

CITY OF HILLSBORO, TEXAS

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SEPTEMBER 30, 2011

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INDEPENDENT AUDITOR'S REPORT

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

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, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hillsboro, Texas' management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued a report dated March 12, 2012, on our consideration of the City of Hillsboro, Texas' internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 42 through 47 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.

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

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

March 12, 2012

Management's Discussion and Analysis

As management of the City of Hillsboro, 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, 2011. 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 of the City exceed its liabilities as of September 30, 2011, by \$19,755,861 (net assets). Of this amount, \$3,024,794 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net assets increased by \$1,821,001.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,570,275. Approximately 14.37% of this total amount, \$943,977, is unassigned fund balance available for use within the City's fund designation and fiscal policies.
- As of September 30, 2011, unassigned fund balance for the general fund was \$943,977 or 13.02 percent of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements. The government-wide financial statements, which begin on page 10 of this report, are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences.)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, streets, library, cemetery, parks and recreation, and community development. The business-type activities of the City include water, wastewater, storm water drainage, solid waste, and airport operations.

The government-wide financial statements can be found on pages 10 – 11 of this report.

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

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

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

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

Proprietary Funds. The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise funds to account for water, wastewater, storm water drainage, solid waste, and airport operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 15 – 18 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 19 – 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 50 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$19,755,861 as of September 30, 2011.

CITY OF HILLSBORO'S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Current assets	\$ 8,598,360	\$ 8,157,101	\$ 2,669,607	\$ 2,445,345	\$ 11,267,967	\$ 10,602,446
Capital assets	14,221,422	13,414,848	10,737,219	11,120,262	24,958,641	24,535,110
Total Assets	<u>22,819,782</u>	<u>21,571,949</u>	<u>13,406,826</u>	<u>13,565,607</u>	<u>36,226,608</u>	<u>35,137,556</u>
Liabilities	780,598	726,094	445,133	529,741	1,225,731	1,255,835
Noncurrent liabilities	10,734,420	10,954,057	4,510,596	4,992,804	15,245,016	15,946,861
Total Liabilities	<u>11,515,018</u>	<u>11,680,151</u>	<u>4,955,729</u>	<u>5,522,545</u>	<u>16,470,747</u>	<u>17,202,696</u>
Net assets:						
Invested in capital assets, net of related debt	4,877,676	4,680,905	6,257,312	6,155,684	11,134,988	10,836,589
Restricted	5,596,079	498,141	-	-	5,596,079	498,141
Unrestricted	<u>831,009</u>	<u>4,712,752</u>	<u>2,193,785</u>	<u>1,887,378</u>	<u>3,024,794</u>	<u>6,600,130</u>
Total Net Assets	<u>\$ 11,304,764</u>	<u>\$ 9,891,798</u>	<u>\$ 8,451,097</u>	<u>\$ 8,043,062</u>	<u>\$ 19,755,861</u>	<u>\$ 17,934,860</u>

The City uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net assets \$3,024,794 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF HILLSBORO'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
REVENUES:						
Program revenues:						
Charges for services	\$ 1,936,572	\$ 1,320,690	\$ 5,536,844	\$ 5,226,953	\$ 7,473,416	\$ 6,547,643
Operating grants	239,346	115,288	266,935	429,831	506,281	545,119
Capital grants and contributions	170,788	835,234	-	454,408	170,788	1,289,642
General revenues:						
Property taxes	3,004,134	3,102,551	-	-	3,004,134	3,102,551
Sales taxes	2,581,795	2,464,389	-	-	2,581,795	2,464,389
Franchise taxes	528,480	494,961	-	-	528,480	494,961
Hotel/motel taxes	281,211	306,155	-	-	281,211	306,155
Other taxes	40,231	44,625	-	-	40,231	44,625
Investment earnings	97,368	83,010	1,853	2,002	99,221	85,012
Miscellaneous	184,134	90,436	84,493	54,024	268,627	144,460
Total Revenues	<u>9,064,059</u>	<u>8,857,339</u>	<u>5,890,125</u>	<u>6,167,218</u>	<u>14,954,184</u>	<u>15,024,557</u>
EXPENSES:						
General government	1,925,592	1,958,587	-	-	1,925,592	1,958,587
Public safety	4,199,834	4,066,292	-	-	4,199,834	4,066,292
Streets	928,316	720,652	-	-	928,316	720,652
Community development	767,870	1,245,654	-	-	767,870	1,245,654
Interest on long-term debt	422,096	420,868	-	-	422,096	420,868
Water and sewer	-	-	3,747,075	3,723,130	3,747,075	3,723,130
Sanitation	-	-	863,115	823,552	863,115	823,552
Airport	-	-	279,285	288,205	279,285	288,205
Total Expenses	<u>8,243,708</u>	<u>8,412,053</u>	<u>4,889,475</u>	<u>4,834,887</u>	<u>13,133,183</u>	<u>13,246,940</u>
INCREASES IN NET ASSETS BEFORE TRANSFERS	820,351	445,286	1,000,650	1,332,331	1,821,001	1,777,617
TRANSFERS	<u>592,615</u>	<u>306,386</u>	<u>(592,615)</u>	<u>(306,386)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	1,412,966	751,672	408,035	1,025,945	1,821,001	1,777,617
NET ASSETS, BEGINNING	<u>9,891,798</u>	<u>8,280,433</u>	<u>8,043,062</u>	<u>7,945,317</u>	<u>17,934,860</u>	<u>16,225,750</u>
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>859,693</u>	<u>-</u>	<u>(928,200)</u>	<u>-</u>	<u>(68,507)</u>
NET ASSETS, ENDING	<u>\$ 11,304,764</u>	<u>\$ 9,891,798</u>	<u>\$ 8,451,097</u>	<u>\$ 8,043,062</u>	<u>\$ 19,755,861</u>	<u>\$ 17,934,860</u>

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the business-type activities and the government as a whole.

The government's net assets increased by \$1,821,001 during the current fiscal year. This increase in net assets is due to cost saving tactics used by the City. Additionally, charges for services, sales tax, franchise tax and miscellaneous revenue increased to cover the decrease in capital grants and contributions and property taxes.

Governmental Activities. Governmental activities increased the City's net assets by \$1,412,966, thereby accounting for 77.59 percent of the total growth in the net assets of the City. Key elements of this increase are as follows:

- Charges for services revenue increased by \$615,882
- Operating grants revenue increased by 124,058
- Sales tax revenue increased by 117,406

Business-type Activities. Business-type activities increased the City's net assets by \$408,035, accounting for 22.33 percent of the total growth in the net assets of the City. Key elements of this increase are as follows:

- Charges for services revenue increased by \$309,891.
- Miscellaneous revenue increased by \$30,469

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,570,275. Approximately 14.37% of this total amount, \$943,977 constitutes unassigned fund balance. Refer to page 12 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 \$943,977, while total fund balance reached \$1,157,226.

The fund balance of the City's General Fund increased by \$5,831 during the current fiscal year. Key factors in this increase are the increases in sales tax and rental revenues as well as a decrease in principal debt service payments and personnel expenditures offset by an increase in capital outlay expenditures.

The Capital Projects Fund has a total fund balance of \$2,141,698. The City is completing street improvement projects, purchasing other equipment and completing park improvements from these funds.

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 assets of the City's Enterprise Funds at the end of the year amounted to \$2,193,785. The increase in net assets was \$408,035. 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 2011.

Net reimbursement revenues were used to fund the differences in the budgeted expenditures without reducing the budgeted General Fund fund balance.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business type activities as of September 30, 2011, amounts to \$25,762,067 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities and infrastructure.

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

- Various improvements of \$168,183
- Street improvements of \$1,253,616
- Acquired equipment for approximately \$911,642

Additional information on the City's capital assets can be found on pages 30 and 31 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total bonded debt of \$14,148,277. All of which represents bonded debt backed by the full faith and credit of the City.

The City's General Obligation, Tax and Certificates of Obligation Bond ratings are listed below.

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

Additional information on the City's long term-debt can be found in pages 32 – 37 of this report.

ECONOMIC FACTORS AND BUDGETS AND RATES

The City's elected and appointed officials consider many factors when preparing the City of Hillsboro's budget for the 2012 fiscal year. The property tax rate for the fiscal year 2012 remained at .818331 per \$100 assessed value. A slight increase in sales tax revenue (3%), decrease in interest income and decreases in various franchise revenue were considered. Also, no step increases for the year and no increase in health care costs.

During the current fiscal year, unassigned fund balance in the General Fund was \$943,977. The City uses surplus working capital from the General Fund to supplement capital projects (e.g. street paving, code enforcement demolition, capital replacement) during the year as the needs arise and where favorable unit pricing is received on such projects.

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 the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Jack Harper, City Manager, P.O. Box 568, Hillsboro, Texas 76645 or call (254) 582-3271.

**BASIC
FINANCIAL STATEMENTS**

CITY OF HILLSBORO, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 6,285,882	\$ 1,843,133	\$ 8,129,015
Receivables (net of allowances for uncollectibles):			
Taxes	673,844	-	673,844
Accounts	111,870	658,170	770,040
Intergovernmental	233,699	-	233,699
Other	243,185	-	243,185
Inventories	30,219	137,990	168,209
Deferred charges	216,235	30,314	246,549
Capital assets:			
Land	803,426	378,391	1,181,817
Buildings and improvements	5,692,446	5,865,462	11,557,908
Machinery and equipment	4,198,639	1,669,537	5,868,176
Infrastructure/water and wastewater distribution	8,902,330	14,700,102	23,602,432
Construction in progress	1,004,958	-	1,004,958
Less: accumulated depreciation	(5,576,951)	(11,876,273)	(17,453,224)
Total capital assets	<u>15,024,848</u>	<u>10,737,219</u>	<u>25,762,067</u>
Total assets	<u>22,819,782</u>	<u>13,406,826</u>	<u>36,226,608</u>
LIABILITIES			
Accounts payable	485,337	154,590	639,927
Accrued liabilities	187,434	21,203	208,637
Accrued interest payable	107,827	45,805	153,632
Customer deposits	-	223,535	223,535
Noncurrent liabilities:			
Due within one year	845,752	483,885	1,329,637
Due in more than one year	9,888,668	4,026,711	13,915,379
Total liabilities	<u>11,515,018</u>	<u>4,955,729</u>	<u>16,470,747</u>
NET ASSETS			
Invested in capital assets, net of related debt	4,877,676	6,257,312	11,134,988
Restricted for specific purposes	5,596,079	-	5,596,079
Unrestricted	<u>831,009</u>	<u>2,193,785</u>	<u>3,024,794</u>
Total net assets	<u>\$ 11,304,764</u>	<u>\$ 8,451,097</u>	<u>\$ 19,755,861</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, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 1,925,592	\$ 34,696	\$ 42,125	\$ 83,684	\$(1,765,087)	\$ -	\$(1,765,087)
Public safety	4,199,834	1,757,625	169,728	-	(2,272,481)	-	(2,272,481)
Streets	928,316	80,000	-	-	(848,316)	-	(848,316)
Community development	767,870	64,251	27,493	87,104	(589,022)	-	(589,022)
Interest on long-term debt	422,096	-	-	-	(422,096)	-	(422,096)
Total governmental activities	<u>8,243,708</u>	<u>1,936,572</u>	<u>239,346</u>	<u>170,788</u>	<u>(5,897,002)</u>	<u>-</u>	<u>(5,897,002)</u>
Business-type activities:							
Water and sewer	3,747,075	4,196,694	254,512	-	-	704,131	704,131
Sanitation	863,115	1,098,410	-	-	-	235,295	235,295
Airport	279,285	241,740	12,423	-	-	(25,122)	(25,122)
Total business-type activities	<u>4,889,475</u>	<u>5,536,844</u>	<u>266,935</u>	<u>-</u>	<u>-</u>	<u>914,304</u>	<u>914,304</u>
Total	\$ 13,133,183	\$ 7,473,416	\$ 506,281	\$ 170,788	\$(5,897,002)	\$ 914,304	\$(4,982,698)
General revenues:							
Taxes:							
Property - general purposes					1,925,356	-	1,925,356
Property - debt service					1,078,778	-	1,078,778
Sales					2,581,795	-	2,581,795
Franchise					528,480	-	528,480
Hotel/Motel					281,211	-	281,211
Other					40,231	-	40,231
Investment earnings					97,368	1,853	99,221
Miscellaneous					184,134	84,493	268,627
Transfers					592,615	(592,615)	-
Total general revenues					<u>7,309,968</u>	<u>(506,269)</u>	<u>6,803,699</u>
Change in net assets					1,412,966	408,035	1,821,001
Net assets, beginning					9,891,798	8,043,062	17,934,860
Net assets, ending					<u>\$ 11,304,764</u>	<u>\$ 8,451,097</u>	<u>\$ 19,755,861</u>

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

CITY OF HILLSBORO, TEXAS

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011**

	<u>General</u>	<u>Economic Development Corporation</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and investments	\$ 867,075	\$ 2,090,364	\$ 77,709	\$ 2,180,613	\$ 1,070,121	\$ 6,285,882
Receivables (net of allowance for uncollectibles)						
Taxes	542,462	36,918	44,038	-	50,426	673,844
Accounts	330,055	-	25,000	-	-	355,055
Intergovernmental	-	-	-	-	233,699	233,699
Inventory	30,219	-	-	-	-	30,219
Due from other funds	266,495	-	-	-	518	267,013
Total assets	<u>\$ 2,036,306</u>	<u>\$ 2,127,282</u>	<u>\$ 146,747</u>	<u>\$ 2,180,613</u>	<u>\$ 1,354,764</u>	<u>\$ 7,845,712</u>
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 390,279	\$ 8,896	\$ -	\$ 38,915	\$ 47,247	\$ 485,337
Accrued liabilities	186,385	-	-	-	1,049	187,434
Due to other funds	-	52,346	-	-	214,667	267,013
Deferred revenue	302,416	-	33,237	-	-	335,653
Total liabilities	<u>879,080</u>	<u>61,242</u>	<u>33,237</u>	<u>38,915</u>	<u>262,963</u>	<u>1,275,437</u>
FUND BALANCE						
Nonspendable:						
Inventory	30,219	-	-	-	-	30,219
Restricted for:						
Court security and technology	183,030	-	-	-	-	183,030
Debt service	-	-	113,510	-	-	113,510
Economic development	-	2,066,040	-	-	-	2,066,040
Capital projects	-	-	-	2,141,698	-	2,141,698
Capital improvements	-	-	-	-	22,364	22,364
Industrial development	-	-	-	-	21	21
Library operations	-	-	-	-	29,861	29,861
Public Safety	-	-	-	-	791,392	791,392
Tourism	-	-	-	-	248,163	248,163
Unassigned	943,977	-	-	-	-	943,977
Total fund balances	<u>1,157,226</u>	<u>2,066,040</u>	<u>113,510</u>	<u>2,141,698</u>	<u>1,091,801</u>	<u>6,570,275</u>
Total liabilities and fund balances	<u>\$ 2,036,306</u>	<u>\$ 2,127,282</u>	<u>\$ 146,747</u>	<u>\$ 2,180,613</u>	<u>\$ 1,354,764</u>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.						15,024,848
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.						444,061
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.						(10,734,420)
Net assets of governmental activities						<u>\$ 11,304,764</u>

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

CITY OF HILLSBORO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General	Economic Development Corporation	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes:						
Ad valorem	\$ 1,912,351	\$ -	\$ 1,071,536	\$ -	\$ -	\$ 2,983,887
Sales	2,366,660	215,135	-	-	-	2,581,795
Franchise	528,480	-	-	-	-	528,480
Hotel/motel	-	-	-	-	281,211	281,211
Other	40,231	-	-	-	-	40,231
Services to others	4,830	-	-	-	-	4,830
Licenses and permits	51,580	-	-	-	-	51,580
Fines and forfeitures	844,973	-	-	-	723,169	1,568,142
Intergovernmental	87,372	-	-	-	232,916	320,288
Interest and penalties	51,874	11,979	24,349	4,191	4,975	97,368
Rentals	87,725	-	-	-	12,671	100,396
Charges for services	158,817	-	-	-	-	158,817
Cemetery lot sales and fees	26,140	-	-	-	-	26,140
Contributions	56,174	-	-	-	33,672	89,846
Other	100,435	75,982	6,988	-	729	184,134
Total revenues	<u>6,317,642</u>	<u>303,096</u>	<u>1,102,873</u>	<u>4,191</u>	<u>1,289,343</u>	<u>9,017,145</u>
EXPENDITURES						
Current:						
Personnel	4,845,588	-	-	161,771	28,319	5,035,678
Supplies	511,284	95	-	-	8,830	520,209
Services	913,647	58,864	1,650	-	258,531	1,232,692
Maintenance	257,964	8,300	-	-	11,052	277,316
Minor equipment	21,779	-	-	-	51,064	72,843
Capital outlay	662,136	-	-	1,097,715	433,924	2,193,775
Debt service:						
Principal	31,165	-	700,000	-	15,000	746,165
Interest	6,135	-	379,046	-	12,229	397,410
Total expenditures	<u>7,249,698</u>	<u>67,259</u>	<u>1,080,696</u>	<u>1,259,486</u>	<u>818,949</u>	<u>10,476,088</u>
EXCESS (DEFICIENCY) OF REVENUES						
OVER (UNDER) EXPENDITURES	(932,056)	235,837	22,177	(1,255,295)	470,394	(1,458,943)
OTHER FINANCING SOURCES (USES)						
Proceeds from capital lease	250,000	-	-	-	185,635	435,635
Operating transfers in	687,887	41,984	-	-	-	729,871
Operating transfers out	-	(104,546)	-	-	(32,710)	(137,256)
Total other financing sources (uses)	<u>937,887</u>	<u>(62,562)</u>	<u>-</u>	<u>-</u>	<u>152,925</u>	<u>1,028,250</u>
NET CHANGE IN FUND BALANCES	5,831	173,275	22,177	(1,255,295)	623,319	(430,693)
FUND BALANCES, BEGINNING	<u>1,375,745</u>	<u>1,892,765</u>	<u>91,333</u>	<u>3,396,993</u>	<u>244,132</u>	<u>7,000,968</u>
RESIDUAL EQUITY TRANSFER	(224,350)	-	-	-	224,350	-
FUND BALANCES, ENDING	<u>\$ 1,157,226</u>	<u>\$ 2,066,040</u>	<u>\$ 113,510</u>	<u>\$ 2,141,698</u>	<u>\$ 1,091,801</u>	<u>\$ 6,570,275</u>

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

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, 2011

Amounts reported for governmental activities in the Statement of Activities (page 11) are different because:

Net change in fund balances - total governmental funds (page 13)	\$(430,693)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	1,610,000
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	46,912
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.	245,337
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(58,590)</u>
Change in net assets of governmental activities (page 11)	<u>\$ 1,412,966</u>

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

CITY OF HILLSBORO, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2011

ASSETS	Business-type Activities-Enterprise Fund			
	Water and Wastewater	Sanitation	Airport	Totals
Cash and investments	\$ 1,520,809	\$ 321,333	\$ 991	\$ 1,843,133
Accounts receivable	584,417	48,947	24,806	658,170
Inventories	84,117	-	53,873	137,990
Other assets	30,314	-	-	30,314
Fixed assets	9,714,163	103,856	919,200	10,737,219
Total assets	\$ 11,933,820	\$ 474,136	\$ 998,870	\$ 13,406,826
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 89,968	\$ 63,213	\$ 1,409	\$ 154,590
Customer deposits	223,535	-	-	223,535
Accrued liabilities	20,110	-	1,093	21,203
Accrued interest payable	45,805	-	-	45,805
Capital lease payable	23,885	-	-	23,885
Bonds payable	460,000	-	-	460,000
Total current liabilities	863,303	63,213	2,502	929,018
Long-term liabilities:				
Capital lease payable	24,706	-	-	24,706
Bonds payable	3,971,316	-	-	3,971,316
Vacation payable	29,145	-	1,544	30,689
Total long-term liabilities	4,025,167	-	1,544	4,026,711
Total liabilities	4,888,470	63,213	4,046	4,955,729
NET ASSETS				
Invested in capital assets, net of related debt	5,234,256	103,856	919,200	6,257,312
Unrestricted	1,811,094	307,067	75,624	2,193,785
Total net assets	\$ 7,045,350	\$ 410,923	\$ 994,824	\$ 8,451,097

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

CITY OF HILLSBORO, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Business-type Activities-Enterprise Fund			
	Water and Wastewater	Sanitation	Airport	Totals
OPERATING REVENUES				
Water and sewer sales	\$ 4,098,015	\$ -	\$ -	\$ 4,098,015
Other service charges	98,679	1,098,410	241,740	1,438,829
Miscellaneous income	84,493	-	-	84,493
Total operating revenues	<u>4,281,187</u>	<u>1,098,410</u>	<u>241,740</u>	<u>5,621,337</u>
OPERATING EXPENSES				
Water purchase	1,438,606	-	-	1,438,606
Personnel	758,291	-	47,044	805,335
Supplies	112,327	-	179,248	291,575
Services	450,880	852,910	21,225	1,325,015
Maintenance	327,675	8,105	5,378	341,158
Depreciation and amortization	471,145	2,100	26,390	499,635
Total operating expenses	<u>3,558,924</u>	<u>863,115</u>	<u>279,285</u>	<u>4,701,324</u>
OPERATING INCOME (LOSS)	<u>722,263</u>	<u>235,295</u>	<u>(37,545)</u>	<u>920,013</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	1,853	-	-	1,853
Contributions	254,512	-	12,423	266,935
Interest expense	(188,151)	-	-	(188,151)
Total nonoperating revenues (expenses)	<u>68,214</u>	<u>-</u>	<u>12,423</u>	<u>80,637</u>
Income (loss) before operating transfers	790,477	235,295	(25,122)	1,000,650
Transfer in	-	-	51,000	51,000
Transfer out	(375,631)	(226,000)	(41,984)	(643,615)
CHANGE IN NET ASSETS	414,846	9,295	(16,106)	408,035
TOTAL NET ASSETS, BEGINNING	<u>6,630,504</u>	<u>401,628</u>	<u>1,010,930</u>	<u>8,043,062</u>
TOTAL NET ASSETS, ENDING	<u>\$ 7,045,350</u>	<u>\$ 410,923</u>	<u>\$ 994,824</u>	<u>\$ 8,451,097</u>

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

CITY OF HILLSBORO, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Business-type Activities - Enterprise Fund			
	Water and Wastewater	Sanitation	Airport	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 4,229,216	\$ 1,097,564	\$ 241,732	\$ 5,568,512
Cash payments to employees for services	(752,104)	-	(47,018)	(799,122)
Cash payments to suppliers for goods and services	(2,372,086)	(862,975)	(240,471)	(3,475,532)
Cash provided (used) by operating activities	<u>1,105,026</u>	<u>234,589</u>	<u>(45,757)</u>	<u>1,293,858</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash paid to other funds	(375,631)	(226,000)	9,016	(592,615)
Cash used for noncapital financing activities	<u>(375,631)</u>	<u>(226,000)</u>	<u>9,016</u>	<u>(592,615)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal repayments on debt	(461,579)	-	-	(461,579)
Capital contributions	323,421	-	60,600	384,021
Capital lease payments	(23,092)	-	-	(23,092)
Interest and fiscal charges on debt	(189,418)	-	-	(189,418)
Acquisition and construction of capital assets	(88,413)	-	(25,423)	(113,836)
Cash provided (used) by capital and related financing activities	<u>(439,081)</u>	<u>-</u>	<u>35,177</u>	<u>(403,904)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	<u>1,853</u>	<u>-</u>	<u>-</u>	<u>1,853</u>
Cash provided by investing activities	<u>1,853</u>	<u>-</u>	<u>-</u>	<u>1,853</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	292,167	8,589	(1,564)	299,192
CASH AND CASH EQUIVALENTS, BEGINNING	<u>1,228,642</u>	<u>312,744</u>	<u>2,555</u>	<u>1,543,941</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 1,520,809</u>	<u>\$ 321,333</u>	<u>\$ 991</u>	<u>\$ 1,843,133</u>

(continued)

CITY OF HILLSBORO, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Business-type Activities - Enterprise Fund			
	Water and Wastewater	Sanitation	Airport	Totals
RECONCILIATION OF OPERATING INCOME				
(LOSS) TO NET CASH PROVIDED BY				
OPERATING ACTIVITIES				
Operating income (loss)	\$ 722,263	\$ 235,295	\$(37,545)	\$ 920,013
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	471,145	2,100	26,390	499,635
Change in assets and liabilities:				
Decrease (increase) in accounts receivable	(51,539)	(846)	(8)	(52,393)
Decrease (increase) in other assets	(1)	-	-	(1)
Increase (decrease) in accounts payable	(80,808)	(1,960)	(3,891)	(86,659)
Increase (decrease) in accrued liabilities	3,647	-	103	3,750
Increase (decrease) in vacation payable	2,540	-	(77)	2,463
Increase (decrease) in customer deposits	(432)	-	-	(432)
Decrease (increase) in inventory	<u>38,211</u>	<u>-</u>	<u>(30,729)</u>	<u>7,482</u>
Total adjustments	<u>382,763</u>	<u>(706)</u>	<u>(8,212)</u>	<u>373,845</u>
Net cash provided by operating activities	<u>\$ 1,105,026</u>	<u>\$ 234,589</u>	<u>\$(45,757)</u>	<u>\$ 1,293,858</u>

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

CITY OF HILLSBORO, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

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 relating to the funds included in the accompanying basic financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the *Governmental Accounting Standards Board (GASB)*, the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the City are described below:

Financial Reporting Entity

The accompanying financial statements comply with the provisions of the GASB Statements No. 14 and 39, "The Financial Reporting Entity," in that the financial statements include all organizations, activities, functions and component units for which the City (the "primary government") is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City. Based on the aforementioned criteria, the City of Hillsboro has a fully blended component unit, the Economic Development Corporation.

Government-wide Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets 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.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide Fund Financial Statements (Continued)

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The City reports the following major governmental funds:

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

The ***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.

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

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.

Additionally, the City reports the following fund types:

Special Revenue Funds – The ***Special Revenue Funds*** are used to account for the proceeds of specific revenue sources (other than assessments, expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. These funds include the Hotel/Motel Tax Fund, Library Grants Fund, Search and Rescue Equipment Grant Fund, Main Street Fund, Downtown Streetscape Phase II Fund, Industrial Development Fund, Library Special Fund, Home Buyers Assistance Grant Fund, Parks and Wildlife Grant Fund, Parks EDI Grant Fund, Police Local Forfeiture, Federal Forfeiture and Special Funds, Energy Grant Fund, Safe Route to Schools Fund and the East Franklin Streetscape Fund.

Capital Projects Funds – ***Capital Projects Funds*** are used to account for financial resources to be used for the acquisition or construction of major capital projects which are not financed by Proprietary Funds. These funds include the Capital Construction Fund.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Enterprise Funds – *Enterprise Funds* are used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water, sewer and sanitation services to the general public on a continuing basis is financed through user charges. The Airport Fund is the only nonmajor Enterprise Fund.

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and Enterprise Funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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 government. 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, Liabilities and Net Assets or Equity

Cash and Cash Equivalents

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

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

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 other investments are stated at fair value, which is based on quoted market prices.

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, 2011, 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 2011 were levied October 1, 2010, at the rate of \$.818331 per \$100 assessed valuation on a total taxable assessed valuation of \$381,040,447.

Inventories

All inventories are valued at cost (first-in, first-out method). Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

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 \$1,000 (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 estimated fair market value at the date of donation.

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

Retiree Benefits

No post retirement health care benefits are provided by the City for retired employees.

Post-Employment Health Care Benefits

COBRA Benefits

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City provides health care benefits to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured on or before the tenth (10th) day of the month for the actual month covered. This program is offered for a duration of 18 months after the termination date. There is no associated cost to the City under this program, and there were no participants in the program as of September 30, 2011.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Capitalized Interest

The City capitalizes net interest cost and interest earned as part of the cost of constructing various projects when material. During the year ended September 30, 2011, no interest costs were capitalized.

Liability for Compensated Absences

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

Regular fulltime City employees are eligible to accrue paid vacation leave. Employees are encouraged to take regular vacation at least annually. Employees are not credited with vacation leave until the completion of six consecutive months of service with the City. Vacation leave in the amount of 40 hours (60 hours for firefighters) is credited to an employee, upon completion of the initial six-month period. Employees with up to three years of service will be entitled to 120 hours per year of vacation with pay (80 hours for firefighters); with three to nine years of service, 180 hours per year of vacation with pay (120 hours for firefighters); and with 10 years of service and longer, 240 hours per year of vacation with pay (160 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 assets. Bond premiums and discounts, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Long-term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs 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. Issuance costs, even if withheld from the actual net proceeds received, are reported as expenditures.

Fund Equity and Net Assets

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by board resolution of the City council, the City's highest level of decision making authority. These amounts cannot be used for any other purpose unless the City council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City council.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Fund Equity and Net Assets (Continued)

In the government-wide financial statements, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

In the government-wide financial statements, the City's restrictions on net assets are for amounts that are not available for appropriation. The City's restricted net assets are as follows:

Restricted for Court Security & Technology	\$	183,030
Restricted for Debt Service		113,510
Restricted for Economic Development		2,066,040
Restricted for Capital Projects		2,141,698
Restricted for Capital Improvements		22,364
Restricted for Industrial Development		21
Restricted for Library Operations		29,861
Restricted for Public Safety		791,392
Restricted for Tourism		<u>248,163</u>
Total	\$	<u>5,596,079</u>

The government-wide and fund level financial statements report restricted fund balances for amounts not available for appropriation or legally restricted for specific uses. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the City's policy to use restricted resources first, then unrestricted resources as needed. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

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 government's deposits may not be returned to it. As of September 30, 2011, the City's deposit balance (cash and certificates of deposit) was \$3,580,533. The City's deposits at September 30, 2011 were not 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 government's investment policy states the maximum percentage allowed for each different investment instrument that can be used to make up the portfolio.

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

Deposits and Investments (Continued)

At September 30, 2011, the primary government's investments consisted of:

	<u>Fair Value</u>
TexStar	\$ 2,332,245
Texas Term	1,654,052
State Treasurer's Investment Pool (TexPool)	<u>562,586</u>
	<u>\$ 4,548,883</u>

At September 30, 2011 all of the above investments are not categorized by risk. TexStar, TexPool, Texas Term, and government agencies 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 government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental Funds</u>				<u>Enterprise Funds</u>			<u>Totals</u>
	<u>General</u>	<u>Debt Service</u>	<u>EDC</u>	<u>Nonmajor Funds</u>	<u>Water and Wastewater</u>	<u>Sanitation</u>	<u>Airport</u>	
Receivables:								
Accounts:								
Customers	\$ -	\$ -	\$ -	\$ -	\$ 584,417	\$ 48,947	\$ 24,806	\$ 658,170
Taxes:								
Property	316,882	176,152	-	-	-	-	-	493,034
Sales tax	406,275	-	36,918	-	-	-	-	443,193
Other	56,966	-	-	50,426	-	-	-	107,392
Intergovernmental	-	-	-	233,699	-	-	-	233,699
Other	<u>1,952,487</u>	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,977,487</u>
Gross receivables	2,732,610	201,152	36,918	284,125	584,417	48,947	24,806	3,912,975
Less: allowance for uncollectibles	<u>(1,860,093)</u>	<u>(132,114)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,992,207)</u>
Net total receivables	<u>\$ 872,517</u>	<u>\$ 69,038</u>	<u>\$ 36,918</u>	<u>\$ 284,125</u>	<u>\$ 584,417</u>	<u>\$ 48,947</u>	<u>\$ 24,806</u>	<u>\$ 1,920,768</u>

Governmental funds report *deferred revenue* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>
Delinquent property taxes receivable (general fund)	\$ 59,231
Delinquent court fines receivable (general fund)	243,185
Delinquent property taxes receivable (debt service)	<u>33,237</u>
Total Governmental Funds	<u>\$ 335,653</u>

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets

Capital asset activity for the year ended September 30, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Adjustment	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 764,632	\$ 38,794	\$ -	\$ -	\$ 803,426
Construction in progress	292,087	1,410,574	697,703	-	1,004,958
Total assets not being depreciated	<u>1,056,719</u>	<u>1,449,368</u>	<u>697,703</u>	<u>-</u>	<u>1,808,384</u>
Capital assets, being depreciated:					
Buildings and improvements	5,681,221	11,225	-	-	5,692,446
Machinery and equipment	3,339,946	911,642	52,949	-	4,198,639
Infrastructure	8,243,421	658,909	-	-	8,902,330
Total capital assets being depreciated	<u>17,264,588</u>	<u>1,581,776</u>	<u>52,949</u>	<u>-</u>	<u>18,793,415</u>
Accumulated depreciation:					
Buildings and improvements	2,571,883	155,781	-	-	2,727,664
Machinery and equipment	2,029,880	370,131	33,466	-	2,366,545
Infrastructure	304,696	178,046	-	-	482,742
Total accumulated depreciation	<u>4,906,459</u>	<u>703,958</u>	<u>33,466</u>	<u>-</u>	<u>5,576,951</u>
Total capital assets being depreciated, net	<u>12,358,129</u>	<u>877,818</u>	<u>19,483</u>	<u>-</u>	<u>13,216,464</u>
Governmental activities capital assets, net	<u>\$ 13,414,848</u>	<u>\$ 2,327,186</u>	<u>\$ 717,186</u>	<u>\$ -</u>	<u>\$ 15,024,848</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 378,391	\$ -	\$ -	\$ -	\$ 378,391
Construction in progress - Water/Sewer	446,476	78,147	524,623	-	-
Construction in progress - Airport	619,038	12,423	631,461	-	-
Total assets not being depreciated	<u>1,443,905</u>	<u>90,570</u>	<u>1,156,084</u>	<u>-</u>	<u>378,391</u>
Capital assets, being depreciated:					
Buildings and improvements	5,234,001	631,461	-	-	5,865,462
Machinery and equipment	1,646,271	23,266	-	-	1,669,537
Infrastructure	14,175,479	524,623	-	-	14,700,102
Total capital assets being depreciated	<u>21,055,751</u>	<u>1,179,350</u>	<u>-</u>	<u>-</u>	<u>22,235,101</u>
Accumulated depreciation:					
Buildings and improvements	906,068	109,828	-	-	1,015,896
Machinery and equipment	1,222,470	81,999	-	-	1,304,469
Infrastructure	9,250,856	305,052	-	-	9,555,908
Total accumulated depreciation	<u>11,379,394</u>	<u>496,879</u>	<u>-</u>	<u>-</u>	<u>11,876,273</u>
Total capital assets being depreciated, net	<u>9,676,357</u>	<u>682,471</u>	<u>-</u>	<u>-</u>	<u>10,358,828</u>
Business-type activities capital assets, net	<u>\$ 11,120,262</u>	<u>\$ 773,041</u>	<u>\$ 1,156,084</u>	<u>\$ -</u>	<u>\$ 10,737,219</u>

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets (Continued)

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

Governmental activities		
General government		\$ 168,714
Public safety		251,278
Public works		207,366
Community development		<u>76,600</u>
Total depreciation expense - governmental activities		<u>\$ 703,958</u>
Business-type activities:		
Water and wastewater		\$ 468,389
Sanitation		2,100
Airport		<u>26,390</u>
Total depreciation expense - business-type activities		<u>\$ 496,879</u>

Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2011, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	EDC	\$ 52,346
General	Nonmajor	214,149
Nonmajor	Nonmajor	<u>518</u>
Total		<u>\$ 267,013</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, 2011, are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General	Nonmajor	\$ 32,710
General	EDC	104,546
General	Sanitation	175,000
General	Water and wastewater	375,631
EDC	Airport	41,984
Airport	Sanitation	<u>51,000</u>
Total		<u>\$ 780,871</u>

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt

Long-term liability activity from the year ended September 30, 2011, was as follows:

	Debt Outstanding 09/30/10	Additions of New Debt	Retirements and Repayments	Adjustments	Debt Outstanding 09/30/11
<u>Governmental:</u>					
Certificates of obligation	\$ 1,295,000	\$ -	\$ 65,000	\$ -	\$ 1,230,000
General obligation bonds	9,020,000	-	650,000	-	8,370,000
Premium	125,166	-	8,205	-	116,961
Capital Leases	134,148	435,635	31,165	-	538,618
Net OPEB obligation	153,744	73,397	-	-	227,141
Vacation payable	225,999	25,701	-	-	251,700
	<u>10,954,057</u>	<u>534,733</u>	<u>754,370</u>	<u>-</u>	<u>10,734,420</u>
<u>Enterprise Fund</u>					
Certificates of obligation	4,140,000	-	260,000	-	3,880,000
General obligation bonds	720,000	-	195,000	-	525,000
Premium	32,895	-	6,579	-	26,316
Capital Leases	71,683	-	23,093	-	48,590
Vacation payable	28,226	2,464	-	-	30,690
	<u>4,992,804</u>	<u>2,464</u>	<u>484,672</u>	<u>-</u>	<u>4,510,596</u>
Total	<u>\$ 15,946,861</u>	<u>\$ 537,197</u>	<u>\$ 1,239,042</u>	<u>\$ -</u>	<u>\$ 15,245,016</u>

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

L. B. Foster Agreement

During fiscal year 2002, the City entered into an agreement with the Texas Department of Housing and Community Affairs (TDHCA) and L. B. Foster to act as a pass-through agent for the purchase of a building. L. B. Foster will pay the City \$5,833 per month until March 2012, in order to purchase the building. Each month the City then pays this money to TDHCA. Under this agreement, the City is not liable for any debt should L. B. Foster default on the loan. Since the City does not own or use the building and has no liability in regards to the building, no asset or liability has been recorded on the general ledger. Also, no revenue or expense is shown for the debt payments received by the City due to its capacity as a pass-through agent.

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt

Debt outstanding as of September 30, 2011, consisted of the following:

	<u>Purpose of Issue</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>
<u>Governmental</u>				
Certificates of obligation:				
2005 Series	Street Improvements	\$ 600,000	\$ 200,000	4.15%
2007 Series	City Hall renovations	315,000	255,000	4.53%
2002 Series	Street improvements and acquisition of equipment	<u>1,725,000</u>	<u>775,000</u>	4.00%-4.80%
		<u>2,640,000</u>	<u>1,230,000</u>	
General obligation bonds:				
2006 Series	Street Improvements	4,000,000	3,405,000	3.75%-5.125%
2008 Series	Various improvements	2,000,000	1,860,000	4.625%-7.00%
2008 Series Premium		52,854	44,925	
2010 Series	Street Improvements	2,000,000	1,965,000	2.00%-4.05%
2010 Series Premium		43,967	41,768	
2010 Series	Refunding	1,525,000	1,140,000	2.00%-4.05%
2010 Series Premium		<u>33,631</u>	<u>30,268</u>	
		<u>9,655,452</u>	<u>8,486,961</u>	
Total Governmental Long-term		<u>12,295,452</u>	<u>9,716,961</u>	
<u>Enterprise Fund</u>				
Certificates of obligation:				
2002 Series	Improvements to sewer plant	<u>5,870,000</u>	<u>3,880,000</u>	4.00%-4.80%
		<u>5,870,000</u>	<u>3,880,000</u>	
General obligation bonds:				
2010 Series	Refunding	720,000	525,000	2.00%-4.25%
2010 Series Premium		<u>32,895</u>	<u>26,316</u>	
		<u>752,895</u>	<u>551,316</u>	
Total Enterprise Fund		<u>6,622,895</u>	<u>4,431,316</u>	
		<u>\$ 18,165,452</u>	<u>\$ 13,596,961</u>	

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt (Continued)

Debt service requirements are as follows:

	<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
Certificates of Obligation:	2012	75,000	54,201	129,201
	2013	75,000	51,100	126,100
	2014	80,000	47,899	127,899
	2015	85,000	44,504	129,504
	2016	85,000	40,944	125,944
	2017-2021	545,000	141,604	686,604
	2022-2026	285,000	23,020	308,020
		<u>1,230,000</u>	<u>403,272</u>	<u>1,633,272</u>
General Obligation Bonds:	2012	655,000	335,760	990,760
	2013	560,000	313,754	873,754
	2014	500,000	293,284	793,284
	2015	520,000	275,684	795,684
	2016	405,000	256,790	661,790
	2017-2021	2,240,000	1,022,921	3,262,921
	2022-2026	2,625,000	536,365	3,161,365
	2027-2031	865,000	82,800	947,800
		<u>8,370,000</u>	<u>3,117,358</u>	<u>11,487,358</u>
Total Governmental Debt:	2011	730,000	389,961	1,119,961
	2012	635,000	364,854	999,854
	2013	580,000	341,183	921,183
	2014	605,000	320,188	925,188
	2015	490,000	297,734	787,734
	2016-2020	2,785,000	1,164,525	3,949,525
	2021-2025	2,910,000	559,385	3,469,385
	2026-2030	865,000	82,800	947,800
	Total	<u>\$ 9,600,000</u>	<u>\$ 3,520,630</u>	<u>\$ 13,120,630</u>

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt (Continued)

Enterprise Fund debt requirements are as follows:

	<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
Certificates of Obligation:	2012	275,000	172,203	\$ 447,203
	2013	290,000	161,198	451,198
	2014	305,000	149,693	454,693
	2015	315,000	137,217	452,217
	2016	335,000	123,911	458,911
	2017-2021	1,920,000	382,616	2,302,616
	2022-2026	<u>440,000</u>	<u>21,209</u>	<u>461,209</u>
		<u>3,880,000</u>	<u>1,148,047</u>	<u>5,028,047</u>
General Obligation Bonds:	2012	185,000	10,744	195,744
	2013	210,000	7,044	217,044
	2014	65,000	2,844	67,844
	2015	65,000	1,544	66,544
	2016	-	-	-
	2017-2021	-	-	-
	2022-2026	<u>-</u>	<u>-</u>	<u>-</u>
		<u>525,000</u>	<u>22,176</u>	<u>547,176</u>
Total Enterprise Fund Debt:	2012	460,000	182,947	642,947
	2013	500,000	168,242	668,242
	2014	370,000	152,537	522,537
	2015	380,000	138,761	518,761
	2016	335,000	123,911	458,911
	2017-2021	1,920,000	382,616	2,302,616
	2022-2026	<u>440,000</u>	<u>21,209</u>	<u>461,209</u>
Total	<u>\$ 4,405,000</u>	<u>\$ 1,170,223</u>	<u>\$ 5,575,223</u>	

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt (Continued)

Advance Refunding

In 2010, the City issued \$4,245,000 of general obligation bonds, \$2,245,000 of which were to refund previous bond issuances, to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$2,205,000 of general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statements of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$66,526. This amount is being presented with the new debt and amortized over the life of the new debt, which is shorter than the refunded debt. This advanced refunding was undertaken to reduce total debt service payments over the next 15 years by \$129,861 and resulted in an economic gain of \$118,821.

Capital Leases

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

The assets acquired through capital leases are as follows:

	<u>Asset</u>
Governmental activities	
Assets:	
Roller and Dump Truck Trailer	\$ 151,000
Police Vehicles	185,635
EMS Vehicle/Equipment	250,000
Paver	93,890
Total	<u>\$ 680,525</u>
Water and Wastewater activities	
Wheel Loader	\$ 113,700
Total	<u>\$ 113,700</u>

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2011, were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	<u>Water and Wastewater Activities</u>
2012	\$ 134,669	\$ 25,160
2013	134,669	25,160
2014	134,669	-
2015	97,368	-
2016	<u>97,368</u>	<u>-</u>
Total minimum lease payments	598,743	50,320
Less: amount representing interest	<u>60,125</u>	<u>1,730</u>
Present value of minimum lease payments	<u>\$ 538,618</u>	<u>\$ 48,590</u>

Aquilla Water Supply District

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 \$1,438,606 for water purchased from the District during the fiscal year ending September 30, 2011.

Retirement Plan

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

Retirement Plan (Continued)

Plan Description (Continued)

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition the report is available on TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2010	Plan Year 2011
Employee deposit rate	5.0%	5.0%
Matching ration (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5,0/20	60/5,0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

Retirement Plan (Continued)

Contributions (Continued)

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The annual pension cost and net pension obligation/(asset) are as follows:

Actuarial Valuation Date	09/30/11
Annual required contribution (ARC)	\$ 516,613
Interest on Net Pension Obligation	-
Adjustment to the ARC	-
Annual Pension Cost (APC)	516,613
Contributions made	(443,216)
Increase (decrease) in net pension obligation	73,397
Net pension obligation/(Asset), beginning of year	153,744
Net pension obligation/(Asset), end of year	\$ 227,141

Accounting Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
09/30/08	\$ 435,636	\$ 367,129	119%	\$ 68,507
09/30/10	474,108	388,871	122%	85,237
09/30/11	516,613	443,216	117%	73,397

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

Valuation Date	12/31/08	12/31/09	12/31/10 - prior to restructuring	12/31/10 - Restructured
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 Equivalent Single Amortization Period	29 years; closed period	28 years; closed period	27.2 years; closed period	27.2 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years	30 years
Asset Valuation Method	Amortized Cost	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:				
Investment Rate of Return*	7.5%	7.5%	7.5%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at Cost-of-Living Adjustments	3.00%	3.00%	3.00%	3.00%
	2.1%	2.1%	2.1%	2.1%

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

Retirement Plan (Continued)

Contributions (Continued)

Funded Status and Funding Progress – In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2010, under the two separate actuarial valuations, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2010 ¹	6,961,867	10,642,335	65.4%	3,680,468	3,994,428	92.1%
12/31/2010 ²	9,225,141	12,297,814	75.0%	3,072,673	3,994,428	76.9%

(1) Actuarial valuation performed under the original fund structure

(2) Actuarial valuation performed under the new fund structure

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

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 Fund

The Economic Development Corporation has been deemed a blended component unit for the City of Hillsboro (see note 1). The Corporation has borrowed money to help attract business to the Hillsboro area. Accounting principles prescribe the Corporation be 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 dedicated during the last fiscal year.

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.

**REQUIRED
SUPPLEMENTARY INFORMATION**

CITY OF HILLSBORO, TEXAS

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

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Ad valorem	\$ 1,910,837	\$ 1,910,837	\$ 1,912,351	\$ 1,514
Sales, net of rebates	2,228,928	2,228,928	2,366,660	137,732
Franchise	459,000	459,000	528,480	69,480
Other	32,000	32,000	40,231	8,231
Services to others	4,000	4,000	4,830	830
Licenses and permits	63,750	63,750	51,580	(12,170)
Fines and forfeitures	793,700	793,700	844,973	51,273
Intergovernmental	-	-	87,372	87,372
Interest and penalties	45,000	45,000	51,874	6,874
Rentals	104,500	104,500	87,725	(16,775)
Charges for services	132,000	132,000	158,817	26,817
Cemetery lot sales and fees	25,300	25,300	26,140	840
Contributions	47,800	47,800	56,174	8,374
Other	37,624	37,624	100,435	62,811
Total revenues	5,884,439	5,884,439	6,317,642	433,203
EXPENDITURES				
Legislative:				
Personnel	349	349	281	68
Supplies	1,550	1,550	809	741
Services	22,050	22,050	21,502	548
	23,949	23,949	22,592	1,357
Administration:				
Personnel	228,186	228,186	240,387	(12,201)
Supplies	6,040	6,040	4,237	1,803
Services	124,605	124,605	132,465	(7,860)
Maintenance	6,300	6,300	960	5,340
	365,131	365,131	378,049	(12,918)

(continued)

CITY OF HILLSBORO, TEXAS

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

**GENERAL FUND
(Continued)**

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
EXPENDITURES (Continued)				
Streets:				
Personnel	234,456	234,456	224,766	9,690
Supplies	49,650	49,650	54,411	(4,761)
Services	142,740	142,740	139,836	2,904
Maintenance	34,950	34,950	29,216	5,734
Minor equipment	-	-	5,612	(5,612)
Capital outlay	-	-	16,500	(16,500)
	<u>461,796</u>	<u>461,796</u>	<u>470,341</u>	<u>(8,545)</u>
Police:				
Personnel	1,764,544	1,764,544	1,807,640	(43,096)
Supplies	111,250	111,250	186,948	(75,698)
Services	141,800	141,800	145,424	(3,624)
Maintenance	55,150	55,150	62,556	(7,406)
Minor equipment	-	-	1,842	(1,842)
Capital outlay	-	-	71,273	(71,273)
	<u>2,072,744</u>	<u>2,072,744</u>	<u>2,275,683</u>	<u>(202,939)</u>
Library:				
Personnel	254,056	254,056	247,541	6,515
Supplies	9,520	9,520	8,060	1,460
Services	36,441	36,441	42,348	(5,907)
Maintenance	16,000	16,000	10,997	5,003
Minor equipment	-	-	223	(223)
Capital outlay	32,500	32,500	22,106	10,394
	<u>348,517</u>	<u>348,517</u>	<u>331,275</u>	<u>17,242</u>
Fire:				
Personnel	1,040,542	1,040,542	1,121,408	(80,866)
Supplies	93,020	93,020	93,895	(875)
Services	87,900	87,900	93,727	(5,827)
Maintenance	19,100	19,100	30,365	(11,265)
Minor equipment	1,500	1,500	4,353	(2,853)
Capital outlay	-	-	536,024	(536,024)
	<u>1,242,062</u>	<u>1,242,062</u>	<u>1,879,772</u>	<u>(637,710)</u>

(continued)

CITY OF HILLSBORO, TEXAS

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

**GENERAL FUND
(Continued)**

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES (Continued)				
Municipal court:				
Personnel	147,785	147,785	169,054	(21,269)
Supplies	6,000	6,000	5,634	366
Services	69,300	69,300	43,088	26,212
Maintenance	2,000	2,000	13,454	(11,454)
	225,085	225,085	231,230	(6,145)
 Parks and recreation:				
Personnel	295,063	295,063	282,132	12,931
Supplies	22,850	22,850	21,485	1,365
Services	33,800	33,800	31,913	1,887
Maintenance	17,100	17,100	10,982	6,118
Minor equipment	1,500	1,500	2,225	(725)
	370,313	370,313	348,737	21,576
 Maintenance shop:				
Personnel	103,915	103,915	89,156	14,759
Supplies	63,600	63,600	90,360	(26,760)
Services	7,707	7,707	7,612	95
Maintenance	48,000	48,000	73,312	(25,312)
Minor equipment	-	-	799	(799)
	223,222	223,222	261,239	(38,017)
 Cemetery:				
Personnel	15,665	15,665	15,062	603
Supplies	4,700	4,700	350	4,350
Services	83,835	83,835	47,966	35,869
Maintenance	2,350	2,350	387	1,963
Minor equipment	-	-	2,850	(2,850)
	106,550	106,550	66,615	39,935

(continued)

CITY OF HILLSBORO, TEXAS

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

**GENERAL FUND
(Continued)**

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
EXPENDITURES (Continued)				
Community development:				
Personnel	134,742	134,742	124,033	10,709
Supplies	3,750	3,750	4,060	(310)
Services	142,635	142,635	82,113	60,522
Maintenance	8,500	8,500	8,604	(104)
Capital outlay	-	-	5,008	(5,008)
	<u>289,627</u>	<u>289,627</u>	<u>223,818</u>	<u>65,809</u>
Legal:				
Personnel	31,613	31,613	31,608	5
Services	4,500	4,500	3,767	733
	<u>36,113</u>	<u>36,113</u>	<u>35,375</u>	<u>738</u>
Finance:				
Personnel	187,524	187,524	187,340	184
Supplies	3,660	3,660	4,091	(431)
Services	41,500	41,500	48,186	(6,686)
Maintenance	750	750	40	710
Minor equipment	500	500	2,121	(1,621)
	<u>233,934</u>	<u>233,934</u>	<u>241,778</u>	<u>(7,844)</u>
Information systems:				
Personnel	50,548	50,548	50,254	294
Supplies	100	100	228	(128)
Services	4,147	4,147	2,606	1,541
Maintenance	7,500	7,500	2,842	4,658
	<u>62,295</u>	<u>62,295</u>	<u>55,930</u>	<u>6,365</u>
Marketing/Business development:				
Personnel	192,095	192,095	126,661	65,434
Supplies	5,700	5,700	1,441	4,259
Services	51,400	51,400	10,983	40,417
Maintenance	5,000	5,000	6,919	(1,919)
Minor equipment	-	-	171	(171)
Capital outlay	1,500	1,500	11,225	(9,725)
	<u>255,695</u>	<u>255,695</u>	<u>157,400</u>	<u>98,295</u>

(continued)

CITY OF HILLSBORO, TEXAS

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

GENERAL FUND

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES (Continued)				
Animal control:				
Personnel	45,373	45,373	42,552	2,821
Supplies	10,050	10,050	13,452	(3,402)
Services	2,450	2,450	3,202	(752)
Maintenance	4,700	4,700	3,553	1,147
Minor equipment	-	-	688	(688)
	<u>62,573</u>	<u>62,573</u>	<u>63,447</u>	<u>(874)</u>
Emergency Management:				
Personnel	81,994	81,994	85,713	(3,719)
Supplies	6,200	6,200	21,823	(15,623)
Services	34,500	34,500	56,909	(22,409)
Maintenance	2,300	2,300	3,777	(1,477)
Minor equipment	500	500	895	(395)
	<u>125,494</u>	<u>125,494</u>	<u>169,117</u>	<u>(43,623)</u>
Debt service:				
Principal	29,707	29,707	31,165	(1,458)
Interest	7,594	7,594	6,135	1,459
	<u>37,301</u>	<u>37,301</u>	<u>37,300</u>	<u>1</u>
Total expenditures	<u>6,542,401</u>	<u>6,542,401</u>	<u>7,249,698</u>	<u>(707,297)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(657,962)</u>	<u>(657,962)</u>	<u>(932,056)</u>	<u>(274,094)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital lease	-	-	250,000	250,000
Operating transfers in	670,177	670,177	687,887	17,710
Operating transfers (out)	(12,215)	(12,215)	-	12,215
Total other financing sources (uses)	<u>657,962</u>	<u>657,962</u>	<u>937,887</u>	<u>29,925</u>
CHANGE IN FUND BALANCES	-	-	5,831	5,831
FUND BALANCES, BEGINNING	<u>1,375,745</u>	<u>1,375,745</u>	<u>1,375,745</u>	<u>-</u>
RESIDUAL EQUITY TRANSFER	-	-	(224,350)	(224,350)
FUND BALANCES, ENDING	<u>\$ 1,375,745</u>	<u>\$ 1,375,745</u>	<u>\$ 1,157,226</u>	<u>\$ (218,519)</u>

CITY OF HILLSBORO, TEXAS

ECONOMIC DEVELOPMENT FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes:				
Sales, net of rebates	194,242	194,242	215,135	20,893
Interest and penalties	7,000	7,000	11,979	4,979
Other	46,987	46,987	75,982	28,995
Total revenues	248,229	248,229	303,096	54,867
EXPENDITURES				
Community development:				
Supplies	200	200	95	105
Services	1,304,040	1,304,040	58,864	1,245,176
Maintenance	10,000	10,000	8,300	1,700
Total expenditures	1,314,240	1,314,240	67,259	1,246,981
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,066,011)	(1,066,011)	235,837	1,301,848
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	41,984	41,984
Operating transfers (out)	(104,845)	(104,845)	(104,546)	299
Total other financing sources (uses)	(104,845)	(104,845)	(62,562)	42,283
CHANGE IN FUND BALANCES	(1,170,856)	(1,170,856)	173,275	1,344,131
FUND BALANCES, BEGINNING	1,892,765	1,892,765	1,892,765	-
FUND BALANCES, ENDING	\$ 721,909	\$ 721,909	\$ 2,066,040	\$ 1,344,131

CITY OF HILLSBORO, TEXAS

**TMRS Analysis of Funding Progress
For the Year Ended September 30, 2011
(Unaudited)**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2008	5,867,799	9,158,178	64.1%	3,290,379	3,915,677	84.0%
12/31/2009	6,151,982	9,796,293	62.8%	3,644,311	4,166,954	87.5%
12/31/2010 ¹	6,961,867	10,642,335	65.4%	3,680,468	3,994,428	92.1%
12/31/2010 ²	9,225,141	12,297,814	75.0%	3,072,673	3,994,428	76.9%

(1) Actuarial valuation performed under the original fund structure

(2) Actuarial valuation performed under the new fund structure

CITY OF HILLSBORO, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION SEPTEMBER 30, 2011 (Unaudited)

BUDGETARY INFORMATION

The City follows these procedures annually in establishing the budgetary data reflected in the budgetary comparison schedules:

1. Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the General Fund, Special Revenue Funds, and the Debt Service Fund. Budgets are adopted for the proprietary funds annually only as a management tool. There are no legally mandated budgetary constraints for the proprietary funds.
2. In May of each year, budget preparation packages are distributed to all City agencies. The agencies of the City submit requests for appropriation to the City Manager before June 15 so that a budget may be prepared. The budget is prepared by department and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. During August, the proposed budget is presented to the City Council for review. The City Council holds public hearings in September and may add to, subtract from, or change appropriations. Any changes in the budget must be within the revenue and reserves estimated as available by the City Manager or the revenue estimates must be changed by an affirmative vote of a majority of the City Council. The final budget must be adopted each year on or before September 27th as required by the City's charter.
3. The appropriated budget is prepared by fund, function and department. The City's management may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplementary budget appropriations that were not material during the year.
4. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrances are recorded when purchase orders are issued, but are not considered expenditures until liabilities for payments are incurred. Encumbrances are reported as a nonspendable fund balance on the balance sheet. Encumbrances do not lapse at the close of the fiscal year, but are carried forward until liquidated.
5. Expenditures exceeded appropriations in the General Fund in various departments. These excess expenditures were funded by available fund balance.

COMBINING SCHEDULES

CITY OF HILLSBORO, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	Special Revenue Funds			
	Hotel/Motel Tax	Library Grants	Search and Rescue Equipment Grant	Main Street
ASSETS				
Cash and investments	\$ 209,790	\$ -	\$ -	\$ -
Intergovernmental receivable	-	-	1,858	-
Taxes receivable	50,426	-	-	-
Due from other funds	-	-	-	-
Total assets	<u>\$ 260,216</u>	<u>\$ -</u>	<u>\$ 1,858</u>	<u>\$ -</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 12,053	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-
Due to other funds	-	-	1,858	-
Total liabilities	<u>12,053</u>	<u>-</u>	<u>1,858</u>	<u>-</u>
FUND BALANCE				
Restricted for:				
Capital improvements	-	-	-	-
Industrial development	-	-	-	-
Library operations	-	-	-	-
Public Safety	-	-	-	-
Tourism	248,163	-	-	-
Total fund balances	<u>248,163</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund equity	<u>\$ 260,216</u>	<u>\$ -</u>	<u>\$ 1,858</u>	<u>\$ -</u>

Special Revenue Funds

Downtown Streetscape Phase II	Industrial Development	Library Special Fund	Home Buyers Assistance Grant	Parks and Wildlife Grant	Parks EDI Grant	Police Local Forfeiture
\$ -	\$ 21	\$ 29,861	\$ -	\$ -	\$ -	\$ 750,600
22	-	-	-	89,820	26,101	-
-	-	-	-	-	-	-
-	-	-	-	518	-	-
<u>\$ 22</u>	<u>\$ 21</u>	<u>\$ 29,861</u>	<u>\$ -</u>	<u>\$ 90,338</u>	<u>\$ 26,101</u>	<u>\$ 750,600</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,700	\$ 14,355
-	-	-	-	-	-	1,049
22	-	-	-	90,338	24,401	-
<u>22</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>90,338</u>	<u>26,101</u>	<u>15,404</u>
-	-	-	-	-	-	-
-	21	-	-	-	-	-
-	-	29,861	-	-	-	-
-	-	-	-	-	-	735,196
-	-	-	-	-	-	-
<u>-</u>	<u>21</u>	<u>29,861</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>735,196</u>
<u>\$ 22</u>	<u>\$ 21</u>	<u>\$ 29,861</u>	<u>\$ -</u>	<u>\$ 90,338</u>	<u>\$ 26,101</u>	<u>\$ 750,600</u>

CITY OF HILLSBORO, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

(continued)

SEPTEMBER 30, 2011

	Special Revenue			
	Police Federal Forfeiture	Police Special	Energy Grant	Safe Route To Schools
ASSETS				
Cash and investments	\$ 53,342	\$ 4,143	\$ -	\$ -
Intergovernmental receivable	-	-	23,410	60,950
Taxes receivable	-	-	-	-
Due from other funds	-	-	-	-
	<u>53,342</u>	<u>4,143</u>	<u>23,410</u>	<u>60,950</u>
Total assets	<u>\$ 53,342</u>	<u>\$ 4,143</u>	<u>\$ 23,410</u>	<u>\$ 60,950</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 1,174	\$ 115	\$ -	\$ 17,850
Accrued liabilities	-	-	-	-
Due to other funds	-	-	23,410	43,100
	<u>1,174</u>	<u>115</u>	<u>23,410</u>	<u>60,950</u>
Total liabilities	<u>1,174</u>	<u>115</u>	<u>23,410</u>	<u>60,950</u>
FUND BALANCE				
Restricted for:				
Capital improvements	-	-	-	-
Industrial development	-	-	-	-
Library operations	-	-	-	-
Public Safety	52,168	4,028	-	-
Tourism	-	-	-	-
	<u>52,168</u>	<u>4,028</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>52,168</u>	<u>4,028</u>	<u>-</u>	<u>-</u>
Total liabilities and fund equity	<u>\$ 53,342</u>	<u>\$ 4,143</u>	<u>\$ 23,410</u>	<u>\$ 60,950</u>

East Franklin Streetscape	Capital Projects Capital Construction	Total Nonmajor Governmental Funds
\$ -	\$ 22,364	\$ 1,070,121
31,538	-	233,699
-	-	50,426
-	-	518
\$ 31,538	\$ 22,364	\$ 1,354,764
\$ -	\$ -	\$ 47,247
-	-	1,049
31,538	-	214,667
31,538	-	262,963
-	22,364	22,364
-	-	21
-	-	29,861
-	-	791,392
-	-	248,163
-	22,364	1,091,801
\$ 31,538	\$ 22,364	\$ 1,354,764

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

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Special Revenue Funds			
	Hotel/Motel Tax	Library Grants	Search and Rescue Equipment Grant	Main Street
REVENUES				
Taxes	\$ 281,211	\$ -	\$ -	\$ -
Intergovernmental	-	7,280	33,648	-
Fines and forfeitures	-	-	-	-
Interest	184	-	-	-
Rentals	12,671	-	-	-
Contributions	-	-	-	-
Other	218	-	-	-
Total revenues	<u>294,284</u>	<u>7,280</u>	<u>33,648</u>	<u>-</u>
EXPENDITURES				
Current:				
Personnel	1,340	-	-	-
Services	209,500	-	-	4,382
Supplies	634	-	-	451
Maintenance	3,025	-	-	-
Minor equipment	-	7,280	8,688	-
Capital outlay	-	-	8,000	-
Debt service:				
Principal	15,000	-	-	-
Interest	12,229	-	-	-
Total expenditures	<u>241,728</u>	<u>7,280</u>	<u>16,688</u>	<u>4,833</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>52,556</u>	<u>-</u>	<u>16,960</u>	<u>(4,833)</u>
OTHER FINANCING SOURCES(USES)				
Proceeds from capital lease	-	-	-	-
Operating transfers out	(15,750)	-	(16,960)	-
NET CHANGE IN FUND BALANCES	36,806	-	-	(4,833)
FUND BALANCES, BEGINNING	<u>211,357</u>	<u>-</u>	<u>-</u>	<u>4,833</u>
RESIDUAL EQUITY TRANSFER	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 248,163</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Special Revenue Funds

Downtown Streetscape Phase II	Industrial Development	Library Special Fund	Home Buyers Assistance Grant	Parks and Wildlife Grant	Parks EDI Grant	Police Local Forfeiture
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1,699	-	-	21,200	81,984	1,700	-
-	-	-	-	-	-	664,261
-	-	-	-	-	-	4,741
-	-	29,861	-	-	-	-
-	-	-	-	-	-	-
<u>1,699</u>	<u>-</u>	<u>29,861</u>	<u>21,200</u>	<u>81,984</u>	<u>1,700</u>	<u>669,002</u>
-	-	-	-	-	-	26,979
-	262	-	21,200	-	-	8,088
-	-	-	-	-	-	7,537
-	-	-	-	-	-	6,493
-	-	-	-	-	-	26,277
1,699	-	-	-	81,984	1,700	257,971
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>1,699</u>	<u>262</u>	<u>-</u>	<u>21,200</u>	<u>81,984</u>	<u>1,700</u>	<u>333,345</u>
-	(262)	29,861	-	-	-	335,657
-	-	-	-	-	-	185,635
-	-	-	-	-	-	-
-	(262)	29,861	-	-	-	521,292
-	283	-	-	-	-	-
-	-	-	-	-	-	213,904
<u>\$ -</u>	<u>\$ 21</u>	<u>\$ 29,861</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 735,196</u>

CITY OF HILLSBORO, TEXAS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
(continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Special Revenue			
	Police Federal Forfeiture	Police Special	Energy Grant	Safe Route To Schools
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	13,830	60,950
Fines and forfeitures	58,908	-	-	-
Interest	15	-	-	-
Rentals	-	-	-	-
Contributions	-	3,811	-	-
Other	-	511	-	-
Total revenues	<u>58,923</u>	<u>4,322</u>	<u>13,830</u>	<u>60,950</u>
EXPENDITURES				
Current:				
Personnel	-	-	-	-
Services	1,250	19	13,830	-
Supplies	-	208	-	-
Maintenance	1,534	-	-	-
Minor equipment	8,752	67	-	-
Capital outlay	5,665	-	-	60,950
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>17,201</u>	<u>294</u>	<u>13,830</u>	<u>60,950</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>41,722</u>	<u>4,028</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES(USES)				
Proceeds from capital lease	-	-	-	-
Operating transfers out	-	-	-	-
NET CHANGE IN FUND BALANCES	41,722	4,028	-	-
FUND BALANCES, BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
RESIDUAL EQUITY TRANSFER	<u>10,446</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 52,168</u>	<u>\$ 4,028</u>	<u>\$ -</u>	<u>\$ -</u>

	<u>Capital Projects</u>		Total Nonmajor Governmental Funds
<u>East Franklin Streetscape</u>	<u>Capital Construction</u>		
\$ -	\$ -	\$	281,211
10,625	-		232,916
-	-		723,169
-	35		4,975
-	-		12,671
-	-		33,672
-	-		729
<u>10,625</u>	<u>35</u>		<u>1,289,343</u>
-	-		28,319
-	-		258,531
-	-		8,830
-	-		11,052
-	-		51,064
10,625	5,330		433,924
-	-		15,000
-	-		12,229
<u>10,625</u>	<u>5,330</u>		<u>818,949</u>
-	(5,295)		470,394
-	-		185,635
-	-		(32,710)
-	(5,295)		623,319
-	27,659		244,132
-	-		224,350
<u>\$ -</u>	<u>\$ 22,364</u>	<u>\$</u>	<u>1,091,801</u>

COMPLIANCE SECTION



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

**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**

The Honorable Mayor and City Council
City of Hillsboro, Texas

We have audited 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 as of and for the year ended September 30, 2011, which collectively comprise the City of Hillsboro, Texas basic financial statements and have issued our report thereon dated March 12, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hillsboro, Texas internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hillsboro, Texas financial statements are free of 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*.

This report is intended solely for the information and use of the management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

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

March 12, 2012