BEGINNING	 1,512,132	 1,512,132	 1,512,132	 -
 FUND BALANCES, ENDING	 \$ 1,512,132	 \$ 1,512,132	 \$ 1,712,132	 \$ 200,000

The accompanying notes are an integral part of this schedule.

CITY OF HILLSBORO, TEXAS

ECONOMIC DEVELOPMENT CORPORATION FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Sales	\$ 243,000	\$ 243,000	\$ 276,508	\$ 33,508
Investment earnings	9,000	9,000	15,461	6,461
Other	10,000	10,000	68,166	58,166
Total revenues	<u>262,000</u>	<u>262,000</u>	<u>360,135</u>	<u>98,135</u>
EXPENDITURES				
Community development:				
Personnel	90,990	90,990	85,147	5,843
Supplies	800	800	171	629
Services	467,320	467,320	31,462	435,858
Maintenance	50,000	50,000	52,084	(2,084)
Minor equipment	1,000	1,000	-	1,000
Capital outlay	<u>1,040,000</u>	<u>1,040,000</u>	<u>-</u>	<u>1,040,000</u>
Total expenditures	<u>1,650,110</u>	<u>1,650,110</u>	<u>168,864</u>	<u>1,481,246</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,388,110)</u>	<u>(1,388,110)</u>	<u>191,271</u>	<u>1,579,381</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(12,000)</u>	<u>(12,000)</u>	<u>(262,000)</u>	<u>(250,000)</u>
Total other financing sources (uses)	<u>(12,000)</u>	<u>(12,000)</u>	<u>(262,000)</u>	<u>(250,000)</u>
NET CHANGE IN FUND BALANCE	<u>(1,400,110)</u>	<u>(1,400,110)</u>	<u>(70,729)</u>	<u>1,329,381</u>
FUND BALANCES, BEGINNING	<u>3,066,392</u>	<u>3,066,392</u>	<u>3,066,392</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 1,666,282</u>	<u>\$ 1,666,282</u>	<u>\$ 2,995,663</u>	<u>\$ 1,329,381</u>

The accompanying notes are an integral part of this schedule.

CITY OF HILLSBORO, TEXAS

HOTEL/MOTEL TAX FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Hotel/motel	\$ 320,000	\$ 320,000	\$ 355,577	\$ 35,577
Investment earnings	100	100	942	842
Rentals	7,500	7,500	5,600	(1,900)
Other	300	300	3,918	3,618
Total revenues	<u>327,900</u>	<u>327,900</u>	<u>366,037</u>	<u>38,137</u>
EXPENDITURES				
Community development:				
Personnel	12,515	12,515	7,590	4,925
Supplies	1,350	1,350	956	394
Services	186,400	186,400	159,325	27,075
Maintenance	3,560	3,560	4,297	(737)
Minor equipment	2,750	2,750	-	2,750
Debt service:				
Principal	25,000	25,000	-	25,000
Interest	7,725	7,725	-	7,725
Total expenditures	<u>239,300</u>	<u>239,300</u>	<u>172,168</u>	<u>67,132</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>88,600</u>	<u>88,600</u>	<u>193,869</u>	<u>105,269</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(88,600)</u>	<u>(88,600)</u>	<u>(88,600)</u>	<u>-</u>
Total other financing sources (uses)	<u>(88,600)</u>	<u>(88,600)</u>	<u>(88,600)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	-	105,269	105,269
FUND BALANCES, BEGINNING	<u>1,565,955</u>	<u>1,565,955</u>	<u>1,565,955</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 1,565,955</u>	<u>\$ 1,565,955</u>	<u>\$ 1,671,224</u>	<u>\$ 105,269</u>

The accompanying notes are an integral part of this schedule.

CITY OF HILLSBORO, TEXAS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

Plan Year	2014	2015	2016
A. Total pension liability			
Service Cost	\$ 438,226	\$ 468,170	\$ 485,437
Interest (on the Total Pension Liability)	1,074,600	1,132,285	1,166,069
Difference between expected and actual experience	(118,737)	(20,246)	(66,470)
Change of assumptions	-	15,413	-
Benefit payments, including refunds of employee contributions	(596,553)	(573,439)	(435,866)
Net change in total pension liability	797,536	1,022,183	1,149,170
Total pension liability - beginning	<u>15,430,596</u>	<u>16,228,132</u>	<u>17,250,315</u>
Total pension liability - ending (a)	<u>\$ 16,228,132</u>	<u>\$ 17,250,315</u>	<u>\$ 18,399,485</u>
B. Plan fiduciary net position			
Contributions - employer	\$ 512,630	\$ 490,443	\$ 465,516
Contributions - employee	220,014	218,363	216,520
Net investment income	737,398	20,295	939,202
Benefit payments, including refunds of employee contributions	(596,553)	(573,439)	(435,866)
Administrative expenses	(7,698)	(12,362)	(10,607)
Other	<u>(633)</u>	<u>(611)</u>	<u>(571)</u>
Net change in plan fiduciary net position	865,158	142,689	1,174,194
Plan fiduciary net position - beginning	<u>12,889,137</u>	<u>13,754,295</u>	<u>13,896,984</u>
Plan fiduciary net position - ending (b)	<u>\$ 13,754,295</u>	<u>\$ 13,896,984</u>	<u>\$ 15,071,178</u>
C. Net pension liability - ending (a) - (b)	<u>\$ 2,473,837</u>	<u>\$ 3,353,331</u>	<u>\$ 3,328,307</u>
D. Plan fiduciary net position as a percentage of total pension liability	85%	81%	82%
E. Covered employee payroll	\$ 4,400,270	\$ 4,367,256	\$ 4,330,395
F. Net position liability as a percentage of covered employee payroll	56%	77%	77%

Note: 10 years of information is required to be provided in this schedule, but information prior to 2014 is not available.

CITY OF HILLSBORO, TEXAS

SCHEDULE OF CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

Fiscal Year	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarial determined contribution	\$ 515,423	\$ 495,900	\$ 488,084	\$ 503,274
Contributions in relation to the actuarially determined contribution	<u>515,423</u>	<u>495,900</u>	<u>488,084</u>	<u>503,274</u>
Contribution deficiency (excess)	-	-	-	-
Covered employee payroll	4,402,787	4,371,447	4,487,493	4,491,419
Contributions as a percentage of covered employee payroll	11.7%	11.3%	10.9%	11.2%

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	29 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
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.

Note: 10 years of information is required to be provided in this schedule, but information prior to 2014 is not available.

CITY OF HILLSBORO, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2017

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 did not make any supplementary budget appropriations 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 existing fund balance.

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COMBINING STATEMENTS

CITY OF HILLSBORO, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2017

	Special Revenue Funds			
	Industrial Development	Library Special	Police Local Forfeiture	Police Federal Forfeiture
ASSETS				
Cash and investments	\$ 21	\$ 7,591	\$ 443,903	\$ 24,526
Accounts receivable	-	-	-	-
Total assets	21	7,591	443,903	24,526
LIABILITIES				
Accounts payable	-	-	-	-
Accrued liabilities	-	-	-	-
Due to other funds	-	-	-	-
Total liabilities	-	-	-	-
FUND BALANCE				
Restricted for:				
Industrial development	21	-	-	-
Library operations	-	7,591	-	-
Public safety	-	-	443,903	24,526
Capital projects	-	-	-	-
Total fund balances	21	7,591	443,903	24,526
Total liabilities and fund balances	\$ 21	\$ 7,591	\$ 443,903	\$ 24,526

<u>Special Revenue Funds</u>		<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Police Special</u>	<u>Main Street</u>	<u>Street Improvement</u>	
\$ 1,639	\$ -	\$ 58,528	\$ 536,208
<u>-</u>	<u>9,050</u>	<u>-</u>	<u>9,050</u>
<u>1,639</u>	<u>9,050</u>	<u>58,528</u>	<u>545,258</u>
66	4,805	-	4,871
-	966	-	966
<u>-</u>	<u>3,279</u>	<u>-</u>	<u>3,279</u>
<u>66</u>	<u>9,050</u>	<u>-</u>	<u>9,116</u>
-	-	-	21
-	-	-	7,591
1,573	-	-	470,002
<u>-</u>	<u>-</u>	<u>58,528</u>	<u>58,528</u>
<u>1,573</u>	<u>-</u>	<u>58,528</u>	<u>536,142</u>
<u>\$ 1,639</u>	<u>\$ 9,050</u>	<u>\$ 58,528</u>	<u>\$ 545,258</u>

CITY OF HILLSBORO, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Special Revenue Funds			
	Industrial Development	Library Special	Police Local Forfeiture	Police Federal Forfeiture
REVENUES				
Fines and forfeitures	\$ -	\$ -	\$ 8,978	\$ 8,465
Investment earnings	-	-	3,598	129
Other	-	-	-	-
Total revenues	-	-	12,576	8,594
EXPENDITURES				
Current:				
Personnel	-	-	-	-
Services	-	-	407	-
Supplies	-	-	1,094	-
Maintenance	-	-	-	70
Minor equipment	-	-	15,422	-
Capital outlay	-	-	24,471	-
Total expenditures	-	-	41,394	70
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	-	(28,818)	8,524
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
NET CHANGE IN FUND BALANCES	-	-	(28,818)	8,524
FUND BALANCES, BEGINNING	21	7,591	472,721	16,002
FUND BALANCES, ENDING	\$ 21	\$ 7,591	\$ 443,903	\$ 24,526

<u>Special Revenue Funds</u>		<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Police Special</u>	<u>Main Street</u>	<u>Street Improvement Fund</u>	
\$ -	\$ -	\$ -	\$ 17,443
-	251	-	3,978
-	23,155	-	23,155
-	23,406	-	44,576
-	55,841	-	55,841
89	30,778	-	31,274
1,171	17,780	-	20,045
-	262	-	332
-	-	-	15,422
-	-	598,472	622,943
<u>1,260</u>	<u>104,661</u>	<u>598,472</u>	<u>745,857</u>
(1,260)	(81,255)	(598,472)	(701,281)
-	81,255	507,000	588,255
(1,260)	-	(91,472)	(113,026)
<u>2,833</u>	<u>-</u>	<u>150,000</u>	<u>649,168</u>
<u>\$ 1,573</u>	<u>\$ -</u>	<u>\$ 58,528</u>	<u>\$ 536,142</u>

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**INTERNAL CONTROLS AND
COMPLIANCE SECTION**

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hillsboro, Texas (the "City"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 10, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Waco, Texas
May 10, 2018