



CITY OF HILLSBORO, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2022

CITY OF HILLSBORO, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2022

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hillsboro, Texas (the "City") as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements 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, as of September 30, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter - Change of Accounting Principle

As discussed in the notes to the financial statements, in the year ending September 30, 2022, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for one year after the date that the financial statements are issued.

OFFICE LOCATIONS

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Supplementary 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 nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards, as required by 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), are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and 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 June 6, 2023, 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 solely 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 the effectiveness of 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
June 6, 2023

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, 2022. 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, 2022, by \$35,865,470 (net position).
- The City's total net position increased in the current year by \$2,925,259.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$15,204,959. Approximately 27% of this total amount, \$4,097,207, is unassigned fund balance available for use within the City's fund designation and fiscal policies.
- As of September 30, 2022, unassigned fund balance for the General Fund was \$4,097,207 or 44% 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 10 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 10 – 12 of this report.

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

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

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

Beginning on page 13 of this report, information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General 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 18 – 21 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-38 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 39-49 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 50 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 \$35,865,470 as of September 30, 2022.

NET POSITION

| | Governmental Activities | | Business-type Activities | | Totals | |
|---|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Current assets | \$ 17,403,285 | \$ 15,430,913 | \$ 9,616,479 | \$ 4,498,429 | \$ 27,019,764 | \$ 19,929,342 |
| Capital assets | <u>17,951,340</u> | <u>18,602,191</u> | <u>11,824,639</u> | <u>10,308,495</u> | <u>29,775,979</u> | <u>28,910,686</u> |
| Total Assets | <u>35,354,625</u> | <u>34,033,104</u> | <u>21,441,118</u> | <u>14,806,924</u> | <u>56,795,743</u> | <u>48,840,028</u> |
| Total deferred outflows of resources | <u>717,588</u> | <u>612,843</u> | <u>114,986</u> | <u>84,239</u> | <u>832,574</u> | <u>697,082</u> |
| Current liabilities | 1,686,827 | 1,200,601 | 1,334,429 | 1,141,402 | 3,021,256 | 2,342,003 |
| Noncurrent liabilities | <u>10,039,232</u> | <u>11,159,684</u> | <u>10,186,289</u> | <u>2,778,818</u> | <u>20,225,521</u> | <u>13,938,502</u> |
| Total Liabilities | <u>11,726,059</u> | <u>12,360,285</u> | <u>11,520,718</u> | <u>3,920,220</u> | <u>23,246,777</u> | <u>16,280,505</u> |
| Total deferred inflows of resources | <u>1,223,108</u> | <u>499,565</u> | <u>267,552</u> | <u>68,465</u> | <u>1,490,660</u> | <u>568,030</u> |
| Net position: | | | | | | |
| Net investment in capital assets | 15,151,320 | 14,080,067 | 12,832,998 | 12,611,488 | 27,984,318 | 26,691,555 |
| Restricted | 5,482,890 | 5,296,562 | - | - | 5,482,890 | 5,296,562 |
| Unrestricted | <u>2,586,989</u> | <u>830,765</u> | <u>(188,727)</u> | <u>121,329</u> | <u>2,398,262</u> | <u>952,094</u> |
| Total Net Position | <u>\$ 23,221,199</u> | <u>\$ 20,207,394</u> | <u>\$ 12,644,271</u> | <u>\$ 12,732,817</u> | <u>\$ 35,865,470</u> | <u>\$ 32,940,211</u> |

By far, the largest portion of the City's net position (77%) 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 | |
|--|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| REVENUES: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 1,017,433 | \$ 1,046,289 | \$ 6,163,724 | \$ 5,698,487 | \$ 7,181,157 | \$ 6,649,218 |
| Operating grants | 581,962 | 394,726 | - | 64,902 | 581,962 | 459,628 |
| Capital grants and contributions | 73,747 | 905,253 | - | 457,199 | 73,747 | 1,362,452 |
| General revenues: | | | | | | |
| Property taxes | 4,635,464 | 4,440,577 | - | - | 4,635,464 | 4,440,577 |
| Sales taxes | 5,042,249 | 4,423,439 | - | - | 5,042,249 | 4,423,439 |
| Franchise taxes | 597,313 | 526,182 | - | - | 597,313 | 526,182 |
| Hotel/motel taxes | 521,596 | 373,867 | - | - | 521,596 | 373,867 |
| Other taxes | 60,517 | 75,098 | - | - | 60,517 | 75,098 |
| Investment earnings | 88,126 | 10,824 | 47,196 | 590 | 135,322 | 11,414 |
| Miscellaneous | 284,375 | 118,271 | 62,795 | 72,765 | 347,170 | 191,036 |
| Total Revenues | <u>12,902,782</u> | <u>12,314,526</u> | <u>6,273,715</u> | <u>6,293,943</u> | <u>19,176,497</u> | <u>16,050,403</u> |
| EXPENSES: | | | | | | |
| General government | 2,762,166 | 2,882,576 | - | - | 2,762,166 | 2,882,576 |
| Public safety | 5,081,667 | 5,145,126 | - | - | 5,081,667 | 5,145,126 |
| Streets | 1,257,399 | 947,308 | - | - | 1,257,399 | 947,308 |
| Community development | 834,688 | 385,181 | - | - | 834,688 | 385,181 |
| Interest on long-term debt | 235,557 | 165,170 | - | - | 235,557 | 165,170 |
| Water and sewer | - | - | 4,824,883 | 4,332,357 | 4,824,883 | 4,332,357 |
| Sanitation | - | - | 866,368 | 813,305 | 866,368 | 813,305 |
| Airport | - | - | 388,510 | 289,030 | 388,510 | 289,030 |
| Total Expenses | <u>10,171,477</u> | <u>9,525,361</u> | <u>6,079,761</u> | <u>5,434,692</u> | <u>16,251,238</u> | <u>14,960,053</u> |
| CHANGE IN NET POSITION BEFORE TRANSFERS | 2,731,305 | 2,789,165 | 193,954 | 859,251 | 2,925,259 | 3,648,416 |
| TRANSFERS | <u>282,500</u> | <u>(7,824)</u> | <u>(282,500)</u> | <u>7,824</u> | <u>-</u> | <u>-</u> |
| CHANGE IN NET POSITION | 3,013,805 | 2,781,341 | (88,546) | 867,075 | 2,925,259 | 3,648,416 |
| NET POSITION, BEGINNING | <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> |
| NET POSITION, ENDING | <u>\$ 23,221,199</u> | <u>\$ 20,207,394</u> | <u>\$ 12,644,271</u> | <u>\$ 12,732,817</u> | <u>\$ 35,865,470</u> | <u>\$ 32,940,211</u> |

Governmental Activities. Governmental activities increased the City's net position by \$3,013,805. Key elements of this increase are as follows:

- Operating grant revenue increased by \$179,223
- Property tax revenue increased by 194,887
- Sales tax revenue increased by 618,810
- General government expenses decreased by 120,410

Business-type Activities. Business-type activities decreased the City's net position by \$88,546. Key elements of this decrease are as follows:

- Capital grants and contributions revenue decreased by \$457,199
- Water and sewer expenses increased by 492,526

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 \$15,204,959. Approximately 27% of this total amount, \$4,097,207 constitutes unassigned fund balance. Refer to pages 13 – 16 of this report for a more detailed presentation of governmental fund balances.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$4,097,207, while total fund balance reached \$4,403,221.

The fund balance of the City's General Fund increased by \$1,368,622 during the current fiscal year. This increase was primarily due to an increase in sales tax revenue.

The fund balance of the City's Economic Development Corporation Fund increased by \$46,142 during the current fiscal year. This increase was primarily due to an increase in sales tax revenue.

The Hotel/Motel Tax Fund balance increased by \$270,456 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 \$134,181, which was a \$86,324 decrease over the prior year. This increase was due to increased principal and interest payments on bonds and financing arrangements.

The 2021 Bond Fund has a total fund balance of \$5,650,529 during the current fiscal year, which was a \$79,937 decrease over the prior year. This decrease was primarily due to an increase in capital outlay expenditures.

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 (188,727). The decrease in net position was \$88,546. 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 \$514,832 while total appropriations exceeded expenditures by \$393,778 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, 2022, amounts to \$35,978,519 (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:

- Parking lot improvements for \$204,614
- Water tower project for \$1,611,680

Additional information on the City's capital assets can be found on pages 29-30 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total bonded debt of \$18,945,489. All of this represents bonded debt backed by the full faith and credit of the City.

In March 2022, the City issued Combination Tax & Surplus Revenue Certificates of Obligation, Series 2022 in the amount of \$6,195,000, for the purpose of acquiring, constructing, installing and equipping additions, improvements, extensions and equipment for the City's waterworks and sewer system.

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 30 – 33 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The fiscal year 2023 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 6.74% in water/wastewater revenue is planned during this fiscal year, and funds from previous debt issuances and the American Recovery Plan Act are available to fund key projects as prioritized in the City's adopted Strategic Plan. In keeping with the Plan's emphasis on efficient, effective government, budgeted expenditures for each department have been based upon an evaluation of their impact and consistency with the City's approved priorities. A regular review of the core function of every City operation is instrumental in determining appropriate expenditure levels as we strive to maintain basic services and increase quality in key areas.

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.

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**BASIC
FINANCIAL STATEMENTS**

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CITY OF HILLSBORO, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2022

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|----------------------|
| ASSETS | | | |
| Cash and investments | \$ 14,941,079 | \$ 8,578,332 | \$ 23,519,411 |
| Receivables (net of allowances for uncollectibles): | | | |
| Taxes | 1,430,138 | - | 1,430,138 |
| Accounts | 256,652 | 828,690 | 1,085,342 |
| Leases | - | 72,062 | 72,062 |
| Municipal court | 350,087 | - | 350,087 |
| Intergovernmental | 280,826 | - | 280,826 |
| Internal balances | 122,909 | (122,909) | - |
| Inventories | 21,594 | 260,304 | 281,898 |
| Capital assets not being depreciated | 2,484,180 | 3,718,360 | 6,202,540 |
| Capital assets, net of accumulated depreciation | <u>17,951,340</u> | <u>11,824,639</u> | <u>29,775,979</u> |
| Total assets | <u>37,838,805</u> | <u>25,159,478</u> | <u>62,998,283</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows related to pensions | <u>717,588</u> | <u>114,986</u> | <u>832,574</u> |
| Total deferred outflows of resources | <u>717,588</u> | <u>114,986</u> | <u>832,574</u> |
| LIABILITIES | | | |
| Accounts payable | 332,945 | 249,017 | 581,962 |
| Accrued liabilities | 188,942 | 30,937 | 219,879 |
| Accrued interest payable | 60,627 | 128,417 | 189,044 |
| Unearned revenue | 1,104,313 | 656,573 | 1,760,886 |
| Customer deposits | - | 269,485 | 269,485 |
| Noncurrent liabilities: | | | |
| Due within one year: | | | |
| Long-term debt | 1,322,625 | 671,522 | 1,994,147 |
| Due in more than one year: | | | |
| Long-term debt | 10,039,232 | 10,186,289 | 20,225,521 |
| Net pension liability - TMRS | <u>1,063,402</u> | <u>170,401</u> | <u>1,233,803</u> |
| Total liabilities | <u>14,112,086</u> | <u>12,362,641</u> | <u>26,474,727</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflow related to leases | - | 71,562 | 71,562 |
| Deferred inflow related to pensions | <u>1,223,108</u> | <u>195,990</u> | <u>1,419,098</u> |
| Total deferred inflows of resources | <u>1,223,108</u> | <u>267,552</u> | <u>1,490,660</u> |
| NET POSITION | | | |
| Net investment in capital assets | 15,151,320 | 12,832,998 | 27,984,318 |
| Restricted for: | | | |
| Economic development | 2,347,498 | - | 2,347,498 |
| Tourism | 2,248,233 | - | 2,248,233 |
| Court security and technology | 284,420 | - | 284,420 |
| Debt service | 192,132 | - | 192,132 |
| Public safety | 378,410 | - | 378,410 |
| Library operations | 32,197 | - | 32,197 |
| Unrestricted | <u>2,586,989</u> | <u>(188,727)</u> | <u>2,398,262</u> |
| Total net position | \$ <u>23,221,199</u> | \$ <u>12,644,271</u> | \$ <u>35,865,470</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, 2022

| Functions/Programs | Program Revenues | | |
|--------------------------------|----------------------|----------------------|------------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions |
| Governmental activities: | | | |
| General government | \$ 2,762,166 | \$ 57,726 | \$ 64,620 |
| Public safety | 5,081,667 | 743,116 | 471,017 |
| Streets | 1,257,399 | - | - |
| Community development | 834,688 | 216,591 | 46,325 |
| Interest on long-term debt | 235,557 | - | - |
| Total governmental activities | <u>10,171,477</u> | <u>1,017,433</u> | <u>581,962</u> |
| Business-type activities: | | | |
| Water and sewer | 4,824,883 | 4,617,279 | - |
| Sanitation | 866,368 | 1,221,327 | - |
| Airport | 388,510 | 325,118 | - |
| Total business-type activities | <u>6,079,761</u> | <u>6,163,724</u> | <u>-</u> |
| Total | \$ <u>16,251,238</u> | \$ <u>7,181,157</u> | \$ <u>581,962</u> |

General revenues:

 Taxes:

 Property - general purposes

 Property - debt service

 Sales

 Franchise

 Hotel/motel

 Other

 Unrestricted investment earnings

 Miscellaneous

Transfers

 Total general revenues and transfers

 Change in net position

Net position, beginning

Net position ending

Net (Expense) Revenue and
Changes in Net Position

| Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|---------------------|
| \$ - | \$(2,639,820) | \$ - | \$(2,639,820) |
| - | (3,867,534) | - | (3,867,534) |
| 73,747 | (1,183,652) | - | (1,183,652) |
| - | (571,772) | - | (571,772) |
| - | (235,557) | - | (235,557) |
| <u>73,747</u> | <u>(8,498,335)</u> | <u>-</u> | <u>(8,498,335)</u> |
| - | - | (207,604) | (207,604) |
| - | - | 354,959 | 354,959 |
| - | - | (63,392) | (63,392) |
| - | - | 83,963 | 83,963 |
| <u>\$ 73,747</u> | <u>(8,498,335)</u> | <u>83,963</u> | <u>(8,414,372)</u> |
| | 3,714,017 | - | 3,714,017 |
| | 921,447 | - | 921,447 |
| | 5,042,249 | - | 5,042,249 |
| | 597,313 | - | 597,313 |
| | 521,596 | - | 521,596 |
| | 60,517 | - | 60,517 |
| | 88,126 | 47,196 | 135,322 |
| | 284,375 | 62,795 | 347,170 |
| | 282,500 | (282,500) | - |
| | <u>11,512,140</u> | <u>(172,509)</u> | <u>11,339,631</u> |
| | 3,013,805 | (88,546) | 2,925,259 |
| | <u>20,207,394</u> | <u>12,732,817</u> | <u>32,940,211</u> |
| | \$ 23,221,199 | \$ 12,644,271 | \$ 35,865,470 |

CITY OF HILLSBORO, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2022

| | | <u>Special Revenue</u> | |
|---|---------------------|---|----------------------------|
| | <u>General</u> | <u>Economic Development Corporation</u> | <u>Hotel/Motel Tax</u> |
| ASSETS | | | |
| Cash and investments | \$ 4,280,325 | \$ 2,275,825 | \$ 2,142,365 |
| Receivables (net of allowance for uncollectibles): | | | |
| Taxes | 1,173,834 | 88,386 | 106,059 |
| Accounts | 606,739 | - | - |
| Due from other governments | 168,237 | - | - |
| Inventory | 21,594 | - | - |
| Due from other funds | 247,225 | - | - |
| Total assets | <u>6,497,954</u> | <u>2,364,211</u> | <u>2,248,424</u> |
| LIABILITIES | | | |
| Accounts payable | 292,132 | 2,500 | 191 |
| Accrued liabilities | 184,113 | 1,835 | - |
| Unearned revenue | 1,104,313 | - | - |
| Due to other funds | - | 12,378 | - |
| Total liabilities | <u>1,580,558</u> | <u>16,713</u> | <u>191</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenue - property taxes | 164,088 | - | - |
| Unavailable revenue - court fines | 350,087 | - | - |
| Total deferred inflows of resources | <u>514,175</u> | <u>-</u> | <u>-</u> |
| FUND BALANCE | | | |
| Nonspendable: | | | |
| Inventory | 21,594 | - | - |
| Restricted: | | | |
| Court security and technology | 284,420 | - | - |
| Debt service | - | - | - |
| Economic development | - | 2,347,498 | - |
| Library operations | - | - | - |
| Public safety | - | - | - |
| Tourism | - | - | 2,248,233 |
| Capital projects | - | - | - |
| Unassigned | 4,097,207 | - | - |
| Total fund balances | <u>4,403,221</u> | <u>2,347,498</u> | <u>2,248,233</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 6,497,954</u> | <u>\$ 2,364,211</u> | <u>\$ 2,248,424</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> |
| \$ 130,273 | \$ 5,681,612 | \$ 430,679 | \$ 14,941,079 |
| 61,859 | - | - | 1,430,138 |
| - | - | - | 606,739 |
| - | - | 112,589 | 280,826 |
| - | - | - | 21,594 |
| - | - | - | 247,225 |
| <u>192,132</u> | <u>5,681,612</u> | <u>543,268</u> | <u>17,527,601</u> |
| - | 31,083 | 7,039 | 332,945 |
| - | - | 2,994 | 188,942 |
| - | - | - | 1,104,313 |
| - | - | 111,938 | 124,316 |
| <u>-</u> | <u>31,083</u> | <u>121,971</u> | <u>1,750,516</u> |
| 57,951 | - | - | 222,039 |
| - | - | - | 350,087 |
| <u>57,951</u> | <u>-</u> | <u>-</u> | <u>572,126</u> |
| - | - | - | 21,594 |
| - | - | - | 284,420 |
| 134,181 | - | - | 134,181 |
| - | - | - | 2,347,498 |
| - | - | 32,197 | 32,197 |
| - | - | 378,410 | 378,410 |
| - | - | - | 2,248,233 |
| - | 5,650,529 | 10,690 | 5,661,219 |
| - | - | - | 4,097,207 |
| <u>134,181</u> | <u>5,650,529</u> | <u>421,297</u> | <u>15,204,959</u> |
| \$ <u>192,132</u> | \$ <u>5,681,612</u> | \$ <u>543,268</u> | |
| | | | 20,435,520 |
| | | | 572,126 |
| | | | (<u>12,991,406</u>) |
| | | | \$ <u>23,221,199</u> |

CITY OF HILLSBORO, TEXAS

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

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2022

| | | <u>Special Revenue</u> | |
|--|---------------------|---|----------------------------|
| | <u>General</u> | <u>Economic Development Corporation</u> | <u>Hotel/Motel Tax</u> |
| REVENUES | | | |
| Taxes: | | | |
| Ad valorem | \$ 3,707,340 | \$ - | \$ - |
| Sales | 4,622,062 | 420,187 | - |
| Franchise | 597,313 | - | - |
| Hotel/motel | - | - | 521,596 |
| Other | 60,517 | - | - |
| Fines and forfeitures | 460,136 | - | - |
| Charges for services | 143,393 | - | - |
| Intergovernmental | 153,047 | - | - |
| Licenses and permits | 204,080 | - | - |
| Investment earnings | 40,373 | 15,245 | 1,008 |
| Rentals | - | - | 12,511 |
| Cemetery lot sales and fees | 47,058 | - | - |
| Contributions | 158,892 | - | - |
| Miscellaneous | 147,103 | 43,981 | 239 |
| Total revenues | <u>10,341,314</u> | <u>479,413</u> | <u>535,354</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 2,723,959 | - | - |
| Public safety | 4,870,194 | - | - |
| Streets | 541,348 | - | - |
| Community development | 185,762 | 421,271 | 154,498 |
| Capital outlay | 622,751 | - | 5,900 |
| Debt service: | | | |
| Principal | 370,466 | - | - |
| Interest | 38,888 | - | - |
| Fees and costs of issuance | - | - | - |
| Total expenditures | <u>9,353,368</u> | <u>421,271</u> | <u>160,398</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>987,946</u> | <u>58,142</u> | <u>374,956</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Insurance recoveries | 70,497 | - | - |
| Transfers in | 327,000 | - | - |
| Transfers out | (16,821) | (12,000) | (104,500) |
| Total other financing sources (uses) | <u>380,676</u> | <u>(12,000)</u> | <u>(104,500)</u> |
| NET CHANGE IN FUND BALANCE | 1,368,622 | 46,142 | 270,456 |
| FUND BALANCE, BEGINNING | <u>3,034,599</u> | <u>2,301,356</u> | <u>1,977,777</u> |
| FUND BALANCE, ENDING | \$ <u>4,403,221</u> | \$ <u>2,347,498</u> | \$ <u>2,248,233</u> |

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

| Debt Service | Capital Projects | | Other Governmental Funds | Total Governmental Funds |
|-------------------|---------------------|-------------------|--------------------------------|--------------------------------|
| | 2021 Bond | | | |
| \$ 924,999 | \$ - | \$ 8,060 | \$ 4,640,399 | |
| - | - | - | 5,042,249 | |
| - | - | - | 597,313 | |
| - | - | - | 521,596 | |
| - | - | - | 60,517 | |
| - | - | 4,260 | 464,396 | |
| - | - | - | 143,393 | |
| - | - | 494,838 | 647,885 | |
| - | - | - | 204,080 | |
| 563 | 27,691 | 3,246 | 88,126 | |
| - | - | - | 12,511 | |
| - | - | - | 47,058 | |
| - | - | 10,013 | 168,905 | |
| - | - | 22,555 | 213,878 | |
| <u>925,562</u> | <u>27,691</u> | <u>542,972</u> | <u>12,852,306</u> | |
| - | - | - | 2,723,959 | |
| - | - | 160,593 | 5,030,787 | |
| - | - | 397,296 | 938,644 | |
| - | - | - | 761,531 | |
| - | 111,987 | 110,150 | 850,788 | |
| 765,000 | - | 23,504 | 1,158,970 | |
| 240,636 | - | 2,060 | 281,584 | |
| 6,250 | - | - | 6,250 | |
| <u>1,011,886</u> | <u>111,987</u> | <u>693,603</u> | <u>11,752,513</u> | |
| (86,324) | (84,296) | (150,631) | 1,099,793 | |
| - | - | - | 70,497 | |
| - | 4,359 | 88,821 | 420,180 | |
| - | - | (4,359) | (137,680) | |
| <u>-</u> | <u>4,359</u> | <u>84,462</u> | <u>352,997</u> | |
| (86,324) | (79,937) | (66,169) | 1,452,790 | |
| <u>220,505</u> | <u>5,730,466</u> | <u>487,466</u> | <u>13,752,169</u> | |
| \$ <u>134,181</u> | \$ <u>5,650,529</u> | \$ <u>421,297</u> | \$ <u>15,204,959</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, 2022

Net change in fund balances - total governmental funds \$ 1,452,790

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. (430)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (20,021)

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. 1,558,339

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. 23,127

Change in net position of governmental activities \$ 3,013,805

CITY OF HILLSBORO, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

SEPTEMBER 30, 2022

| | Business-type Activities - Enterprise Funds | | | |
|--|---|-------------------|-----------------------------------|----------------------|
| | Water and Wastewater | Sanitation | Nonmajor Enterprise Airport | Totals |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and investments | \$ 8,267,733 | \$ 310,411 | \$ 188 | \$ 8,578,332 |
| Accounts receivable | 752,111 | 60,594 | 15,985 | 828,690 |
| Lease receivable | - | - | 72,062 | 72,062 |
| Inventories | 198,184 | - | 62,120 | 260,304 |
| Noncurrent capital assets: | | | | |
| Capital assets not being depreciated | 3,510,493 | 97,906 | 109,961 | 3,718,360 |
| Capital assets net of accumulated depreciation | <u>10,294,499</u> | <u>-</u> | <u>1,530,140</u> | <u>11,824,639</u> |
| Total assets | <u>23,023,020</u> | <u>468,911</u> | <u>1,790,456</u> | <u>25,282,387</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred outflows related to pensions | <u>106,552</u> | <u>-</u> | <u>8,434</u> | <u>114,986</u> |
| Total deferred outflows of resources | <u>106,552</u> | <u>-</u> | <u>8,434</u> | <u>114,986</u> |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | 161,434 | 69,613 | 17,970 | 249,017 |
| Customer deposits | 269,485 | - | - | 269,485 |
| Accrued liabilities | 29,344 | - | 1,593 | 30,937 |
| Due to other funds | - | - | 122,909 | 122,909 |
| Accrued interest payable | 128,417 | - | - | 128,417 |
| Unearned revenue | 656,573 | - | - | 656,573 |
| Accrued compensated absences | 15,429 | - | - | 15,429 |
| Bonds payable | 325,000 | - | - | 325,000 |
| Financing arrangements | <u>331,093</u> | <u>-</u> | <u>-</u> | <u>331,093</u> |
| Total current liabilities | <u>1,916,775</u> | <u>69,613</u> | <u>142,472</u> | <u>2,128,860</u> |
| Noncurrent liabilities: | | | | |
| Bonds payable | 8,810,489 | - | - | 8,810,489 |
| Financing arrangements | 1,360,371 | - | - | 1,360,371 |
| Net pension liability | 157,903 | - | 12,498 | 170,401 |
| Accrued compensated absences | <u>15,429</u> | <u>-</u> | <u>-</u> | <u>15,429</u> |
| Total long-term liabilities | <u>10,344,192</u> | <u>-</u> | <u>12,498</u> | <u>10,356,690</u> |
| Total liabilities | <u>12,260,967</u> | <u>69,613</u> | <u>154,970</u> | <u>12,485,550</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred inflows related to leases | - | - | 71,562 | 71,562 |
| Deferred inflows related to pensions | <u>181,615</u> | <u>-</u> | <u>14,375</u> | <u>195,990</u> |
| Total deferred inflows of resources | <u>181,615</u> | <u>-</u> | <u>85,937</u> | <u>267,552</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 11,094,991 | 97,906 | 1,640,101 | 12,832,998 |
| Unrestricted | <u>(408,001)</u> | <u>301,392</u> | <u>(82,118)</u> | <u>(188,727)</u> |
| Total net position | <u>\$ 10,686,990</u> | <u>\$ 399,298</u> | <u>\$ 1,557,983</u> | <u>\$ 12,644,271</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, 2022

| | Business-type Activities - Enterprise Funds | | | |
|---|---|-------------------|-----------------------------------|----------------------|
| | Water and Wastewater | Sanitation | Nonmajor Enterprise Airport | Totals |
| OPERATING REVENUES | | | | |
| Charges for services: | | | | |
| Water and sewer sales | \$ 4,512,290 | \$ - | \$ - | \$ 4,512,290 |
| Sanitation sales | - | 1,221,327 | - | 1,221,327 |
| Airport fuel sales | - | - | 275,496 | 275,496 |
| Hangar rentals | - | - | 46,366 | 46,366 |
| Other service charges | 104,989 | - | 3,256 | 108,245 |
| Miscellaneous | 62,795 | - | - | 62,795 |
| Total operating revenues | <u>4,680,074</u> | <u>1,221,327</u> | <u>325,118</u> | <u>6,226,519</u> |
| OPERATING EXPENSES | | | | |
| Water purchases | 2,308,356 | - | - | 2,308,356 |
| Personnel | 957,591 | - | 60,871 | 1,018,462 |
| Supplies | 112,644 | - | 221,854 | 334,498 |
| Services | 228,808 | 862,250 | 37,791 | 1,128,849 |
| Maintenance | 492,724 | 4,118 | 11,737 | 508,579 |
| Minor equipment | 1,834 | - | 266 | 2,100 |
| Depreciation | 504,191 | - | 55,991 | 560,182 |
| Total operating expenses | <u>4,606,148</u> | <u>866,368</u> | <u>388,510</u> | <u>5,861,026</u> |
| OPERATING INCOME (LOSS) | <u>73,926</u> | <u>354,959</u> | <u>(63,392)</u> | <u>365,493</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Investment income | 47,196 | - | - | 47,196 |
| Interest and fiscal charges | (218,735) | - | - | (218,735) |
| Total nonoperating revenues (expenses) | <u>(171,539)</u> | <u>-</u> | <u>-</u> | <u>(171,539)</u> |
| INCOME (LOSS) BEFORE TRANSFERS | (97,613) | 354,959 | (63,392) | 193,954 |
| Transfers in | - | - | 11,500 | 11,500 |
| Transfers out | <u>-</u> | <u>(294,000)</u> | <u>-</u> | <u>(294,000)</u> |
| CHANGE IN NET POSITION | (97,613) | 60,959 | (51,892) | (88,546) |
| TOTAL NET POSITION, BEGINNING | <u>10,784,603</u> | <u>338,339</u> | <u>1,609,875</u> | <u>12,732,817</u> |
| TOTAL NET POSITION, ENDING | <u>\$ 10,686,990</u> | <u>\$ 399,298</u> | <u>\$ 1,557,983</u> | <u>\$ 12,644,271</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, 2022

| | Business-type Activities - Enterprise Funds | | | |
|---|---|-------------------|-----------------------------------|---------------------|
| | Water and Wastewater | Sanitation | Nonmajor Enterprise Airport | Totals |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Cash received from customers | \$ 4,578,634 | \$ 1,215,244 | \$ 334,699 | \$ 6,128,577 |
| Cash payments to employees for services | (963,329) | - | (61,905) | (1,025,234) |
| Cash payments to suppliers for goods and services | (3,091,945) | (868,334) | (272,833) | (4,233,112) |
| Cash provided (used) by operating activities | <u>523,360</u> | <u>346,910</u> | <u>(39)</u> | <u>870,231</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Federal grants | - | - | 11,500 | 11,500 |
| 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>-</u> | <u>(294,000)</u> | <u>11,500</u> | <u>(282,500)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Proceeds from issuance of long-term debt | 8,091,149 | - | - | 8,091,149 |
| Principal repayments on debt | (550,690) | - | - | (550,690) |
| Interest and fiscal charges on debt | (131,850) | - | - | (131,850) |
| Capital grants | 247,639 | - | - | 247,639 |
| Acquisition and construction of capital assets | (3,099,417) | - | (11,373) | (3,110,790) |
| Cash provided (used) by capital and related financing activities | <u>4,556,831</u> | <u>-</u> | <u>(11,373)</u> | <u>4,545,458</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Interest on investments | <u>47,196</u> | <u>-</u> | <u>-</u> | <u>47,196</u> |
| Cash provided (used) by investing activities | <u>47,196</u> | <u>-</u> | <u>-</u> | <u>47,196</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | <u>5,127,387</u> | <u>52,910</u> | <u>88</u> | <u>5,180,385</u> |
| CASH AND CASH EQUIVALENTS, BEGINNING | <u>3,140,346</u> | <u>257,501</u> | <u>100</u> | <u>3,397,947</u> |
| CASH AND CASH EQUIVALENTS, ENDING | <u>\$ 8,267,733</u> | <u>\$ 310,411</u> | <u>\$ 188</u> | <u>\$ 8,578,332</u> |

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

CITY OF HILLSBORO, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2022

| | Business-type Activities - Enterprise Funds | | | |
|--|---|------------|-----------------------------------|------------|
| | Water and Wastewater | Sanitation | Nonmajor Enterprise Airport | Totals |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | | | |
| Operating income (loss) | \$ 73,926 | \$ 354,959 | \$(63,392) | \$ 365,493 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Depreciation and amortization | 504,191 | - | 55,991 | 560,182 |
| Change in assets and liabilities: | | | | |
| Decrease (increase) in accounts receivable | (62,464) | (6,083) | 6,781 | (61,766) |
| Decrease (increase) in lease receivable | - | - | (72,062) | (72,062) |
| Decrease (increase) in inventory | (39,403) | - | (18,073) | (57,476) |
| Decrease (increase) in due from other governments | - | - | 6,000 | 6,000 |
| Decrease (increase) in deferred outflows | (32,140) | - | (2,263) | (34,403) |
| Increase (decrease) in accounts payable | 91,824 | (1,966) | 17,924 | 107,782 |
| Increase (decrease) in accrued liabilities | 13,130 | - | 225 | 13,355 |
| Increase (decrease) in unearned revenue | (43,427) | - | (2,700) | (46,127) |
| Increase (decrease) in customer deposits | 4,451 | - | - | 4,451 |
| Increase (decrease) in vacation payable | (1,809) | - | - | (1,809) |
| Increase (decrease) in net pension liability | (103,312) | - | (9,164) | (112,476) |
| Decrease (increase) in deferred inflows | 118,393 | - | 80,694 | 199,087 |
| Total adjustments | 449,434 | (8,049) | 63,353 | 504,738 |
| Net cash provided (used) by operating activities | \$ 523,360 | \$ 346,910 | \$(39) | \$ 870,231 |

CITY OF HILLSBORO, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

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.

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, 2022, 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 2022 were levied October 1, 2021, at the rate of \$.806400 per \$100 assessed valuation on a total taxable assessed valuation of \$580,391,474.

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.

Leases

The City has entered into lease agreements as lessor. Key estimates and judgments related to leases include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments. The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability or lease asset. The City is a lessor in various arrangements for the right-to-use of hangar space in the Airport fund. In both the government-wide financial statements and the proprietary fund financial statements, the City initially measures the lease receivable and a deferred inflow of resources for the present value of payments expected to be made during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments made. The deferred inflow of resources is recognized as revenue on a systematic basis over the life of the lease.

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 assets 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.

- 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 assets 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.
- The City recognizes deferred inflows related to leases for its lessor transactions. These amounts offset the receivable related to the lease and will be recognized systematically in future years over the life of the lease.

Change in Accounting Principle

GASB Statement No. 87, Leases, was adopted effective July 1, 2021. The statement addresses accounting and financial reporting for lease contracts. Statement No. 87 establishes standards for recognizing and measuring assets, liabilities, deferred outflows of resources, deferred inflows of resources, and revenues and expenses related to leases in the basic financial statements, in addition to requiring more extensive note disclosures. The adoption of this standard did not result in a restatement of beginning fund balance or net position, but assets and liabilities were recognized, and more extensive note disclosures were required.

II. DETAILED NOTES ON ALL FUNDS

Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U. S. Treasury, certain U. S. Agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers' acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy does address the following risks:

- a. **Custodial Credit Risk** – Deposits: In the case of deposits, this is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. As of September 30, 2022, the City's deposit balance (cash and certificates of deposit) was \$4,420,964. The City's deposits as of September 30, 2022 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.
- b. **Credit Risk:** It is the City's policy to limit investments to investment types with an investment quality rating no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days. The City's investments were rated as follows:

| Investment Type | Rating | Rating Agency |
|-----------------|--------|-------------------|
| TexStar | AAAm | Standard & Poor's |
| Texas Range | AAAmf | Fitch |
| TexPool | AAAm | Standard & Poor's |

- c. **Interest Rate Risk:** In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to 90 days or less, dependent on market conditions.
- d. **Concentration of Credit Risk:** The City's investment policy states the maximum percentage allowed for each different investment instrument that can be used to make up the portfolio.

As of September 30, 2022, the City's investments consisted of:

| | Net Asset Value |
|-------------|----------------------|
| TexStar | \$ 10,223,720 |
| Texas Range | 4,523,860 |
| TexPool | 598,159 |
| | <u>\$ 15,345,739</u> |

TexStar, TexPool, and Texas Range 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 | Nonmajor Funds | Water and Wastewater | Sanitation | Airport | Totals |
| Receivables: | | | | | | | | | |
| Accounts: | | | | | | | | | |
| Customers | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 766,056 | \$ 60,594 | \$ 15,985 | \$ 842,635 |
| Taxes: | | | | | | | | | |
| Property | 499,085 | 171,830 | - | - | - | - | - | - | 670,915 |
| Sales | 972,246 | - | 88,386 | - | - | - | - | - | 1,060,632 |
| Other | 21,917 | - | - | 106,059 | - | - | - | - | 127,976 |
| Court fines | 2,333,914 | - | - | - | - | - | - | - | 2,333,914 |
| EMS | 2,560,680 | - | - | - | - | - | - | - | 2,560,680 |
| Intergovernmental | 168,237 | - | - | - | 112,589 | - | - | - | 280,826 |
| Other | 584 | - | - | - | - | - | - | - | 584 |
| Gross receivables | <u>6,556,663</u> | <u>171,830</u> | <u>88,386</u> | <u>106,059</u> | <u>112,589</u> | <u>766,056</u> | <u>60,594</u> | <u>15,985</u> | <u>7,878,162</u> |
| Less: allowance for uncollectibles | <u>(4,607,853)</u> | <u>(109,971)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(13,945)</u> | <u>-</u> | <u>-</u> | <u>(4,731,769)</u> |
| Net total receivables | <u>\$ 1,948,810</u> | <u>\$ 61,859</u> | <u>\$ 88,386</u> | <u>\$ 106,059</u> | <u>\$ 112,589</u> | <u>\$ 752,111</u> | <u>\$ 60,594</u> | <u>\$ 15,985</u> | <u>\$ 3,146,393</u> |

Leases Receivable

The County has entered into leases for hangar space as a lessor. The leases carry interest rates of 1.5% and monthly payment amounts range from \$270 to \$1,350.

Principal and interest receipts to maturity are as follows:

| Year Ending September 30, | Business-type Activities | | Total |
|------------------------------|--------------------------|---------------|------------------|
| | Principal | Interest | |
| 2023 | \$ 4,535 | \$ 90 | \$ 4,625 |
| 2024 | 4,541 | 84 | 4,625 |
| 2025 | 4,546 | 79 | 4,625 |
| 2026 | 4,552 | 73 | 4,625 |
| 2027 | 4,558 | 67 | 4,625 |
| 2028-2032 | 19,961 | 256 | 20,217 |
| 2033-2037 | 15,261 | 144 | 15,405 |
| 2038-2042 | 6,871 | 71 | 6,942 |
| 2043-2047 | 5,954 | 28 | 5,982 |
| 2048-2050 | 1,283 | 2 | 1,285 |
| Total | <u>\$ 72,062</u> | <u>\$ 894</u> | <u>\$ 72,956</u> |

Capital Assets

Capital asset activity for the year ended September 30, 2022, was as follows:

| | Beginning Balance | Increase | Adjustment/ Decrease | Ending Balance |
|--|----------------------|---------------------|-------------------------|----------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 803,137 | \$ - | \$ - | \$ 803,137 |
| Construction in progress | 1,030,622 | 650,421 | - | 1,681,043 |
| Total assets not being depreciated | <u>1,833,759</u> | <u>650,421</u> | <u>-</u> | <u>2,484,180</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 6,899,756 | 11,060 | - | 6,910,816 |
| Machinery and equipment | 6,671,286 | 189,308 | (58,980) | 6,801,614 |
| Infrastructure | 17,457,779 | - | - | 17,457,779 |
| Total capital assets being depreciated | <u>31,028,821</u> | <u>200,368</u> | <u>(58,980)</u> | <u>31,170,209</u> |
| Accumulated depreciation: | | | | |
| Buildings and improvements | (4,321,185) | (178,406) | 19,598 | (4,479,993) |
| Machinery and equipment | (4,895,254) | (402,740) | 119,110 | (5,178,884) |
| Infrastructure | (3,210,191) | (349,801) | - | (3,559,992) |
| Total accumulated depreciation | <u>(12,426,630)</u> | <u>(930,947)</u> | <u>138,708</u> | <u>(13,218,869)</u> |
| Total capital assets being depreciated, net | <u>18,602,191</u> | <u>(730,579)</u> | <u>79,728</u> | <u>17,951,340</u> |
| Governmental activities capital assets, net | <u>\$ 20,435,950</u> | <u>\$ (80,158)</u> | <u>\$ 79,728</u> | <u>\$ 20,435,520</u> |
| | Beginning Balance | Increase | Transfer/ Decrease | Ending Balance |
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 378,391 | \$ - | \$ - | \$ 378,391 |
| Construction in progress - Water/Sewer | 2,301,849 | 3,103,068 | (2,076,326) | 3,328,591 |
| Construction in progress - Airport | - | 11,378 | - | 11,378 |
| Total assets not being depreciated | <u>2,680,240</u> | <u>3,114,446</u> | <u>(2,076,326)</u> | <u>3,718,360</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 7,018,310 | - | - | 7,018,310 |
| Machinery and equipment | 1,912,402 | - | - | 1,912,402 |
| Infrastructure | 17,763,646 | - | 2,076,326 | 19,839,972 |
| Total capital assets being depreciated | <u>26,694,358</u> | <u>-</u> | <u>2,076,326</u> | <u>28,770,684</u> |
| Accumulated depreciation: | | | | |
| Buildings and improvements | (2,311,858) | (148,896) | - | (2,460,754) |
| Machinery and equipment | (1,760,599) | (49,254) | - | (1,809,853) |
| Infrastructure | (12,313,406) | (362,032) | - | (12,675,438) |
| Total accumulated depreciation | <u>(16,385,863)</u> | <u>(560,182)</u> | <u>-</u> | <u>(16,946,045)</u> |
| Total capital assets being depreciated, net | <u>10,308,495</u> | <u>(560,182)</u> | <u>2,076,326</u> | <u>11,824,639</u> |
| Business-type activities capital assets, net | <u>\$ 12,988,735</u> | <u>\$ 2,554,264</u> | <u>\$ -</u> | <u>\$ 15,542,999</u> |

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

| | |
|---|-------------------|
| Governmental activities | |
| General government | \$ 140,551 |
| Public safety | 357,430 |
| Public works | 341,745 |
| Community development | <u>91,221</u> |
| Total depreciation expense - governmental activities | <u>\$ 930,947</u> |
| Business-type activities: | |
| Water and wastewater | \$ 504,191 |
| Airport | <u>55,991</u> |
| Total depreciation expense - business-type activities | <u>\$ 560,182</u> |

Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2022, is as follows:

| Receivable Fund | Payable Fund | Amount |
|-----------------|--------------|-------------------|
| General | EDC | \$ 12,378 |
| General | Airport | 122,909 |
| General | Nonmajor | <u>111,938</u> |
| Total | | <u>\$ 247,225</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, 2022, are as follows:

| Transfers In | Transfers Out | Amount | Purpose |
|--------------|---------------|-------------------|-------------------------|
| General | EDC | \$ 12,000 | Admin costs |
| Nonmajor | General | 5,321 | Supplement fund sources |
| Airport | General | 11,500 | Miscellaneous |
| General | Hotel/Motel | 21,000 | Admin costs |
| General | Sanitation | 294,000 | Admin costs |
| 2021 Bond | Nonmajor | 4,359 | Miscellaneous |
| Nonmajor | Hotel/Motel | <u>83,500</u> | Miscellaneous |
| Total | | <u>\$ 431,680</u> | |

Long-term Debt

Long-term debt activity from the year ended September 30, 2022, was as follows:

| | Debt Outstanding 09/30/21 | Additions | Retirements | Debt Outstanding 09/30/22 | Due Within One Year |
|--|---------------------------------|---------------------|------------------------|---------------------------------|------------------------|
| <u>Governmental:</u> | | | | | |
| Certificates of obligation | \$ 5,635,000 | \$ - | \$ - | \$ 5,635,000 | \$ 70,000 |
| General obligation bonds | 2,640,000 | - | (345,000) | 2,295,000 | 260,000 |
| General obligation bonds - Private Placement | 2,300,000 | - | (420,000) | 1,880,000 | 400,000 |
| Premium | 246,870 | - | (15,969) | 230,901 | - |
| Financing arrangements | 1,289,334 | - | (395,506) | 893,828 | 379,061 |
| Compensated absences | <u>396,878</u> | <u>346,101</u> | <u>(315,851)</u> | <u>427,128</u> | <u>213,564</u> |
| | <u>12,508,082</u> | <u>346,101</u> | <u>(1,492,326)</u> | <u>11,361,857</u> | <u>1,322,625</u> |
| <u>Enterprise Fund</u> | | | | | |
| Certificates of obligation | - | 6,195,000 | - | 6,195,000 | 185,000 |
| General obligation bonds | 395,000 | - | (395,000) | - | - |
| TWDB Bonds - Direct Borrowing | 2,850,000 | - | (140,000) | 2,710,000 | 140,000 |
| Premium | 19,756 | 237,414 | (26,681) | 230,489 | - |
| Financing arrangements | 48,419 | 1,658,735 | (15,690) | 1,691,464 | 331,093 |
| Compensated absences | <u>32,667</u> | <u>13,766</u> | <u>(15,575)</u> | <u>30,858</u> | <u>15,429</u> |
| | <u>3,345,842</u> | <u>8,104,915</u> | <u>(592,946)</u> | <u>10,857,811</u> | <u>671,522</u> |
| Total | <u>\$ 15,853,924</u> | <u>\$ 8,451,016</u> | <u>\$ (2,085,272)</u> | <u>\$ 22,219,668</u> | <u>\$ 1,994,147</u> |

The General Fund is generally used to liquidate compensated absences for governmental activities. Debt outstanding as of September 30, 2022, 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 | \$ 1,125,000 | 2.00%-3.00% |
| 2012 Series Premium | | 87,406 | 43,705 | |
| 2012 Series | Refunding | 895,000 | 95,000 | 2.00%-3.00% |
| 2012 Series Premium | | 56,441 | 13,024 | |
| 2016 Series | Refunding | 4,155,000 | 1,880,000 | 1.65% |
| 2020 Series | Refunding | 1,330,000 | 1,075,000 | 1.70% |
| Certificates of obligation bonds: | | | | |
| 2021 Series | Street Improvements | 5,635,000 | 5,635,000 | 1.85% |
| 2021 Series Premium | | 181,429 | 174,172 | |
| Total governmental | | <u>\$ 14,210,276</u> | <u>\$ 10,040,901</u> | |
| <u>Business-type</u> | | | | |
| General obligation bonds: | | | | |
| 2019 Series | | \$ 3,130,000 | \$ 2,710,000 | 0.73%-2.14% |
| Certificates of obligation bonds: | | | | |
| 2022 Series | | 6,195,000 | 6,195,000 | 2.00%-4.00% |
| 2022 Series Premium | | 237,414 | 230,489 | |
| Total business-type | | <u>\$ 9,562,414</u> | <u>\$ 9,135,489</u> | |

Governmental bonds future requirements are as follows:

| Year Ended September 30 | Principal | Interest | Total Requirements |
|----------------------------|---------------------|---------------------|-----------------------|
| 2023 | \$ 330,000 | \$ 161,740 | \$ 491,740 |
| 2024 | 365,000 | 154,245 | 519,245 |
| 2025 | 395,000 | 145,700 | 540,700 |
| 2026 | 445,000 | 136,348 | 581,348 |
| 2027 | 455,000 | 125,495 | 580,495 |
| 2028-2032 | 2,155,000 | 458,425 | 2,613,425 |
| 2033-2037 | 1,260,000 | 275,368 | 1,535,368 |
| 2038-2042 | 1,355,000 | 180,538 | 1,535,538 |
| 2043-2046 | 1,170,000 | 58,288 | 1,228,288 |
| Total | <u>\$ 7,930,000</u> | <u>\$ 1,696,147</u> | <u>\$ 9,626,147</u> |

| Private Placement | | | |
|----------------------------|---------------------|------------------|-----------------------|
| Year Ended September 30 | Principal | Interest | Total Requirements |
| 2023 | \$ 400,000 | \$ 31,020 | \$ 431,020 |
| 2024 | 410,000 | 24,420 | 434,420 |
| 2025 | 420,000 | 17,655 | 437,655 |
| 2026 | 420,000 | 10,725 | 430,725 |
| 2027 | 115,000 | 3,795 | 118,795 |
| 2028 | 115,000 | 1,898 | 116,898 |
| Total | <u>\$ 1,880,000</u> | <u>\$ 89,513</u> | <u>\$ 1,969,513</u> |

Business-type bonds future requirements are as follows:

| Year Ended September 30 | Principal | Interest | Total Requirements |
|----------------------------|---------------------|---------------------|-----------------------|
| 2023 | \$ 185,000 | \$ 229,599 | \$ 414,599 |
| 2024 | 245,000 | 170,737 | 415,737 |
| 2025 | 250,000 | 162,468 | 412,468 |
| 2026 | 260,000 | 155,281 | 415,281 |
| 2027 | 265,000 | 148,456 | 413,456 |
| 2028-2032 | 1,450,000 | 634,750 | 2,084,750 |
| 2033-2037 | 1,640,000 | 427,700 | 2,067,700 |
| 2038-2042 | <u>1,900,000</u> | <u>174,000</u> | <u>2,074,000</u> |
| Total | \$ <u>6,195,000</u> | \$ <u>2,102,991</u> | \$ <u>8,297,991</u> |

| Private Placement | | | |
|----------------------------|---------------------|-------------------|-----------------------|
| Year Ended September 30 | Principal | Interest | Total Requirements |
| 2023 | \$ 140,000 | \$ 46,225 | \$ 186,225 |
| 2024 | 145,000 | 44,741 | 189,741 |
| 2025 | 145,000 | 43,059 | 188,059 |
| 2026 | 145,000 | 41,232 | 186,232 |
| 2027 | 150,000 | 39,274 | 189,274 |
| 2028-2032 | 775,000 | 161,229 | 936,229 |
| 2033-2037 | 845,000 | 89,612 | 934,612 |
| 2038-2042 | <u>365,000</u> | <u>11,716</u> | <u>376,716</u> |
| Total | \$ <u>2,710,000</u> | \$ <u>477,088</u> | \$ <u>3,187,088</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 2022, the City issued Combination Tax & Surplus Revenue Certificates of Obligation, Series 2022, in the amount of \$6,195,000. The net proceeds of \$6,365,000 (including a premium of \$237,414 net of issuance costs of \$67,414) will be used for the purpose of acquiring, constructing, installing and equipping additions, improvements, extensions and equipment for the City's waterworks and sewer system. The Certificates are pledged by ad valorem property tax revenues and a pledge of water and sewer system revenues; however, the pledge is limited to \$1,000 payable from utility revenues. The Certificates bear interest ranging from 2.00% to 4.00% per annum and mature in series from 2023 through 2042.

In February 2022, the City issued a finance contract classified as a financed purchase in the amount of \$1,658,735, for the purpose of financing a water meter project. The obligation is payable in five annual installments from 2023 through 2027 and bears interest at 2.597%.

Financing Arrangements

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

Governmental financing arrangement future requirements are as follows:

| <u>Year Ended September 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Requirements</u> |
|------------------------------------|-------------------|------------------|-------------------------------|
| 2023 | \$ 379,061 | \$ 30,192 | \$ 409,253 |
| 2024 | 295,458 | 16,899 | 312,357 |
| 2025 | 142,102 | 7,330 | 149,432 |
| 2026 | <u>77,207</u> | <u>2,664</u> | <u>79,871</u> |
| Total | \$ <u>893,828</u> | \$ <u>57,085</u> | \$ <u>950,913</u> |

Business-type financing arrangement future requirements are as follows:

| <u>Year Ended September 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Requirements</u> |
|------------------------------------|---------------------|-------------------|-------------------------------|
| 2023 | \$ 331,093 | \$ 44,007 | \$ 375,100 |
| 2024 | 339,731 | 35,369 | 375,100 |
| 2025 | 331,529 | 26,506 | 358,035 |
| 2026 | 340,139 | 17,896 | 358,035 |
| 2027 | <u>348,972</u> | <u>9,063</u> | <u>358,035</u> |
| Total | \$ <u>1,691,464</u> | \$ <u>132,841</u> | \$ <u>1,824,305</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 \$1,998,336 for water purchased from the District during the fiscal year ending September 30, 2022.

Retirement Plan

Texas Municipal Retirement System

Plan Description - The City participates as one of 901 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, 2021, valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|--|------------|
| Inactive employees or beneficiaries currently receiving benefits | 76 |
| Inactive employees entitled to but not yet receiving benefits | 78 |
| Active employees | <u>94</u> |
| | <u>248</u> |

Contributions

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

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 11.28% and 11.60% in calendar years 2021 and 2022, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2022, were \$618,365, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2021, 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, 2021, 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 | 35.00% | 7.55% |
| Core fixed income | 6.00% | 2.00% |
| Non-core fixed income | 20.00% | 5.68% |
| Real estate | 12.00% | 7.22% |
| Real return | 12.00% | 6.05% |
| Absolutely return | 5.00% | 5.35% |
| Private equity | 10.00% | 10.00% |
| Total | 100.00% | |

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 12/31/2020 | \$ 23,538,298 | \$ 21,191,357 | \$ 2,346,941 |
| Changes for the year: | | | |
| Service cost | 542,661 | - | 542,661 |
| Interest | 1,582,556 | - | 1,582,556 |
| Difference between expected and actual experience | 310,131 | - | 310,131 |
| Changes of assumptions | - | - | - |
| Contributions - employer | - | 553,454 | (553,454) |
| Contributions - employee | - | 245,326 | (245,326) |
| Net investment income | - | 2,762,400 | (2,762,400) |
| Benefit payments, including refunds of employee contributions | (728,711) | (728,711) | - |
| Administrative expense | - | (12,782) | 12,782 |
| Other changes | - | 88 | (88) |
| Net changes | 1,706,637 | 2,819,775 | (1,113,138) |
| Balance at 12/31/2021 | \$ 25,244,935 | \$ 24,011,132 | \$ 1,233,803 |

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 | \$ 5,037,836 | \$ 1,233,803 | \$(1,857,950) |

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, 2022, the City recognized pension expense of \$192,289.

As of September 30, 2022, 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 | \$ 354,464 | \$ 2,670 |
| Changes in actuarial assumptions | 15,123 | - |
| Difference between projected and actual investment earnings | - | 1,416,428 |
| Contributions subsequent to the measurement date | 462,987 | - |
| Total | \$ 832,574 | \$ 1,419,098 |

\$462,987 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, 2023. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expenses as follows:

| Year Ending September 30, | |
|------------------------------|-----------------------|
| 2023 | \$(57,754) |
| 2024 | (448,901) |
| 2025 | (276,454) |
| 2026 | (266,402) |
| | <u>\$(1,049,511)</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.

Tax Abatements

The City enters into economic development agreements designed to promote development and redevelopment within the City, stimulate commercial activity, generate additional sales tax and enhance the property tax base and economic vitality of the City. This program reduces the assessed property values and refunds sales tax as authorized under Chapter 380 of the Texas Local Government Code.

The City has entered into an agreement with a retail developer that refunds sales tax. The agreement for sales tax provides refunds of \$0.01 of the \$0.015 sales tax collected by the City on taxable sales at the entity for 10 years. The agreement requires a developer commitment of \$40 million in direct capital investment and minimum employment requirements. The City did not abate any sales tax for fiscal year 2022.

New Accounting Pronouncements

Significant new accounting standards not yet implemented by the County includes the following:

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* – The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. GASB 94 will become effective for reporting periods beginning after June 15, 2022, and the impact has not yet been determined.

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 reporting periods beginning after June 15, 2022, and the impact has not yet been determined.

GASB Statement No. 100, *Accounting Changes and Error Corrections*—an amendment of GASB Statement No. 62 - The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement will become effective for reporting periods beginning after June 15, 2023, and the impact has not yet been determined.

GASB Statement No. 101, *Compensated Absences* - The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement will become effective for reporting periods beginning after December 15, 2023, and the impact has not yet been determined.

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**REQUIRED
SUPPLEMENTARY INFORMATION**

CITY OF HILLSBORO, TEXAS

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

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2022

| | Budget | | | Variance with Final Budget Positive (Negative) |
|---|------------------|------------------|-------------------|---|
| | Original | Final | Actual | |
| REVENUES | | | | |
| Taxes: | | | | |
| Ad valorem | \$ 3,550,000 | \$ 3,784,900 | \$ 3,707,340 | \$(77,560) |
| Sales | 3,400,000 | 4,399,970 | 4,622,062 | 222,092 |
| Franchise | 518,000 | 511,800 | 597,313 | 85,513 |
| Other | 58,500 | 58,500 | 60,517 | 2,017 |
| Fines and forfeitures | 581,775 | 444,400 | 460,136 | 15,736 |
| Charges for services | 177,000 | 121,700 | 143,393 | 21,693 |
| Licenses and permits | 21,150 | 77,600 | 204,080 | 126,480 |
| Intergovernmental | 7,500 | 17,200 | 79,300 | 62,100 |
| Investment earnings | 5,750 | 29,000 | 40,373 | 11,373 |
| Cemetery lot sales and fees | 27,100 | 42,700 | 47,058 | 4,358 |
| Contributions | 169,250 | 180,515 | 158,892 | (21,623) |
| Miscellaneous | 16,500 | 84,450 | 147,103 | 62,653 |
| Total revenues, as budgeted | <u>8,532,525</u> | <u>9,752,735</u> | <u>10,267,567</u> | <u>514,832</u> |
| Plus: sub-fund 74 not included in budget | | | <u>73,747</u> | |
| Total revenues per basic financial statements | | | <u>10,341,314</u> | |
| EXPENDITURES | | | | |
| General government: | | | | |
| Legislative: | | | | |
| Personnel | 275 | 200 | 210 | (10) |
| Supplies | 800 | 800 | 890 | (90) |
| Services | 19,920 | 19,920 | 17,815 | 2,105 |
| Maintenance | 60 | 60 | 60 | - |
| | <u>21,055</u> | <u>20,980</u> | <u>18,975</u> | <u>2,005</u> |
| Administration: | | | | |
| Personnel | 301,285 | 332,610 | 340,716 | (8,106) |
| Supplies | 5,250 | 5,000 | 4,524 | 476 |
| Services | 201,150 | 219,700 | 231,975 | (12,275) |
| Maintenance | 5,450 | 13,000 | 16,511 | (3,511) |
| Minor equipment | - | - | 76 | (76) |
| | <u>513,135</u> | <u>570,310</u> | <u>593,802</u> | <u>(23,492)</u> |
| Library: | | | | |
| Personnel | 352,615 | 364,750 | 375,855 | (11,105) |
| Supplies | 42,650 | 42,650 | 34,741 | 7,909 |
| Services | 68,400 | 62,650 | 55,386 | 7,264 |
| Maintenance | 19,000 | 21,000 | 21,051 | (51) |
| Minor equipment | 2,000 | 1,500 | 2,108 | (608) |
| | <u>484,665</u> | <u>492,550</u> | <u>489,141</u> | <u>3,409</u> |
| Municipal court: | | | | |
| Personnel | 198,780 | 159,930 | 161,505 | (1,575) |
| Supplies | 4,625 | 6,550 | 6,681 | (131) |
| Services | 44,450 | 31,500 | 29,819 | 1,681 |
| Maintenance | 1,250 | 1,300 | 660 | 640 |
| | <u>249,105</u> | <u>199,280</u> | <u>198,665</u> | <u>615</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, 2022

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|---------------------------------|----------------|----------------|----------------|---|
| | Original | Final | | |
| EXPENDITURES (Continued) | | | | |
| Parks: | | | | |
| Personnel | \$ 197,495 | \$ 210,075 | \$ 213,484 | \$(3,409) |
| Supplies | 25,600 | 31,200 | 31,645 | (445) |
| Services | 23,680 | 20,800 | 18,834 | 1,966 |
| Maintenance | 73,180 | 77,130 | 77,185 | (55) |
| Minor equipment | 1,000 | 2,800 | 4,547 | (1,747) |
| Capital outlay | - | - | 11,060 | (11,060) |
| Debt service - principal | 14,985 | 14,985 | 14,976 | 9 |
| Debt service - interest | 770 | 770 | 764 | 6 |
| | <u>336,710</u> | <u>357,760</u> | <u>372,495</u> | <u>(14,735)</u> |
| Recreation: | | | | |
| Personnel | 163,430 | 211,300 | 214,499 | (3,199) |
| Supplies | 500 | 500 | 510 | (10) |
| Services | 18,870 | 30,500 | 30,812 | (312) |
| Maintenance | 5,150 | 29,350 | 28,495 | 855 |
| Minor equipment | - | 250 | 200 | 50 |
| | <u>187,950</u> | <u>271,900</u> | <u>274,516</u> | <u>(2,616)</u> |
| Maintenance shop: | | | | |
| Personnel | 81,015 | 49,435 | 48,666 | 769 |
| Supplies | 72,600 | 53,300 | 46,601 | 6,699 |
| Services | 9,995 | 6,500 | 6,197 | 303 |
| Maintenance | 92,120 | 94,550 | 91,328 | 3,222 |
| Capital outlay | - | 195,000 | 204,614 | (9,614) |
| | <u>255,730</u> | <u>398,785</u> | <u>397,406</u> | <u>1,379</u> |
| Cemetery: | | | | |
| Personnel | 23,540 | 23,540 | 23,523 | 17 |
| Supplies | 32,480 | 16,450 | 17,668 | (1,218) |
| Services | 76,510 | 81,110 | 81,339 | (229) |
| Maintenance | 2,150 | 1,000 | 632 | 368 |
| | <u>134,680</u> | <u>122,100</u> | <u>123,162</u> | <u>(1,062)</u> |
| Legal: | | | | |
| Personnel | 48,905 | 48,905 | 48,911 | (6) |
| Services | 2,470 | 3,000 | 2,938 | 62 |
| Maintenance | 120 | 120 | 119 | 1 |
| | <u>51,495</u> | <u>52,025</u> | <u>51,968</u> | <u>57</u> |
| Finance: | | | | |
| Personnel | 255,055 | 255,640 | 273,390 | (17,750) |
| Supplies | 5,100 | 6,500 | 6,964 | (464) |
| Services | 42,500 | 49,550 | 48,111 | 1,439 |
| Maintenance | 1,900 | 1,100 | 1,042 | 58 |
| | <u>304,555</u> | <u>312,790</u> | <u>329,507</u> | <u>(16,717)</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, 2022

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|---------------------------------|------------------|------------------|------------------|---|
| | Original | Final | | |
| EXPENDITURES (Continued) | | | | |
| Information systems: | | | | |
| Personnel | \$ 93,495 | \$ 93,495 | \$ 93,850 | \$(355) |
| Supplies | 1,650 | 1,650 | 961 | 689 |
| Services | 8,475 | 9,500 | 7,758 | 1,742 |
| Maintenance | 4,950 | 2,925 | 2,943 | (18) |
| Minor equipment | - | - | 224 | (224) |
| Capital outlay | 6,000 | 6,000 | - | 6,000 |
| | <u>114,570</u> | <u>113,570</u> | <u>105,736</u> | <u>7,834</u> |
| Total general government | <u>2,653,650</u> | <u>2,912,050</u> | <u>2,955,373</u> | <u>(43,323)</u> |
| Public Safety: | | | | |
| Police: | | | | |
| Personnel | 2,733,430 | 2,771,800 | 2,410,851 | 360,949 |
| Supplies | 161,300 | 187,900 | 176,232 | 11,668 |
| Services | 192,770 | 181,450 | 179,781 | 1,669 |
| Maintenance | 53,300 | 56,200 | 55,870 | 330 |
| Minor equipment | 5,000 | 17,000 | 28,694 | (11,694) |
| Capital outlay | - | 149,500 | 149,391 | 109 |
| Debt service - principal | 108,340 | 117,790 | 108,335 | 9,455 |
| Debt service - interest | 11,490 | 11,490 | 11,457 | 33 |
| | <u>3,265,630</u> | <u>3,493,130</u> | <u>3,120,611</u> | <u>372,519</u> |
| Fire: | | | | |
| Personnel | 1,060,350 | 1,282,150 | 1,329,544 | (47,394) |
| Supplies | 130,300 | 105,800 | 112,352 | (6,552) |
| Services | 135,250 | 110,300 | 95,949 | 14,351 |
| Maintenance | 26,100 | 43,500 | 39,340 | 4,160 |
| Minor equipment | - | 5,000 | 6,449 | (1,449) |
| Debt service - principal | 213,650 | 213,650 | 213,882 | (232) |
| Debt service - interest | 25,260 | 25,260 | 25,010 | 250 |
| | <u>1,590,910</u> | <u>1,785,660</u> | <u>1,822,526</u> | <u>(36,866)</u> |
| Animal control: | | | | |
| Personnel | 84,410 | 65,670 | 61,152 | 4,518 |
| Supplies | 8,910 | 11,400 | 10,793 | 607 |
| Services | 3,350 | 1,450 | 1,313 | 137 |
| Maintenance | 11,060 | 7,660 | 8,642 | (982) |
| Minor equipment | - | 250 | 422 | (172) |
| | <u>107,730</u> | <u>86,430</u> | <u>82,322</u> | <u>4,108</u> |
| Right-of-way: | | | | |
| Personnel | 25,000 | 2,500 | 1,761 | 739 |
| Supplies | 3,715 | - | 208 | (208) |
| Maintenance | - | 2,000 | 1,850 | 150 |
| | <u>28,715</u> | <u>4,500</u> | <u>3,819</u> | <u>681</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, 2022

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|--|-------------------|-------------------|---------------------|---|
| | Original | Final | | |
| EXPENDITURES (Continued) | | | | |
| Code Enforcement: | | | | |
| Personnel | \$ 191,805 | \$ 136,400 | \$ 130,626 | \$ 5,774 |
| Supplies | 8,000 | 14,500 | 12,865 | 1,635 |
| Services | 122,700 | 124,250 | 145,860 | (21,610) |
| Maintenance | 10,700 | 22,500 | 19,944 | 2,556 |
| Minor equipment | 36,000 | 27,550 | 39,696 | (12,146) |
| | <u>369,205</u> | <u>325,200</u> | <u>348,991</u> | <u>(23,791)</u> |
| Total public safety | <u>5,362,190</u> | <u>5,694,920</u> | <u>5,378,269</u> | <u>316,651</u> |
| Streets: | | | | |
| Streets: | | | | |
| Personnel | 349,370 | 349,820 | 313,293 | 36,527 |
| Supplies | 23,100 | 29,400 | 27,146 | 2,254 |
| Services | 128,775 | 149,375 | 137,283 | 12,092 |
| Maintenance | 130,970 | 131,970 | 63,626 | 68,344 |
| Debt service - principal | 33,315 | 33,315 | 33,273 | 42 |
| Debt service - interest | 1,660 | 1,660 | 1,657 | 3 |
| Capital outlay | - | 34,250 | 34,017 | 233 |
| | <u>667,190</u> | <u>729,790</u> | <u>610,295</u> | <u>119,495</u> |
| Total streets | <u>667,190</u> | <u>729,790</u> | <u>610,295</u> | <u>119,495</u> |
| Community development: | | | | |
| Personnel | 40,445 | 67,150 | 71,808 | (4,658) |
| Supplies | 2,500 | 2,500 | 2,339 | 161 |
| Services | 75,050 | 115,150 | 110,021 | 5,129 |
| Maintenance | 8,500 | 2,000 | 1,560 | 440 |
| Minor equipment | - | 50 | 34 | 16 |
| Capital outlay | - | - | 133 | (133) |
| | <u>126,495</u> | <u>186,850</u> | <u>185,895</u> | <u>955</u> |
| Total community development | <u>126,495</u> | <u>186,850</u> | <u>185,895</u> | <u>955</u> |
| Total expenditures, as budgeted | <u>8,809,525</u> | <u>9,523,610</u> | <u>9,129,832</u> | <u>393,778</u> |
| Plus: sub-funds 58 and 74 not included in budget | | | <u>223,536</u> | |
| Total expenditures, per basic financial statements | | | <u>9,353,368</u> | |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>(277,000)</u> | <u>229,125</u> | <u>1,137,735</u> | <u>908,610</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Insurance recoveries | - | 55,000 | 70,497 | 15,497 |
| Transfers in | 327,000 | 327,000 | 327,000 | - |
| Transfers out | (50,000) | (50,000) | (16,821) | 33,179 |
| Total other financing sources (uses) | <u>277,000</u> | <u>332,000</u> | <u>380,676</u> | <u>48,676</u> |
| NET CHANGE IN FUND BALANCE (BUDGETED SUBFUNDS ONLY) | <u>\$ -</u> | <u>\$ 561,125</u> | <u>\$ 1,518,411</u> | <u>\$ 957,286</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, 2022

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|--|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes: | | | | |
| Sales | \$ 300,000 | \$ 400,000 | \$ 420,187 | \$ 20,187 |
| Investment earnings | 4,500 | 12,000 | 15,245 | 3,245 |
| Miscellaneous | <u>10,000</u> | <u>26,000</u> | <u>43,981</u> | <u>17,981</u> |
| Total revenues | <u>314,500</u> | <u>438,000</u> | <u>479,413</u> | <u>41,413</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Community development | <u>1,706,675</u> | <u>1,698,675</u> | <u>421,271</u> | <u>1,277,404</u> |
| Total expenditures | <u>1,706,675</u> | <u>1,698,675</u> | <u>421,271</u> | <u>1,277,404</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>(1,392,175)</u> | <u>(1,260,675)</u> | <u>58,142</u> | <u>1,318,817</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | <u>(12,000)</u> | <u>(12,000)</u> | <u>(12,000)</u> | <u>-</u> |
| Total other financing sources (uses) | <u>(12,000)</u> | <u>(12,000)</u> | <u>(12,000)</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCE | <u>(1,404,175)</u> | <u>(1,272,675)</u> | <u>46,142</u> | <u>1,318,817</u> |
| FUND BALANCE, BEGINNING | <u>2,301,356</u> | <u>2,301,356</u> | <u>2,301,356</u> | <u>-</u> |
| FUND BALANCE, ENDING | <u>\$ 897,181</u> | <u>\$ 1,028,681</u> | <u>\$ 2,347,498</u> | <u>\$ 1,318,817</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, 2022

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|--|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes: | | | | |
| Hotel/motel | \$ 230,000 | \$ 525,475 | \$ 521,596 | \$(3,879) |
| Investment earnings | 150 | 800 | 1,008 | 208 |
| Rentals | 4,000 | 13,200 | 12,511 | (689) |
| Miscellaneous | 100 | 250 | 239 | (11) |
| Total revenues | <u>234,250</u> | <u>539,725</u> | <u>535,354</u> | <u>(4,371)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Community development | \$ 165,450 | \$ 172,825 | \$ 154,498 | \$ 18,327 |
| Capital outlay | - | 5,900 | 5,900 | - |
| Total expenditures | <u>165,450</u> | <u>178,725</u> | <u>160,398</u> | <u>18,327</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>68,800</u> | <u>361,000</u> | <u>374,956</u> | <u>13,956</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | (68,800) | (139,000) | (104,500) | 34,500 |
| Total other financing sources (uses) | <u>(68,800)</u> | <u>(139,000)</u> | <u>(104,500)</u> | <u>34,500</u> |
| NET CHANGE IN FUND BALANCE | - | 222,000 | 270,456 | 48,456 |
| FUND BALANCE, BEGINNING | <u>1,977,777</u> | <u>1,977,777</u> | <u>1,977,777</u> | - |
| FUND BALANCE, ENDING | <u>\$ 1,977,777</u> | <u>\$ 2,199,777</u> | <u>\$ 2,248,233</u> | <u>\$ 48,456</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, 2022

| 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.

| 2018 | 2019 | 2020 | 2021 |
|----------------------|----------------------|----------------------|----------------------|
| \$ 507,970 | \$ 547,971 | \$ 591,998 | \$ 542,661 |
| 1,306,971 | 1,386,715 | 1,474,971 | 1,582,556 |
| (32,038) | (15,589) | 321,918 | 310,131 |
| - | 88,297 | - | - |
| (611,212) | (631,790) | (812,034) | (728,711) |
| 1,171,691 | 1,375,604 | 1,576,853 | 1,706,637 |
| <u>19,414,150</u> | <u>20,585,841</u> | <u>21,961,445</u> | <u>23,538,298</u> |
| \$ <u>20,585,841</u> | \$ <u>21,961,445</u> | \$ <u>23,538,298</u> | \$ <u>25,244,935</u> |
| \$ 524,444 | \$ 542,084 | \$ 602,683 | \$ 553,454 |
| 228,816 | 245,287 | 267,147 | 245,326 |
| (517,555) | 2,612,206 | 1,491,659 | 2,762,400 |
| (611,212) | (631,790) | (812,034) | (728,711) |
| (10,007) | (14,762) | (9,652) | (12,782) |
| (523) | (445) | (377) | 88 |
| (386,037) | 2,752,580 | 1,539,426 | 2,819,775 |
| <u>17,285,388</u> | <u>16,899,351</u> | <u>19,651,931</u> | <u>21,191,357</u> |
| \$ <u>16,899,351</u> | \$ <u>19,651,931</u> | \$ <u>21,191,357</u> | \$ <u>24,011,132</u> |
| \$ <u>3,686,490</u> | \$ <u>2,309,514</u> | \$ <u>2,346,941</u> | \$ <u>1,233,803</u> |
| 82% | 89% | 90% | 95% |
| \$ 4,576,310 | \$ 4,905,739 | \$ 5,342,944 | \$ 4,906,521 |
| 81% | 47% | 44% | 25% |

CITY OF HILLSBORO, TEXAS

SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2022

| 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 | 24 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> | <u>2022</u> |
|----------------|----------------|----------------|----------------|----------------|
| \$ 518,280 | \$ 541,406 | \$ 542,084 | \$ 554,408 | \$ 618,365 |
| <u>518,280</u> | <u>541,406</u> | <u>542,084</u> | <u>554,408</u> | <u>618,365</u> |
| - | - | - | - | - |
| 4,533,953 | 4,857,497 | 5,139,977 | 4,914,966 | 5,368,735 |
| 11.4% | 11.1% | 10.5% | 11.3% | 11.5% |

CITY OF HILLSBORO, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2022

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 following departments of the General Fund:

| | | |
|------------------|----|--------|
| Administration | \$ | 23,492 |
| Parks | | 14,735 |
| Recreation | | 2,616 |
| Cemetery | | 1,062 |
| Finance | | 16,717 |
| Fire | | 36,866 |
| Code Enforcement | | 23,791 |

These excess expenditures were funded by greater than anticipated revenues.

SUPPLEMENTARY INFORMATION

CITY OF HILLSBORO, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2022

| | Special Revenue | | | |
|--|------------------|-------------------------|---------------------------|-----------------|
| | Library Special | Police Local Forfeiture | Police Federal Forfeiture | Main Street |
| ASSETS | | | | |
| Cash and investments | \$ 32,197 | \$ 362,709 | \$ 17,431 | \$ 5,148 |
| Receivables (net of allowance for uncollectibles): | | | | |
| Due from other governments | - | - | - | - |
| Total assets | <u>32,197</u> | <u>362,709</u> | <u>17,431</u> | <u>5,148</u> |
| LIABILITIES | | | | |
| Accounts payable | - | 450 | - | 1,456 |
| Accrued liabilities | - | 1,280 | - | 1,714 |
| Due to other funds | - | - | - | 1,978 |
| Total liabilities | <u>-</u> | <u>1,730</u> | <u>-</u> | <u>5,148</u> |
| FUND BALANCE | | | | |
| Restricted for: | | | | |
| Library operations | 32,197 | - | - | - |
| Public safety | - | 360,979 | 17,431 | - |
| Capital projects | - | - | - | - |
| Total fund balance | <u>32,197</u> | <u>360,979</u> | <u>17,431</u> | <u>-</u> |
| Total liabilities and fund balance | <u>\$ 32,197</u> | <u>\$ 362,709</u> | <u>\$ 17,431</u> | <u>\$ 5,148</u> |

| Special Revenue | | | | Capital Projects | Total Nonmajor Governmental Funds |
|--------------------|------------------------|--|-----------------------|------------------------|--|
| CDBG Park Drive | CDBG Sidewalk Grant | American Rescue Plan Act Grant Funds | Tax Increment Fund | Street Improvements | |
| \$ 2,750 | \$ 2,384 | \$ - | \$ 8,060 | \$ - | \$ 430,679 |
| <u>46,325</u> | <u>63,634</u> | <u>-</u> | <u>2,630</u> | <u>-</u> | <u>112,589</u> |
| <u>49,075</u> | <u>66,018</u> | <u>-</u> | <u>10,690</u> | <u>-</u> | <u>543,268</u> |
| 2,750 | 2,383 | - | - | - | 7,039 |
| - | - | - | - | - | 2,994 |
| <u>46,325</u> | <u>63,635</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>111,938</u> |
| <u>49,075</u> | <u>66,018</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>121,971</u> |
| - | - | - | - | - | 32,197 |
| - | - | - | - | - | 378,410 |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>10,690</u> | <u>-</u> | <u>10,690</u> |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>10,690</u> | <u>-</u> | <u>421,297</u> |
| \$ <u>49,075</u> | \$ <u>66,018</u> | \$ <u>-</u> | \$ <u>10,690</u> | \$ <u>-</u> | \$ <u>543,268</u> |

CITY OF HILLSBORO, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2022

| | Special Revenue | | | |
|--|------------------------|--------------------------------|----------------------------------|--------------------|
| | <u>Library Special</u> | <u>Police Local Forfeiture</u> | <u>Police Federal Forfeiture</u> | <u>Main Street</u> |
| REVENUES | | | | |
| Taxes: | | | | |
| Ad valorem | \$ - | \$ - | \$ - | \$ - |
| Forfeitures | - | 4,260 | - | - |
| Contributions | - | - | - | 10,013 |
| Investment earnings | - | 2,956 | 193 | 97 |
| Intergovernmental | 36,351 | - | - | 2,400 |
| Miscellaneous | - | - | - | 22,555 |
| Total revenues | <u>36,351</u> | <u>7,216</u> | <u>193</u> | <u>35,065</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public safety | - | 53,798 | - | - |
| Community development | 36,898 | - | - | 123,695 |
| Capital outlay | - | - | - | - |
| Debt service: | | | | |
| Principal | - | 23,504 | - | - |
| Interest | - | 2,060 | - | - |
| Total expenditures | <u>36,898</u> | <u>79,362</u> | <u>-</u> | <u>123,695</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>(547)</u> | <u>(72,146)</u> | <u>193</u> | <u>(88,630)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | - | - | 88,630 |
| Transfers out | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>88,630</u> |
| NET CHANGE IN FUND BALANCE | <u>(547)</u> | <u>(72,146)</u> | <u>193</u> | <u>-</u> |
| FUND BALANCE, BEGINNING | <u>32,744</u> | <u>433,125</u> | <u>17,238</u> | <u>-</u> |
| FUND BALANCE, ENDING | <u>\$ 32,197</u> | <u>\$ 360,979</u> | <u>\$ 17,431</u> | <u>\$ -</u> |

| Special Revenue | | | | Capital Projects | Total Nonmajor Governmental Funds |
|--------------------|------------------------|--|-----------------------|------------------------|--|
| CDBG Park Drive | CDBG Sidewalk Grant | American Rescue Plan Act Grant Funds | Tax Increment Fund | Street Improvements | |
| \$ - | \$ - | \$ - | \$ 8,060 | \$ - | \$ 8,060 |
| - | - | - | - | - | 4,260 |
| - | - | - | - | - | 10,013 |
| - | - | - | - | - | 3,246 |
| 46,325 | 63,634 | 343,498 | 2,630 | - | 494,838 |
| - | - | - | - | - | 22,555 |
| <u>46,325</u> | <u>63,634</u> | <u>343,498</u> | <u>10,690</u> | <u>-</u> | <u>542,972</u> |
| - | - | 343,498 | - | - | 397,296 |
| - | - | - | - | - | 160,593 |
| 46,325 | 63,825 | - | - | - | 110,150 |
| - | - | - | - | - | 23,504 |
| - | - | - | - | - | 2,060 |
| <u>46,325</u> | <u>63,825</u> | <u>343,498</u> | <u>-</u> | <u>-</u> | <u>693,603</u> |
| - | (191) | - | 10,690 | - | (150,631) |
| - | 191 | - | - | - | 88,821 |
| - | - | - | - | (4,359) | (4,359) |
| - | <u>191</u> | - | - | (4,359) | 84,462 |
| - | - | - | 10,690 | (4,359) | (66,169) |
| - | - | - | - | 4,359 | 487,466 |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 10,690</u> | <u>\$ -</u> | <u>\$ 421,297</u> |

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SINGLE AUDIT SECTION

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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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 6, 2023.

Report on 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001, that we consider to be a significant deficiency.

OFFICE LOCATIONS

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

Report on 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*.

City of Hillsboro, Texas' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Patillo, Brown & Hill, L.L.P.

Waco, Texas
June 6, 2023



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT 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

Opinion on Each Major Federal Program

We have audited the City of Hillsboro, Texas' (the "City") compliance with the types of compliance requirements identified as subject to audit in the 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, 2022. 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.

In our opinion, the City complied, in all material respects, with the 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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

OFFICE LOCATIONS

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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
June 6, 2023

CITY OF HILLSBORO, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2022

| Federal Grantor/Pass-through Grantor/ Program or Cluster Title | Assistance Listing Number | Pass-through Entity Identifying Number | Total Federal Expenditures | Passed Through to Subrecipients |
|---|---------------------------------|--|----------------------------------|---------------------------------------|
| <u>U. S. Department of Housing and Urban Development</u> | | | | |
| Passed through the Texas Department of Agriculture: | | | | |
| CDBG - Park Drive | 14.218 | 7219322 | \$ 46,325 | \$ - |
| CDBG - Sidewalk Grant | 14.218 | 7220062 | 63,634 | - |
| CDBG - Texas Capital Fund | 14.218 | 7219322 | 73,747 | - |
| <i>Total CDBG-Entitlements Grants Cluster</i> | | | <u>183,706</u> | <u>-</u> |
| <i>Total passed through the Texas Department of Agriculture</i> | | | <u>183,706</u> | <u>-</u> |
| <i>Total U. S. Department of Housing and Urban Development</i> | | | <u>183,706</u> | <u>-</u> |
| <u>U. S. Department of Transportation</u> | | | | |
| Passed through the Texas Department of Transportation: | | | | |
| Safe Routes to School Program (Highway Planning and Construction Cluster) | 20.205 | CSJ 0909-37-071 | 61,790 | - |
| <i>Total passed through the Texas Department of Transportation</i> | | | <u>61,790</u> | <u>-</u> |
| <i>Total U. S. Department of Transportation</i> | | | <u>61,790</u> | <u>-</u> |
| <u>U. S. Department of Treasury</u> | | | | |
| Passed through the Texas Division of Emergency Management: | | | | |
| COVID-19 - Coronavirus Local Fiscal Recovery Fund | 21.027 | TX0001 | 343,498 | - |
| <i>Total Passed through the Texas Division of Emergency Management</i> | | | <u>343,498</u> | <u>-</u> |
| <i>Total U. S. Department of Treasury</i> | | | <u>343,498</u> | <u>-</u> |
| <u>Environmental Protection Agency</u> | | | | |
| Passed through the Texas Water Development Board: | | | | |
| Capitalization Grants for Drinking Water State Revolving Funds (Drinking Water State Revolving Fund Cluster) | 66.468 | 08-01-05209 | 1,219,674 | - |
| <i>Total passed through the Texas Water Development Board</i> | | | <u>1,219,674</u> | <u>-</u> |
| <i>Total Environmental Protection Agency</i> | | | <u>1,219,674</u> | <u>-</u> |
| <i>Total Expenditures of Federal Awards</i> | | | <u>\$ 1,808,668</u> | <u>\$ -</u> |

CITY OF HILLSBORO, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SEPTEMBER 30, 2022

1. GENERAL

The Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all applicable federal award programs of the City of Hillsboro, Texas (the "City"). The City's reporting entity is defined in Note I of the financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the SEFA.

2. BASIS OF ACCOUNTING

The SEFA is presented using the modified accrual basis of accounting. The City's significant accounting policies, including the modified accrual basis of accounting, are presented in Note 1 of the basic financial statements. The SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

3. INDIRECT COSTS

The City did not elect to use a de minimis cost rate of 10% as described at 2 CFR §200.414(f)—Indirect (F&A) costs.

CITY OF HILLSBORO, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2022

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? Yes

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a) of Uniform Guidance

None

Identification of major program:

Assistance Listing Number:
66.468

Name of Federal Program or Cluster:
Drinking Water State Revolving
Funds Cluster

Dollar threshold used to distinguish between type A and type B programs

\$750,000

Auditee qualified as low-risk auditee?

No

Findings Relating to the Financial Statements Which are Required to be Reported in Accordance With Generally Accepted Government Auditing Standards

2022-001

Findings and Questioned Costs for Federal Awards

None

CITY OF HILLSBORO, TEXAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

FOR THE YEAR ENDED SEPTEMBER 30, 2022

Financial Statement Findings:

Finding 2022-001

| | |
|------------------------|---|
| Finding Type: | Significant Deficiency |
| Criteria: | Effective internal controls provide reasonable assurance regarding the accuracy and completeness of reported financial information. In the context of the revenue and receipts transaction cycle, effective internal controls ensure that all receipts collected are recorded in the accounting system. |
| Condition: | During the past year, the City has experienced turnover in its Main Street department, and staff discovered that certain event revenues collected through a City PayPal account had not been remitted to the Finance Department in a timely manner and were therefore not recorded in the general ledger. |
| Cause: | Both the design and operation of the controls over these revenues did 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. |
| Effect: | Certain revenues collected in prior years were not reported in the City's financial statements. The amount is not considered to be material to the financial statements. |
| Recommendation: | Controls over these revenues should be designed and operated in a manner to allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. |
| Management's Response: | We agree with the finding and have begun discussions to implement controls that will ensure all revenues are properly recorded in the financial statements in a timely manner. |

CITY OF HILLSBORO, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2022

None.

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