

# **CITY OF HILLSBORO, TEXAS**

## **ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2019**

**THIS PAGE LEFT BLANK INTENTIONALLY**

# CITY OF HILLSBORO, TEXAS

## TABLE OF CONTENTS

SEPTEMBER 30, 2019

### **Page Number**

Independent Auditor's Report .....	1 – 2
Management's Discussion and Analysis .....	3 – 8

### **Basic Financial Statements**

#### Government-wide Financial Statements:

Statement of Net Position .....	9
Statement of Activities .....	10

#### Governmental Fund Financial Statements:

Balance Sheet .....	11 – 12
Statement of Revenues, Expenditures and Changes in Fund Balances .....	13 – 14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	15

#### Proprietary Fund Financial Statements:

Statement of Net Position .....	16
Statement of Revenues, Expenses and Changes in Net Position .....	17
Statement of Cash Flows .....	18 – 19

Notes to the Financial Statements .....	20 – 35
---	---------

### **Required Supplementary Information**

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund .....	36 – 39
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Economic Development Corporation Fund .....	40
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Hotel/Motel Tax Fund .....	41
Schedule of Changes in Net Pension Liability and Related Ratios .....	42
Schedule of Contributions .....	43
Notes to Required Supplementary Information .....	44

### **Supplementary Information**

#### Nonmajor Governmental Funds:

Combining Balance Sheet .....	45 – 46
Combining Statement of Revenues, Expenditures and Changes in Fund Balances .....	47 – 48

### **Internal Control and Compliance Section**

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	49 – 50
--	---------

**THIS PAGE LEFT BLANK INTENTIONALLY**





## INDEPENDENT AUDITOR'S REPORT

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, 2019, 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.

### Auditor's Responsibility

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

### OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston  
NEW MEXICO | Albuquerque



## **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, 2019, 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 28, 2020, 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 28, 2020



## 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, 2019. 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, 2019, by \$29,218,905 (net position).
- The City's total net position increased in the current year by \$828,473.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,823,957. Approximately 20% of this total amount, \$1,582,624, is unassigned fund balance available for use within the City's fund designation and fiscal policies.
- As of September 30, 2019, unassigned fund balance for the General Fund was \$1,885,936 or 19% 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 9 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, and community development. The business-type activities of the City include water and wastewater, sanitation, and airport operations.

The government-wide financial statements can be found on pages 9 – 10 of this report.

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



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

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

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

**Proprietary Funds.** The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise funds to account for water, wastewater, 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 16 – 19 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 20-34 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 42 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 \$29,218,905 as of September 30, 2019.

### NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Current assets	\$ 9,410,052	\$ 8,342,442	\$ 4,226,912	\$ 1,167,129	\$ 13,636,964	\$ 9,509,571
Capital assets	<u>19,526,025</u>	<u>15,176,201</u>	<u>11,143,861</u>	<u>11,548,650</u>	<u>30,669,886</u>	<u>26,724,851</u>
Total Assets	<u>28,936,077</u>	<u>23,518,643</u>	<u>15,370,773</u>	<u>12,715,779</u>	<u>44,306,850</u>	<u>36,234,422</u>
Total deferred outflows of resources	<u>1,240,444</u>	<u>451,813</u>	<u>149,788</u>	<u>60,010</u>	<u>1,390,232</u>	<u>511,823</u>
Liabilities	1,099,180	531,547	472,502	455,234	1,571,682	986,781
Noncurrent liabilities	<u>7,190,194</u>	<u>7,552,272</u>	<u>3,843,779</u>	<u>1,246,220</u>	<u>11,033,973</u>	<u>8,798,492</u>
Total Liabilities	<u>8,289,374</u>	<u>8,083,819</u>	<u>4,316,281</u>	<u>1,701,454</u>	<u>12,605,655</u>	<u>9,785,273</u>
Total deferred inflows of resources	<u>84,481</u>	<u>513,457</u>	<u>10,059</u>	<u>66,131</u>	<u>94,540</u>	<u>579,588</u>
Net position:						
Net investment in capital assets	12,374,392	12,043,121	10,613,657	10,504,152	22,988,049	22,547,273
Restricted	5,983,444	5,579,409	-	-	5,983,444	5,579,409
Unrestricted	<u>( 241,215)</u>	<u>( 164,769)</u>	<u>488,627</u>	<u>428,519</u>	<u>247,412</u>	<u>263,750</u>
Total Net Position	<u>\$ 18,116,621</u>	<u>\$ 17,457,761</u>	<u>\$ 11,102,284</u>	<u>\$ 10,932,671</u>	<u>\$ 29,218,905</u>	<u>\$ 28,390,432</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.

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 City as a whole.

The City's net position increased by \$828,473 during the current fiscal year, which was slightly less than the prior year increase of \$1,002,721. Revenues increased by \$448,327 and expenses increased by \$622,575.



# CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
<b>REVENUES:</b>						
Program revenues:						
Charges for services	\$ 1,325,624	\$ 1,384,000	\$ 5,323,594	\$ 5,190,381	\$ 6,649,218	\$ 6,574,381
Operating grants	47,262	50,347	17,144	-	64,406	50,347
Capital grants and contributions	-	9,860	315,043	414,197	315,043	424,057
General revenues:						
Property taxes	4,037,402	3,789,169	-	-	4,037,402	3,789,169
Sales taxes	3,385,713	3,426,662	-	-	3,385,713	3,426,662
Franchise taxes	567,913	543,357	-	-	567,913	543,357
Hotel/motel taxes	351,311	386,033	-	-	351,311	386,033
Other taxes	49,565	41,106	-	-	49,565	41,106
Investment earnings	161,971	138,699	22,496	14,873	184,467	153,572
Miscellaneous	393,581	173,481	51,784	39,911	445,365	213,392
Total Revenues	<u>10,320,342</u>	<u>9,942,714</u>	<u>5,730,061</u>	<u>5,659,362</u>	<u>16,050,403</u>	<u>15,602,076</u>
<b>EXPENSES:</b>						
General government	2,332,911	2,202,343	-	-	2,332,911	2,202,343
Public safety	5,684,343	5,298,305	-	-	5,684,343	5,298,305
Streets	1,270,049	1,047,563	-	-	1,270,049	1,047,563
Community development	670,898	1,109,418	-	-	670,898	1,109,418
Interest on long-term debt	227,281	242,332	-	-	227,281	242,332
Water and sewer	-	-	3,890,981	3,567,056	3,890,981	3,567,056
Sanitation	-	-	819,605	818,159	819,605	818,159
Airport	-	-	325,862	314,179	325,862	314,179
Total Expenses	<u>10,185,482</u>	<u>9,899,961</u>	<u>5,036,448</u>	<u>4,699,394</u>	<u>15,221,930</u>	<u>14,599,355</u>
<b>INCREASES IN NET POSITION BEFORE TRANSFERS</b>						
	134,860	42,753	693,613	959,968	828,473	1,002,721
<b>TRANSFERS</b>						
	<u>524,000</u>	<u>511,565</u>	<u>( 524,000)</u>	<u>( 511,565)</u>	<u>-</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>						
	658,860	554,318	169,613	448,403	828,473	1,002,721
<b>NET POSITION, BEGINNING</b>						
	<u>17,457,761</u>	<u>16,903,443</u>	<u>10,932,671</u>	<u>10,484,268</u>	<u>28,390,432</u>	<u>27,387,711</u>
<b>NET POSITION, ENDING</b>						
	<u>\$ 18,116,621</u>	<u>\$ 17,457,761</u>	<u>\$ 11,102,284</u>	<u>\$ 10,932,671</u>	<u>\$ 29,218,905</u>	<u>\$ 28,390,432</u>

**Governmental Activities.** Governmental activities increased the City's net position by \$658,860. Key elements of this are as follows:

- Miscellaneous revenue increased by \$220,100
- A transfer from Business-type Activities 524,000
- Property tax revenue increased by 248,233
- Community development expenses decreased by 438,520
- Public safety expenses increased by 386,038

**Business-type Activities.** Business-type activities increased the City's net position by \$169,613. Key elements of this increase are as follows:

- Charges for services revenue increased by \$133,213
- Water and sewer expenses increased by 323,925

## 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 \$7,823,957. Approximately 20% of this total amount, \$1,582,624 constitutes unassigned fund balance. Refer to pages 11 – 14 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 \$1,885,936, while total fund balance reached \$2,340,580.

The fund balance of the City's General Fund increased by \$119,776 during the current fiscal year. A key factor in this change was a \$85,899 increase in property tax revenue from the previous year.

The fund balance of the City's Economic Development Corporation Fund increased by \$256,281 during the current fiscal year. This increase was primarily due to a decrease in expenditures.

The Hotel/Motel Tax fund balance increased by \$58,553 during the current fiscal year. This increase is due to consistent efforts toward keeping expenditures down.

The Debt Service Fund has a total fund balance of \$201,193, which was a \$1,112 decrease over the prior year.

**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 \$488,627. The increase in net position was \$169,613. 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 2019.

Actual revenues exceeded budgeted revenues by \$119,640 while total expenditures exceeded appropriations by \$1,002,627. This was offset by other financing sources of \$1,002,763 in excess of budgeted amounts.

## CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2019, amounts to \$32,292,955 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities and infrastructure.

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

- 2018 Pierce Saber Firetruck for \$599,934
- Finance/MC/MIS Building for \$251,046

Additional information on the City's capital assets can be found on page 27 of this report.



## **DEBT ADMINISTRATION**

At the end of the current fiscal year, the City had total bonded debt of \$10,605,000. 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.

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

Additional information on the City's long term-debt can be found in pages 28 – 30 of this report.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The FY 2020 Budget reflects the City's efforts to address the needs and issues in the community and meet desired levels of services while limiting expenditures to maintain a balanced budget. An increase of 3.1% in water/wastewater revenue is planned during this fiscal year to fund the City's share of the proposed new Industrial Water Tower. Budgeted expenditures for each department have been based upon an evaluation of the departments' programs and priorities. A regular review of the core function of every City operation is instrumental in determining appropriate expenditure levels without sacrificing the basic services that the community needs and expects.

## **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.

**BASIC  
FINANCIAL STATEMENTS**

**THIS PAGE LEFT BLANK INTENTIONALLY**



**CITY OF HILLSBORO, TEXAS**

**STATEMENT OF NET POSITION**

**SEPTEMBER 30, 2019**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and investments	\$ 7,717,312	\$ 3,198,123	\$ 10,915,435
Receivables (net of allowances for uncollectibles):			
Taxes	964,272	-	964,272
Accounts	267,137	638,037	905,174
Municipal court	335,782	-	335,782
Intergovernmental	-	332,186	332,186
Internal balances	95,236	( 95,236)	-
Inventories	20,186	153,802	173,988
Prepaid items	10,127	-	10,127
Capital assets not being depreciated	803,137	819,932	1,623,069
Capital assets, net of accumulated depreciation	<u>19,526,025</u>	<u>11,143,861</u>	<u>30,669,886</u>
Total assets	<u>29,739,214</u>	<u>16,190,705</u>	<u>45,929,919</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on refunding	74,567	10,968	85,535
Deferred outflows related to pensions	<u>1,165,877</u>	<u>138,820</u>	<u>1,304,697</u>
Total deferred outflows of resources	<u>1,240,444</u>	<u>149,788</u>	<u>1,390,232</u>
<b>LIABILITIES</b>			
Accounts payable	872,374	161,525	1,033,899
Accrued liabilities	158,241	10,802	169,043
Accrued interest payable	68,565	21,063	89,628
Unearned revenue	-	24,539	24,539
Customer deposits	-	254,573	254,573
Noncurrent liabilities:			
Due within one year:			
Long-term debt	1,194,935	519,626	1,714,561
Due in more than one year:			
Long-term debt	7,190,194	3,843,779	11,033,973
Net pension liability - TMRS	<u>3,294,247</u>	<u>392,243</u>	<u>3,686,490</u>
Total liabilities	<u>12,778,556</u>	<u>5,228,150</u>	<u>18,006,706</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflow related to pensions	<u>84,481</u>	<u>10,059</u>	<u>94,540</u>
Total deferred inflows of resources	<u>84,481</u>	<u>10,059</u>	<u>94,540</u>
<b>NET POSITION</b>			
Net investment in capital assets	12,374,392	10,613,657	22,988,049
Restricted for:			
Economic development	2,969,454	-	2,969,454
Tourism	1,844,835	-	1,844,835
Court security and technology	424,331	-	424,331
Debt service	267,814	-	267,814
Public safety	444,419	-	444,419
Library operations	32,591	-	32,591
Unrestricted	<u>( 241,215)</u>	<u>488,627</u>	<u>247,412</u>
Total net position	<u>\$ 18,116,621</u>	<u>\$ 11,102,284</u>	<u>\$ 29,218,905</u>

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

**THIS PAGE LEFT BLANK INTENTIONALLY**

# CITY OF HILLSBORO, TEXAS

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2019

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
<b>Governmental activities:</b>						
General government	\$ 2,332,911	\$ 65,427	\$ 22,711	\$ -	\$( 2,244,773)	\$ ( 2,244,773)
Public safety	5,684,343	1,224,800	24,551	-	( 4,434,992)	( 4,434,992)
Streets	1,270,049	-	-	-	( 1,270,049)	( 1,270,049)
Community development	670,898	35,397	-	-	( 635,501)	( 635,501)
Interest on long-term debt	227,281	-	-	-	( 227,281)	( 227,281)
Total governmental activities	10,185,482	1,325,624	47,262	-	( 8,812,596)	( 8,812,596)
<b>Business-type activities:</b>						
Water and sewer	3,890,981	3,978,170	-	315,043	-	402,232
Sanitation	819,605	1,112,645	-	-	-	293,040
Airport	325,862	232,779	17,144	-	( 75,939)	( 75,939)
Total business-type activities	5,036,448	5,323,594	17,144	315,043	-	619,333
<b>Total</b>	<b>\$ 15,221,930</b>	<b>\$ 6,649,218</b>	<b>\$ 64,406</b>	<b>\$ 315,043</b>	<b>( 8,812,596)</b>	<b>( 8,193,263)</b>
<b>General revenues:</b>						
<b>Taxes:</b>						
Property - general purposes					3,159,783	3,159,783
Property - debt service					877,619	877,619
Sales					3,385,713	3,385,713
Franchise					567,913	567,913
Hotel/motel					351,311	351,311
Other					49,565	49,565
Unrestricted investment earnings					161,971	161,971
Miscellaneous					393,581	393,581
Transfers					524,000	524,000
Total general revenues and transfers					( 9,471,456)	( 9,471,456)
Change in net position					658,860	658,860
Net position, beginning					17,457,761	17,457,761
Net position ending					\$ 18,116,621	\$ 11,102,284
						\$ 29,218,905



# CITY OF HILLSBORO, TEXAS

## BALANCE SHEET

### GOVERNMENTAL FUNDS

SEPTEMBER 30, 2019

	General	Economic Development Corporation	Hotel/Motel Tax
<b>ASSETS</b>			
Cash and investments	\$ 2,195,575	\$ 2,751,120	\$ 1,793,277
Receivables (net of allowance for uncollectibles):			
Taxes	779,663	51,486	63,936
Accounts	586,114	3,201	-
Inventory	20,186	-	-
Due from other funds	401,457	166,078	-
Prepaid items	10,127	-	-
Total assets	<u>3,993,122</u>	<u>2,971,885</u>	<u>1,857,213</u>
<b>LIABILITIES</b>			
Accounts payable	842,005	773	12,378
Accrued liabilities	155,600	1,658	-
Due to other funds	166,078	-	-
Total liabilities	<u>1,163,683</u>	<u>2,431</u>	<u>12,378</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - property taxes	153,077	-	-
Unavailable revenue - court fines	335,782	-	-
Total deferred inflows of resources	<u>488,859</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCE</b>			
<b>Nonspendable:</b>			
Inventory	20,186	-	-
Prepaid items	10,127	-	-
<b>Restricted:</b>			
Court security and technology	424,331	-	-
Debt service	-	-	-
Economic development	-	2,969,454	-
Library operations	-	-	-
Public safety	-	-	-
Tourism	-	-	1,844,835
Capital projects	-	-	-
<b>Unassigned</b>	<u>1,885,936</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>2,340,580</u>	<u>2,969,454</u>	<u>1,844,835</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,993,122</u>	<u>\$ 2,971,885</u>	<u>\$ 1,857,213</u>

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

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

Long-term liabilities (net pension liability, bonds payable, etc.) are not due and payable in the current period and therefore have not been included in the fund financial statements. Also, deferred inflows and outflows related to the net pension liability and issuance of long-term debt are not reported in the funds.

Net position of governmental activities

<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 198,627	\$ 778,713	\$ 7,717,312
69,187	-	964,272
-	13,604	602,919
-	-	20,186
-	-	567,535
-	-	10,127
<u>267,814</u>	<u>792,317</u>	<u>9,882,351</u>
-	17,218	872,374
-	983	158,241
-	306,221	472,299
-	324,422	1,502,914
66,621	-	219,698
-	-	335,782
<u>66,621</u>	<u>-</u>	<u>555,480</u>
-	-	20,186
-	-	10,127
-	-	424,331
201,193	-	201,193
-	-	2,969,454
-	32,591	32,591
-	444,419	444,419
-	-	1,844,835
-	294,197	294,197
-	( 303,312)	1,582,624
<u>201,193</u>	<u>467,895</u>	<u>7,823,957</u>
\$ <u>267,814</u>	\$ <u>792,317</u>	
		20,329,162
		555,480
		( 10,591,978)
		\$ <u>18,116,621</u>



**CITY OF HILLSBORO, TEXAS**

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

**GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	<u>General</u>	<u>Economic Development Corporation</u>	<u>Hotel/Motel Tax</u>
<b>REVENUES</b>			
Taxes:			
Ad valorem	\$ 3,073,202	\$ -	\$ -
Sales	3,103,570	282,143	-
Franchise	567,913	-	-
Hotel/motel	-	-	351,311
Other	49,565	-	-
Fines and forfeitures	828,497	-	-
Charges for services	275,359	-	-
Intergovernmental	47,262	-	-
Licenses and permits	28,384	-	-
Investment earnings	81,019	57,383	3,240
Rentals	-	-	7,013
Cemetery lot sales and fees	29,060	-	-
Contributions	135,468	-	-
Miscellaneous	54,441	16,554	-
Total revenues	<u>8,273,740</u>	<u>356,080</u>	<u>361,564</u>
<b>EXPENDITURES</b>			
Current:			
General government	2,545,448	-	-
Public safety	4,987,298	-	-
Streets	584,717	-	-
Community development	186,091	127,029	188,959
Capital outlay	1,144,395	-	21,652
Debt service:			
Principal	219,540	-	-
Interest	37,058	-	-
Fees	-	-	-
Total expenditures	<u>9,704,547</u>	<u>127,029</u>	<u>210,611</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 1,430,807)</u>	<u>229,051</u>	<u>150,953</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Sale of capital assets	41,155	39,230	-
Insurance recoveries	300,647	-	-
Capital lease	666,244	-	-
Transfers in	580,600	-	-
Transfers out	( 38,063)	( 12,000)	( 92,400)
Total other financing sources (uses)	<u>1,550,583</u>	<u>27,230</u>	<u>( 92,400)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>119,776</u>	<u>256,281</u>	<u>58,553</u>
<b>FUND BALANCE, BEGINNING</b>	<u>2,220,804</u>	<u>2,713,173</u>	<u>1,786,282</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 2,340,580</u>	<u>\$ 2,969,454</u>	<u>\$ 1,844,835</u>

Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 862,784	\$ -	\$ 3,935,986
-	-	3,385,713
-	-	567,913
-	-	351,311
-	-	49,565
-	7,579	836,076
-	-	275,359
-	-	47,262
-	-	28,384
7,777	12,552	161,971
-	-	7,013
-	-	29,060
-	28,238	163,706
-	21,939	92,934
<u>870,561</u>	<u>70,308</u>	<u>9,932,253</u>
-	-	2,545,448
-	107,913	5,095,211
-	22,865	607,582
-	-	502,079
-	43,639	1,209,686
690,000	-	909,540
176,923	-	213,981
4,750	-	4,750
<u>871,673</u>	<u>174,417</u>	<u>11,088,277</u>
( 1,112)	( 104,109)	( 1,156,024)
-	-	80,385
-	-	300,647
-	-	666,244
-	85,863	666,463
-	-	( 142,463)
-	85,863	1,571,276
( 1,112)	( 18,246)	415,252
202,305	486,141	7,408,705
<u>\$ 201,193</u>	<u>\$ 467,895</u>	<u>\$ 7,823,957</u>

**THIS PAGE LEFT BLANK INTENTIONALLY**

**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, 2019**

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

Net change in fund balances - total governmental funds	\$ 415,252
--	------------

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.	98,558
--	--------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	87,442
--	--------

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.	66,799
--	--------

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.	( 9,191)
---	----------

Change in net position of governmental activities	\$ <u>658,860</u>
---	-------------------

**THIS PAGE LEFT BLANK INTENTIONALLY**



**CITY OF HILLSBORO, TEXAS**

**STATEMENT OF NET POSITION**

**PROPRIETARY FUNDS**

**SEPTEMBER 30, 2019**

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Sanitation	Airport	Totals
<b>ASSETS</b>				
Cash and investments	\$ 3,065,997	\$ 132,126	\$ -	\$ 3,198,123
Accounts receivable	578,230	51,949	7,858	638,037
Intergovernmental receivables	315,042	-	17,144	332,186
Inventories	134,933	-	18,869	153,802
Capital assets not being depreciated	617,443	97,906	104,583	819,932
Capital assets net of accumulated depreciation	<u>9,515,520</u>	<u>-</u>	<u>1,628,341</u>	<u>11,143,861</u>
Total assets	<u>14,227,165</u>	<u>281,981</u>	<u>1,776,795</u>	<u>16,285,941</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred charge on refunding	10,968	-	-	10,968
Deferred outflows related to pensions	<u>127,208</u>	<u>-</u>	<u>11,612</u>	<u>138,820</u>
Total deferred outflows of resources	<u>138,176</u>	<u>-</u>	<u>11,612</u>	<u>149,788</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	102,001	57,680	1,844	161,525
Customer deposits	254,573	-	-	254,573
Accrued liabilities	9,795	-	1,007	10,802
Due to other funds	-	-	95,236	95,236
Accrued interest payable	21,063	-	-	21,063
Unearned revenue	1,479	-	23,060	24,539
Accrued compensated absences	9,626	-	-	9,626
Bonds payable	<u>510,000</u>	<u>-</u>	<u>-</u>	<u>510,000</u>
Total current liabilities	<u>908,537</u>	<u>57,680</u>	<u>121,147</u>	<u>1,087,364</u>
Noncurrent liabilities:				
Bonds payable	3,834,153	-	-	3,834,153
Net pension liability	359,433	-	32,810	392,243
Accrued compensated absences	<u>9,626</u>	<u>-</u>	<u>-</u>	<u>9,626</u>
Total long-term liabilities	<u>4,203,212</u>	<u>-</u>	<u>32,810</u>	<u>4,236,022</u>
Total liabilities	<u>5,111,749</u>	<u>57,680</u>	<u>153,957</u>	<u>5,323,386</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows related to pensions	<u>9,218</u>	<u>-</u>	<u>841</u>	<u>10,059</u>
Total deferred inflows of resources	<u>9,218</u>	<u>-</u>	<u>841</u>	<u>10,059</u>
<b>NET POSITION</b>				
Net investment in capital assets	8,782,827	97,906	1,732,924	10,613,657
Unrestricted	<u>461,547</u>	<u>126,395</u>	<u>( 99,315)</u>	<u>488,627</u>
Total net position	<u>\$ 9,244,374</u>	<u>\$ 224,301</u>	<u>\$ 1,633,609</u>	<u>\$ 11,102,284</u>

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

**THIS PAGE LEFT BLANK INTENTIONALLY**

**CITY OF HILLSBORO, TEXAS**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

**PROPRIETARY FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Sanitation	Airport	Totals
<b>OPERATING REVENUES</b>				
Charges for services:				
Water and sewer sales	\$ 3,891,319	\$ -	\$ -	\$ 3,891,319
Sanitation sales	-	1,048,477	-	1,048,477
Airport fuel sales	-	-	180,325	180,325
Hangar rentals	-	-	49,198	49,198
Other service charges	86,851	64,168	3,256	154,275
Intergovernmental	315,043	-	17,144	332,187
Miscellaneous	51,784	-	-	51,784
Total operating revenues	<u>4,344,997</u>	<u>1,112,645</u>	<u>249,923</u>	<u>5,707,565</u>
<b>OPERATING EXPENSES</b>				
Water purchases	1,797,463	-	-	1,797,463
Personnel	829,737	-	59,770	889,507
Supplies	58,466	-	148,824	207,290
Services	279,190	814,907	34,264	1,128,361
Maintenance	232,077	4,698	27,907	264,682
Minor equipment	4,079	-	227	4,306
Depreciation and amortization	523,861	-	54,870	578,731
Total operating expenses	<u>3,724,873</u>	<u>819,605</u>	<u>325,862</u>	<u>4,870,340</u>
<b>OPERATING INCOME (LOSS)</b>	<u>620,124</u>	<u>293,040</u>	<u>( 75,939)</u>	<u>837,225</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment income	22,496	-	-	22,496
Interest and fiscal charges	(166,108)	-	-	( 166,108)
Total nonoperating revenues (expenses)	<u>( 143,612)</u>	<u>-</u>	<u>-</u>	<u>( 143,612)</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<u>476,512</u>	<u>293,040</u>	<u>( 75,939)</u>	<u>693,613</u>
Transfers out	<u>( 230,000)</u>	<u>( 294,000)</u>	<u>-</u>	<u>( 524,000)</u>
<b>CHANGE IN NET POSITION</b>	<u>246,512</u>	<u>(960)</u>	<u>( 75,939)</u>	<u>169,613</u>
<b>TOTAL NET POSITION, BEGINNING</b>	<u>8,997,862</u>	<u>225,261</u>	<u>1,709,548</u>	<u>10,932,671</u>
<b>TOTAL NET POSITION, ENDING</b>	<u>\$ 9,244,374</u>	<u>\$ 224,301</u>	<u>\$ 1,633,609</u>	<u>\$ 11,102,284</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, 2019**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Water and Wastewater</b>	<b>Sanitation</b>	<b>Airport</b>	<b>Totals</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 4,042,577	\$ 1,111,637	\$ 275,769	\$ 5,429,983
Cash payments to employees for services	( 701,781)	-	( 57,839)	( 759,620)
Cash payments to suppliers for goods and services	( 2,441,983)	( 828,008)	( 220,840)	( 3,490,831)
Cash provided (used) by operating activities	<u>898,813</u>	<u>283,629</u>	<u>( 2,910)</u>	<u>1,179,532</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Cash received from other funds	-	-	8,809	8,809
Cash paid to other funds	( 230,000)	( 294,000)	-	( 524,000)
Cash provided (used) by noncapital financing activities	<u>( 230,000)</u>	<u>( 294,000)</u>	<u>8,809</u>	<u>( 515,191)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Principal repayments on debt	( 405,130)	-	-	( 405,130)
Proceeds from debt	3,130,000	-	-	3,130,000
Interest and fiscal charges on debt	( 155,326)	-	-	( 155,326)
Acquisition and construction of capital assets	( 424,058)	-	( 5,999)	( 430,057)
Cash provided (used) by capital and related financing activities	<u>2,145,486</u>	<u>-</u>	<u>( 5,999)</u>	<u>2,139,487</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest on investments	<u>22,496</u>	<u>-</u>	<u>-</u>	<u>22,496</u>
Cash provided by investing activities	<u>22,496</u>	<u>-</u>	<u>-</u>	<u>22,496</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>2,836,795</u>	<u>( 10,371)</u>	<u>( 100)</u>	<u>2,826,324</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>229,202</u>	<u>142,497</u>	<u>100</u>	<u>371,799</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 3,065,997</u>	<u>\$ 132,126</u>	<u>\$ -</u>	<u>\$ 3,198,123</u>



**CITY OF HILLSBORO, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
(Continued)  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Sanitation	Airport	Totals
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 620,124	\$ 293,040	\$( 75,939)	\$ 837,225
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	523,861	-	54,870	578,731
Change in assets and liabilities:				
Decrease (increase) in accounts receivable	4,125	( 1,008)	16,777	19,894
Decrease (increase) in inventory	9,761	-	22,624	32,385
Decrease (increase) in prepaid expenses	-	-	5,966	5,966
Decrease (increase) in due from other governments	( 315,042)	-	14,529	( 300,513)
Decrease (increase) in deferred outflows	( 85,521)	-	( 7,913)	( 93,434)
Increase (decrease) in accounts payable	47,077	( 8,403)	( 36,791)	1,883
Increase (decrease) in accrued liabilities	1,602	-	( 36)	1,566
Increase (decrease) in unearned revenue	-	-	( 5,460)	( 5,460)
Increase (decrease) in customer deposits	8,497	-	-	8,497
Increase (decrease) in vacation payable	( 487)	-	-	( 487)
Increase (decrease) in net pension liability	136,339	-	13,012	149,351
Decrease (increase) in deferred inflows	( 51,523)	-	( 4,549)	( 56,072)
Total adjustments	<u>278,689</u>	<u>( 9,411)</u>	<u>73,029</u>	<u>342,307</u>
Net cash provided (used) by operating activities	<u>\$ 898,813</u>	<u>\$ 283,629</u>	<u>\$( 2,910)</u>	<u>\$ 1,179,532</u>

**THIS PAGE LEFT BLANK INTENTIONALLY**

## CITY OF HILLSBORO, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

#### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hillsboro, Texas ("City") 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 City and its component units, entities for which the City 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 they are legally separate from the City.

Based on these criteria, the financial information of the Economic Development Corporation has been blended within the financial statements. The City does not have any discretely presented component units.

##### **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, grants, 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.

The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

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 accounted for in another fund.

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

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

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

The 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 Fund Balance**

### **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, 2019, 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 2019 were levied October 1, 2018, at the rate of \$.806400 per \$100 assessed valuation on a total taxable assessed valuation of \$496,766,040.

### **Inventories and Prepaid Items**

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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses 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.

### **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 full-time 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.



## **Net Position Flow Assumption**

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

## **Fund Balance Flow Assumption**

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

## **Fund Balance Policies**

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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

## **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.
- Changes in actuarial assumptions and other inputs for pension – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.



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 the following types of items that qualify for reporting in this category.

- Unavailable revenue is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that amounts become available.
- 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.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five-year period.

## 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:

- 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, 2019, the City's deposit balance (cash and certificates of deposit) was \$6,494,249. The City's deposits at September 30, 2019 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.
- 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.
- 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.
- 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, 2019, the City's investments consisted of:

	Net Asset Value
TexStar	\$ 141,329
Texas Term	3,719,122
State Treasurer's Investment Pool (TexPool)	586,965
	<u>\$ 4,447,416</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:

	Governmental Funds					Enterprise Funds			
	General	Debt Service	EDC	Hotel/Motel	Nonmajor Funds	Water and Wastewater	Sanitation	Airport	Totals
Receivables:									
Accounts:									
Customers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 578,230	\$ 51,949	\$ 7,858	\$ 638,037
Taxes:									
Property	449,239	192,468	-	-	-	-	-	-	641,707
Sales	566,349	-	51,486	63,936	-	-	-	-	681,771
Other	51,824	-	-	-	-	-	-	-	51,824
Court fines	2,238,549	-	-	-	-	-	-	-	2,238,549
EMS	1,964,309	-	-	-	-	-	-	-	1,964,309
Intergovernmental	-	-	-	-	-	315,042	-	17,144	332,186
Other	53,900	-	3,201	-	13,604	-	-	-	70,705
Gross receivables	<u>5,324,170</u>	<u>192,468</u>	<u>54,687</u>	<u>63,936</u>	<u>13,604</u>	<u>893,272</u>	<u>51,949</u>	<u>25,002</u>	<u>6,619,088</u>
Less: allowance for uncollectibles	<u>( 3,958,393)</u>	<u>( 123,281)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 4,081,674)</u>
Net total receivables	<u>\$ 1,365,777</u>	<u>\$ 69,187</u>	<u>\$ 54,687</u>	<u>\$ 63,936</u>	<u>\$ 13,604</u>	<u>\$ 893,272</u>	<u>\$ 51,949</u>	<u>\$ 25,002</u>	<u>\$ 2,537,414</u>



## Capital Assets

Capital asset activity for the year ended September 30, 2019, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 803,137	\$ -	\$ -	\$ 803,137
Construction in progress	4,251,266	36,005	(4,287,271)	-
Total assets not being depreciated	5,054,403	36,005	(4,287,271)	803,137
Capital assets, being depreciated:				
Buildings and improvements	6,235,603	296,607	-	6,532,210
Machinery and equipment	6,372,830	782,255	(824,139)	6,330,946
Infrastructure	12,859,872	4,287,270	-	17,147,142
Total capital assets being depreciated	25,468,305	5,366,132	(824,139)	30,010,298
Accumulated depreciation:				
Buildings and improvements	(3,800,453)	(174,885)	-	(3,975,338)
Machinery and equipment	(4,321,411)	(411,488)	737,018	(3,995,881)
Infrastructure	(2,170,240)	(342,814)	-	(2,513,054)
Total accumulated depreciation	(10,292,104)	(929,187)	737,018	(10,484,273)
Total capital assets being depreciated, net	15,176,201	4,436,945	(87,121)	19,526,025
Governmental activities capital assets, net	\$ 20,230,604	\$ 4,472,950	\$ (4,374,392)	\$ 20,329,162
	Beginning Balance	Increase	Decrease	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 378,391	\$ -	\$ -	\$ 378,391
Construction in progress - Water/Sewer	181,770	253,771	-	435,541
Construction in progress - Airport	-	6,000	-	6,000
Total assets not being depreciated	560,161	259,771	-	819,932
Capital assets, being depreciated:				
Buildings and improvements	6,952,310	-	-	6,952,310
Machinery and equipment	1,815,622	48,361	-	1,863,983
Infrastructure	17,477,046	121,925	-	17,598,971
Total capital assets being depreciated	26,244,978	170,286	-	26,415,264
Accumulated depreciation:				
Buildings and improvements	( 1,872,077)	( 147,389)	-	( 2,019,466)
Machinery and equipment	( 1,595,478)	( 66,700)	-	( 1,662,178)
Infrastructure	( 11,228,773)	( 360,986)	-	( 11,589,759)
Total accumulated depreciation	( 14,696,328)	( 575,075)	-	( 15,271,403)
Total capital assets being depreciated, net	11,548,650	( 404,789)	-	11,143,861
Business-type activities capital assets, net	\$ 12,108,811	\$ ( 145,018)	\$ -	\$ 11,963,793



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

Governmental activities	
General government	\$ 147,164
Public safety	358,561
Public works	392,515
Community development	<u>30,947</u>
Total depreciation expense - governmental activities	\$ <u>929,187</u>
Business-type activities:	
Water and wastewater	\$ 520,204
Airport	<u>54,871</u>
Total depreciation expense - business-type activities	\$ <u>575,075</u>

### **Interfund Receivables, Payables and Transfers**

The composition of interfund balances as of September 30, 2019, is as follows:

Receivable Fund	Payable Fund	Amount
EDC	General	\$ 166,078
General	Airport	95,236
General	Nonmajor	<u>306,221</u>
Total		\$ <u>567,535</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, 2019, are as follows:

Transfers In	Transfers Out	Amount
General	EDC	\$ 12,000
General	Hotel/Motel	44,600
General	Sanitation	294,000
Nonmajor	Hotel/Motel	47,800
General	Water and wastewater	230,000
Nonmajor	General	<u>38,063</u>
Total		\$ <u>666,463</u>

### **Long-term Debt**

Long-term liability activity from the year ended September 30, 2019, was as follows:

	Debt Outstanding 09/30/18	Additions	Retirements	Debt Outstanding 09/30/19	Due Within One Year
<b>Governmental:</b>					
General obligation bonds	\$ 7,015,000	\$ -	\$ ( 690,000)	\$ 6,325,000	\$ 695,000
Premium	124,684	-	( 14,273)	110,411	-
Capital leases	1,147,222	666,244	( 219,540)	1,593,926	322,039
Compensated absences	<u>349,318</u>	<u>259,975</u>	<u>( 253,501)</u>	<u>355,792</u>	<u>177,896</u>
	8,636,224	926,219	( 1,177,314)	8,385,129	1,194,935
<b>Enterprise Fund</b>					
General obligation bonds	1,515,000	3,130,000	( 365,000)	4,280,000	510,000
Premium	86,351	-	( 22,198)	64,153	-
Capital leases	17,932	-	( 17,932)	-	-
Compensated absences	<u>19,739</u>	<u>15,695</u>	<u>( 16,182)</u>	<u>19,252</u>	<u>9,626</u>
	1,639,022	3,145,695	( 421,312)	4,363,405	519,626
Total	\$ <u>10,275,246</u>	\$ <u>4,071,914</u>	\$ <u>( 1,598,626)</u>	\$ <u>12,748,534</u>	\$ <u>1,714,561</u>

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

Debt outstanding as of September 30, 2019, consisted of the following:

	Purpose of Issue	Amount Issued	Amount Outstanding	Interest Rate
<b>Governmental</b>				
General obligation bonds:				
2010 Series	Street Improvements	2,000,000	1,375,000	2.00%-4.05%
2010 Series Premium		43,967	24,182	
2010 Series	Refunding	1,525,000	30,000	2.00%-4.05%
2010 Series Premium		33,631	3,364	
2012 Series	Street Improvements	1,870,000	1,400,000	2.00%-3.00%
2012 Series Premium		87,406	56,815	
2012 Series	Refunding	895,000	410,000	2.00%-3.00%
2012 Series Premium		56,441	26,050	
2016 Series	Refunding	4,155,000	3,110,000	1.65%
Total governmental		\$ 10,666,445	\$ 6,435,411	
<b>Business-type</b>				
General obligation bonds:				
2012 Series	Refunding	\$ 3,520,000	\$ 1,150,000	2.00%-3.00%
2012 Series Premium		221,981	64,153	
2019 Series		3,130,000	3,130,000	0.73%-2.14%
Total business-type		\$ 6,871,981	\$ 4,344,153	

Governmental general obligation bonds future requirements are as follows:

Year Ended September 30	Principal	Interest	Total Requirements
2020	\$ 695,000	\$ 161,596	\$ 856,596
2021	720,000	146,146	866,146
2022	750,000	129,031	879,031
2023	645,000	111,101	756,101
2024	660,000	111,101	771,101
2025-2029	2,330,000	328,430	2,658,430
2030-2032	525,000	56,413	581,413
Total	\$ 6,325,000	\$ 1,043,818	\$ 7,368,818

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

Year Ended September 30	Principal	Interest	Total Requirements
2020	510,000	84,253	594,253
2021	525,000	72,131	597,131
2022	535,000	59,405	594,405
2023	140,000	46,225	186,225
2024	145,000	44,741	189,741
2025-2029	740,000	195,512	935,512
2030-2034	805,000	134,692	939,692
2035-2039	880,000	55,917	935,917
Total	\$ 4,280,000	\$ 692,876	\$ 4,972,876

On December 11, 2018 the City issued \$3,130,000 Combination Tax and Surplus Revenue Certificates of Obligation, Series 2019 (Texas Water Development Board Drinking Water State Revolving Fund Loan). The bonds have a stated interest rate of 0.730%-2.140% and mature on July 1, 2039. The bonds were issued as part of a grant agreement with the Texas Water Development Board to construct a new elevated water storage tank in the Industrial Park.



### **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	635,635
EMS vehicle/equipment	746,831
HVAC system	30,000
Paver	93,890
Backhoe	119,252
Fire Engine	599,934
Fire laddertruck	848,215
Fire vehicle	26,735
Semi-truck	108,000
Parks Vehicle	26,845
SRO Vehicle	<u>57,000</u>
Total	<u>\$ 3,443,337</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, 2019, were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>
2020	376,543
2021	376,543
2022	312,031
2023	287,308
2024	189,555
2025-2026	<u>229,291</u>
Total minimum lease payments	1,771,271
Less: amount representing interest	<u>177,345</u>
Present value of minimum lease payments	<u>\$ 1,593,926</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 \$1,797,463 for water purchased from the District during the fiscal year ending September 30, 2019.



## **Retirement Plan**

### **Texas Municipal Retirement System**

**Plan Description** - The City participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

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, 2018, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	64
Inactive employees entitled to but not yet receiving benefits	75
Active employees	<u>105</u>
	<u>244</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 contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 11.46% and 11.05% in calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2019, were \$541,406, and were equal to the required contributions.

## Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2018, 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, 2018, actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	17.5%	4.30%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.39%
Real Return	10.0%	3.78%
Real Estate	10.0%	4.44%
Absolute Return	10.0%	3.56%
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 periods of projected benefit payments to determine the Total Pension Liability.

#### Changes in the Net Pension Liability

	<u>Total Pension Liability</u> <u>(a)</u>	<u>Increase (Decrease)</u> <u>Plan Fiduciary</u> <u>Net Position</u> <u>(b)</u>	<u>Net Pension Liability</u> <u>(a) - (b)</u>
Balance at 12/31/2017	\$ 19,414,150	\$ 17,285,388	\$ 2,128,762
Changes for the year:			
Service cost	507,970	-	507,970
Interest	1,306,971	-	1,306,971
Difference between expected and actual experience	( 32,038)	-	( 32,038)
Contributions - employer	-	524,444	( 524,444)
Contributions - employee	-	228,816	( 228,816)
Net investment income	-	( 517,555)	517,555
Benefit payments, including refunds of employee contributions	( 611,212)	( 611,212)	-
Administrative expense	-	( 10,007)	10,007
Other changes	-	( 523)	523
Net changes	1,171,691	( 386,037)	1,557,728
Balance at 12/31/2018	\$ 20,585,841	\$ 16,899,351	\$ 3,686,490



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 Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 6,890,984	\$ 3,686,490	\$ 1,094,350

#### 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.tmrs.com](http://www.tmrs.com).

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

For the year ended September 30, 2019, the City recognized pension expense of \$707,166.

At September 30, 2019, 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	\$ -	\$ 94,540
Difference between projected and actual investment earnings	893,331	-
Contributions subsequent to the measurement date	411,366	-
Total	\$ 1,304,697	\$ 94,540

\$411,366 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, 2020. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ending September 30,	
2020	\$ 253,324
2021	91,498
2022	117,104
2023	336,865
	\$ 798,791

#### 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.

### **Related Party Transactions**

The City purchased a building and property in the amount of \$332,675 from a company of which a member of the City Council owns an interest. The Council Member abstained from voting when the sale was approved by the City Council.

### **Subsequent Events**

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a Public Health Emergency of International Concern and on March 10, 2020, declared COVID-19 a pandemic. The impact of COVID-19 could negatively affect the City's operations, suppliers or other vendors. Subsequent stay-at-home orders, labor shortages or other disruptions to the City's operations, or that of its suppliers and vendors, may adversely affect the City's ability to provide services to citizens and taxpayers. In addition, the epidemic and its effects could result in a widespread health crisis that may lead to an economic downturn, negatively affecting tax revenues and demand for services. As of the date of this report, the impact of COVID-19 on the City's financial statements or operations cannot be determined. The extent to which COVID-19 may affect the City's results will depend on future developments, which are highly uncertain.

# **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, 2019

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Ad valorem	\$ 3,087,000	\$ 3,087,000	\$ 3,073,202	\$( 13,798)
Sales	3,140,000	3,140,000	3,103,570	( 36,430)
Franchise	472,000	472,000	567,913	95,913
Other	47,000	47,000	49,565	2,565
Fines and forfeitures	861,100	861,100	828,497	( 32,603)
Charges for services	329,000	329,000	275,359	( 53,641)
Licenses and permits	50,600	50,600	28,384	( 22,216)
Intergovernmental	-	-	47,262	47,262
Investment earnings	17,000	17,000	81,019	64,019
Cemetery lot sales and fees	23,000	23,000	29,060	6,060
Contributions	105,900	105,900	135,468	29,568
Miscellaneous	21,500	21,500	54,441	32,941
Total revenues	<u>8,154,100</u>	<u>8,154,100</u>	<u>8,273,740</u>	<u>119,640</u>
<b>EXPENDITURES</b>				
General government:				
Legislative:				
Personnel	310	310	271	39
Supplies	1,300	1,300	1,000	300
Services	27,300	27,300	17,121	10,179
Maintenance	65	65	63	2
	<u>28,975</u>	<u>28,975</u>	<u>18,455</u>	<u>10,520</u>
Administration:				
Personnel	293,075	293,075	291,849	1,226
Supplies	6,450	6,450	5,399	1,051
Services	206,125	206,125	193,218	12,907
Maintenance	8,450	8,450	6,656	1,794
Minor equipment	2,000	2,000	1,180	820
	<u>516,100</u>	<u>516,100</u>	<u>498,302</u>	<u>17,798</u>
Library:				
Personnel	354,630	354,630	331,722	22,908
Supplies	16,850	16,850	17,532	( 682)
Services	56,300	56,300	73,622	( 17,322)
Maintenance	26,055	26,055	16,086	9,969
Minor equipment	6,000	6,000	13,573	( 7,573)
Capital outlay	33,500	33,500	28,776	4,724
	<u>493,335</u>	<u>493,335</u>	<u>481,311</u>	<u>12,024</u>
Municipal court:				
Personnel	185,715	185,715	183,085	2,630
Supplies	4,650	4,650	3,899	751
Services	40,100	40,100	44,437	( 4,337)
Maintenance	2,315	2,315	315	2,000
Capital outlay	-	-	251,045	( 251,045)
	<u>232,780</u>	<u>232,780</u>	<u>482,781</u>	<u>( 250,001)</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, 2019**

<b>EXPENDITURES (Continued)</b>	<b>Budget</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Parks:</b>				
Personnel	\$ 304,610	\$ 304,610	\$ 292,677	\$ 11,933
Supplies	28,500	28,500	31,397	( 2,897)
Services	33,570	33,570	33,339	231
Maintenance	72,880	72,880	82,114	( 9,234)
Minor equipment	2,000	2,000	1,624	376
Capital outlay	17,800	17,800	72,806	( 55,006)
	<u>459,360</u>	<u>459,360</u>	<u>513,957</u>	<u>( 54,597)</u>
<b>Recreation:</b>				
Personnel	64,480	64,480	56,261	8,219
Supplies	9,100	9,100	8,529	571
Services	5,650	5,650	6,776	( 1,126)
Maintenance	-	-	51	( 51)
Minor equipment	1,000	1,000	768	232
Capital outlay	1,000	1,000	2,036	( 1,036)
	<u>81,230</u>	<u>81,230</u>	<u>74,421</u>	<u>6,809</u>
<b>Maintenance shop:</b>				
Personnel	122,125	122,125	123,201	( 1,076)
Supplies	74,155	74,155	56,096	18,059
Services	10,595	10,595	8,706	1,889
Maintenance	87,130	87,130	82,709	4,421
Minor equipment	2,000	2,000	-	2,000
	<u>296,005</u>	<u>296,005</u>	<u>270,712</u>	<u>25,293</u>
<b>Cemetery:</b>				
Personnel	21,870	21,870	21,430	440
Supplies	1,900	1,900	634	1,266
Services	65,340	65,340	65,680	( 340)
Maintenance	2,750	2,750	3,318	( 568)
	<u>91,860</u>	<u>91,860</u>	<u>91,062</u>	<u>798</u>
<b>Legal:</b>				
Personnel	34,880	34,880	34,168	712
Services	2,850	2,850	313	2,537
Maintenance	130	130	126	4
	<u>37,860</u>	<u>37,860</u>	<u>34,607</u>	<u>3,253</u>
<b>Finance:</b>				
Personnel	206,525	206,525	248,486	( 41,961)
Supplies	4,400	4,400	5,750	( 1,350)
Services	37,350	37,350	29,863	7,487
Maintenance	305	305	252	53
Minor equipment	1,500	1,500	1,065	435
	<u>250,080</u>	<u>250,080</u>	<u>285,416</u>	<u>( 35,336)</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, 2019

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>EXPENDITURES (Continued)</b>				
Information systems:				
Personnel	\$ 139,515	\$ 139,515	\$ 136,381	\$ 3,134
Supplies	2,000	2,000	1,679	321
Services	8,760	8,760	5,124	3,636
Maintenance	5,400	5,400	4,436	964
Minor equipment	1,000	1,000	1,467	( 467)
Capital outlay	6,000	6,000	4,697	1,303
	<u>162,675</u>	<u>162,675</u>	<u>153,784</u>	<u>8,891</u>
Total general government	<u>2,650,260</u>	<u>2,650,260</u>	<u>2,904,808</u>	<u>( 254,548)</u>
Public Safety:				
Police:				
Personnel	2,562,190	2,562,190	2,461,598	100,592
Supplies	174,750	174,750	178,946	( 4,196)
Services	171,550	171,550	200,401	( 28,851)
Maintenance	63,300	63,300	60,154	3,146
Minor equipment	7,000	7,000	29,884	( 22,884)
Capital outlay	37,500	37,500	185,101	( 147,601)
Debt service - principal	58,375	58,375	58,409	( 34)
Debt service - interest	6,140	6,140	6,103	37
	<u>3,080,805</u>	<u>3,080,805</u>	<u>3,180,596</u>	<u>( 99,791)</u>
Fire:				
Personnel	1,238,065	1,238,065	1,410,461	( 172,396)
Supplies	206,250	206,250	142,927	63,323
Services	146,400	146,400	128,589	17,811
Maintenance	34,600	34,600	14,441	20,159
Minor equipment	16,000	16,000	2,908	13,092
Capital outlay	16,000	16,000	599,934	( 583,934)
Debt service - principal	145,535	145,535	140,241	5,294
Debt service - interest	29,785	29,785	28,067	1,718
	<u>1,832,635</u>	<u>1,832,635</u>	<u>2,467,568</u>	<u>( 634,933)</u>
Animal control:				
Personnel	49,705	49,705	54,907	( 5,202)
Supplies	9,600	9,600	10,052	( 452)
Services	3,100	3,100	974	2,126
Maintenance	11,095	11,095	12,620	( 1,525)
Minor equipment	500	500	823	( 323)
	<u>74,000</u>	<u>74,000</u>	<u>79,376</u>	<u>( 5,376)</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, 2019

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>EXPENDITURES (Continued)</b>				
Code Enforcement:				
Personnel	\$ 82,230	\$ 82,230	\$ 76,673	\$ 5,557
Supplies	6,300	6,300	7,804	( 1,504)
Services	107,200	107,200	184,159	( 76,959)
Maintenance	9,460	9,460	8,977	483
Minor equipment	2,200	2,200	-	2,200
Capital outlay	3,000	3,000	-	3,000
	<u>210,390</u>	<u>210,390</u>	<u>277,613</u>	<u>( 67,223)</u>
Total public safety	<u>5,197,830</u>	<u>5,197,830</u>	<u>6,005,153</u>	<u>( 807,323)</u>
Streets:				
Streets:				
Personnel	318,265	318,265	293,146	25,119
Supplies	33,400	33,400	23,488	9,912
Services	117,120	117,120	141,927	( 24,807)
Maintenance	135,745	135,745	126,156	9,589
Debt service - principal	50,890	50,890	20,890	30,000
Debt service - interest	6,510	6,510	2,888	3,622
	<u>661,930</u>	<u>661,930</u>	<u>608,495</u>	<u>53,435</u>
Total streets	<u>661,930</u>	<u>661,930</u>	<u>608,495</u>	<u>53,435</u>
Community development:				
Community development:				
Personnel	154,750	154,750	156,705	( 1,955)
Supplies	2,500	2,500	1,553	947
Services	22,950	22,950	16,376	6,574
Maintenance	10,700	10,700	10,578	122
Minor equipment	1,000	1,000	879	121
	<u>191,900</u>	<u>191,900</u>	<u>186,091</u>	<u>5,809</u>
Total community development	<u>191,900</u>	<u>191,900</u>	<u>186,091</u>	<u>5,809</u>
Total expenditures	<u>8,701,920</u>	<u>8,701,920</u>	<u>9,704,547</u>	<u>( 1,002,627)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 547,820)</u>	<u>( 547,820)</u>	<u>( 1,430,807)</u>	<u>( 882,987)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	41,155	41,155
Insurance recoveries	-	-	300,647	300,647
Capital lease	-	-	666,244	666,244
Transfers in	580,600	580,600	580,600	-
Transfers out	( 32,780)	( 32,780)	( 38,063)	( 5,283)
Total other financing sources (uses)	<u>547,820</u>	<u>547,820</u>	<u>1,550,583</u>	<u>1,002,763</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>-</u>	<u>-</u>	<u>119,776</u>	<u>119,776</u>
<b>FUND BALANCES, BEGINNING</b>	<u>2,220,804</u>	<u>2,220,804</u>	<u>2,220,804</u>	<u>-</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 2,220,804</u>	<u>\$ 2,220,804</u>	<u>\$ 2,340,580</u>	<u>\$ 119,776</u>



**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, 2019**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes:				
Sales	\$ 260,000	\$ 260,000	\$ 282,143	\$ 22,143
Investment earnings	9,000	9,000	57,383	48,383
Miscellaneous	<u>10,000</u>	<u>10,000</u>	<u>16,554</u>	<u>6,554</u>
Total revenues	<u>279,000</u>	<u>279,000</u>	<u>356,080</u>	<u>77,080</u>
<b>EXPENDITURES</b>				
Current:				
Community development	<u>1,653,625</u>	<u>1,653,625</u>	<u>127,029</u>	<u>1,526,596</u>
Total expenditures	<u>1,653,625</u>	<u>1,653,625</u>	<u>127,029</u>	<u>1,526,596</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 1,374,625)</u>	<u>( 1,374,625)</u>	<u>229,051</u>	<u>1,603,676</u>
<b>OTHER FINANCING USES</b>				
Transfers out	<u>( 12,000)</u>	<u>( 12,000)</u>	<u>( 12,000)</u>	<u>-</u>
Total other financing uses	<u>( 12,000)</u>	<u>( 12,000)</u>	<u>( 12,000)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>( 1,386,625)</u>	<u>( 1,386,625)</u>	<u>217,051</u>	<u>1,603,676</u>
<b>FUND BALANCE, BEGINNING</b>	<u>2,713,173</u>	<u>2,713,173</u>	<u>2,713,173</u>	<u>-</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 1,326,548</u>	<u>\$ 1,326,548</u>	<u>\$ 2,930,224</u>	<u>\$ 1,603,676</u>

**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, 2019**

	<u>Budget</u>			<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
Taxes:				
Hotel/motel	\$ 360,000	\$ 360,000	\$ 351,311	\$( 8,689)
Investment earnings	750	750	3,240	2,490
Rentals	7,500	7,500	7,013	( 487)
Miscellaneous	300	300	-	( 300)
Total revenues	<u>368,550</u>	<u>368,550</u>	<u>361,564</u>	<u>( 6,986)</u>
<b>EXPENDITURES</b>				
Current:				
Community development	191,040	191,040	188,959	2,081
Capital outlay	50,000	50,000	21,652	28,348
Debt service:				
Principal	30,000	30,000	-	30,000
Interest	5,110	5,110	-	5,110
Total expenditures	<u>276,150</u>	<u>276,150</u>	<u>210,611</u>	<u>65,539</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>92,400</u>	<u>92,400</u>	<u>150,953</u>	<u>58,553</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers out	( 92,400)	( 92,400)	( 92,400)	-
Total other financing sources	<u>( 92,400)</u>	<u>( 92,400)</u>	<u>( 92,400)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	58,553	58,553
<b>FUND BALANCE, BEGINNING</b>	<u>1,786,282</u>	<u>1,786,282</u>	<u>1,786,282</u>	<u>-</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 1,786,282</u>	<u>\$ 1,786,282</u>	<u>\$ 1,844,835</u>	<u>\$ 58,553</u>



# CITY OF HILLSBORO, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2019

Measurement Date December 31,	2014	2015	2016	2017	2018
<b>A. Total pension liability</b>					
Service Cost	\$ 438,226	\$ 468,170	\$ 485,437	\$ 509,573	\$ 507,970
Interest (on the Total Pension Liability)	1,074,600	1,132,285	1,166,069	1,238,685	1,306,971
Difference between expected and actual experience	( 118,737)	( 20,246)	( 66,470)	( 126,840)	( 32,038)
Change of assumptions	-	15,413	-	-	-
Benefit payments, including refunds of employee contributions	( 596,553)	( 573,439)	( 435,866)	( 606,753)	( 611,212)
Net change in total pension liability	797,536	1,022,183	1,149,170	1,014,665	1,171,691
Total pension liability - beginning	<u>15,430,596</u>	<u>16,228,132</u>	<u>17,250,315</u>	<u>18,399,485</u>	<u>19,414,150</u>
Total pension liability - ending (a)	<u>\$ 16,228,132</u>	<u>\$ 17,250,315</u>	<u>\$ 18,399,485</u>	<u>\$ 19,414,150</u>	<u>\$ 20,585,841</u>
<b>B. Plan fiduciary net position</b>					
Contributions - employer	\$ 512,630	\$ 490,443	\$ 465,516	\$ 516,865	\$ 524,444
Contributions - employee	220,014	218,363	216,520	227,895	228,816
Net investment income	737,398	20,295	939,202	2,087,577	( 517,555)
Benefit payments, including refunds of employee contributions	( 596,553)	( 573,439)	( 435,866)	( 606,753)	( 611,212)
Administrative expenses	( 7,698)	( 12,362)	( 10,607)	( 10,825)	( 10,007)
Other	( 633)	( 611)	( 571)	( 549)	( 523)
Net change in plan fiduciary net position	865,158	142,689	1,174,194	2,214,210	( 386,037)
Plan fiduciary net position - beginning	<u>12,889,137</u>	<u>13,754,295</u>	<u>13,896,984</u>	<u>15,071,178</u>	<u>17,285,388</u>
Plan fiduciary net position - ending (b)	<u>\$ 13,754,295</u>	<u>\$ 13,896,984</u>	<u>\$ 15,071,178</u>	<u>\$ 17,285,388</u>	<u>\$ 16,899,351</u>
<b>C. Net pension liability - ending (a) - (b)</b>	<u>\$ 2,473,837</u>	<u>\$ 3,353,331</u>	<u>\$ 3,328,307</u>	<u>\$ 2,128,762</u>	<u>\$ 3,686,490</u>
<b>D. Plan fiduciary net position as a percentage of total pension liability</b>	85%	81%	82%	89%	82%
<b>E. Covered payroll</b>	\$ 4,400,270	\$ 4,367,256	\$ 4,330,395	\$ 4,557,901	\$ 4,576,310
<b>F. Net position liability as a percentage of covered payroll</b>	56%	77%	77%	47%	81%

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, 2019

<b>Fiscal Year Ended September 30,</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Actuarial determined contribution	\$ 515,423	\$ 495,900	\$ 488,084	\$ 503,274	\$ 518,280	\$ 541,406
Contributions in relation to the actuarially determined contribution	<u>515,423</u>	<u>495,900</u>	<u>488,084</u>	<u>503,274</u>	<u>518,280</u>	<u>541,406</u>
Contribution deficiency (excess)	-	-	-	-	-	-
Covered payroll	4,402,787	4,371,447	4,487,493	4,491,419	4,533,953	4,857,497
Contributions as a percentage of covered payroll	11.7%	11.3%	10.9%	11.2%	11.4%	11.1%

**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	28 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 with scale 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, 2019

#### **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 and major Special Revenue Funds. 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 27<sup>th</sup> 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 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 greater than anticipated revenues.

## **SUPPLEMENTARY INFORMATION**



**THIS PAGE LEFT BLANK INTENTIONALLY**

## COMBINING STATEMENTS



**CITY OF HILLSBORO, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**

SEPTEMBER 30, 2019

	<u>Library Special</u>	<u>Police Local Forfeiture</u>	<u>Police Federal Forfeiture</u>
<b>ASSETS</b>			
Cash and investments	\$ 32,591	\$ 433,507	\$ 15,994
Accounts receivable	<u>-</u>	<u>1,085</u>	<u>950</u>
Total assets	<u>32,591</u>	<u>434,592</u>	<u>16,944</u>
<b>LIABILITIES</b>			
Accounts payable	-	9,513	-
Accrued liabilities	-	-	-
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>9,513</u>	<u>-</u>
<b>FUND BALANCE</b>			
Restricted for:			
Library operations	32,591	-	-
Public safety	-	425,079	16,944
Capital projects	-	-	-
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>32,591</u>	<u>425,079</u>	<u>16,944</u>
Total liabilities and fund balance	\$ <u>32,591</u>	\$ <u>434,592</u>	\$ <u>16,944</u>

Special Revenue Funds		Capital Projects Funds		Total Nonmajor Governmental Funds
Police Special	Main Street	Street Improvements	Capital Projects	
\$ 2,396	\$ -	\$ 294,225	\$ -	\$ 778,713
-	11,569	-	-	13,604
<u>2,396</u>	<u>11,569</u>	<u>294,225</u>	<u>-</u>	<u>792,317</u>
-	7,677	28	-	17,218
-	983	-	-	983
-	2,963	-	303,258	306,221
-	11,623	28	303,258	324,422
-	-	-	-	32,591
2,396	-	-	-	444,419
-	-	294,197	-	294,197
-	( 54)	-	( 303,258)	( 303,312)
<u>2,396</u>	<u>( 54)</u>	<u>294,197</u>	<u>( 303,258)</u>	<u>467,895</u>
\$ <u>2,396</u>	\$ <u>11,569</u>	\$ <u>294,225</u>	\$ <u>-</u>	\$ <u>792,317</u>



**CITY OF HILLSBORO, TEXAS**

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

**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	<u>Library Special</u>	<u>Police Local Forfeiture</u>	<u>Police Federal Forfeiture</u>
<b>REVENUES</b>			
Forfeitures	\$ -	\$ 6,629	\$ 950
Contributions	25,000	-	-
Investment earnings	-	9,183	509
Miscellaneous	-	-	-
Total revenues	<u>25,000</u>	<u>15,812</u>	<u>1,459</u>
<b>EXPENDITURES</b>			
Current:			
Public safety	-	22,072	-
Community development	-	-	-
Capital outlay	-	-	7,606
Total expenditures	<u>-</u>	<u>22,072</u>	<u>7,606</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>25,000</u>	<u>( 6,260)</u>	<u>( 6,147)</u>
<b>OTHER FINANCING SOURCES</b>			
Transfers in	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	25,000	( 6,260)	( 6,147)
<b>FUND BALANCE, BEGINNING</b>	<u>7,591</u>	<u>431,339</u>	<u>23,091</u>
<b>FUND BALANCE, ENDING</b>	\$ <u>32,591</u>	\$ <u>425,079</u>	\$ <u>16,944</u>

Special Revenue Funds		Capital Projects Funds		Total Nonmajor Governmental Funds
Police Special	Main Street	Street Improvements	Capital Projects	
\$ -	\$ -	\$ -	\$ -	\$ 7,579
3,238	-	-	-	28,238
-	285	-	2,575	12,552
-	21,939	-	-	21,939
<u>3,238</u>	<u>22,224</u>	<u>-</u>	<u>2,575</u>	<u>70,308</u>
793	-	-	-	22,865
-	107,913	-	-	107,913
-	-	28	36,005	43,639
<u>793</u>	<u>107,913</u>	<u>28</u>	<u>36,005</u>	<u>174,417</u>
<u>2,445</u>	<u>( 85,689)</u>	<u>( 28)</u>	<u>( 33,430)</u>	<u>( 104,109)</u>
-	85,863	-	-	85,863
-	85,863	-	-	85,863
2,445	174	( 28)	( 33,430)	( 18,246)
<u>( 49)</u>	<u>( 228)</u>	<u>294,225</u>	<u>( 269,828)</u>	<u>486,141</u>
\$ <u>2,396</u>	\$ <u>( 54)</u>	\$ <u>294,197</u>	\$ <u>( 303,258)</u>	\$ <u>467,895</u>

**THIS PAGE LEFT BLANK INTENTIONALLY**



**INTERNAL CONTROLS AND  
COMPLIANCE SECTION**

**THIS PAGE LEFT BLANK INTENTIONALLY**

**INDEPENDENT AUDITOR'S 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**

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, 2019, 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 28, 2020.

**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.

**OFFICE LOCATIONS**

**TEXAS** | Waco | Temple | Hillsboro | Houston  
**NEW MEXICO** | Albuquerque



## **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 28, 2020