

City of Hillsboro, Texas



Bond's Alley

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2021**

CITY OF HILLSBORO, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2021

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CITY OF HILLSBORO, TEXAS

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FINANCIAL SECTION

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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, 2021, 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.

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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, 2021, 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 and required supplementary information, as listed in the table of contents, 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 combining fund financial statements and the Schedule of Expenditures of Federal Awards are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2022, 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 17, 2022

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, 2021. 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, 2021, by \$32,940,211 (net position).
- The City's total net position increased in the current year by \$3,648,416.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$13,752,169. Approximately 20% of this total amount, \$2,734,232, is unassigned fund balance available for use within the City's fund designation and fiscal policies.
- As of September 30, 2021, unassigned fund balance for the General Fund was \$2,734,232 or 29% 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 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 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 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 11 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, the 2021 Bond 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 20-35 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees. Additionally, budgetary schedules are provided for the General Fund and major special revenue funds to demonstrate compliance with the budget. Required supplementary information can be found on pages 36-46 of this report.

This report also presents combining fund statements for nonmajor funds 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 47 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 \$32,940,211 as of September 30, 2021.

NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2021	2020	2021	2020	2021	2020
Current assets	\$ 15,430,913	\$ 7,206,274	\$ 4,498,429	\$ 3,748,988	\$ 19,929,342	\$ 10,955,262
Capital assets	<u>18,602,191</u>	<u>19,430,242</u>	<u>10,308,495</u>	<u>10,749,016</u>	<u>28,910,686</u>	<u>30,179,258</u>
Total Assets	<u>34,033,104</u>	<u>26,636,516</u>	<u>14,806,924</u>	<u>14,498,004</u>	<u>48,840,028</u>	<u>41,134,520</u>
Total deferred outflows of resources	<u>612,843</u>	<u>505,136</u>	<u>84,239</u>	<u>62,144</u>	<u>697,082</u>	<u>567,280</u>
Current liabilities	1,200,601	586,879	1,141,402	498,241	2,342,003	1,085,120
Noncurrent liabilities	<u>11,159,684</u>	<u>6,128,258</u>	<u>2,778,818</u>	<u>3,301,381</u>	<u>13,938,502</u>	<u>9,429,639</u>
Total Liabilities	<u>12,360,285</u>	<u>6,715,137</u>	<u>3,920,220</u>	<u>3,799,622</u>	<u>16,280,505</u>	<u>10,514,759</u>
Total deferred inflows of resources	<u>499,565</u>	<u>573,915</u>	<u>68,465</u>	<u>69,099</u>	<u>568,030</u>	<u>643,014</u>
Net position:						
Net investment in capital assets	14,080,067	13,348,550	12,611,488	11,838,568	26,691,555	25,187,118
Restricted	5,296,562	5,022,839	-	-	5,296,562	5,022,839
Unrestricted	<u>830,765</u>	<u>(945,336)</u>	<u>121,329</u>	<u>27,174</u>	<u>952,094</u>	<u>(918,162)</u>
Total Net Position	<u>\$ 20,207,394</u>	<u>\$ 17,426,053</u>	<u>\$ 12,732,817</u>	<u>\$ 11,865,742</u>	<u>\$ 32,940,211</u>	<u>\$ 29,291,795</u>

By far, the largest portion of the City's net position (81%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position represents resources that are subject to external restrictions on how they may be used.

The remaining balance is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors.

CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2021	2020	2021	2020	2021	2020
REVENUES:						
Program revenues:						
Charges for services	\$ 1,046,289	\$ 1,037,458	\$ 5,698,487	\$ 5,491,670	\$ 6,744,776	\$ 6,649,218
Operating grants	394,726	170,353	64,902	10,201	459,628	180,554
Capital grants and contributions	905,253	16,283	457,199	681,498	1,362,452	697,781
General revenues:						
Property taxes	4,440,577	4,223,751	-	-	4,440,577	4,223,751
Sales taxes	4,423,439	3,220,875	-	-	4,423,439	3,220,875
Franchise taxes	526,182	508,488	-	-	526,182	508,488
Hotel/motel taxes	373,867	265,007	-	-	373,867	265,007
Other taxes	75,098	65,810	-	-	75,098	65,810
Investment earnings	10,824	66,122	590	9,844	11,414	75,966
Miscellaneous	118,271	116,404	72,765	57,081	191,036	173,485
Total Revenues	<u>12,314,526</u>	<u>9,690,551</u>	<u>6,293,943</u>	<u>6,250,294</u>	<u>18,608,469</u>	<u>16,050,403</u>
EXPENSES:						
General government	2,882,576	2,916,422	-	-	2,882,576	2,916,422
Public safety	5,145,126	5,511,074	-	-	5,145,126	5,511,074
Streets	947,308	900,582	-	-	947,308	900,582
Community development	385,181	1,023,818	-	-	385,181	1,023,818
Interest on long-term debt	165,170	272,684	-	-	165,170	272,684
Water and sewer	-	-	4,332,357	4,117,150	4,332,357	4,117,150
Sanitation	-	-	813,305	813,719	813,305	813,719
Airport	-	-	289,030	312,506	289,030	312,506
Total Expenses	<u>9,525,361</u>	<u>10,624,580</u>	<u>5,434,692</u>	<u>5,243,375</u>	<u>14,960,053</u>	<u>15,867,955</u>
CHANGE IN NET POSITION BEFORE TRANSFERS	2,789,165	(934,029)	859,251	1,006,919	3,648,416	72,890
TRANSFERS	(7,824)	<u>243,461</u>	<u>7,824</u>	(<u>243,461</u>)	-	-
CHANGE IN NET POSITION	2,781,341	(690,568)	867,075	763,458	3,648,416	72,890
NET POSITION, BEGINNING	<u>17,426,053</u>	<u>18,116,621</u>	<u>11,865,742</u>	<u>11,102,284</u>	<u>29,291,795</u>	<u>29,218,905</u>
NET POSITION, ENDING	<u>\$ 20,207,394</u>	<u>\$ 17,426,053</u>	<u>\$ 12,732,817</u>	<u>\$ 11,865,742</u>	<u>\$ 32,940,211</u>	<u>\$ 29,291,795</u>

Governmental Activities. Governmental activities increased the City's net position by \$2,781,341. Key elements of this increase are as follows:

- Capital grants increased by \$888,970
- Sales taxes revenue increased by 1,202,564
- Community development expenses decreased by 638,637

Business-type Activities. Business-type activities increased the City's net position by \$867,075. Key elements of this increase are as follows:

- Charges for services revenue increased by \$206,817
- Operating grants increased by 54,701

Additionally, the increase in net position over the past two years was significantly supported by the receipt of capital grants from the U.S. Economic Development Administration (EDA). These funds have been used to construct and improve water infrastructure and the grant amounted to \$457,199 in the current year.

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 \$13,752,169. Approximately 20% of this total amount, \$2,734,232 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 \$2,734,232, while total fund balance reached \$3,034,599.

The fund balance of the City's General Fund increased by \$1,435,348 during the current fiscal year. This increase was primarily due to a increase in sales tax revenue.

The fund balance of the City's Economic Development Corporation Fund decreased by \$18,766 during the current fiscal year. This decrease was primarily due to a budgeted expenditure of local match funds for the previously-mentioned EDA grant for the water/sewer fund.

The Hotel/Motel Tax Fund balance increased by \$155,756 during the current fiscal year. This increase was due to an increase in hotel/motel tax revenue.

The Debt Service Fund has a total fund balance of \$220,505, which was a \$40,997 increase over the prior year. This increase was due to increased property taxes.

The 2021 Bond Fund has a total fund balance of \$5,730,466 during the current fiscal year. This was a new fund in 2021 to account for the issuance of the Certificates of Obligation, Series 2021, and the related project costs.

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 \$121,329. The increase in net position was \$867,075. 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

Actual revenues exceeded budgeted revenues by \$943,156 while total appropriations exceeded expenditures by \$845,048 due to cost savings and a conservative method of budgeting contingent costs.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2021, amounts to \$33,424,685 (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:

- EDA waterline work for \$705,063
- Jiffy Wash building for \$107,222

Additional information on the City's capital assets can be found on pages 26-27 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total bonded debt of \$13,820,000. All of this represents bonded debt backed by the full faith and credit of the City.

In November 2020, the City issued General Obligation Refunding Bonds, Series 2020 in the amount of \$1,330,000, for the purpose of refunding a portion of existing bonds at a present value savings. Additionally, in February 2021, the City issued Combination Tax and Revenue Certificates of Obligation, Series 2021 in the amount of \$5,635,000, for the purpose of constructing and improving streets, including sidewalks, landscaping, streetscaping, lighting, drainage, utility line relocations and the acquisition of land and rights-of-way.

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

	<u>Standard and Poor's</u>
General Obligation Bonds	AA/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 fiscal year 2022 budget reflects the City's efforts to address the needs and issues of the community and meet desired levels of services while limiting expenditures to maintain a balanced budget. An increase of 8.26% in water/wastewater revenue is planned during this fiscal year to fund the City's infrastructure improvements. 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 Megan Henderson, City Manager, P.O. Box 568, Hillsboro, Texas 76645 or call (254) 582-3271.

**BASIC
FINANCIAL STATEMENTS**

CITY OF HILLSBORO, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2021

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 12,746,168	\$ 3,397,947	\$ 16,144,115
Receivables (net of allowances for uncollectibles):			
Taxes	1,162,015	-	1,162,015
Accounts	239,954	766,924	1,006,878
Municipal court	365,173	-	365,173
Intergovernmental	770,025	253,639	1,023,664
Internal balances	122,909	(122,909)	-
Inventories	24,669	202,828	227,497
Capital assets not being depreciated	1,833,759	2,680,240	4,513,999
Capital assets, net of accumulated depreciation	<u>18,602,191</u>	<u>10,308,495</u>	<u>28,910,686</u>
Total assets	<u>35,866,863</u>	<u>17,487,164</u>	<u>53,354,027</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	24,855	3,656	28,511
Deferred outflows related to pensions	<u>587,988</u>	<u>80,583</u>	<u>668,571</u>
Total deferred outflows of resources	<u>612,843</u>	<u>84,239</u>	<u>697,082</u>
LIABILITIES			
Accounts payable	508,720	141,235	649,955
Accrued liabilities	227,760	17,582	245,342
Accrued interest payable	114,004	14,851	128,855
Unearned revenue	350,117	702,700	1,052,817
Customer deposits	-	265,034	265,034
Noncurrent liabilities:			
Due within one year:			
Long-term debt	1,348,398	567,024	1,915,422
Due in more than one year:			
Long-term debt	11,159,684	2,778,818	13,938,502
Net pension liability - TMRS	<u>2,064,064</u>	<u>282,877</u>	<u>2,346,941</u>
Total liabilities	<u>15,772,747</u>	<u>4,770,121</u>	<u>20,542,868</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow related to pensions	<u>499,565</u>	<u>68,465</u>	<u>568,030</u>
Total deferred inflows of resources	<u>499,565</u>	<u>68,465</u>	<u>568,030</u>
NET POSITION			
Net investment in capital assets	14,080,067	12,611,488	26,691,555
Restricted for:			
Economic development	2,301,356	-	2,301,356
Tourism	1,977,777	-	1,977,777
Court security and technology	275,698	-	275,698
Debt service	282,008	-	282,008
Public safety	450,363	-	450,363
Library operations	32,744	-	32,744
Unrestricted	<u>807,381</u>	<u>121,329</u>	<u>928,710</u>
Total net position	<u>\$ 20,207,394</u>	<u>\$ 12,732,817</u>	<u>\$ 32,940,211</u>

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

CITY OF HILLSBORO, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 2,882,576	\$ 76,512	\$ 386,903	\$ -	\$(2,419,161)	\$ -	\$(2,419,161)
Public safety	5,145,126	938,021	7,823	-	(4,199,282)	-	(4,199,282)
Streets	947,308	-	-	905,253	(42,055)	-	(42,055)
Community development	385,181	31,756	-	-	(353,425)	-	(353,425)
Interest on long-term debt	165,170	-	-	-	(165,170)	-	(165,170)
Total governmental activities	<u>9,525,361</u>	<u>1,046,289</u>	<u>394,726</u>	<u>905,253</u>	<u>(7,179,093)</u>	<u>-</u>	<u>(7,179,093)</u>
Business-type activities:							
Water and sewer	4,332,357	4,270,210	-	457,199	-	395,052	395,052
Sanitation	813,305	1,158,916	-	-	-	345,611	345,611
Airport	<u>289,030</u>	<u>269,361</u>	<u>64,902</u>	<u>-</u>	<u>-</u>	<u>45,233</u>	<u>45,233</u>
Total business-type activities	<u>5,434,692</u>	<u>5,698,487</u>	<u>64,902</u>	<u>457,199</u>	<u>-</u>	<u>785,896</u>	<u>785,896</u>
Total	<u>\$ 14,960,053</u>	<u>\$ 6,744,776</u>	<u>\$ 459,628</u>	<u>\$ 1,362,452</u>	<u>(7,179,093)</u>	<u>785,896</u>	<u>(6,393,197)</u>
General revenues:							
Taxes:							
Property - general purposes					3,523,481	-	3,523,481
Property - debt service					917,096	-	917,096
Sales					4,423,439	-	4,423,439
Franchise					526,182	-	526,182
Hotel/motel					373,867	-	373,867
Other					75,098	-	75,098
Unrestricted investment earnings					10,824	590	11,414
Miscellaneous					118,271	72,765	191,036
Transfers					(7,824)	7,824	-
Total general revenues and transfers					<u>9,960,434</u>	<u>81,179</u>	<u>10,041,613</u>
Change in net position					2,781,341	867,075	3,648,416
Net position, beginning					<u>17,426,053</u>	<u>11,865,742</u>	<u>29,291,795</u>
Net position ending					<u>\$ 20,207,394</u>	<u>\$ 12,732,817</u>	<u>\$ 32,940,211</u>

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

CITY OF HILLSBORO, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2021

		Special Revenue	
	General	Economic Development Corporation	Hotel/Motel Tax
ASSETS			
Cash and investments	\$ 2,190,024	\$ 2,245,060	\$ 1,872,095
Receivables (net of allowance for uncollectibles):			
Taxes	923,707	64,443	105,957
Accounts	605,127	-	-
Due from other governments	770,025	-	-
Inventory	24,669	-	-
Due from other funds	130,243	-	-
Total assets	<u>4,643,795</u>	<u>2,309,503</u>	<u>1,978,052</u>
LIABILITIES			
Accounts payable	505,442	1,472	275
Accrued liabilities	222,993	2,304	-
Unearned revenue	350,117	-	-
Due to other funds	-	4,371	-
Total liabilities	<u>1,078,552</u>	<u>8,147</u>	<u>275</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	165,471	-	-
Unavailable revenue - court fines	365,173	-	-
Total deferred inflows of resources	<u>530,644</u>	<u>-</u>	<u>-</u>
FUND BALANCE			
Nonspendable:			
Inventory	24,669	-	-
Restricted:			
Court security and technology	275,698	-	-
Debt service	-	-	-
Economic development	-	2,301,356	-
Library operations	-	-	-
Public safety	-	-	-
Tourism	-	-	1,977,777
Capital projects	-	-	-
Unassigned	<u>2,734,232</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>3,034,599</u>	<u>2,301,356</u>	<u>1,977,777</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,643,795</u>	<u>\$ 2,309,503</u>	<u>\$ 1,978,052</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 are not reported in the funds.

Net position of governmental activities

	<u>Capital Projects</u>		
<u>Debt Service</u>	<u>2021 Bond</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 214,100	\$ 5,730,466	\$ 494,423	\$ 12,746,168
67,908	-	-	1,162,015
-	-	-	605,127
-	-	-	770,025
-	-	-	24,669
-	-	-	130,243
<u>282,008</u>	<u>5,730,466</u>	<u>494,423</u>	<u>15,438,247</u>
-	-	1,531	508,720
-	-	2,463	227,760
-	-	-	350,117
-	-	2,963	7,334
-	-	6,957	1,093,931
61,503	-	-	226,974
-	-	-	365,173
<u>61,503</u>	<u>-</u>	<u>-</u>	<u>592,147</u>
-	-	-	24,669
-	-	-	275,698
220,505	-	-	220,505
-	-	-	2,301,356
-	-	32,744	32,744
-	-	450,363	450,363
-	-	-	1,977,777
-	5,730,466	4,359	5,734,825
-	-	-	2,734,232
<u>220,505</u>	<u>5,730,466</u>	<u>487,466</u>	<u>13,752,169</u>
\$ <u>282,008</u>	\$ <u>5,730,466</u>	\$ <u>494,423</u>	
			20,435,950
			592,147
			(<u>14,572,872</u>)
			\$ <u>20,207,394</u>

CITY OF HILLSBORO, TEXAS

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

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2021

		<u>Special Revenue</u>	
	<u>General</u>	<u>Economic Development Corporation</u>	<u>Hotel/Motel Tax</u>
REVENUES			
Taxes:			
Ad valorem	\$ 3,571,527	\$ -	\$ -
Sales	4,054,819	368,620	-
Franchise	526,182	-	-
Hotel/motel	-	-	373,867
Other	75,098	-	-
Fines and forfeitures	584,576	-	-
Charges for services	171,785	-	-
Intergovernmental	1,296,933	-	-
Licenses and permits	27,393	-	-
Investment earnings	4,593	4,561	70
Rentals	-	-	4,363
Cemetery lot sales and fees	44,923	-	-
Contributions	184,451	-	-
Miscellaneous	25,594	52,791	141
Total revenues	<u>10,567,874</u>	<u>425,972</u>	<u>378,441</u>
EXPENDITURES			
Current:			
General government	2,721,310	-	-
Public safety	4,785,076	-	-
Streets	473,540	-	-
Community development	89,276	130,914	139,380
Capital outlay	1,037,127	-	-
Debt service:			
Principal	325,377	-	-
Interest	44,849	-	-
Fees and costs of issuance	-	-	-
Total expenditures	<u>9,476,555</u>	<u>130,914</u>	<u>139,380</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,091,319</u>	<u>295,058</u>	<u>239,061</u>
OTHER FINANCING SOURCES (USES)			
Insurance recoveries	35,852	-	-
Capital leases	276,180	-	-
Issuance of bonds	-	-	-
Bond premium	-	-	-
Issuance of refunding bonds	-	-	-
Payment to refunded bond escrow agent	-	-	-
Transfers in	367,000	-	-
Transfers out	(335,003)	(313,824)	(83,305)
Total other financing sources (uses)	<u>344,029</u>	<u>(313,824)</u>	<u>(83,305)</u>
NET CHANGE IN FUND BALANCE	1,435,348	(18,766)	155,756
FUND BALANCE, BEGINNING	<u>1,599,251</u>	<u>2,320,122</u>	<u>1,822,021</u>
FUND BALANCE, ENDING	<u>\$ 3,034,599</u>	<u>\$ 2,301,356</u>	<u>\$ 1,977,777</u>

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

		Capital Projects				Other Governmental Funds		Total Governmental Funds	
Debt Service		2021 Bond							
\$	895,419	\$	-	\$	-	\$	-	\$	4,466,946
	-		-		-		-		4,423,439
	-		-		-		-		526,182
	-		-		-		-		373,867
	-		-		-		-		75,098
	-		-		72,138		-		656,714
	-		-		-		-		171,785
	-		-		-		-		1,296,933
	-		-		-		-		27,393
	85		338		1,177		-		10,824
	-		-		-		-		4,363
	-		-		-		-		44,923
	-		-		2,546		-		186,997
	-		-		3,893		-		82,419
	<u>895,504</u>		<u>338</u>		<u>79,754</u>		-		<u>12,347,883</u>
	-		-		-		-		2,721,310
	-		-		101,332		-		4,886,408
	-		-		63,606		-		537,146
	-		-		-		-		359,570
	-		14,211		8,334		-		1,059,672
	745,000		-		-		-		1,070,377
	104,177		-		-		-		149,026
	41,812		72,090		-		-		113,902
	<u>890,989</u>		<u>86,301</u>		<u>173,272</u>		-		<u>10,897,411</u>
	<u>4,515</u>		<u>(85,963)</u>		<u>(93,518)</u>		-		<u>1,450,472</u>
	-		-		-		-		35,852
	-		-		72,535		-		348,715
	-		5,635,000		-		-		5,635,000
	-		181,429		-		-		181,429
	1,330,000		-		-		-		1,330,000
(1,293,518)			-		-		-		(1,293,518)
	-		-		397,308		-		764,308
	-		-		(40,000)		-		(772,132)
	<u>36,482</u>		<u>5,816,429</u>		<u>429,843</u>		-		<u>6,229,654</u>
	40,997		5,730,466		336,325		-		7,680,126
	<u>179,508</u>		<u>-</u>		<u>151,141</u>		-		<u>6,072,043</u>
\$	<u>220,505</u>	\$	<u>5,730,466</u>	\$	<u>487,466</u>	\$	<u>13,752,169</u>		

CITY OF HILLSBORO, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2021

Net change in fund balances - total governmental funds \$ 7,680,126

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

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. 136,996

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (69,209)

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. (4,931,763)

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. (34,809)

Change in net position of governmental activities \$ 2,781,341

CITY OF HILLSBORO, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

SEPTEMBER 30, 2021

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Sanitation	Airport	Totals
ASSETS				
Current assets:				
Cash and investments	\$ 3,140,346	\$ 257,501	\$ 100	\$ 3,397,947
Accounts receivable	689,647	54,511	22,766	766,924
Intergovernmental receivables	247,639	-	6,000	253,639
Inventories	158,781	-	44,047	202,828
Noncurrent capital assets:				
Capital assets not being depreciated	2,483,751	97,906	98,583	2,680,240
Capital assets net of accumulated depreciation	<u>8,722,359</u>	<u>-</u>	<u>1,586,136</u>	<u>10,308,495</u>
Total assets	<u>15,442,523</u>	<u>409,918</u>	<u>1,757,632</u>	<u>17,610,073</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	3,656	-	-	3,656
Deferred outflows related to pensions	<u>74,412</u>	<u>-</u>	<u>6,171</u>	<u>80,583</u>
Total deferred outflows of resources	<u>78,068</u>	<u>-</u>	<u>6,171</u>	<u>84,239</u>
LIABILITIES				
Current liabilities:				
Accounts payable	69,610	71,579	46	141,235
Customer deposits	265,034	-	-	265,034
Accrued liabilities	16,214	-	1,368	17,582
Due to other funds	-	-	122,909	122,909
Accrued interest payable	14,851	-	-	14,851
Unearned revenue	700,000	-	2,700	702,700
Accrued compensated absences	16,334	-	-	16,334
Bonds payable	535,000	-	-	535,000
Capital lease payable	<u>15,690</u>	<u>-</u>	<u>-</u>	<u>15,690</u>
Total current liabilities	<u>1,632,733</u>	<u>71,579</u>	<u>127,023</u>	<u>1,831,335</u>
Noncurrent liabilities:				
Bonds payable	2,729,756	-	-	2,729,756
Capital lease payable	32,729	-	-	32,729
Net pension liability	261,215	-	21,662	282,877
Accrued compensated absences	<u>16,333</u>	<u>-</u>	<u>-</u>	<u>16,333</u>
Total long-term liabilities	<u>3,040,033</u>	<u>-</u>	<u>21,662</u>	<u>3,061,695</u>
Total liabilities	<u>4,672,766</u>	<u>71,579</u>	<u>148,685</u>	<u>4,893,030</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	<u>63,222</u>	<u>-</u>	<u>5,243</u>	<u>68,465</u>
Total deferred inflows of resources	<u>63,222</u>	<u>-</u>	<u>5,243</u>	<u>68,465</u>
NET POSITION				
Net investment in capital assets	10,828,863	97,906	1,684,719	12,611,488
Unrestricted	<u>(44,260)</u>	<u>240,433</u>	<u>(74,844)</u>	<u>121,329</u>
Total net position	<u>\$ 10,784,603</u>	<u>\$ 338,339</u>	<u>\$ 1,609,875</u>	<u>\$ 12,732,817</u>

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

CITY OF HILLSBORO, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Sanitation	Airport	Totals
OPERATING REVENUES				
Charges for services:				
Water and sewer sales	\$ 4,226,525	\$ -	\$ -	\$ 4,226,525
Sanitation sales	-	1,158,916	-	1,158,916
Airport fuel sales	-	-	225,437	225,437
Hangar rentals	-	-	41,828	41,828
Other service charges	43,685	-	2,096	45,781
Operating grants	-	-	64,902	64,902
Miscellaneous	72,765	-	-	72,765
Total operating revenues	<u>4,342,975</u>	<u>1,158,916</u>	<u>334,263</u>	<u>5,836,154</u>
OPERATING EXPENSES				
Water purchases	2,217,997	-	-	2,217,997
Personnel	867,028	-	61,312	928,340
Supplies	72,653	-	139,807	212,460
Services	254,403	809,209	28,620	1,092,232
Maintenance	379,490	4,096	5,517	389,103
Depreciation	501,166	-	53,774	554,940
Total operating expenses	<u>4,292,737</u>	<u>813,305</u>	<u>289,030</u>	<u>5,395,072</u>
OPERATING INCOME (LOSS)	<u>50,238</u>	<u>345,611</u>	<u>45,233</u>	<u>441,082</u>
NONOPERATING REVENUES (EXPENSES)				
Investment income	590	-	-	590
Interest and fiscal charges	(39,620)	-	-	(39,620)
Total nonoperating revenues (expenses)	<u>(39,030)</u>	<u>-</u>	<u>-</u>	<u>(39,030)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	11,208	345,611	45,233	402,052
Capital contributions	457,199	-	-	457,199
Transfers in	301,824	-	-	301,824
Transfers out	<u>-</u>	<u>(294,000)</u>	<u>-</u>	<u>(294,000)</u>
CHANGE IN NET POSITION	770,231	51,611	45,233	867,075
TOTAL NET POSITION, BEGINNING	<u>10,014,372</u>	<u>286,728</u>	<u>1,564,642</u>	<u>11,865,742</u>
TOTAL NET POSITION, ENDING	\$ <u>10,784,603</u>	\$ <u>338,339</u>	\$ <u>1,609,875</u>	\$ <u>12,732,817</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, 2021

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Sanitation	Airport	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 4,266,814	\$ 1,157,763	\$ 315,704	\$ 5,740,281
Cash payments to employees for services	(854,611)	-	(60,560)	(915,171)
Cash payments to suppliers for goods and services	(2,976,108)	(806,619)	(236,442)	(4,019,169)
Cash provided (used) by operating activities	<u>436,095</u>	<u>351,144</u>	<u>18,702</u>	<u>805,941</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Federal grants	700,000	-	-	700,000
Cash received from other funds	301,824	-	27,673	329,497
Cash paid to other funds	<u>-</u>	<u>(294,000)</u>	<u>-</u>	<u>(294,000)</u>
Cash provided (used) by noncapital financing activities	<u>1,001,824</u>	<u>(294,000)</u>	<u>27,673</u>	<u>735,497</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from issuance of long-term debt	48,419	-	-	48,419
Principal repayments on debt	(525,000)	-	-	(525,000)
Interest and fiscal charges on debt	(77,338)	-	-	(77,338)
Capital grants	338,380	-	-	338,380
Acquisition and construction of capital assets	<u>(775,680)</u>	<u>-</u>	<u>(53,400)</u>	<u>(829,080)</u>
Cash provided (used) by capital and related financing activities	<u>(991,219)</u>	<u>-</u>	<u>(53,400)</u>	<u>(1,044,619)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	<u>590</u>	<u>-</u>	<u>-</u>	<u>590</u>
Cash provided (used) by investing activities	<u>590</u>	<u>-</u>	<u>-</u>	<u>590</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	447,290	57,144	(7,025)	497,409
CASH AND CASH EQUIVALENTS, BEGINNING	<u>2,693,056</u>	<u>200,357</u>	<u>7,125</u>	<u>2,900,538</u>
CASH AND CASH EQUIVALENTS, ENDING	\$ <u>3,140,346</u>	\$ <u>257,501</u>	\$ <u>100</u>	\$ <u>3,397,947</u>

CITY OF HILLSBORO, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Sanitation	Airport	Totals
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 50,238	\$ 345,611	\$ 45,233	\$ 441,082
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	501,166	-	53,774	554,940
Change in assets and liabilities:				
Decrease (increase) in accounts receivable	(81,474)	(1,153)	(14,809)	(97,436)
Decrease (increase) in inventory	(27,278)	-	(30,172)	(57,450)
Decrease (increase) in due from other governments	-	-	(6,000)	(6,000)
Decrease (increase) in deferred outflows	(23,978)	-	(1,773)	(25,751)
Increase (decrease) in accounts payable	(24,287)	6,686	(31,243)	(48,844)
Increase (decrease) in accrued liabilities	(27)	-	(12)	(39)
Increase (decrease) in unearned revenue	-	-	2,250	2,250
Increase (decrease) in customer deposits	5,313	-	-	5,313
Increase (decrease) in vacation payable	3,814	-	-	3,814
Increase (decrease) in net pension liability	32,942	-	1,754	34,696
Decrease (increase) in deferred inflows	(334)	-	(300)	(634)
Total adjustments	<u>385,857</u>	<u>5,533</u>	<u>(26,531)</u>	<u>364,859</u>
Net cash provided (used) by operating activities	<u>\$ 436,095</u>	<u>\$ 351,144</u>	<u>\$ 18,702</u>	<u>\$ 805,941</u>

CITY OF HILLSBORO, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

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.

The Hillsboro Economic Development Corporation (the "EDC") was organized as a Type A Sales Tax Corporation in 1992 for the purpose of promoting industrial recruitment and retention through funding buildings, land, equipment, and targeted infrastructure. The EDC is governed by a board of directors that is appointed by City Council. The City would be liable for any residual debts of the EDC, and it is thus included in these financial statements as a blended component unit and is presented as a major special revenue fund. 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 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 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 **2021 Bond Fund** – accounts for the resources accumulated and payments made related to the 2021 Bond issuance.

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.

Generally, 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 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, 2021, the City's property taxes were billed and collected by the Hill County Appraisal District. Receipts are remitted to the City monthly.

Ad valorem taxes for fiscal year 2021 were levied October 1, 2020, at the rate of \$.806400 per \$100 assessed valuation on a total taxable assessed valuation of \$539,850,185.

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.

Unearned Revenue

Unearned revenue is reported when cash is received before the related performance or eligibility requirements are met. These relate primarily to the grant funds received in advance for the ARPA grants, which will be recognized in future years to the extent that funds are spent.

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. 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). 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, 2021, the City's deposit balance (cash and certificates of deposit) was \$3,722,546. The City's deposits as of September 30, 2021 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.

As of September 30, 2021, the City's investments consisted of:

	Net Asset Value
TexStar	\$ 5,892,964
Texas Term	3,168,946
State Treasurer's Investment Pool (TexPool)	593,613
	<u>\$ 9,655,523</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. All the pools have a redemption notice period of one day and may redeem daily. The investment pools' authority may only impose restrictions on withdrawals in the event of a general suspension of trading on major securities markets, general banking moratorium, or a national state of emergency that affects the pool's liquidity.

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	Water and Wastewater	Sanitation	Airport	Totals
Receivables:								
Accounts:								
Customers	\$ -	\$ -	\$ -	\$ -	\$ 704,348	\$ 54,511	\$ 22,766	\$ 781,625
Taxes:								
Property	528,605	188,636	-	-	-	-	-	717,241
Sales	708,872	-	64,443	105,957	-	-	-	879,272
Other	24,537	-	-	-	-	-	-	24,537
Court fines	2,434,487	-	-	-	-	-	-	2,434,487
EMS	2,393,705	-	-	-	-	-	-	2,393,705
Intergovernmental	770,025	-	-	-	247,639	-	6,000	1,023,664
Other	584	-	-	-	-	-	-	584
Gross receivables	<u>6,860,815</u>	<u>188,636</u>	<u>64,443</u>	<u>105,957</u>	<u>951,987</u>	<u>54,511</u>	<u>28,766</u>	<u>8,255,115</u>
Less: allowance for uncollectibles	<u>(4,561,956)</u>	<u>(120,728)</u>	<u>-</u>	<u>-</u>	<u>(14,701)</u>	<u>-</u>	<u>-</u>	<u>(4,697,385)</u>
Net total receivables	<u>\$ 2,298,859</u>	<u>\$ 67,908</u>	<u>\$ 64,443</u>	<u>\$ 105,957</u>	<u>\$ 937,286</u>	<u>\$ 54,511</u>	<u>\$ 28,766</u>	<u>\$ 3,557,730</u>

Capital Assets

Capital asset activity for the year ended September 30, 2021, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 803,137	\$ -	\$ -	\$ 803,137
Construction in progress	<u>65,575</u>	<u>965,047</u>	<u>-</u>	<u>1,030,622</u>
Total assets not being depreciated	<u>868,712</u>	<u>965,047</u>	<u>-</u>	<u>1,833,759</u>
Capital assets, being depreciated:				
Buildings and improvements	6,795,944	119,712	(15,900)	6,899,756
Machinery and equipment	6,607,520	63,766	-	6,671,286
Infrastructure	<u>17,457,779</u>	<u>-</u>	<u>-</u>	<u>17,457,779</u>
Total capital assets being depreciated	<u>30,861,243</u>	<u>183,478</u>	<u>(15,900)</u>	<u>31,028,821</u>
Accumulated depreciation:				
Buildings and improvements	(4,155,916)	(171,232)	5,963	(4,321,185)
Machinery and equipment	(4,414,695)	(480,559)	-	(4,895,254)
Infrastructure	<u>(2,860,390)</u>	<u>(349,801)</u>	<u>-</u>	<u>(3,210,191)</u>
Total accumulated depreciation	<u>(11,431,001)</u>	<u>(1,001,592)</u>	<u>5,963</u>	<u>(12,426,630)</u>
Total capital assets being depreciated, net	<u>19,430,242</u>	<u>(818,114)</u>	<u>(9,937)</u>	<u>18,602,191</u>
Governmental activities capital assets, net	<u>\$ 20,298,954</u>	<u>\$ 146,933</u>	<u>\$ (9,937)</u>	<u>\$ 20,435,950</u>

	Beginning Balance	Increase	Decrease	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 378,391	\$ -	\$ -	\$ 378,391
Construction in progress - Water/Sewer	1,570,932	730,917	-	2,301,849
Construction in progress - Airport	12,600	-	(12,600)	-
Total assets not being depreciated	<u>1,961,923</u>	<u>730,917</u>	<u>(12,600)</u>	<u>2,680,240</u>
Capital assets, being depreciated:				
Buildings and improvements	6,952,310	66,000	-	7,018,310
Machinery and equipment	1,863,983	48,419	-	1,912,402
Infrastructure	17,763,646	-	-	17,763,646
Total capital assets being depreciated	<u>26,579,939</u>	<u>114,419</u>	<u>-</u>	<u>26,694,358</u>
Accumulated depreciation:				
Buildings and improvements	(2,166,415)	(145,443)	-	(2,311,858)
Machinery and equipment	(1,713,206)	(47,393)	-	(1,760,599)
Infrastructure	(11,951,302)	(362,104)	-	(12,313,406)
Total accumulated depreciation	<u>(15,830,923)</u>	<u>(554,940)</u>	<u>-</u>	<u>(16,385,863)</u>
Total capital assets being depreciated, net	<u>10,749,016</u>	<u>(440,521)</u>	<u>-</u>	<u>10,308,495</u>
Business-type activities capital assets, net	<u>\$ 12,710,939</u>	<u>\$ 290,396</u>	<u>\$ (12,600)</u>	<u>\$ 12,988,735</u>

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

Governmental activities	
General government	\$ 159,655
Public safety	389,382
Public works	419,677
Community development	<u>32,878</u>
Total depreciation expense - governmental activities	<u>\$ 1,001,592</u>
Business-type activities:	
Water and wastewater	\$ 501,166
Airport	<u>53,774</u>
Total depreciation expense - business-type activities	<u>\$ 554,940</u>

Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2021, is as follows:

Receivable Fund	Payable Fund	Amount
General	EDC	\$ 4,371
General	Airport	122,909
General	Nonmajor	<u>2,963</u>
Total		<u>\$ 130,243</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, 2021, are as follows:

Transfers In	Transfers Out	Amount	Purpose
General	EDC	\$ 12,000	Admin costs
Nonmajor	General	335,003	Supplement fund sources
General	Nonmajor	40,000	Supplement fund sources
General	Hotel/Motel	21,000	Admin costs
General	Sanitation	294,000	Admin costs
Water and Wastewater	EDC	301,824	Supplement fund sources
Nonmajor	Hotel/Motel	<u>62,305</u>	Miscellaneous
Total		<u>\$ 1,066,132</u>	

Long-term Debt

Long-term liability activity from the year ended September 30, 2021, was as follows:

	Debt Outstanding 09/30/20	Additions	Retirements	Debt Outstanding 09/30/21	Due Within One Year
<u>Governmental:</u>					
Certificates of obligation	\$ -	\$ 5,635,000	\$ -	\$ 5,635,000	\$ -
General obligation bonds	2,920,000	1,330,000	(1,610,000)	2,640,000	345,000
General obligation bonds - Private Placement	2,710,000	-	(410,000)	2,300,000	420,000
Premium	96,138	181,429	(30,697)	246,870	-
Capital leases	1,273,977	348,715	(333,358)	1,289,334	384,959
Compensated absences	362,069	277,521	(242,712)	396,878	198,439
	<u>7,362,184</u>	<u>7,772,665</u>	<u>(2,626,767)</u>	<u>12,508,082</u>	<u>1,348,398</u>
<u>Enterprise Fund</u>					
General obligation bonds	780,000	-	(385,000)	395,000	395,000
TWDB Bonds - Direct Borrowing	2,990,000	-	(140,000)	2,850,000	140,000
Premium	41,955	-	(22,199)	19,756	-
Capital leases	-	48,419	-	48,419	15,690
Compensated absences	28,853	25,725	(21,911)	32,667	16,334
	<u>3,840,808</u>	<u>74,144</u>	<u>(569,110)</u>	<u>3,345,842</u>	<u>567,024</u>
Total	<u>\$ 11,202,992</u>	<u>\$ 7,846,809</u>	<u>\$ (3,195,877)</u>	<u>\$ 15,853,924</u>	<u>\$ 1,915,422</u>

The General Fund is generally used to liquidate compensated absences for governmental activities. Debt outstanding as of September 30, 2021, consisted of the following:

	Purpose of Issue	Amount Issued	Amount Outstanding	Interest Rate
<u>Governmental</u>				
General obligation bonds:				
2012 Series	Street Improvements	\$ 1,870,000	\$ 1,220,000	2.00%-3.00%
2012 Series Premium		87,406	48,075	
2012 Series	Refunding	895,000	220,000	2.00%-3.00%
2012 Series Premium		56,441	17,366	
2016 Series	Refunding	4,155,000	2,300,000	1.65%
2020 Series	Refunding	1,330,000	1,200,000	1.70%
Certificates of obligation bonds:				
2021 Series	Street Improvements	5,635,000	5,635,000	1.85%
2021 Series Premium		181,429	181,429	
Total governmental		<u>\$ 14,210,276</u>	<u>\$ 10,821,870</u>	
<u>Business-type</u>				
General obligation bonds:				
2012 Series	Refunding	\$ 3,520,000	\$ 395,000	2.00%-3.00%
2012 Series Premium		221,981	19,756	
2019 Series		3,130,000	2,850,000	0.73%-2.14%
Total business-type		<u>\$ 6,871,981</u>	<u>\$ 3,264,756</u>	

Governmental bonds future requirements are as follows:

Year Ended September 30	Principal	Interest	Total Requirements
2022	\$ 345,000	\$ 202,671	\$ 547,671
2023	330,000	161,741	491,741
2024	365,000	154,246	519,246
2025	395,000	145,701	540,701
2026	445,000	136,348	581,348
2027-2031	2,240,000	513,193	2,753,193
2032-2036	1,370,000	297,938	1,667,938
2037-2041	1,335,000	201,247	1,536,247
2042-2046	1,450,000	85,735	1,535,735
Total	<u>\$ 8,275,000</u>	<u>\$ 1,898,820</u>	<u>\$ 10,173,820</u>

Private Placement			
Year Ended September 30	Principal	Interest	Total Requirements
2022	\$ 420,000	\$ 37,950	\$ 866,146
2023	400,000	31,020	879,031
2024	410,000	24,420	756,101
2025	420,000	17,655	756,001
2026	420,000	10,725	430,725
2027-2030	230,000	5,692	235,692
Total	<u>\$ 2,300,000</u>	<u>\$ 127,462</u>	<u>\$ 2,427,462</u>

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

<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2022	\$ <u>395,000</u>	\$ <u>11,850</u>	\$ <u>186,225</u>
Total	\$ <u>395,000</u>	\$ <u>11,850</u>	\$ <u>186,225</u>

<u>Private Placement</u>			
<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2022	\$ 140,000	\$ 47,555	\$ 597,131
2023	140,000	46,225	594,405
2024	145,000	44,741	186,225
2025	145,000	43,059	189,741
2026	145,000	41,232	186,232
2027-2031	765,000	173,456	938,456
2032-2036	830,000	105,297	935,297
2037-2039	<u>540,000</u>	<u>23,078</u>	<u>563,078</u>
Total	\$ <u>2,850,000</u>	\$ <u>524,643</u>	\$ <u>4,190,565</u>

Certain obligations that were marketed as private placements or direct borrowings have been separately identified; however, the terms of these obligations are not significantly different than other obligations and do not have substantive acceleration clauses. Should the City default on these bonds, any registered owner of the obligations is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make payment.

New Debt Issuances

In March 2021, the City issued Combination Tax & Surplus Revenue Certificates of Obligation, Series 2021, in the amount of \$5,635,000. The net proceeds of \$5,750,000 (including a premium of \$181,429 net of issuance costs of \$66,429) will be used to fund certain capital projects and infrastructure improvements. The Certificates are pledged by ad valorem property tax revenues and a pledge of water and sewer system revenues. The Certificates bear interest ranging from 1.5% to 3% per annum and mature in series from 2023 through 2043.

Current Refunding of Long-Term Debt

In November 2020, the City issued General Obligation Refunding Bonds, Series 2020 in the amount of \$1,330,000, for the purpose of refunding a portion of existing bonds at a present value savings. The bonds bear interest of 1.15% and mature in series from fiscal years 2021 through 2030.

The proceeds were used to refund its General Obligation Refunding and Improvement Bonds, Series 2010, in the amount of \$1,275,000. Those bonds were called within 90 days of the refunding date and are now extinguished. The refunding transaction reduced the City's total debt service payments by \$171,505 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$158,256. The net carrying amount of the old debt exceeded the reacquisition price by \$3,467. This insignificant amount was expensed in the current year instead of amortizing over the remaining life of the refunded debt.

Capital Leases

The City has acquired certain capital assets for governmental and water and wastewater activities using 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. All the City's capital leases are classified as direct borrowings and are secured by the leased equipment.

In July 2021, the City issued a finance contract classified as a capital lease in the amount of \$397,134, for the purpose of purchasing certain vehicles, mowers, and computer equipment. The lease is payable in three equal annual installments from 2022 through 2024 and bears interest at 2.84%.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2021, were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2022	\$ 434,933	\$ 17,065
2023	410,212	17,065
2024	312,456	17,065
2025	114,666	-
2026	<u>114,665</u>	<u>-</u>
Total minimum lease payments	1,386,932	51,195
Less: amount representing interest	(97,598)	(2,776)
Present value of minimum lease payments	<u>\$ 1,289,334</u>	<u>\$ 48,419</u>

The assets acquired through capital leases are as follows:

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
Mowers	26,900
Street Truck	31,676
SRO Vehicle	<u>57,000</u>
Total	<u>\$ 3,501,913</u>
Business-type activities	
Wheel loader	\$ 113,700
Water Trucks	48,419
Backhoe	<u>82,500</u>
Total	<u>\$ 244,619</u>

Commitments

The City has entered a contract with 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 \$1,923,265 for water purchased from the District during the fiscal year ending September 30, 2021.

Retirement Plan

Texas Municipal Retirement System

Plan Description - The City participates as one of 895 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agency multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.tmrs.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, 2020, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	73
Inactive employees entitled to but not yet receiving benefits	81
Active employees	97
	<hr/>
	251
	<hr/>

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 11.05% and 11.28% in calendar years 2020 and 2021, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2021, were \$554,408, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2020, 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, 2020, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 11.5% including inflation
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a 4- year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income 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, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. equities	30.0%	5.30%
Core fixed income	10.0%	1.25%
Non-core fixed income	20.0%	4.14%
Real estate	10.0%	4.00%
Real return	10.0%	3.85%
Absolutely return	10.0%	3.48%
Private equity	10.0%	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

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2019	\$ 21,961,445	\$ 19,651,931	\$ 2,309,514
Changes for the year:			
Service cost	591,998	-	591,998
Interest	1,474,971	-	1,474,971
Difference between expected and actual experience	321,918	-	321,918
Changes of assumptions	-	-	-
Contributions - employer	-	602,682	(602,682)
Contributions - employee	-	267,147	(267,147)
Net investment income	-	1,491,659	(1,491,659)
Benefit payments, including refunds of employee contributions	(812,034)	(812,034)	-
Administrative expense	-	(9,652)	9,652
Other changes	-	(376)	376
Net changes	1,576,853	1,539,426	37,427
Balance at 12/31/2020	\$ 23,538,298	\$ 21,191,357	\$ 2,346,941

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	\$ 5,944,423	\$ 2,346,941	\$ (574,745)

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.

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

For the year ended September 30, 2021, the City recognized pension expense of \$358,534.

As of September 30, 2021, 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	\$ 230,981	\$ 12,682
Changes in actuarial assumptions	39,514	-
Difference between projected and actual investment earnings	-	555,348
Contributions subsequent to the measurement date	398,076	-
Total	<u>\$ 668,571</u>	<u>\$ 568,030</u>

\$398,076 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, 2022. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ending September 30,	
2022	\$(99,203)
2023	112,923
2024	(278,224)
2025	(33,031)
	<u>\$(297,535)</u>

Contingencies

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

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

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 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.

Subsequent Event

On February 15, 2022, the City issued \$6,195,000 of Combination Tax and Revenue Certificates of Obligation, Series 2022 to fund improvements in the waterworks and sewer system. The interest rates on the notes range from 2.0% to 4.0% and mature from July 1, 2023 to July 1, 2042.

New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following statements which become effective for fiscal years 2022 and 2023.

Statement No. 87, *Leases* – This Statement will improve the accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities previously classifies as operating leases. It establishes a single model for lease accounting based on the principle that leases are financing the right to use an underlying asset. Under the Statement a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resource, enhancing the relevance and consistency of information about leasing activities. This Statement will become effective for the City in fiscal year 2022.

Statement No. 96, *Subscription-Based Information Technology Arrangements* – This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. This Statement will become effective for the City in fiscal year 2023.

**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, 2021

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes:				
Ad valorem	\$ 3,485,000	\$ 3,539,500	\$ 3,571,527	\$ 32,027
Sales	2,763,200	3,600,000	4,054,819	454,819
Franchise	535,000	507,500	526,182	18,682
Other	40,500	75,500	75,098	(402)
Fines and forfeitures	663,600	568,775	584,576	15,801
Charges for services	263,000	167,750	171,785	4,035
Licenses and permits	30,050	21,955	27,393	5,438
Intergovernmental	5,000	10,300	391,680	381,380
Investment earnings	20,000	4,500	4,593	93
Cemetery lot sales and fees	22,000	33,100	44,923	11,823
Contributions	171,375	171,375	184,451	13,076
Miscellaneous	21,000	19,210	25,594	6,384
Total revenues, as budgeted	<u>8,019,725</u>	<u>8,719,465</u>	<u>9,662,621</u>	<u>943,156</u>
Plus: sub-fund 74 not included in budget			<u>905,253</u>	
Total revenues per basic financial statements			<u>10,567,874</u>	
EXPENDITURES				
General government:				
Legislative:				
Personnel	275	275	201	74
Supplies	1,060	1,050	267	783
Services	18,920	18,845	1,155	17,690
Maintenance	60	145	138	7
	<u>20,315</u>	<u>20,315</u>	<u>1,761</u>	<u>18,554</u>
Administration:				
Personnel	298,205	314,785	312,542	2,243
Supplies	5,150	5,250	3,071	2,179
Services	195,250	226,100	221,048	5,052
Maintenance	5,940	6,200	5,521	679
Minor equipment	1,000	3,000	894	2,106
Capital Outlay	-	2,000	-	2,000
	<u>505,545</u>	<u>557,335</u>	<u>543,076</u>	<u>14,259</u>
Library:				
Personnel	338,135	329,340	325,069	4,271
Supplies	14,650	11,650	6,343	5,307
Services	66,000	72,815	67,472	5,343
Maintenance	18,420	23,000	21,187	1,813
Minor equipment	2,000	2,400	2,407	(7)
Capital outlay	31,000	31,000	18,756	12,244
	<u>470,205</u>	<u>470,205</u>	<u>441,234</u>	<u>28,971</u>
Municipal court:				
Personnel	197,215	169,490	165,001	4,489
Supplies	4,495	4,625	4,232	393
Services	46,550	55,950	39,673	16,277
Maintenance	740	1,300	1,200	100
	<u>249,000</u>	<u>231,365</u>	<u>210,106</u>	<u>21,259</u>

The accompanying notes are an integral
part of this schedule.

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, 2021

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES (Continued)				
Parks:				
Personnel	\$ 183,660	\$ 182,995	\$ 169,868	\$ 13,127
Supplies	25,600	25,600	17,747	7,853
Services	25,530	23,680	16,582	7,098
Maintenance	60,870	80,120	65,005	15,115
Minor equipment	2,000	2,000	1,752	248
Capital outlay	17,800	12,800	12,800	-
Debt service - principal	1,175	1,400	1,221	179
Debt service - interest	5,085	5,355	5,040	315
	<u>321,720</u>	<u>333,950</u>	<u>290,015</u>	<u>43,935</u>
Recreation:				
Personnel	149,785	169,060	175,412	(6,352)
Supplies	500	500	369	131
Services	26,075	25,870	25,234	636
Maintenance	5,065	5,375	2,943	2,432
Minor equipment	1,000	500	1,385	(885)
Capital outlay	1,000	12,800	12,800	-
	<u>183,425</u>	<u>214,105</u>	<u>218,143</u>	<u>(4,038)</u>
Maintenance shop:				
Personnel	93,335	75,665	60,656	15,009
Supplies	72,100	77,100	67,078	10,022
Services	9,795	10,105	6,472	3,633
Maintenance	92,120	88,180	62,557	25,623
Capital outlay	-	105,500	107,222	(1,722)
	<u>267,350</u>	<u>356,550</u>	<u>303,985</u>	<u>52,565</u>
Cemetery:				
Personnel	21,475	23,540	22,189	1,351
Supplies	40,735	37,150	30,808	6,342
Services	69,760	76,510	75,558	952
Maintenance	1,995	5,900	3,701	2,199
	<u>133,965</u>	<u>143,100</u>	<u>132,256</u>	<u>10,844</u>
Legal:				
Personnel	48,400	48,400	48,538	(138)
Services	2,470	2,470	-	2,470
Maintenance	120	120	112	8
	<u>50,990</u>	<u>50,990</u>	<u>48,650</u>	<u>2,340</u>
Finance:				
Personnel	294,790	281,165	261,166	19,999
Supplies	4,300	5,100	4,727	373
Services	41,365	208,600	206,787	1,813
Maintenance	740	1,900	1,550	350
Minor equipment	800	800	1,464	(664)
	<u>341,995</u>	<u>497,565</u>	<u>475,694</u>	<u>21,871</u>

The accompanying notes are an integral
part of this schedule.

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, 2021

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
EXPENDITURES (Continued)				
Information systems:				
Personnel	\$ 94,620	\$ 92,630	\$ 91,263	\$ 1,367
Supplies	1,250	1,850	2,130	(280)
Services	8,375	8,565	4,306	4,259
Maintenance	4,900	4,475	561	3,914
Minor equipment	1,000	2,625	2,486	139
Capital outlay	6,000	6,000	-	6,000
	<u>116,145</u>	<u>116,145</u>	<u>100,746</u>	<u>15,399</u>
 Total general government	 <u>2,660,655</u>	 <u>2,991,625</u>	 <u>2,765,666</u>	 <u>225,959</u>
 Public Safety:				
Police:				
Personnel	2,722,300	2,916,250	2,511,498	404,752
Supplies	148,800	146,400	117,884	28,516
Services	186,615	197,770	185,673	12,097
Maintenance	53,380	55,880	46,769	9,111
Minor equipment	5,000	15,000	11,972	3,028
Capital outlay	34,000	18,000	12,490	5,510
Debt service - principal	98,735	98,600	98,526	74
Debt service - interest	8,870	9,075	9,029	46
	<u>3,257,700</u>	<u>3,456,975</u>	<u>2,993,841</u>	<u>463,134</u>
 Fire:				
Personnel	1,086,955	1,359,690	1,349,204	10,486
Supplies	148,600	118,750	97,921	20,829
Services	141,250	120,250	92,313	27,937
Maintenance	32,600	62,600	48,300	14,300
Minor equipment	10,000	10,000	2,590	7,410
Capital outlay	5,000	5,000	-	5,000
Debt service - principal	206,825	205,800	205,271	529
Debt service - interest	32,075	33,750	33,622	128
	<u>1,663,305</u>	<u>1,915,840</u>	<u>1,829,221</u>	<u>86,619</u>
 Animal control:				
Personnel	94,940	88,140	59,182	28,958
Supplies	8,910	8,910	6,768	2,142
Services	3,000	3,350	2,122	1,228
Maintenance	11,060	11,060	7,629	3,431
Minor equipment	500	800	814	(14)
	<u>118,410</u>	<u>112,260</u>	<u>76,515</u>	<u>35,745</u>
 Right-of-way:				
Personnel	25,000	25,000	6,036	18,964
Supplies	3,715	3,715	-	3,715
	<u>28,715</u>	<u>28,715</u>	<u>6,036</u>	<u>22,679</u>

The accompanying notes are an integral
part of this schedule.

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, 2021

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
EXPENDITURES (Continued)				
Code Enforcement:				
Personnel	\$ 45,515	\$ 102,005	\$ 103,881	\$(1,876)
Supplies	6,200	10,900	9,014	1,886
Services	111,925	107,800	94,805	12,995
Maintenance	9,955	14,950	14,158	792
Minor equipment	1,100	1,500	16,543	(15,043)
Capital outlay	3,000	1,500	-	1,500
	<u>177,695</u>	<u>238,655</u>	<u>238,401</u>	<u>254</u>
Total public safety	<u>5,245,825</u>	<u>5,752,445</u>	<u>5,144,014</u>	<u>608,431</u>
Streets:				
Streets:				
Personnel	251,865	263,690	239,890	23,800
Supplies	21,000	24,250	19,183	5,067
Services	122,325	139,775	146,504	(6,729)
Maintenance	56,590	75,720	67,963	7,757
Debt service - principal	23,050	23,050	21,580	1,470
Debt service - interest	760	760	2,198	(1,438)
Capital Outlay	30,000	30,000	29,738	262
	<u>475,590</u>	<u>527,245</u>	<u>527,056</u>	<u>189</u>
Total streets	<u>475,590</u>	<u>527,245</u>	<u>527,056</u>	<u>189</u>
Community development:				
Personnel	42,080	40,445	38,237	2,208
Supplies	2,500	2,500	1,428	1,072
Services	49,700	47,300	47,126	174
Maintenance	8,800	8,500	1,556	6,944
Minor equipment	1,000	1,000	929	71
	<u>104,080</u>	<u>99,745</u>	<u>89,276</u>	<u>10,469</u>
Total community development	<u>104,080</u>	<u>99,745</u>	<u>89,276</u>	<u>10,469</u>
Total expenditures, as budgeted	<u>8,486,150</u>	<u>9,371,060</u>	<u>8,526,012</u>	<u>845,048</u>
Plus: sub-fund 74 not included in budget			<u>950,543</u>	
Total expenditures, per basic financial statements			9,476,555	
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(466,425)</u>	<u>(651,595)</u>	<u>1,091,319</u>	<u>1,788,204</u>
OTHER FINANCING SOURCES (USES)				
Insurance recoveries	-	(35,000)	35,852	70,852
Capital leases	-	55,600	276,180	220,580
Transfers in	624,000	624,000	367,000	(257,000)
Transfers out	<u>(32,780)</u>	<u>(32,780)</u>	<u>(335,003)</u>	<u>(302,223)</u>
Total other financing sources (uses)	<u>591,220</u>	<u>611,820</u>	<u>344,029</u>	<u>(267,791)</u>
NET CHANGE IN FUND BALANCE	124,795	(39,775)	1,435,348	1,475,123
FUND BALANCE, BEGINNING	<u>1,599,251</u>	<u>1,599,251</u>	<u>1,599,251</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 1,724,046</u>	<u>\$ 1,559,476</u>	<u>\$ 3,034,599</u>	<u>\$ 1,475,123</u>

The accompanying notes are an integral
part of this schedule.

CITY OF HILLSBORO, TEXAS

ECONOMIC DEVELOPMENT CORPORATION FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes:				
Sales	\$ 250,800	\$ 330,000	\$ 368,620	\$ 38,620
Investment earnings	15,000	4,500	4,561	61
Miscellaneous	<u>10,000</u>	<u>10,000</u>	<u>52,791</u>	<u>42,791</u>
Total revenues	<u>275,800</u>	<u>344,500</u>	<u>425,972</u>	<u>81,472</u>
EXPENDITURES				
Current:				
Community development	<u>1,877,080</u>	<u>1,380,805</u>	<u>130,914</u>	<u>1,249,891</u>
Total expenditures	<u>1,877,080</u>	<u>1,380,805</u>	<u>130,914</u>	<u>1,249,891</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,601,280)</u>	<u>(1,036,305)</u>	<u>295,058</u>	<u>1,331,363</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(12,000)</u>	<u>(12,000)</u>	<u>(313,824)</u>	<u>(301,824)</u>
Total other financing sources (uses)	<u>(12,000)</u>	<u>(12,000)</u>	<u>(313,824)</u>	<u>(301,824)</u>
NET CHANGE IN FUND BALANCE	<u>(1,613,280)</u>	<u>(1,048,305)</u>	<u>(18,766)</u>	<u>1,029,539</u>
FUND BALANCE, BEGINNING	<u>2,320,122</u>	<u>2,320,122</u>	<u>2,320,122</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 706,842</u>	<u>\$ 1,271,817</u>	<u>\$ 2,301,356</u>	<u>\$ 1,029,539</u>

The accompanying notes are an integral part of this schedule.

CITY OF HILLSBORO, TEXAS

HOTEL/MOTEL TAX FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Hotel/motel	\$ 211,700	\$ 320,000	\$ 373,867	\$ 53,867
Investment earnings	1,250	75	70	(5)
Rentals	3,750	3,500	4,363	863
Miscellaneous	300	125	141	16
Total revenues	<u>217,000</u>	<u>323,700</u>	<u>378,441</u>	<u>54,741</u>
EXPENDITURES				
Current:				
Community development	<u>148,200</u>	<u>160,450</u>	<u>139,380</u>	<u>21,070</u>
Total expenditures	<u>148,200</u>	<u>160,450</u>	<u>139,380</u>	<u>21,070</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>68,800</u>	<u>163,250</u>	<u>239,061</u>	<u>75,811</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(68,800)</u>	<u>(68,800)</u>	<u>(83,305)</u>	<u>(14,505)</u>
Total other financing sources (uses)	<u>(68,800)</u>	<u>(68,800)</u>	<u>(83,305)</u>	<u>(14,505)</u>
NET CHANGE IN FUND BALANCE	-	94,450	155,756	61,306
FUND BALANCE, BEGINNING	<u>1,822,021</u>	<u>1,822,021</u>	<u>1,822,021</u>	<u>-</u>
FUND BALANCE, ENDING	\$ <u>1,822,021</u>	\$ <u>1,916,471</u>	\$ <u>1,977,777</u>	\$ <u>61,306</u>

The accompanying notes are an integral part of this schedule.

CITY OF HILLSBORO, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2021

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

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

<u>2018</u>	<u>2019</u>	<u>2020</u>
\$ 507,970	\$ 547,971	\$ 591,998
1,306,971	1,386,715	1,474,971
(32,038)	(15,589)	321,918
-	88,297	-
(611,212)	(631,790)	(812,034)
1,171,691	1,375,604	1,576,853
<u>19,414,150</u>	<u>20,585,841</u>	<u>21,961,445</u>
\$ <u>20,585,841</u>	\$ <u>21,961,445</u>	\$ <u>23,538,298</u>
\$ 524,444	\$ 542,084	\$ 602,683
228,816	245,287	267,147
(517,555)	2,612,206	1,491,659
(611,212)	(631,790)	(812,034)
(10,007)	(14,762)	(9,652)
(523)	(445)	(377)
(386,037)	2,752,580	1,539,426
<u>17,285,388</u>	<u>16,899,351</u>	<u>19,651,931</u>
\$ <u>16,899,351</u>	\$ <u>19,651,931</u>	\$ <u>21,191,357</u>
\$ <u>3,686,490</u>	\$ <u>2,309,514</u>	\$ <u>2,346,941</u>
82%	89%	90%
\$ 4,576,310	\$ 4,905,739	\$ 5,342,944
81%	47%	44%

CITY OF HILLSBORO, TEXAS

SCHEDULE OF CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2021

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

NOTES TO SCHEDULE OF CONTRIBUTIONS

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% 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 2019 valuation pursuant to an experience study of the period 2014 - 2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

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.

<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
\$ 518,280	\$ 541,406	\$ 542,084	\$ 554,408
<u>518,280</u>	<u>541,406</u>	<u>542,084</u>	<u>554,408</u>
-	-	-	-
4,533,953	4,857,497	5,139,977	4,914,966
11.4%	11.1%	10.5%	11.3%

CITY OF HILLSBORO, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2021

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 27th as required by the City's charter.
3. The appropriated budget is prepared by fund, function and department. The City's management may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplemental appropriations during the year and approved certain budgetary transfers.
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 Recreation department of the General Fund by \$4,038. These excess expenditures were funded by greater than anticipated revenues.

SUPPLEMENTARY INFORMATION

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COMBINING STATEMENTS

CITY OF HILLSBORO, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2021

	Special Revenue		
	Library Special	Police Local Forfeiture	Police Federal Forfeiture
ASSETS			
Cash and investments	\$ 32,744	\$ 434,202	\$ 17,238
Total assets	32,744	434,202	17,238
LIABILITIES			
Accounts payable	-	-	-
Accrued liabilities	-	1,077	-
Due to other funds	-	-	-
Total liabilities	-	1,077	-
FUND BALANCE			
Restricted for:			
Library operations	32,744	-	-
Public safety	-	433,125	17,238
Capital projects	-	-	-
Total fund balance	32,744	433,125	17,238
Total liabilities and fund balance	\$ 32,744	\$ 434,202	\$ 17,238

Special Revenue		Capital Projects		Total Nonmajor Governmental Funds
Police Special	Main Street	Street Improvements	Capital Projects	
\$ -	\$ 5,880	\$ 4,359	\$ -	\$ 494,423
-	5,880	4,359	-	494,423
-	1,531	-	-	1,531
-	1,386	-	-	2,463
-	2,963	-	-	2,963
-	5,880	-	-	6,957
-	-	-	-	32,744
-	-	-	-	450,363
-	-	4,359	-	4,359
-	-	4,359	-	487,466
\$ -	\$ 5,880	\$ 4,359	\$ -	\$ 494,423

CITY OF HILLSBORO, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2021

	<u>Special Revenue</u>		
	<u>Library Special</u>	<u>Police Local Forfeiture</u>	<u>Police Federal Forfeiture</u>
REVENUES			
Forfeitures	\$ -	\$ 72,138	\$ -
Contributions	2,546	-	-
Investment earnings	-	1,035	70
Miscellaneous	-	-	-
Total revenues	<u>2,546</u>	<u>73,173</u>	<u>70</u>
EXPENDITURES			
Current:			
Public safety	-	63,406	-
Community development	2,393	-	-
Capital outlay	-	8,334	-
Total expenditures	<u>2,393</u>	<u>71,740</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>153</u>	<u>1,433</u>	<u>70</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Capital leases	-	72,535	-
Total other financing sources (uses)	<u>-</u>	<u>72,535</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	153	73,968	70
FUND BALANCE, BEGINNING	<u>32,591</u>	<u>359,157</u>	<u>17,168</u>
FUND BALANCE, ENDING	\$ <u>32,744</u>	\$ <u>433,125</u>	\$ <u>17,238</u>

Special Revenue		Capital Projects		Total Nonmajor Governmental Funds
Police Special	Main Street	Street Improvements	Capital Projects	
\$ -	\$ -	\$ -	\$ -	\$ 72,138
-	-	-	-	2,546
-	29	-	43	1,177
<u>68</u>	<u>3,825</u>	<u>-</u>	<u>-</u>	<u>3,893</u>
<u>68</u>	<u>3,854</u>	<u>-</u>	<u>43</u>	<u>79,754</u>
200	-	-	-	63,606
-	98,939	-	-	101,332
-	-	-	-	8,334
<u>200</u>	<u>98,939</u>	<u>-</u>	<u>-</u>	<u>173,272</u>
(132)	(95,085)	-	43	(93,518)
-	95,085	-	302,223	397,308
-	-	(40,000)	-	(40,000)
-	-	-	-	72,535
<u>-</u>	<u>95,085</u>	<u>(40,000)</u>	<u>302,223</u>	<u>429,843</u>
(132)	-	(40,000)	302,266	336,325
<u>132</u>	<u>-</u>	<u>44,359</u>	<u>(302,266)</u>	<u>151,141</u>
\$ <u>-</u>	\$ <u>-</u>	\$ <u>4,359</u>	\$ <u>-</u>	\$ <u>487,466</u>

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SINGLE AUDIT

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**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, 2021, 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 17, 2022.

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) as a basis for designing 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 financial statements. 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 17, 2022



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE *UNIFORM GUIDANCE***

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

Report on Compliance for Each Major Federal Program

We have audited the City of Hillsboro, Texas' (the "City") compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2021. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("*Uniform Guidance*"). Those standards and the *Uniform Guidance* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Hillsboro, Texas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2021.

OFFICE LOCATIONS

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

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *Uniform Guidance*. Accordingly, this report is not suitable for any other purpose.

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

Waco, Texas
May 17, 2022

CITY OF HILLSBORO, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2021

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Assistance Listing Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
FEDERAL AWARDS				
<u>U. S. Department of Commerce</u>				
Direct Program:				
Economic Development Cluster	11.300	08-01-05209	\$ 457,199	\$ -
Total Direct Program			<u>457,199</u>	<u>-</u>
Total U. S. Department of Commerce			<u>457,199</u>	<u>-</u>
<u>U. S. Department of Housing and Urban Development</u>				
Passed through the Texas Department of Agriculture:				
CDBG - Entitlement Grants Cluster	14.218	7219322	<u>920,253</u>	<u>-</u>
Total passed through the Texas Department of Agriculture			<u>920,253</u>	<u>-</u>
Total U. S. Department of Housing and Urban Development			<u>920,253</u>	<u>-</u>
<u>U. S. Department of Transportation</u>				
Passed through the Texas Department of Transportation:				
Airport Improvement Program	20.106	2009HILLS	59,400	-
Highway Safety Cluster	20.616	2021-HillsboroPD	<u>5,407</u>	<u>-</u>
Total passed through the Texas Department of Transportation			<u>64,807</u>	<u>-</u>
Total U. S. Department of Transportation			<u>64,807</u>	<u>-</u>
<u>U. S. Department of Treasury</u>				
Passed through the Texas Division of Emergency Management:				
COVID-19 - Coronavirus Relief Fund	21.019	N/A	<u>374,653</u>	<u>-</u>
Total Passed through the Texas Division of Emergency Management			<u>374,653</u>	<u>-</u>
Total U. S. Department of Treasury			<u>374,653</u>	<u>-</u>
 Total Expenditures of Federal Awards			 <u>\$ 1,816,912</u>	 <u>\$ -</u>

The accompanying notes are
an integral part of this schedule.

CITY OF HILLSBORO, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2021

1. GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all applicable federal awards of the City of Hillsboro, Texas. The City's reporting entity is defined in Note I to the City's basic financial statements. Federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the schedule.

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in Note I to the City's basic financial statements.

3. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Grant expenditure reports as of September 30, 2021, that have been submitted to grantor agencies will, in some cases, differ slightly from amounts disclosed herein. The reports prepared for grantor agencies are typically prepared at a later date and often reflect refined estimates of year-end accruals. The reports will agree at termination of the grant as the discrepancies noted are timing differences.

4. INDIRECT COSTS

The City has not elected to use the 10% de minimis indirect cost rate as allowed in the Uniform Guidance, Section 414.

CITY OF HILLSBORO, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2021

Summary of Auditor's Results

Financial Statements:

Type of auditors' report issued	Unmodified
Internal control over financial reporting: Material weakness(es) identified?	None reported
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	None

Federal Awards:

Internal control over major program: Material weakness(es) identified?	None reported
Significant deficiency(ies) identified?	None reported

Type of auditors' report issued on compliance for major programs	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a) of Uniform Guidance	None
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Identification of major program:

Assistance Listing Number: 14.218	Name of Federal Program or Cluster: CDBG - Entitlement Grants Cluster
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Dollar threshold used to distinguish between type A and type B programs	\$750,000
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Auditee qualified as low-risk auditee?	No
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**Findings Relating to the Financial Statements Which are
Required to be Reported in Accordance With Generally
Accepted Government Auditing Standards**

None

Findings and Questioned Costs for Federal Awards

None

CITY OF HILLSBORO, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2021

None