

CITY OF HILLSBORO, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2018

CITY OF HILLSBORO, TEXAS

TABLE OF CONTENTS

SEPTEMBER 30, 2018

	<u>Page Number</u>
Independent Auditors' Report.....	1 – 3
Management's Discussion and Analysis.....	4 – 10
<u>Basic Financial Statements</u>	
Government-wide Financial Statements:	
Statement of Net Position	11
Statement of Activities.....	12
Governmental Fund Financial Statements:	
Balance Sheet.....	13 – 14
Statement of Revenues, Expenditures and Changes in Fund Balances	15 – 16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	17
Proprietary Fund Financial Statements:	
Statement of Net Position	18
Statement of Revenues, Expenses and Changes in Net Position	19
Statement of Cash Flows	20 – 21
Notes to the Financial Statements	22 – 41
<u>Required Supplementary Information</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.....	42 – 46
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Economic Development Corporation Fund.....	47
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Hotel/Motel Tax Fund	48
Schedule of Changes in Net Pension Liability and Related Ratios.....	49
Schedule of Contributions - TMRS.....	50
Notes to Required Supplementary Information.....	51
<u>Supplementary Information</u>	
Nonmajor Governmental Funds:	
Combining Balance Sheet.....	52 – 53
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	54 – 55
<u>Internal Control and Compliance Section</u>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	56 – 57



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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hillsboro, Texas (the "City"), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hillsboro, Texas, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Pattillo, Brown & Hill, LLP

Waco, Texas
May 29, 2019

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, 2018. 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, 2018, by \$28,390,432 (net position).
- The City's total net position increased in the current year by \$1,002,721.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,408,705. Approximately 20% of this total amount, \$1,472,774, is unassigned fund balance available for use within the City's fund designation and fiscal policies.
- As of September 30, 2018, unassigned fund balance for the General Fund was \$1,742,879 or 20% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements, which begin on page 11 of this report, are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets, deferred inflows and outflows of resources and liabilities, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences.)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, streets, 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 11 – 12 of this report.

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

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

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

Beginning on page 13 of this report, information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, the Economic Development Corporation Fund, the Hotel/Motel Tax Fund, the Texas Capital Fund, the Debt Service Fund and the Capital Projects 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 – 41 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents combining fund statements that further support the information in the financial statements. The combining fund statements for nonmajor funds are presented immediately following the notes to required supplementary information beginning on page 52 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 \$28,390,432 as of September 30, 2018.

NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Current assets	\$ 8,342,442	\$ 7,860,337	\$ 1,167,129	\$ 1,223,485	\$ 9,509,571	\$ 9,083,822
Capital assets	15,176,201	20,543,326	11,548,650	12,067,091	26,724,851	32,610,417
Total Assets	23,518,643	28,403,663	12,715,779	13,290,576	36,234,422	41,694,239
Total deferred outflows of resources	451,813	1,013,390	60,010	164,415	511,823	1,177,805
Liabilities	531,547	1,550,690	455,234	832,053	986,781	2,382,743
Noncurrent liabilities	7,552,272	10,883,997	1,246,220	2,125,699	8,798,492	13,009,696
Total Liabilities	8,083,819	12,434,687	1,701,454	2,957,752	9,785,273	15,392,439
Total deferred inflows of resources	513,457	78,923	66,131	12,971	579,588	91,894
Net position:						
Net investment in capital assets	12,043,121	11,940,857	10,504,152	10,077,045	22,547,273	22,017,902
Restricted	5,579,409	5,705,472	-	-	5,579,409	5,705,472
Unrestricted	(164,769)	(742,886)	428,519	407,223	263,750	(335,663)
Total Net Position	\$ 17,457,761	\$ 16,903,443	\$ 10,932,671	\$ 10,484,268	\$ 28,390,432	\$ 27,387,711

The City uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
REVENUES:						
Program revenues:						
Charges for services	\$ 1,384,000	\$ 1,552,393	\$ 5,190,381	\$ 5,248,612	\$ 6,574,381	\$ 6,801,005
Operating grants	50,347	39,648	-	-	50,347	39,648
Capital grants and contributions	9,860	144,888	414,197	11,670	424,057	156,558
General revenues:						
Property taxes	3,789,169	3,524,475	-	-	3,789,169	3,524,475
Sales taxes	3,426,662	3,318,098	-	-	3,426,662	3,318,098
Franchise taxes	543,357	489,115	-	-	543,357	489,115
Hotel/motel taxes	386,033	355,577	-	-	386,033	355,577
Other taxes	41,106	39,189	-	-	41,106	39,189
Investment earnings	138,699	106,030	14,873	7,686	153,572	113,716
Miscellaneous	173,481	190,908	39,911	36,628	213,392	227,536
Total Revenues	<u>9,942,714</u>	<u>9,760,321</u>	<u>5,659,362</u>	<u>5,304,596</u>	<u>15,602,076</u>	<u>15,064,917</u>
EXPENSES:						
General government	2,202,343	2,134,681	-	-	2,202,343	2,134,681
Public safety	5,298,305	4,662,556	-	-	5,298,305	4,662,556
Streets	1,047,563	1,334,230	-	-	1,047,563	1,334,230
Community development	1,109,418	647,751	-	-	1,109,418	647,751
Interest on long-term debt	242,332	247,276	-	-	242,332	247,276
Water and sewer	-	-	3,567,056	3,620,721	3,567,056	3,620,721
Sanitation	-	-	818,159	828,296	818,159	828,296
Airport	-	-	314,179	339,548	314,179	339,548
Total Expenses	<u>9,899,961</u>	<u>9,026,494</u>	<u>4,699,394</u>	<u>4,788,565</u>	<u>14,599,355</u>	<u>13,815,059</u>
INCREASES IN NET POSITION BEFORE TRANSFERS	42,753	733,827	959,968	516,031	1,002,721	1,249,858
TRANSFERS	<u>511,565</u>	<u>610,000</u>	<u>(511,565)</u>	<u>(610,000)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	554,318	1,343,827	448,403	(93,969)	1,002,721	1,249,858
NET POSITION, BEGINNING	<u>16,903,443</u>	<u>15,559,616</u>	<u>10,484,268</u>	<u>10,578,237</u>	<u>27,387,711</u>	<u>26,137,853</u>
NET POSITION, ENDING	<u>\$ 17,457,761</u>	<u>\$ 16,903,443</u>	<u>\$ 10,932,671</u>	<u>\$ 10,484,268</u>	<u>\$ 28,390,432</u>	<u>\$ 27,387,711</u>

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position for the business-type activities; however, the unrestricted net position for governmental activities remained negative in the current year.

The City's net position increased by \$1,002,721 during the current fiscal year, which was slightly less than the prior year increase of \$1,249,858. This was mainly due to increases in general government, public safety, and streets expenses as well as a decrease in charges for services. This was partially offset by increases in property and sales tax revenue.

Governmental Activities. Governmental activities increased the City's net position by \$554,318. This increase was less than the prior year increase of \$1,343,827. Key elements of this are as follows:

- | | |
|--|-----------|
| • Sales tax revenue increased by | \$108,564 |
| • Transfer from Business-type Activities | 511,565 |
| • Property tax revenue increased by | 264,694 |

Business-type Activities. Business-type activities increased the City's net position by \$448,403. Key elements of this increase are as follows:

- | | |
|---|-----------|
| • Capital grants and contributions increased by | \$402,527 |
|---|-----------|

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,408,705. Approximately 20% of this total amount, \$1,472,774 constitutes unassigned fund balance. Refer to pages 13 – 16 of this report for a more detailed presentation of governmental fund balances.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,742,879, while total fund balance reached \$2,172,990.

The fund balance of the City's General Fund increased by \$460,858 during the current fiscal year. A key factor in this change was a \$259,991 increase in property tax revenue from the previous year.

The fund balance of the City's Economic Development Corporation Fund decreased by \$282,490 during the current fiscal year. This decrease was primarily due to an increase in incentive grants for economic development.

The Hotel/Motel Tax fund balance increased by \$115,058 during the current fiscal year. This increase is due to consistent efforts toward keeping expenditures down.

The Texas Capital Fund fund balance decreased by \$27 during the current fiscal year.

The Debt Service Fund has a total fund balance of \$202,305, which was a \$25,037 increase over the prior year. This was mainly due to increased property tax revenue.

The Capital Projects Fund has a total fund balance of (\$269,828), which was a \$1,681 increase over the prior year. This was mainly due to a decrease in capital 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 \$428,519. The increase in net position was \$448,403. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

No budget amendments were made to the original budget in fiscal year 2018.

Actual revenues exceeded budgeted revenues by \$453,846 while total expenditures exceeded appropriations by \$474,769.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2018, amounts to \$32,339,415 (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:

- Ford F450 Road and Rescue Ambulance for \$194,064
- Ford F550 Brush Truck for \$197,855

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

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total bonded debt of \$8,530,000. All of this represents bonded debt backed by the full faith and credit of the City.

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

	Standard and Poor's
General Obligation Bonds	A

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The FY 2019 Budget reflects the City's efforts to address the needs and issues in the community and meet desired levels of services while limiting expenditures to maintain a balanced budget. An increase of 3% in water/wastewater rates is planned during this fiscal year to fund the City's share of the proposed new Industrial Water Tower. This budget also includes a 2.5% increase in salaries for all employees. Budgeted expenditures for each department have been based upon an evaluation of the departments' programs and priorities. A regular review of the core function of every City operation is instrumental in determining appropriate expenditure levels without sacrificing the basic services that the community needs and expects.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Frank Johnson, City Manager, P.O. Box 568, Hillsboro, Texas 76645 or call (254) 582-3271.

CITY OF HILLSBORO, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 6,772,147	\$ 371,799	\$ 7,143,946
Receivables (net of allowances for uncollectibles):			
Taxes	865,804	-	865,804
Accounts	206,011	657,931	863,942
Municipal court	317,997	-	317,997
Intergovernmental	31,759	31,673	63,432
Internal balances	86,427	(86,427)	-
Inventories	27,260	186,187	213,447
Prepaid items	35,037	5,966	41,003
Capital assets not being depreciated	5,054,403	560,161	5,614,564
Capital assets, net of accumulated depreciation	<u>15,176,201</u>	<u>11,548,650</u>	<u>26,724,851</u>
Total assets	<u>28,573,046</u>	<u>13,275,940</u>	<u>41,848,986</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	99,423	14,624	114,047
Deferred outflows related to pensions	<u>352,390</u>	<u>45,386</u>	<u>397,776</u>
Total deferred outflows of resources	<u>451,813</u>	<u>60,010</u>	<u>511,823</u>
LIABILITIES			
Accounts payable	386,519	159,642	546,161
Accrued liabilities	79,180	9,236	88,416
Accrued interest payable	65,848	11,760	77,608
Unearned revenue	-	28,520	28,520
Customer deposits	-	246,076	246,076
Noncurrent liabilities:			
Due within one year:			
Long-term debt	1,083,952	392,802	1,476,754
Due in more than one year:			
Long-term debt	7,552,272	1,246,220	8,798,492
Net pension liability - TMRS	<u>1,885,870</u>	<u>242,892</u>	<u>2,128,762</u>
Total liabilities	<u>11,053,641</u>	<u>2,337,148</u>	<u>13,390,789</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow related to pensions	<u>513,457</u>	<u>66,131</u>	<u>579,588</u>
Total deferred inflows of resources	<u>513,457</u>	<u>66,131</u>	<u>579,588</u>
NET POSITION			
Net investment in capital assets	12,043,121	10,504,152	22,547,273
Restricted for:			
Economic development	2,712,550	-	2,712,550
Tourism	1,756,782	-	1,756,782
Court security and technology	397,937	-	397,937
Debt service	202,305	-	202,305
Other purposes	509,835	-	509,835
Unrestricted	<u>(164,769)</u>	<u>428,519</u>	<u>263,750</u>
Total net position	<u>\$ 17,457,761</u>	<u>\$ 10,932,671</u>	<u>\$ 28,390,432</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, 2018

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
General government	\$ 2,202,343	\$ 44,521	\$ 7,463	\$(2,150,359)	\$ -	\$(2,150,359)
Public safety	5,298,305	1,299,225	-	(3,956,196)	-	(3,956,196)
Streets	1,047,563	-	9,860	(1,037,703)	-	(1,037,703)
Community development	1,109,418	-	-	(1,069,164)	-	(1,069,164)
Interest on long-term debt	242,332	-	-	(242,332)	-	(242,332)
Total governmental activities	9,899,961	1,384,000	9,860	(8,455,754)	-	(8,455,754)
Business-type activities:						
Water and sewer	3,567,056	-	-	-	289,365	289,365
Sanitation	818,159	-	-	-	280,475	280,475
Airport	314,179	-	414,197	-	335,344	335,344
Total business-type activities	4,699,394	-	414,197	-	905,184	905,184
Total	\$ 14,599,355	\$ 6,574,381	\$ 424,057	\$(8,455,754)	905,184	\$(7,550,570)
General revenues:						
Taxes:						
Property - general purposes				2,931,885	-	2,931,885
Property - debt service				857,284	-	857,284
Sales				3,426,662	-	3,426,662
Franchise				543,357	-	543,357
Hotel/motel				386,033	-	386,033
Other				41,106	-	41,106
Unrestricted investment earnings				138,699	14,873	153,572
Miscellaneous				173,481	39,911	213,392
Transfers				511,565	(511,565)	-
Total general revenues and transfers				9,010,072	(456,781)	8,553,291
Change in net position				554,318	448,403	1,002,721
Net position, beginning				16,903,443	10,484,268	27,387,711
Net position ending				\$ 17,457,761	\$ 10,932,671	\$ 28,390,432

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

CITY OF HILLSBORO, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2018

	General	Economic Development Corporation	Hotel/Motel Tax
ASSETS			
Cash and investments	\$ 1,082,958	\$ 2,653,598	\$ 1,681,144
Receivables (net of allowance for uncollectibles):			
Taxes	695,055	49,965	77,493
Accounts	509,815	8,402	1,871
Intergovernmental	31,759	-	-
Inventory	27,260	-	-
Due from other funds	703,411	1,934	-
Prepaid items	4,914	623	29,500
Total assets	<u>3,055,172</u>	<u>2,714,522</u>	<u>1,790,008</u>
LIABILITIES			
Accounts payable	373,036	40	3,726
Accrued liabilities	77,052	1,309	-
Due to other funds	1,934	-	-
Total liabilities	<u>452,022</u>	<u>1,349</u>	<u>3,726</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	80,404	-	-
Unavailable revenue - grants	31,759	-	-
Unavailable revenue - court fines	317,997	-	-
Total deferred inflows of resources	<u>430,160</u>	<u>-</u>	<u>-</u>
FUND BALANCE			
Nonspendable:			
Inventory	27,260	-	-
Prepaid items	4,914	623	29,500
Restricted:			
Court security and technology	397,937	-	-
Debt service	-	-	-
Economic development	-	2,712,550	-
Industrial development	-	-	-
Library operations	-	-	-
Public safety	-	-	-
Tourism	-	-	1,756,782
Capital projects	-	-	-
Unassigned	<u>1,742,879</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>2,172,990</u>	<u>2,713,173</u>	<u>1,786,282</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,055,172</u>	<u>\$ 2,714,522</u>	<u>\$ 1,790,008</u>

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

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

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

Net position of governmental activities

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

Texas Capital Fund	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 284,627	\$ 197,642	\$ 110,303	\$ 761,875	\$ 6,772,147
-	43,291	-	-	865,804
-	-	-	3,920	524,008
-	-	-	-	31,759
-	-	-	-	27,260
-	-	-	-	705,345
-	-	-	-	35,037
<u>284,627</u>	<u>240,933</u>	<u>110,303</u>	<u>765,795</u>	<u>8,961,360</u>
-	750	-	8,967	386,519
-	-	-	819	79,180
<u>236,834</u>	<u>-</u>	<u>380,131</u>	<u>19</u>	<u>618,918</u>
<u>236,834</u>	<u>750</u>	<u>380,131</u>	<u>9,805</u>	<u>1,084,617</u>
-	37,878	-	-	118,282
-	-	-	-	31,759
-	-	-	-	317,997
<u>-</u>	<u>37,878</u>	<u>-</u>	<u>-</u>	<u>468,038</u>
-	-	-	-	27,260
-	-	-	-	35,037
-	-	-	-	397,937
-	202,305	-	-	202,305
-	-	-	-	2,712,550
-	-	-	21	21
-	-	-	7,591	7,591
47,793	-	-	454,430	502,223
-	-	-	-	1,756,782
-	-	-	294,225	294,225
-	-	(269,828)	(277)	1,472,774
<u>47,793</u>	<u>202,305</u>	<u>(269,828)</u>	<u>755,990</u>	<u>7,408,705</u>
\$ <u>284,627</u>	\$ <u>240,933</u>	\$ <u>110,303</u>	\$ <u>765,795</u>	
				20,230,604
				468,038
				(10,649,586)
				\$ <u>17,457,761</u>

CITY OF HILLSBORO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	General	Economic Development Corporation	Hotel/Motel Tax
REVENUES			
Taxes:			
Ad valorem	\$ 2,987,303	\$ -	\$ -
Sales	3,141,107	285,555	-
Franchise	543,357	-	-
Hotel/motel	-	-	386,033
Other	41,106	-	-
Fines and forfeitures	792,358	-	-
Charges for services	371,254	-	-
Intergovernmental	50,347	-	-
Licenses and permits	31,534	-	-
Investment earnings	54,245	56,708	2,110
Rentals	-	-	8,720
Cemetery lot sales and fees	20,710	-	-
Contributions	123,884	-	-
Miscellaneous	140,231	14,959	576
Total revenues	<u>8,297,436</u>	<u>357,222</u>	<u>397,439</u>
EXPENDITURES			
Current:			
Personnel	5,719,976	90,697	7,590
Supplies	531,140	154	2,201
Services	1,115,185	20,749	170,361
Maintenance	331,797	41,112	2,639
Minor equipment	21,122	-	5,300
Incentive grants	-	475,000	-
Capital outlay	603,233	-	3,890
Debt service:			
Principal	247,400	-	-
Interest	34,941	-	-
Total expenditures	<u>8,604,794</u>	<u>627,712</u>	<u>191,981</u>
EXCESS (DEFICIENCY) OF REVENUES			
OVER (UNDER) EXPENDITURES	(307,358)	(270,490)	205,458
OTHER FINANCING SOURCES (USES)			
Capital lease	496,831	-	-
Transfers in	568,165	-	-
Transfers out	(296,780)	(12,000)	(90,400)
Total other financing sources (uses)	<u>768,216</u>	<u>(12,000)</u>	<u>(90,400)</u>
NET CHANGE IN FUND BALANCES	460,858	(282,490)	115,058
FUND BALANCES, BEGINNING	<u>1,712,132</u>	<u>2,995,663</u>	<u>1,671,224</u>
FUND BALANCES, ENDING	<u>\$ 2,172,990</u>	<u>\$ 2,713,173</u>	<u>\$ 1,786,282</u>

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

<u>Texas Capital Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 883,418	\$ -	\$ -	\$ 3,870,721
-	-	-	-	3,426,662
-	-	-	-	543,357
-	-	-	-	386,033
-	-	-	-	41,106
-	-	-	2,974	795,332
-	-	-	-	371,254
9,860	-	-	-	60,207
-	-	-	-	31,534
-	18,558	1,681	5,397	138,699
-	-	-	-	8,720
-	-	-	-	20,710
-	-	-	-	123,884
-	-	-	21,390	177,156
<u>9,860</u>	<u>901,976</u>	<u>1,681</u>	<u>29,761</u>	<u>9,995,375</u>
-	-	-	59,912	5,878,175
-	-	-	15,136	548,631
9,887	4,750	-	34,201	1,355,133
-	-	-	165	375,713
-	-	-	13,646	40,068
-	-	-	-	475,000
-	-	-	29,433	636,556
-	675,000	-	-	922,400
-	197,189	-	-	232,130
<u>9,887</u>	<u>876,939</u>	<u>-</u>	<u>152,493</u>	<u>10,463,806</u>
(27)	25,037	1,681	(122,732)	(468,431)
-	-	-	-	496,831
-	-	-	342,580	910,745
-	-	-	-	(399,180)
-	-	-	342,580	1,008,396
(27)	25,037	1,681	219,848	539,965
47,820	177,268	(271,509)	536,142	6,868,740
<u>\$ 47,793</u>	<u>\$ 202,305</u>	<u>\$ (269,828)</u>	<u>\$ 755,990</u>	<u>\$ 7,408,705</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, 2018

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

Net change in fund balances - total governmental funds	\$ 539,965
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(312,722)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(52,661)
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.	416,345
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.	(36,609)
Change in net position of governmental activities	\$ <u>554,318</u>

CITY OF HILLSBORO, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2018

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Sanitation	Airport	Totals
ASSETS				
Cash and investments	\$ 229,202	\$ 142,497	\$ 100	\$ 371,799
Accounts receivable	582,355	50,941	24,635	657,931
Intergovernmental receivable	-	-	31,673	31,673
Prepaid expenses	-	-	5,966	5,966
Inventories	144,694	-	41,493	186,187
Capital assets not being depreciated	363,672	97,906	98,583	560,161
Capital assets net of accumulated depreciation	9,865,438	-	1,683,212	11,548,650
Total assets	<u>11,185,361</u>	<u>291,344</u>	<u>1,885,662</u>	<u>13,362,367</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	14,624	-	-	14,624
Deferred outflows related to pensions	41,687	-	3,699	45,386
Total deferred outflows of resources	<u>56,311</u>	<u>-</u>	<u>3,699</u>	<u>60,010</u>
LIABILITIES				
Current liabilities:				
Accounts payable	54,924	66,083	38,635	159,642
Customer deposits	246,076	-	-	246,076
Accrued liabilities	8,193	-	1,043	9,236
Due to other funds	-	-	86,427	86,427
Accrued interest payable	11,760	-	-	11,760
Unearned revenue	-	-	28,520	28,520
Accrued compensated absences	9,870	-	-	9,870
Capital lease payable	17,932	-	-	17,932
Bonds payable	365,000	-	-	365,000
Total current liabilities	<u>713,755</u>	<u>66,083</u>	<u>154,625</u>	<u>934,463</u>
Noncurrent liabilities:				
Bonds payable	1,236,351	-	-	1,236,351
Net pension liability	223,094	-	19,798	242,892
Accrued compensated absences	9,869	-	-	9,869
Total long-term liabilities	<u>1,469,314</u>	<u>-</u>	<u>19,798</u>	<u>1,489,112</u>
Total liabilities	<u>2,183,069</u>	<u>66,083</u>	<u>174,423</u>	<u>2,423,575</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	60,741	-	5,390	66,131
Total deferred inflows of resources	<u>60,741</u>	<u>-</u>	<u>5,390</u>	<u>66,131</u>
NET POSITION				
Net investment in capital assets	8,624,451	97,906	1,781,795	10,504,152
Unrestricted	373,411	127,355	(72,247)	428,519
Total net position	<u>\$ 8,997,862</u>	<u>\$ 225,261</u>	<u>\$ 1,709,548</u>	<u>\$ 10,932,671</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, 2018

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Sanitation	Airport	Totals
OPERATING REVENUES				
Water and sewer sales	\$ 3,764,693	\$ -	\$ -	\$ 3,764,693
Other service charges	91,728	1,098,634	235,326	1,425,688
Miscellaneous	39,911	-	-	39,911
Total operating revenues	<u>3,896,332</u>	<u>1,098,634</u>	<u>235,326</u>	<u>5,230,292</u>
OPERATING EXPENSES				
Water purchases	1,656,519	-	-	1,656,519
Personnel	740,117	-	52,195	792,312
Supplies	80,329	-	144,350	224,679
Services	285,670	813,616	41,227	1,140,513
Maintenance	247,997	4,543	21,536	274,076
Minor equipment	5,372	-	-	5,372
Depreciation and amortization	519,058	-	54,871	573,929
Total operating expenses	<u>3,535,062</u>	<u>818,159</u>	<u>314,179</u>	<u>4,667,400</u>
OPERATING INCOME (LOSS)	<u>361,270</u>	<u>280,475</u>	<u>(78,853)</u>	<u>562,892</u>
NONOPERATING REVENUES (EXPENSES)				
Investment income	14,873	-	-	14,873
Grants	-	-	414,197	414,197
Interest expense	(31,994)	-	-	(31,994)
Total nonoperating revenues (expenses)	<u>(17,121)</u>	<u>-</u>	<u>414,197</u>	<u>397,076</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>344,149</u>	<u>280,475</u>	<u>335,344</u>	<u>959,968</u>
Transfers out	<u>(231,565)</u>	<u>(280,000)</u>	<u>-</u>	<u>(511,565)</u>
CHANGE IN NET POSITION	<u>112,584</u>	<u>475</u>	<u>335,344</u>	<u>448,403</u>
TOTAL NET POSITION, BEGINNING	<u>8,885,278</u>	<u>224,786</u>	<u>1,374,204</u>	<u>10,484,268</u>
TOTAL NET POSITION, ENDING	<u>\$ 8,997,862</u>	<u>\$ 225,261</u>	<u>\$ 1,709,548</u>	<u>\$ 10,932,671</u>

CITY OF HILLSBORO, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Sanitation	Airport	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 3,835,465	\$ 1,098,476	\$ 181,969	\$ 5,115,910
Cash payments to employees for services	(704,168)	-	(56,866)	(761,034)
Cash payments to suppliers for goods and services	(2,371,229)	(818,770)	(195,971)	(3,385,970)
Cash provided (used) by operating activities	<u>760,068</u>	<u>279,706</u>	<u>(70,868)</u>	<u>968,906</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash received from other funds	-	-	71,724	71,724
Cash paid to other funds	(231,565)	(280,000)	-	(511,565)
Cash provided (used) by noncapital financing activities	<u>(231,565)</u>	<u>(280,000)</u>	<u>71,724</u>	<u>(439,841)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal repayments on debt	(389,043)	-	-	(389,043)
Capital grants	-	-	414,197	414,197
Interest and fiscal charges on debt	(34,954)	-	-	(34,954)
Acquisition and construction of capital assets	(197,040)	-	(414,953)	(611,993)
Cash provided (used) by capital and related financing activities	<u>(621,037)</u>	<u>-</u>	<u>(756)</u>	<u>(621,793)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	<u>14,873</u>	<u>-</u>	<u>-</u>	<u>14,873</u>
Cash provided by investing activities	<u>14,873</u>	<u>-</u>	<u>-</u>	<u>14,873</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(77,661)</u>	<u>(294)</u>	<u>100</u>	<u>(77,855)</u>
CASH AND CASH EQUIVALENTS, BEGINNING	<u>306,863</u>	<u>142,791</u>	<u>-</u>	<u>449,654</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 229,202</u>	<u>\$ 142,497</u>	<u>\$ 100</u>	<u>\$ 371,799</u>

CITY OF HILLSBORO, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Business-type Activities - Enterprise Fund			
	Water and Wastewater	Sanitation	Airport	Totals
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 361,270	\$ 280,475	\$(78,853)	\$ 562,892
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	519,058	-	54,871	573,929
Change in assets and liabilities:				
Decrease (increase) in accounts receivable	(64,385)	(158)	(15,984)	(80,527)
Decrease (increase) in inventory	27,618	-	(9,136)	18,482
Decrease (increase) in prepaid expenses	495	-	-	495
Decrease (increase) in due from other governments	-	-	(31,673)	(31,673)
Decrease (increase) in deferred outflows related to pensions	92,491	-	8,258	100,749
Increase (decrease) in accounts payable	(8,456)	(611)	21,634	12,567
Increase (decrease) in accrued liabilities	(2,986)	-	30	(2,956)
Increase (decrease) in unearned revenue	-	-	(5,700)	(5,700)
Increase (decrease) in customer deposits	3,518	-	-	3,518
Increase (decrease) in vacation payable	(9,099)	-	-	(9,099)
Increase (decrease) in net pension liability	(208,287)	-	(18,644)	(226,931)
Decrease (increase) in deferred inflow related to pensions	48,831	-	4,329	53,160
Total adjustments	<u>398,798</u>	<u>(769)</u>	<u>7,985</u>	<u>406,014</u>
Net cash provided (used) by operating activities	<u>\$ 760,068</u>	<u>\$ 279,706</u>	<u>\$(70,868)</u>	<u>\$ 968,906</u>

CITY OF HILLSBORO, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hillsboro was incorporated on March 21, 1881. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, public works, public health and welfare, recreation and waterworks.

The accounting and reporting policies of the City conform to accounting principles generally accepted in the United States of America for local governments. Generally accepted accounting principles (GAAP) for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant accounting and reporting policies:

Reporting Entity

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations and are appropriately presented as funds of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the City.

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

Government-wide Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, sales taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Governmental Funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in the proprietary fund type) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

The City reports the following major governmental funds:

The ***General Fund*** – is the general operating fund of the City. It is used to account for all financial resources except those accounted for in another fund.

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

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

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

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

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

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

The City reports the following major proprietary funds:

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

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and wastewater function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Fund Balance

Cash and Cash Equivalents

For purpose of presenting the proprietary fund cash flow statement, cash and cash equivalents include cash demand and time deposits and investments with a maturity date within three months of the date acquired by the City.

Investments

State statutes authorize the City to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent; (5) certificates of deposit by state and national banks domiciled in this state that are (a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (b) secured by obligations that are described by (1) – (4); or, (6) fully collateralized direct repurchase agreements having a defined termination date, secured by obligations described by (1) pledged with a third-party selected or approved by the City, and placed through a primary government securities dealer.

Investments maturing within one year of date of purchase are stated at cost or amortized cost. All investments in pools are stated at net asset value, which approximates fair value.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable on or before January 31 of the following year. All unpaid taxes become delinquent February 1 of the following year. City property tax revenue is recognized when levied. An allowance is established for delinquent taxes to the extent their collectability is improbable. For the year ended September 30, 2018, the City's property taxes were billed and collected by the Hill County Appraisal District. Receipts are remitted to the City on a monthly basis.

Ad valorem taxes for fiscal year 2018 were levied October 1, 2017, at the rate of \$.806400 per \$100 assessed valuation on a total taxable assessed valuation of \$481,366,741.

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:

<u>Assets</u>	<u>Years</u>
Buildings	20 to 50
Waterworks and sanitation systems	15 to 40
Infrastructure	10 to 40
Machinery and equipment	5 to 10

Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its fiduciary net position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Liability for Compensated Absences

The City allows employees to accumulate unused sick leave to a maximum of 90 days. Sick leave is earned at the rate of 8 hours (10.6 hours for firefighters) per month worked. Unused sick leave is canceled upon termination of employment without compensation to the employee.

Regular full-time City employees are eligible to accrue paid vacation leave. Employees are encouraged to take regular vacation at least annually. Employees are not credited with vacation leave until the completion of six consecutive months of service with the City. Vacation leave in the amount of 40 hours (60 hours for firefighters) is credited to an employee, upon completion of the initial six-month period. Employees with up to three years of service will be entitled to 80 hours per year of vacation with pay (120 hours for firefighters); with three to nine years of service, 120 hours per year of vacation with pay (180 hours for firefighters); and with 10 years of service and longer, 160 hours per year of vacation with pay (240 hours for firefighters).

The maximum amount of unused vacation leave that an employee can accumulate is 240 hours. Any balance in excess of 240 hours is reduced to the maximum, without compensation to the employee, at the end of each fiscal year. When an employee leaves the services of the City, he or she will be paid for accrued, but unused vacation leave not to exceed 240 hours. The rate of pay will be determined by the salary rate in effect at the time of termination.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses.

Net Position Flow Assumption

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

Fund Balance Flow Assumption

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

Fund Balance Policies

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

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

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

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category.

- Deferred charges on refundings – A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Changes in actuarial assumptions and other inputs for pension – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has the following types of items that qualify for reporting in this category.

- Unavailable revenue is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that amounts become available.
- The difference in expected and actual pension experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five-year period.

II. DETAILED NOTES ON ALL FUNDS

Deposits and Investments

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

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

- 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, 2018, the City's deposit balance (cash and certificates of deposit) was \$3,421,176. The City's deposits at September 30, 2018 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

- b. **Credit Risk:** It is the City's policy to limit investments to investment types with an investment quality rating no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days. The City's investments were rated AAAM by Standard and Poor's Investors Services.
- c. **Interest Rate Risk:** In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to 90 days or less, dependent on market conditions.
- d. **Concentration of Credit Risk:** The City's investment policy states the maximum percentage allowed for each different investment instrument that can be used to make up the portfolio.

At September 30, 2018, the City's investments consisted of:

	Net Asset Value
TexStar	\$ 138,105
Texas Term	3,303,320
State Treasurer's Investment Pool (TexPool)	573,027
	<u>\$ 4,014,452</u>

TexStar, TexPool, and Texas Term balances are not evidenced by securities that exist in physical or book entry form, and, accordingly, are not categorized by risk. However, the nature of these funds requires that they be used to purchase investments authorized by the Texas Public Funds Investment Act of 1995. The primary objective of these investment pools is to provide a safe environment for the placement of public funds in short-term, fully collateralized investments.

Receivables

Receivables as of year-end for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds					Enterprise Funds			
	General	Debt Service	EDC	Hotel/Motel	Nonmajor Funds	Water and Wastewater	Sanitation	Airport	Totals
Receivables:									
Accounts:									
Customers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 582,355	\$ 50,941	\$ 24,635	\$ 657,931
Taxes:									
Property	459,939	202,869	-	-	-	-	-	-	662,808
Sales	549,625	-	49,965	77,493	-	-	-	-	677,083
Other	47,283	-	-	-	-	-	-	-	47,283
Court fines	2,119,980	-	-	-	-	-	-	-	2,119,980
EMS	1,792,127	-	-	-	-	-	-	-	1,792,127
Intergovernmental	31,759	-	-	-	-	-	-	-	31,759
Other	12,605	-	8,402	1,871	3,920	-	-	-	26,798
Gross receivables	<u>5,013,318</u>	<u>202,869</u>	<u>58,367</u>	<u>79,364</u>	<u>3,920</u>	<u>582,355</u>	<u>50,941</u>	<u>24,635</u>	<u>6,015,769</u>
Less: allowance for uncollectibles	<u>(3,776,689)</u>	<u>(159,578)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,936,267)</u>
Net total receivables	<u>\$ 1,236,629</u>	<u>\$ 43,291</u>	<u>\$ 58,367</u>	<u>\$ 79,364</u>	<u>\$ 3,920</u>	<u>\$ 582,355</u>	<u>\$ 50,941</u>	<u>\$ 24,635</u>	<u>\$ 2,079,502</u>

Capital Assets

Capital asset activity for the year ended September 30, 2018, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 803,137	\$ -	\$ -	\$ 803,137	
Construction in progress	4,241,406	9,860	-	4,251,266	
Total assets not being depreciated	5,044,543	9,860	-	5,054,403	
Capital assets, being depreciated:					
Buildings and improvements	6,235,603	-	-	6,235,603	
Machinery and equipment	5,923,026	544,794	(94,990)	6,372,830	
Infrastructure	12,859,872	-	-	12,859,872	
Total capital assets being depreciated	25,018,501	544,794	(94,990)	25,468,305	
Accumulated depreciation:					
Buildings and improvements	(3,611,020)	(189,433)	-	(3,800,453)	
Machinery and equipment	(3,995,526)	(420,875)	94,990	(4,321,411)	
Infrastructure	(1,913,172)	(257,068)	-	(2,170,240)	
Total accumulated depreciation	(9,519,718)	(867,376)	94,990	(10,292,104)	
Total capital assets being depreciated, net	15,498,783	(322,582)	-	15,176,201	
Governmental activities capital assets, net	\$ 20,543,326	\$ (312,722)	\$ -	\$ 20,230,604	
	Beginning Balance	Increase	Decrease	Adjustments	Ending Balance
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 378,391	\$ -	\$ -	\$ -	\$ 378,391
Construction in progress - Water/Sewer	13,054	168,716	-	-	181,770
Construction in progress - Airport	41,881	33,000	(53,676)	(21,205)	-
Total assets not being depreciated	433,326	201,716	(53,676)	(21,205)	560,161
Capital assets, being depreciated:					
Buildings and improvements	6,495,476	456,834	-	-	6,952,310
Machinery and equipment	1,787,297	28,325	-	-	1,815,622
Infrastructure	17,477,046	-	-	-	17,477,046
Total capital assets being depreciated	25,759,819	485,159	-	-	26,244,978
Accumulated depreciation:					
Buildings and improvements	(1,724,688)	(147,389)	-	-	(1,872,077)
Machinery and equipment	(1,528,649)	(66,829)	-	-	(1,595,478)
Infrastructure	(10,872,717)	(356,056)	-	-	(11,228,773)
Total accumulated depreciation	(14,126,054)	(570,274)	-	-	(14,696,328)
Total capital assets being depreciated, net	11,633,765	(85,115)	-	-	11,548,650
Business-type activities capital assets, net	\$ 12,067,091	\$ 116,601	\$ (53,676)	\$ (21,205)	\$ 12,108,811

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

Governmental activities	
General government	\$ 162,871
Public safety	363,084
Public works	310,624
Community development	<u>30,797</u>
Total depreciation expense - governmental activities	<u>\$ 867,376</u>
Business-type activities:	
Water and wastewater	\$ 515,403
Airport	<u>54,871</u>
Total depreciation expense - business-type activities	<u>\$ 570,274</u>

Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2018, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
EDC	General	\$ 1,934
General	Capital Projects	380,131
General	Airport	86,427
General	Nonmajor	19
General	Texas Capital Fund	<u>236,834</u>
Total		<u>\$ 705,345</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, 2018, are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General	EDC	\$ 12,000
General	Hotel/Motel	44,600
General	Sanitation	280,000
Nonmajor	Hotel/Motel	45,800
General	Water and wastewater	231,565
Nonmajor	General	<u>296,780</u>
Total		<u>\$ 910,745</u>

Long-term Debt

Long-term liability activity from the year ended September 30, 2018, was as follows:

	Debt Outstanding 09/30/17	Additions	Retirements	Debt Outstanding 09/30/18	Due Within One Year
<u>Governmental:</u>					
General obligation bonds	\$ 7,690,000	\$ -	\$(675,000)	\$ 7,015,000	\$ 690,000
Premium	138,957	-	(14,273)	124,684	-
Capital leases	897,791	496,831	(247,400)	1,147,222	219,293
Compensated Absences	312,328	243,159	(206,169)	349,318	174,659
	<u>9,039,076</u>	<u>739,990</u>	<u>(1,142,842)</u>	<u>8,636,224</u>	<u>1,083,952</u>
<u>Enterprise Fund</u>					
General obligation bonds	1,865,000	-	(350,000)	1,515,000	365,000
Premium	108,549	-	(22,198)	86,351	-
Capital leases	34,777	-	(16,845)	17,932	17,932
Compensated absences	28,837	16,018	(25,116)	19,739	9,870
	<u>2,037,163</u>	<u>16,018</u>	<u>(414,159)</u>	<u>1,639,022</u>	<u>392,802</u>
Total	<u>\$ 11,076,239</u>	<u>\$ 756,008</u>	<u>\$(1,557,001)</u>	<u>\$ 10,275,246</u>	<u>\$ 1,476,754</u>

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

Debt outstanding as of September 30, 2018, consisted of the following:

	Purpose of Issue	Amount Issued	Amount Outstanding	Interest Rate
<u>Governmental</u>				
General obligation bonds:				
2010 Series	Street Improvements	2,000,000	1,475,000	2.00%-4.05%
2010 Series Premium		43,967	26,380	
2010 Series	Refunding	1,525,000	60,000	2.00%-4.05%
2010 Series Premium		33,631	6,727	
2012 Series	Street Improvements	1,870,000	1,485,000	2.00%-3.00%
2012 Series Premium		87,406	61,185	
2012 Series	Refunding	895,000	485,000	2.00%-3.00%
2012 Series Premium		56,441	30,392	
2016 Series	Refunding	4,155,000	3,510,000	1.65%
Total governmental		<u>\$ 10,666,445</u>	<u>\$ 7,139,684</u>	
<u>Business-type</u>				
General obligation bonds:				
2012 Series	Refunding	\$ 3,520,000	\$ 1,515,000	2.00%-3.00%
2012 Series Premium		221,981	86,351	
Total business-type		<u>\$ 3,741,981</u>	<u>\$ 1,601,351</u>	

Governmental general obligation bonds future requirements are as follows:

Year Ended September 30	Principal	Interest	Total Requirements
2019	\$ 690,000	\$ 176,896	\$ 866,896
2020	695,000	161,596	856,596
2021	720,000	146,146	866,146
2022	750,000	129,031	879,031
2023	645,000	111,101	756,101
2024-2028	2,730,000	328,430	3,058,430
2029-2032	785,000	56,413	841,413
Total	<u>\$ 7,015,000</u>	<u>\$ 1,109,613</u>	<u>\$ 8,124,613</u>

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

Year Ended September 30	Principal	Interest	Total Requirements
2019	365,000	45,450	410,450
2020	370,000	34,500	404,500
2021	385,000	23,400	408,400
2022	<u>395,000</u>	<u>11,850</u>	<u>406,850</u>
Total	<u>\$ 1,515,000</u>	<u>\$ 115,200</u>	<u>\$ 1,630,200</u>

Capital Leases

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

The assets acquired through capital leases are as follows:

	Asset
Governmental activities:	
Roller and dump truck trailer	\$ 151,000
Police vehicles	485,635
EMS vehicle/equipment	746,831
HVAC system	30,000
Paver	93,890
Backhoe	119,252
Fire laddertruck	848,215
Fire vehicle	26,735
Semi-truck	<u>108,000</u>
Total	<u>\$ 2,609,558</u>
Business-type activities	
Wheel loader	\$ 113,700
Backhoe	<u>82,500</u>
Total	<u>\$ 196,200</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2018, were as follows:

Year Ending September 30,	Governmental Activities
2019	256,598
2020	256,598
2021	256,598
2022	192,086
2023	168,308
2024-2025	138,465
Total minimum lease payments	1,268,653
Less: amount representing interest	121,431
Present value of minimum lease payments	\$ 1,147,222

September 30,	Activities
2019	18,546
Total minimum lease payments	18,546
Less: amount representing interest	614
Present value of minimum lease payments	\$ 17,932

Commitments

The City has entered into a contract with the Aquilla Water Supply District under which the City agrees to purchase water from the District. The terms of the agreement provide that the City will purchase a minimum amount of water each year, determined on a fiscal year ending September 30, at rates determined on an annual basis for each of the District's customers.

The Aquilla Water Supply District is not a joint venture operation. It is governed by its own Board of Directors and is not governed by the entities that are serviced by it. Charges for providing water services under contracts constitute revenue for "operating and maintenance" and "debt service" costs for the facilities utilized.

The City paid \$1,656,519 for water purchased from the District during the fiscal year ending September 30, 2018.

Retirement Plan

Texas Municipal Retirement System

Plan Description - The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.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, 2017, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	61
Inactive employees entitled to but not yet receiving benefits	72
Active employees	98
	<hr/>
	231

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 11.34% and 11.46% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2018, were \$518,280, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, 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, 2017, actuarial valuation was determined using the following actuarial assumptions:

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

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

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
Total	100.0%	

Discount Rate

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

Changes in the Net Pension Liability

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2016	\$ 18,399,485	\$ 15,071,178	\$ 3,328,307
Changes for the year:			
Service cost	509,573	-	509,573
Interest	1,238,685	-	1,238,685
Difference between expected and actual experience	(126,840)	-	(126,840)
Contributions - employer	-	516,865	(516,865)
Contributions - employee	-	227,895	(227,895)
Net investment income	-	2,087,577	(2,087,577)
Benefit payments, including refunds of employee contributions	(606,753)	(606,753)	-
Administrative expense	-	(10,825)	10,825
Other changes	-	(549)	549
Net changes	1,014,665	2,214,210	(1,199,545)
Balance at 12/31/2017	<u>\$ 19,414,150</u>	<u>\$ 17,285,388</u>	<u>\$ 2,128,762</u>

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) of 1-percentage-higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 5,174,005	\$ 2,128,762	\$ (329,789)

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, 2018, the City recognized pension expense of \$439,542.

At September 30, 2018, 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	\$ -	\$ 132,647
Changes in actuarial assumptions	3,371	-
Difference between projected and actual investment earnings	-	446,941
Contributions subsequent to the measurement date	394,405	-
Total	<u>\$ 397,776</u>	<u>\$ 579,588</u>

\$394,405 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, 2019. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ending September 30,	
2019	\$(50,812)
2020	(74,762)
2021	(236,587)
2022	(214,056)
	<u>\$(576,217)</u>

Contingencies

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

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

Economic Development Corporation Fund

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

City of Hillsboro Ordinance No. 02007-12-13 provides for an entity, other than the City, to construct water or sewer infrastructure, dedicate it to the City, and collect a pro rata cost share from intervening property owners for up to the full cost and/or up to 10 years from the date the completed project is dedicated to the City. Under terms of the Utility Developer Agreement approved by City Council in R2008-01-04, the Hillsboro Economic Development Corporation (HEDC) is the developer of the Highway 77 Utilities Project that constructed water and sewer lines and appurtenances to serve a proposed truck stop to be located on Highway 77 in the southeast quadrant of the Hwy 77/I-35 interchange. Any cost recouped from intervening property owners will be receipted into a City trust account dedicated to the project. It will then be dispersed first to the HEDC until its \$500,000 contribution has been met, and second to the City until its \$504,888 contribution has been met. The Project was completed during fiscal year 2011.

Risk Management

The City is a member of the Texas Municipal League's Intergovernmental Risk Pool ("Pool"). The Pool was created for the purpose of providing coverage against risks which are inherent in operating a political subdivision. The City pays annual premiums to the Pool for liability, property and workers' compensation coverage. The City's agreement with the Pool provides that the Pool will be self-sustaining through member premiums and will provide through commercial companies' reinsurance contracts. The Pool agrees to handle all liability, property and workers' compensation claims and provide any defense as is necessary. The Pool makes available to the City loss control services to assist the City in following a plan of loss control that may result in reduced losses. The City agrees that it will cooperate in instituting any and all reasonable loss control recommendations made by the Pool. The City also carries commercial insurance on all other risks of loss, including employee health and accident insurance.

The City has experienced no significant reductions in coverage through the Pool over the past year. There have been no insurance settlements exceeding Pool coverage for any of the past three years.

CITY OF HILLSBORO, TEXAS

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

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Ad valorem	\$ 2,942,040	\$ 2,942,040	\$ 2,987,303	\$ 45,263
Sales	2,890,000	2,890,000	3,141,107	251,107
Franchise	475,000	475,000	543,357	68,357
Other	47,000	47,000	41,106	(5,894)
Fines and forfeitures	916,800	916,800	792,358	(124,442)
Charges for services	329,500	329,500	371,254	41,754
Licenses and permits	65,850	65,850	31,534	(34,316)
Intergovernmental	-	-	50,347	50,347
Investment earnings	12,000	12,000	54,245	42,245
Cemetery lot sales and fees	23,600	23,600	20,710	(2,890)
Contributions	121,300	121,300	123,884	2,584
Miscellaneous	20,500	20,500	140,231	119,731
Total revenues	<u>7,843,590</u>	<u>7,843,590</u>	<u>8,297,436</u>	<u>453,846</u>
EXPENDITURES				
Legislative:				
Personnel	310	310	306	4
Supplies	1,300	1,300	506	794
Services	26,600	26,600	15,310	11,290
Maintenance	95	95	608	(513)
	<u>28,305</u>	<u>28,305</u>	<u>16,730</u>	<u>11,575</u>
Administration:				
Personnel	284,390	284,390	286,094	(1,704)
Supplies	8,075	8,075	33,528	(25,453)
Services	190,000	190,000	178,935	11,065
Maintenance	8,780	8,780	5,977	2,803
Minor equipment	2,000	2,000	208	1,792
	<u>493,245</u>	<u>493,245</u>	<u>504,742</u>	<u>(11,497)</u>
Streets and Right of Way:				
Personnel	306,835	306,835	250,113	56,722
Supplies	33,400	33,400	18,638	14,762
Services	139,620	139,620	136,257	3,363
Maintenance	67,745	67,745	67,181	564
Capital outlay	5,000	5,000	10,000	(5,000)
Debt service - principal	47,755	47,755	44,831	2,924
Debt service - interest	2,985	2,985	4,300	(1,315)
	<u>603,340</u>	<u>603,340</u>	<u>531,320</u>	<u>72,020</u>

CITY OF HILLSBORO, TEXAS

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

GENERAL FUND (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES (Continued)				
Police:				
Personnel	\$ 2,377,725	\$ 2,377,725	\$ 2,292,720	\$ 85,005
Supplies	157,250	157,250	205,989	(48,739)
Services	164,900	164,900	230,315	(65,415)
Maintenance	62,710	62,710	58,963	3,747
Minor equipment	7,000	7,000	6,497	503
Capital outlay	23,000	23,000	12,509	10,491
Debt service - principal	56,460	56,460	56,458	2
Debt service - interest	8,055	8,055	8,054	1
	<u>2,857,100</u>	<u>2,857,100</u>	<u>2,871,505</u>	<u>(14,405)</u>
Library:				
Personnel	321,465	321,465	304,169	17,296
Supplies	11,850	11,850	11,132	718
Services	56,300	56,300	59,078	(2,778)
Maintenance	19,055	19,055	22,165	(3,110)
Minor equipment	6,000	6,000	706	5,294
Capital outlay	33,500	33,500	24,649	8,851
	<u>448,170</u>	<u>448,170</u>	<u>421,899</u>	<u>26,271</u>
Fire:				
Personnel	1,177,135	1,177,135	1,257,597	(80,462)
Supplies	170,250	170,250	120,402	49,848
Services	142,700	142,700	134,188	8,512
Maintenance	32,590	32,590	22,880	9,710
Minor equipment	5,000	5,000	8,885	(3,885)
Capital outlay	16,000	16,000	516,499	(500,499)
Debt service - principal	161,110	161,110	146,111	14,999
Debt service - interest	17,590	17,590	22,587	(4,997)
	<u>1,722,375</u>	<u>1,722,375</u>	<u>2,229,149</u>	<u>(506,774)</u>
Municipal court:				
Personnel	183,010	183,010	184,279	(1,269)
Supplies	4,650	4,650	4,477	173
Services	41,400	41,400	32,058	9,342
Maintenance	2,480	2,480	2,315	165
	<u>231,540</u>	<u>231,540</u>	<u>223,129</u>	<u>8,411</u>

CITY OF HILLSBORO, TEXAS

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

GENERAL FUND

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
EXPENDITURES (Continued)				
Parks:				
Personnel	\$ 315,530	\$ 315,530	\$ 317,490	\$(1,960)
Supplies	28,500	28,500	28,007	493
Services	38,570	38,570	41,920	(3,350)
Maintenance	55,095	55,095	50,410	4,685
Minor equipment	2,000	2,000	1,380	620
Capital outlay	5,000	5,000	24,913	(19,913)
	<u>444,695</u>	<u>444,695</u>	<u>464,120</u>	<u>(19,425)</u>
Recreation:				
Personnel	14,310	14,310	13,652	658
Supplies	4,600	4,600	14,559	(9,959)
Services	5,650	5,650	2,335	3,315
Minor equipment	1,000	1,000	299	701
Capital outlay	1,000	1,000	-	1,000
	<u>26,560</u>	<u>26,560</u>	<u>30,845</u>	<u>(4,285)</u>
Maintenance shop:				
Personnel	119,620	119,620	120,354	(734)
Supplies	73,825	73,825	66,362	7,463
Services	10,555	10,555	9,067	1,488
Maintenance	76,195	76,195	67,906	8,289
Minor equipment	2,000	2,000	-	2,000
	<u>282,195</u>	<u>282,195</u>	<u>263,689</u>	<u>18,506</u>
Cemetery:				
Personnel	21,280	21,280	20,700	580
Supplies	1,900	1,900	234	1,666
Services	59,790	59,790	63,206	(3,416)
Maintenance	1,500	1,500	2,072	(572)
	<u>84,470</u>	<u>84,470</u>	<u>86,212</u>	<u>(1,742)</u>
Community development:				
Personnel	143,195	143,195	132,379	10,816
Supplies	2,250	2,250	3,181	(931)
Services	19,750	19,750	17,535	2,215
Maintenance	8,695	8,695	7,922	773
Minor equipment	1,000	1,000	23	977
	<u>174,890</u>	<u>174,890</u>	<u>167,035</u>	<u>7,855</u>

CITY OF HILLSBORO, TEXAS

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

GENERAL FUND

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
EXPENDITURES (Continued)				
Legal:				
Personnel	\$ 34,015	\$ 34,015	\$ 33,206	\$ 809
Services	2,850	2,850	4,018	(1,168)
Maintenance	195	195	126	69
	<u>37,060</u>	<u>37,060</u>	<u>37,350</u>	<u>(290)</u>
Finance:				
Personnel	203,815	203,815	235,204	(31,389)
Supplies	4,400	4,400	4,847	(447)
Services	42,640	42,640	33,111	9,529
Maintenance	480	480	271	209
Minor equipment	1,000	1,000	1,639	(639)
	<u>252,335</u>	<u>252,335</u>	<u>275,072</u>	<u>(22,737)</u>
Information systems:				
Personnel	140,235	140,235	133,304	6,931
Supplies	1,100	1,100	1,281	(181)
Services	6,240	6,240	11,513	(5,273)
Maintenance	8,385	8,385	1,593	6,792
Minor equipment	1,500	1,500	805	695
Capital outlay	7,000	7,000	5,668	1,332
	<u>164,460</u>	<u>164,460</u>	<u>154,164</u>	<u>10,296</u>
Animal control:				
Personnel	49,250	49,250	44,115	5,135
Supplies	9,600	9,600	10,796	(1,196)
Services	3,100	3,100	2,895	205
Maintenance	11,095	11,095	13,176	(2,081)
Minor equipment	500	500	493	7
	<u>73,545</u>	<u>73,545</u>	<u>71,475</u>	<u>2,070</u>

CITY OF HILLSBORO, TEXAS

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

GENERAL FUND

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES (Continued)				
Code Enforcement:				
Personnel	\$ 82,280	\$ 82,280	\$ 94,294	\$(12,014)
Supplies	5,800	5,800	7,201	(1,401)
Services	103,000	103,000	143,444	(40,444)
Maintenance	9,460	9,460	8,232	1,228
Minor equipment	2,200	2,200	187	2,013
Capital outlay	3,000	3,000	3,000	-
	<u>205,740</u>	<u>205,740</u>	<u>256,358</u>	<u>(50,618)</u>
 Total expenditures	 <u>8,130,025</u>	 <u>8,130,025</u>	 <u>8,604,794</u>	 <u>(474,769)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	 <u>(286,435)</u>	 <u>(286,435)</u>	 <u>(307,358)</u>	 <u>(20,923)</u>
OTHER FINANCING SOURCES (USES)				
Capital lease	-	-	496,831	496,831
Transfers in	582,165	582,165	568,165	(14,000)
Transfers out	(295,730)	(295,730)	(296,780)	(1,050)
Total other financing sources (uses)	<u>286,435</u>	<u>286,435</u>	<u>768,216</u>	<u>481,781</u>
 NET CHANGE IN FUND BALANCE	 -	 -	 460,858	 460,858
 FUND BALANCES, BEGINNING	 <u>1,712,132</u>	 <u>1,712,132</u>	 <u>1,712,132</u>	 <u>-</u>
 FUND BALANCES, ENDING	 <u>\$ 1,712,132</u>	 <u>\$ 1,712,132</u>	 <u>\$ 2,172,990</u>	 <u>\$ 460,858</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, 2018

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Sales	\$ 260,000	\$ 260,000	\$ 285,555	\$ 25,555
Investment earnings	9,000	9,000	56,708	47,708
Miscellaneous	10,000	10,000	14,959	4,959
Total revenues	<u>279,000</u>	<u>279,000</u>	<u>357,222</u>	<u>78,222</u>
EXPENDITURES				
Community development:				
Personnel	90,610	90,610	90,697	(87)
Supplies	800	800	154	646
Services	67,320	67,320	20,749	46,571
Maintenance	51,795	51,795	41,112	10,683
Minor equipment	1,000	1,000	-	1,000
Incentive grants	1,400,000	1,400,000	475,000	925,000
Capital outlay	40,000	40,000	-	40,000
Total expenditures	<u>1,651,525</u>	<u>1,651,525</u>	<u>627,712</u>	<u>1,023,813</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,372,525)</u>	<u>(1,372,525)</u>	<u>(270,490)</u>	<u>1,102,035</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(12,000)	(12,000)	(12,000)	-
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>(1,384,525)</u>	<u>(1,384,525)</u>	<u>(282,490)</u>	<u>1,102,035</u>
FUND BALANCES, BEGINNING	<u>2,995,663</u>	<u>2,995,663</u>	<u>2,995,663</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 1,611,138</u>	<u>\$ 1,611,138</u>	<u>\$ 2,713,173</u>	<u>\$ 1,102,035</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, 2018

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Hotel/motel	\$ 360,000	\$ 360,000	\$ 386,033	\$ 26,033
Investment earnings	400	400	2,110	1,710
Rentals	7,500	7,500	8,720	1,220
Miscellaneous	300	300	576	276
Total revenues	<u>368,200</u>	<u>368,200</u>	<u>397,439</u>	<u>29,239</u>
EXPENDITURES				
Community development:				
Personnel	12,520	12,520	7,590	4,930
Supplies	1,300	1,300	2,201	(901)
Services	170,600	170,600	170,361	239
Maintenance	3,000	3,000	2,639	361
Minor equipment	1,000	1,000	5,300	(4,300)
Capital outlay	-	-	3,890	(3,890)
Total expenditures	<u>188,420</u>	<u>188,420</u>	<u>191,981</u>	<u>(3,561)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>179,780</u>	<u>179,780</u>	<u>205,458</u>	<u>25,678</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(90,400)	(90,400)	(90,400)	-
Total other financing sources (uses)	<u>(90,400)</u>	<u>(90,400)</u>	<u>(90,400)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	89,380	89,380	115,058	25,678
FUND BALANCES, BEGINNING	<u>1,671,224</u>	<u>1,671,224</u>	<u>1,671,224</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 1,760,604</u>	<u>\$ 1,760,604</u>	<u>\$ 1,786,282</u>	<u>\$ 25,678</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, 2018

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.

CITY OF HILLSBORO, TEXAS

SCHEDULE OF CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

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

NOTES TO SCHEDULE OF CONTRIBUTIONS

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information There were no benefit changes during the year.

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

CITY OF HILLSBORO, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2018

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 did not make any supplementary budget appropriations during the year.
4. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrances are recorded when purchase orders are issued but are not considered expenditures until liabilities for payments are incurred. Encumbrances do not lapse at the close of the fiscal year, but are carried forward until liquidated.
5. Expenditures exceeded appropriations in the General Fund, Economic Development Fund, and Hotel/Motel Fund, in various departments. These excess expenditures were funded by greater than anticipated revenues.

CITY OF HILLSBORO, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2018

	Special Revenue Funds			
	Industrial Development	Library Special	Police Local Forfeiture	Police Federal Forfeiture
ASSETS				
Cash and investments	\$ 21	\$ 7,591	\$ 434,339	\$ 23,091
Accounts receivable	-	-	-	-
Total assets	21	7,591	434,339	23,091
LIABILITIES				
Accounts payable	-	-	3,000	-
Accrued liabilities	-	-	-	-
Due to other funds	-	-	-	-
Total liabilities	-	-	3,000	-
FUND BALANCE				
Restricted for:				
Industrial development	21	-	-	-
Library operations	-	7,591	-	-
Public safety	-	-	431,339	23,091
Capital projects	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	21	7,591	431,339	23,091
Total liabilities and fund balances	\$ 21	\$ 7,591	\$ 434,339	\$ 23,091

Special Revenue Funds		Capital Projects Fund	Total Nonmajor Governmental Funds
Police Special	Main Street	Street Improvement	
\$ -	\$ 2,608	\$ 294,225	\$ 761,875
-	3,920	-	3,920
-	6,528	294,225	765,795
30	5,937	-	8,967
-	819	-	819
19	-	-	19
49	6,756	-	9,805
-	-	-	21
-	-	-	7,591
-	-	-	454,430
-	-	294,225	294,225
(49)	(228)	-	(277)
(49)	(228)	294,225	755,990
\$ -	\$ 6,528	\$ 294,225	\$ 765,795

CITY OF HILLSBORO, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Special Revenue Funds			
	Industrial Development	Library Special	Police Local Forfeiture	Police Federal Forfeiture
REVENUES				
Fines and forfeitures	\$ -	\$ -	\$ 2,974	\$ -
Investment earnings	-	-	4,813	342
Miscellaneous	-	-	-	-
Total revenues	-	-	7,787	342
EXPENDITURES				
Current:				
Personnel	-	-	-	-
Services	-	-	6,090	176
Supplies	-	-	1,015	1,111
Maintenance	-	-	-	90
Minor equipment	-	-	13,246	400
Capital outlay	-	-	-	-
Total expenditures	-	-	20,351	1,777
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	-	(12,564)	(1,435)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
NET CHANGE IN FUND BALANCES	-	-	(12,564)	(1,435)
FUND BALANCES, BEGINNING	21	7,591	443,903	24,526
FUND BALANCES, ENDING	\$ 21	\$ 7,591	\$ 431,339	\$ 23,091

Special Revenue Funds		Capital Projects Fund	Total Nonmajor Governmental Funds
Police Special	Main Street	Street Improvement Fund	
\$ -	\$ -	\$ -	\$ 2,974
-	242	-	5,397
-	21,390	-	21,390
-	21,632	-	29,761
-	59,912	-	59,912
35	27,900	-	34,201
1,587	11,423	-	15,136
-	75	-	165
-	-	-	13,646
-	-	29,433	29,433
1,622	99,310	29,433	152,493
(1,622)	(77,678)	(29,433)	(122,732)
-	77,450	265,130	342,580
(1,622)	(228)	235,697	219,848
1,573	-	58,528	536,142
<u>\$(49)</u>	<u>\$(228)</u>	<u>\$ 294,225</u>	<u>\$ 755,990</u>



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hillsboro, Texas (the "City"), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 29, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Pattillo, Brown & Hill, LLP

Waco, Texas
May 29, 2019