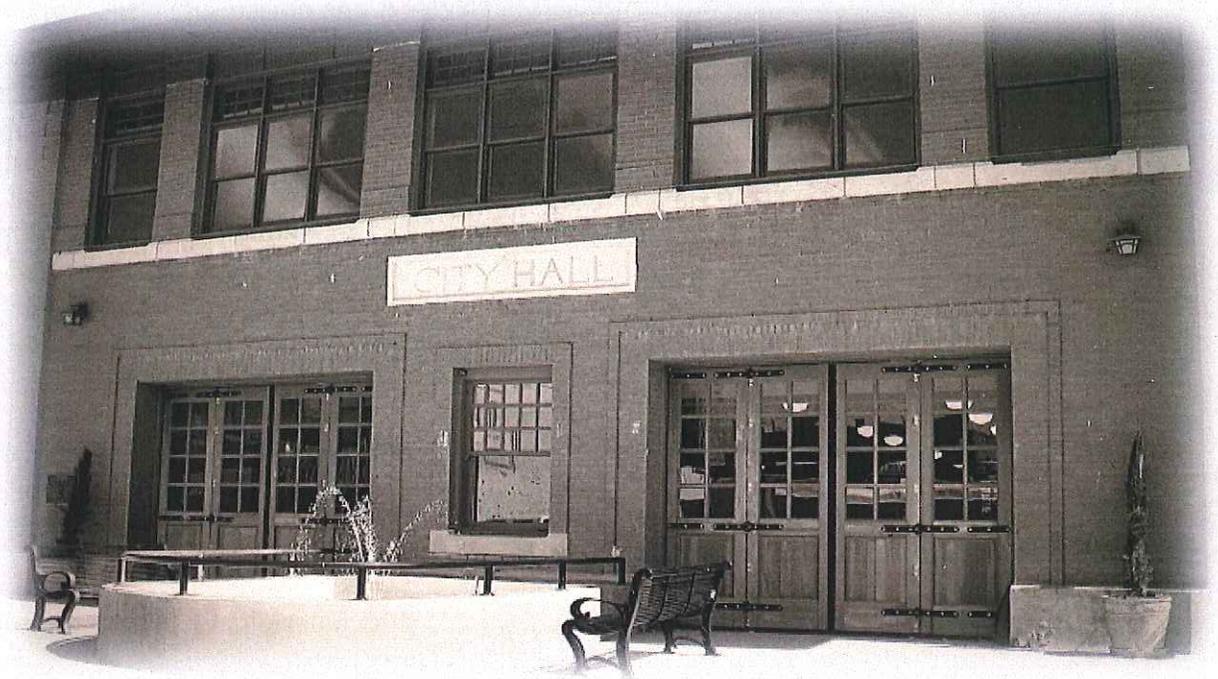


City of
Hillsboro, Texas



ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2013



CITY OF HILLSBORO, TEXAS

TABLE OF CONTENTS

SEPTEMBER 30, 2013

	<u>Page Number</u>
FINANCIAL SECTION	
Independent Auditor’s Report.....	1 – 3
Management’s Discussion and Analysis.....	4 – 10
<u>Basic Financial Statements</u>	
Government Wide Statements:	
Statement of Net Position	11
Statement of Activities	12
Governmental Fund Financial Statements:	
Balance Sheet.....	13
Statement of Revenues, Expenditures and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	15
Proprietary Fund Financial Statements:	
Statement of Net Position	16
Statement of Revenues, Expenses and Changes in Fund Net Position.....	17
Statement of Cash Flows	18 – 19
Notes to the Financial Statements	20 – 38
<u>Required Supplementary Information</u>	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General	39 – 43
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Economic Development	44
TMRS Analysis of Funding Progress	45
Notes to Required Supplementary Information	46
<u>Other Supplementary Information</u>	
Nonmajor Governmental Funds:	
Combining Balance Sheet.....	47 – 48
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	49 – 50
OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION	
Independent Auditor’s Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	51 – 52



INDEPENDENT AUDITORS' REPORT

To the City Council
Hillsboro, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hillsboro, Texas (the "City"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures

that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hillsboro, Texas, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–10 and 39–44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hillsboro, Texas's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2014, on our consideration of the City of Hillsboro, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Hillsboro, Texas' internal control over financial reporting and compliance.

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

Hillsboro, Texas
April 8, 2014

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, 2013. 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, 2013, by \$24,749,697 (net position). Of this amount, \$4,972,489 (unrestricted net position) 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 position increased by \$2,517,277.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,420,698. Approximately 13.94% of this total amount, \$1,034,410, is unassigned fund balance available for use within the City's fund designation and fiscal policies.
- As of September 30, 2013, unassigned fund balance for the general fund was \$1,034,410 or 14.34 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 11 of this report, are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

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

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

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

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

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

Beginning on page 13 of this report, information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, 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 16 – 19 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 – 38 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 47 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$24,749,697 as of September 30, 2013.

CITY OF HILLSBORO'S NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Current assets	\$ 8,549,985	\$ 8,982,253	\$ 4,223,405	\$ 2,870,677	\$ 12,773,390	\$ 11,852,930
Capital assets	17,992,124	17,427,613	9,937,175	10,240,659	27,929,299	27,668,272
Total Assets	<u>26,542,109</u>	<u>26,409,866</u>	<u>14,160,580</u>	<u>13,111,336</u>	<u>40,702,689</u>	<u>39,521,202</u>
Liabilities	1,417,558	782,975	934,025	434,773	2,351,583	1,217,748
Noncurrent liabilities	10,415,859	11,913,341	3,185,550	4,157,693	13,601,409	16,071,034
Total Liabilities	<u>11,833,417</u>	<u>12,696,316</u>	<u>4,119,575</u>	<u>4,592,466</u>	<u>15,952,992</u>	<u>17,288,782</u>
Net position:						
Net investment in capital assets	6,984,244	6,211,165	6,406,676	6,116,678	13,390,920	12,327,843
Restricted	6,386,288	6,661,146	-	-	6,386,288	6,661,146
Unrestricted	<u>1,338,160</u>	<u>841,239</u>	<u>3,634,329</u>	<u>2,402,192</u>	<u>4,972,489</u>	<u>3,243,431</u>
Total Net Position	<u>\$ 14,708,692</u>	<u>\$ 13,713,550</u>	<u>\$ 10,041,005</u>	<u>\$ 8,518,870</u>	<u>\$ 24,749,697</u>	<u>\$ 22,232,420</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 position \$4,972,489 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF HILLSBORO'S CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
REVENUES:						
Program revenues:						
Charges for services	\$ 1,675,906	\$ 1,477,999	\$ 5,326,493	\$ 5,404,605	\$ 7,002,399	\$ 6,882,604
Operating grants and contributions	41,409	106,148	-	3,600	41,409	109,748
Capital grants and contributions	289,624	1,492,656	48,966	-	338,590	1,492,656
General revenues:						
Property taxes	3,009,808	2,998,682	-	-	3,009,808	2,998,682
Sales taxes	2,801,660	2,592,259	-	-	2,801,660	2,592,259
Franchise taxes	476,554	503,178	-	-	476,554	503,178
Hotel/motel taxes	324,457	320,022	-	-	324,457	320,022
Other taxes	48,192	43,711	-	-	48,192	43,711
Investment earnings	111,469	94,109	1,671	2,073	113,140	96,182
Miscellaneous	118,755	133,926	66,477	103,751	185,232	237,677
Total Revenues	<u>8,897,834</u>	<u>9,762,690</u>	<u>5,443,607</u>	<u>5,514,029</u>	<u>14,341,441</u>	<u>15,276,719</u>
EXPENSES:						
General government	2,265,856	2,170,068	-	-	2,265,856	2,170,068
Public safety	4,560,488	4,249,685	-	-	4,560,488	4,249,685
Streets	727,080	700,527	-	-	727,080	700,527
Community development	609,167	557,139	-	-	609,167	557,139
Interest on long-term debt	403,101	431,558	-	-	403,101	431,558
Water and sewer	-	-	3,461,892	3,457,654	3,461,892	3,457,654
Sanitation	-	-	814,425	814,478	814,425	814,478
Airport	-	-	382,155	408,324	382,155	408,324
Total Expenses	<u>8,565,692</u>	<u>8,108,977</u>	<u>4,658,472</u>	<u>4,680,456</u>	<u>13,224,164</u>	<u>12,789,433</u>
INCREASES IN NET POSITION BEFORE TRANSFERS AND OTHER SOURCES (USES)	332,142	1,653,713	785,135	833,573	1,117,277	2,487,286
SPECIAL ITEM	-	-	1,400,000	-	1,400,000	-
TRANSFERS	<u>663,000</u>	<u>765,800</u>	<u>(663,000)</u>	<u>(765,800)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	995,142	2,419,513	1,522,135	67,773	2,517,277	2,487,286
NET POSITION, BEGINNING	<u>13,713,550</u>	<u>11,304,764</u>	<u>8,518,870</u>	<u>8,451,097</u>	<u>22,232,420</u>	<u>19,755,861</u>
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>(10,727)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,727)</u>
NET POSITION, ENDING	<u>\$ 14,708,692</u>	<u>\$ 13,713,550</u>	<u>\$ 10,041,005</u>	<u>\$ 8,518,870</u>	<u>\$ 24,749,697</u>	<u>\$ 22,232,420</u>

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

The government's net position increased by \$2,517,277 during the current fiscal year. This increase in net position is due to a contribution from a favorable settlement as well as to cost saving tactics used by the City. Additionally, charges for services, sales tax, property tax, and investment earnings increased to cover the decrease in operating grants and contributions and capital grants and contributions.

Governmental Activities. Governmental activities increased the City's net position by \$995,142, thereby accounting for 39.53 percent of the total growth in the net position of the City. Key elements of this increase are as follows:

- Charges for services revenue increased by \$197,907
- Property taxes increased by 11,126
- Sales tax revenue increased by 209,401

Business-type Activities. Business-type activities increased the City's net position by \$1,522,135, accounting for 60.47 percent of the total growth in the net position of the City. Key elements of this increase are as follows:

- Contribution from a favorable settlement of \$1,400,000
- Capital grants and contributions revenue increased by \$48,966
- Airport expenditures decreased by \$26,169
- Transfers decreased \$102,800

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 \$7,420,698. Approximately 13.94% of this total amount, \$1,034,410 constitutes unassigned fund balance. Refer to pages 13-14 of this report for a more detailed presentation of governmental fund balances.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,034,410, while total fund balance reached \$1,323,808.

The fund balance of the City's General Fund increased by \$176,116 during the current fiscal year. Key factors of this increase are the increases in property tax, sales tax and fines and forfeitures revenues offset by an increase in personnel, services and capital outlay expenditures.

The Capital Projects Fund has a total fund balance of \$2,210,934. 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 position of the City's Enterprise Funds at the end of the year amounted to \$3,634,329. The increase in net position was \$1,522,135. The majority of the increase is a contribution from a favorable settlement. 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 2013.

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, 2013, amounts to \$27,929,299 (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 \$74,037
- Street improvements of \$966,572
- Acquired equipment for approximately \$413,083

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 \$13,836,187. 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 31 – 35 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 2014 fiscal year. The property tax rate for the fiscal year 2014 remained at .818331 per \$100 assessed value. A slight increase in sales tax revenue (6%), decrease in interest income and decreases in various franchise revenue were considered. Also, 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 \$1,034,410. 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 POSITION

SEPTEMBER 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 7,238,978	\$ 3,251,049	\$ 10,490,027
Receivables (net of allowances for uncollectibles):			
Taxes	634,728	-	634,728
Accounts	70,423	630,458	700,881
Intergovernmental	19,234	15,438	34,672
Other	272,970	-	272,970
Inventories	41,776	182,472	224,248
Prepays	7,384		7,384
Deferred charges	264,492	143,988	408,480
Capital assets:			
Land	803,426	378,391	1,181,817
Buildings and improvements	6,893,495	5,865,461	12,758,956
Machinery and equipment	4,516,319	1,775,915	6,292,234
Infrastructure/water and wastewater distribution	11,924,672	14,407,733	26,332,405
Construction in progress	764,910	83,427	848,337
Less: accumulated depreciation	(6,910,698)	(12,573,752)	(19,484,450)
Total capital assets	<u>17,992,124</u>	<u>9,937,175</u>	<u>27,929,299</u>
Total assets	<u>26,542,109</u>	<u>14,160,580</u>	<u>40,702,689</u>
LIABILITIES			
Accounts payable	275,874	226,217	502,091
Contracts payable	93,000	-	93,000
Accrued liabilities	157,900	23,565	181,465
Accrued interest payable	103,618	21,323	124,941
Deferred revenue	-	50,000	50,000
Customer deposits	-	227,920	227,920
Noncurrent liabilities:			
Due within one year	787,166	385,000	1,172,166
Due in more than one year	10,415,859	3,185,550	13,601,409
Total liabilities	<u>11,833,417</u>	<u>4,119,575</u>	<u>15,952,992</u>
NET POSITION			
Net investment in capital assets	6,984,244	6,406,676	13,390,920
Restricted for:			
Court security and technology	240,238	-	240,238
Prepays	7,384	-	7,384
Inventories	41,776	-	41,776
Debt service	171,798	-	171,798
Other purposes	5,925,092	-	5,925,092
Unrestricted	<u>1,338,160</u>	<u>3,634,329</u>	<u>4,972,489</u>
Total net position	<u>\$ 14,708,692</u>	<u>\$ 10,041,005</u>	<u>\$ 24,749,697</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, 2013

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 2,265,856	\$ 44,083	\$ 5,460	\$ -	\$(2,216,313)	\$ -	\$(2,216,313)
Public safety	4,560,488	1,485,134	35,949	-	(3,039,405)	-	(3,039,405)
Streets	727,080	80,000	-	-	(647,080)	-	(647,080)
Community development	609,167	66,689	-	289,624	(252,854)	-	(252,854)
Interest on long-term debt	403,101	-	-	-	(403,101)	-	(403,101)
Total governmental activities	8,565,692	1,675,906	41,409	289,624	(6,558,753)	-	(6,558,753)
Business-type activities:							
Water and sewer	3,461,892	3,942,381	-	43,032	-	523,521	523,521
Sanitation	814,425	1,051,072	-	-	-	236,647	236,647
Airport	382,155	333,040	-	5,934	-	(43,181)	(43,181)
Total business-type activities	4,658,472	5,326,493	-	48,966	-	716,987	716,987
Total	\$ 13,224,164	\$ 7,002,399	\$ 41,409	\$ 338,590	\$(6,558,753)	\$ 716,987	\$(5,841,766)
General revenues:							
Property taxes - general purposes					1,993,537	-	1,993,537
Property taxes - debt service					1,016,271	-	1,016,271
Sales taxes					2,801,660	-	2,801,660
Franchise taxes					476,554	-	476,554
Hotel/Motel taxes					324,457	-	324,457
Other taxes					48,192	-	48,192
Investment earnings					111,469	1,671	113,140
Miscellaneous					118,755	66,477	185,232
Special item					-	1,400,000	1,400,000
Transfers					663,000	(663,000)	-
Total general revenues and transfers					7,553,895	805,148	8,359,043
Change in net position					995,142	1,522,135	2,517,277
Net position, beginning					13,713,550	8,518,870	22,232,420
Net position, ending					\$ 14,708,692	\$ 10,041,005	\$ 24,749,697

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

CITY OF HILLSBORO, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2013

	General	Economic Development Corporation	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	\$ 1,133,771	\$ 2,522,269	\$ 164,611	\$ 2,227,428	\$ 1,190,899	\$ 7,238,978
Receivables (net of allowance for uncollectibles)						
Taxes	510,688	38,712	28,819	-	56,509	634,728
Accounts	342,993	-	-	-	400	343,393
Intergovernmental	-	-	-	-	19,234	19,234
Inventory	41,776	-	-	-	-	41,776
Prepays	7,384	-	-	-	-	7,384
Due from other funds	19,234	13,918	-	-	-	33,152
Total assets	2,055,846	2,574,899	193,430	2,227,428	1,267,042	8,318,645
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	245,650	500	-	16,494	13,230	275,874
Contracts payable	-	-	-	-	93,000	93,000
Accrued liabilities	156,081	-	-	-	1,819	157,900
Due to other funds	13,918	-	-	-	19,234	33,152
Deferred revenue	316,389	-	21,632	-	-	338,021
Total liabilities	732,038	500	21,632	16,494	127,283	897,947
Fund balances:						
Nonspendable:						
Inventories	41,776	-	-	-	-	41,776
Prepays	7,384	-	-	-	-	7,384
Restricted for:						
Court security and technology	240,238	-	-	-	-	240,238
Debt service	-	-	171,798	-	-	171,798
Economic development	-	2,574,399	-	-	-	2,574,399
Capital projects	-	-	-	2,210,934	-	2,210,934
Industrial development	-	-	-	-	21	21
Library operations	-	-	-	-	7,091	7,091
Public safety	-	-	-	-	715,392	715,392
Tourism	-	-	-	-	417,255	417,255
Unassigned	1,034,410	-	-	-	-	1,034,410
Total fund balances	1,323,808	2,574,399	171,798	2,210,934	1,139,759	7,420,698
Total liabilities and fund balances	\$ 2,055,846	\$ 2,574,899	\$ 193,430	\$ 2,227,428	\$ 1,267,042	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.						18,273,856
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.						286,510
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.						(11,272,372)
Net position of governmental activities						\$ 14,708,692

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, 2013

	General	Economic Development Corporation	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes:						
Ad valorem	\$ 2,032,640	\$ -	\$ 1,037,903	\$ -	\$ -	\$ 3,070,543
Sales	2,568,173	233,487	-	-	-	2,801,660
Franchise	476,554	-	-	-	-	476,554
Hotel/motel	-	-	-	-	324,457	324,457
Other	48,192	-	-	-	-	48,192
Services to others	6,104	-	-	-	-	6,104
Licenses and permits	59,594	-	-	-	-	59,594
Fines and forfeitures	968,363	-	-	-	154,839	1,123,202
Intergovernmental	17,500	-	-	-	313,533	331,033
Interest and penalties	63,139	12,586	27,981	2,821	4,942	111,469
Rentals	85,570	-	-	-	7,095	92,665
Charges for services	297,450	-	-	-	-	297,450
Cemetery lot sales and fees	27,850	-	-	-	-	27,850
Contributions	69,010	-	-	-	723	69,733
Other	58,508	59,675	-	-	572	118,755
Total revenues	<u>6,778,647</u>	<u>305,748</u>	<u>1,065,884</u>	<u>2,821</u>	<u>806,161</u>	<u>8,959,261</u>
EXPENDITURES						
Current:						
Personnel	5,084,882	17,607	-	143,515	63,112	5,309,116
Supplies	537,523	-	-	-	14,066	551,589
Services	983,867	8,590	5,300	-	301,124	1,298,881
Maintenance	217,103	5,000	-	-	8,008	230,111
Minor equipment	69,374	-	-	-	44,084	113,458
Capital outlay	227,707	-	-	503,269	454,468	1,185,444
Debt service:						
Principal	81,509	-	625,000	-	55,392	761,901
Interest	10,243	-	378,456	-	18,172	406,871
Total expenditures	<u>7,212,208</u>	<u>31,197</u>	<u>1,008,756</u>	<u>646,784</u>	<u>958,426</u>	<u>9,857,371</u>
EXCESS (DEFICIENCY) OF REVENUES						
OVER (UNDER) EXPENDITURES	<u>(433,561)</u>	<u>274,551</u>	<u>57,128</u>	<u>(643,963)</u>	<u>(152,265)</u>	<u>(898,110)</u>
OTHER FINANCING SOURCES (USES)						
Operating transfers out	(8,323)	(12,000)	-	-	(21,000)	(41,323)
Capital leases	30,000	-	-	-	-	30,000
Operating transfers in	588,000	-	-	-	116,323	704,323
Total other financing sources (uses)	<u>609,677</u>	<u>(12,000)</u>	<u>-</u>	<u>-</u>	<u>95,323</u>	<u>693,000</u>
NET CHANGE IN FUND BALANCES	176,116	262,551	57,128	(643,963)	(56,942)	(205,110)
FUND BALANCES, BEGINNING	<u>1,147,692</u>	<u>2,311,848</u>	<u>114,670</u>	<u>2,854,897</u>	<u>1,196,701</u>	<u>7,625,808</u>
FUND BALANCES, ENDING	<u>\$ 1,323,808</u>	<u>\$ 2,574,399</u>	<u>\$ 171,798</u>	<u>\$ 2,210,934</u>	<u>\$ 1,139,759</u>	<u>\$ 7,420,698</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, 2013

Amounts reported for governmental activities in the Statement of Activities (page 12) are different because:

Net change in fund balances - total governmental funds (page 14)	\$(205,110)
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.	564,511
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(61,427)
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.	748,679
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>(51,511)</u>
Change in net position of governmental activities (page 12)	<u>\$ 995,142</u>

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

CITY OF HILLSBORO, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2013

ASSETS	Business-type Activities-Enterprise Fund			
	Water and Wastewater	Sanitation	Airport	Totals
Cash and investments	\$ 3,015,172	\$ 165,466	\$ 70,411	\$ 3,251,049
Accounts receivable	552,823	49,441	28,194	630,458
Intergovernmental receivable	9,504	-	5,934	15,438
Inventories	126,400	-	56,072	182,472
Other assets	143,988	-	-	143,988
Fixed assets	<u>8,967,345</u>	<u>99,656</u>	<u>870,174</u>	<u>9,937,175</u>
Total assets	<u>\$ 12,815,232</u>	<u>\$ 314,563</u>	<u>\$ 1,030,785</u>	<u>\$ 14,160,580</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 130,191	\$ 63,055	\$ 32,971	\$ 226,217
Customer deposits	227,920	-	-	227,920
Accrued liabilities	21,622	-	1,943	23,565
Accrued interest payable	21,323	-	-	21,323
Deferred revenue	-	-	50,000	50,000
Bonds payable	<u>385,000</u>	<u>-</u>	<u>-</u>	<u>385,000</u>
Total current liabilities	<u>786,056</u>	<u>63,055</u>	<u>84,914</u>	<u>934,025</u>
Long-term liabilities:				
Bonds payable	3,145,499	-	-	3,145,499
Vacation payable	<u>35,745</u>	<u>-</u>	<u>4,306</u>	<u>40,051</u>
Total long-term liabilities	<u>3,181,244</u>	<u>-</u>	<u>4,306</u>	<u>3,185,550</u>
Total liabilities	<u>3,967,300</u>	<u>63,055</u>	<u>89,220</u>	<u>4,119,575</u>
NET POSITION				
Net investment in capital assets	5,436,846	99,656	870,174	6,406,676
Unrestricted	<u>3,411,086</u>	<u>151,852</u>	<u>71,391</u>	<u>3,634,329</u>
Total net position	<u>\$ 8,847,932</u>	<u>\$ 251,508</u>	<u>\$ 941,565</u>	<u>\$ 10,041,005</u>

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

CITY OF HILLSBORO, TEXAS

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

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business-type Activities-Enterprise Fund			
	Water and Wastewater	Sanitation	Airport	Totals
OPERATING REVENUES				
Water and sewer sales	\$ 3,834,914	\$ -	\$ -	\$ 3,834,914
Other service charges	107,467	1,051,072	333,040	1,491,579
Miscellaneous income	66,477	-	-	66,477
Total operating revenues	<u>4,008,858</u>	<u>1,051,072</u>	<u>333,040</u>	<u>5,392,970</u>
OPERATING EXPENSES				
Water purchase	1,442,773	-	-	1,442,773
Personnel	756,077	-	43,735	799,812
Supplies	106,280	-	264,313	370,593
Services	371,606	804,750	48,391	1,224,747
Maintenance	254,876	7,575	912	263,363
Minor equipment	397	-	-	397
Depreciation and amortization	476,904	2,100	24,804	503,808
Total operating expenses	<u>3,408,913</u>	<u>814,425</u>	<u>382,155</u>	<u>4,605,493</u>
OPERATING INCOME (LOSS)	<u>599,945</u>	<u>236,647</u>	<u>(49,115)</u>	<u>787,477</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	1,671	-	-	1,671
Contributions	43,032	-	5,934	48,966
Special item	1,400,000	-	-	1,400,000
Interest expense	(52,979)	-	-	(52,979)
Total nonoperating revenues (expenses)	<u>1,391,724</u>	<u>-</u>	<u>5,934</u>	<u>1,397,658</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	1,991,669	236,647	(43,181)	2,185,135
OPERATING TRANSFERS FROM (TO) OTHER FUNDS	(358,000)	(305,000)	-	(663,000)
CHANGE IN NET POSITION	1,633,669	(68,353)	(43,181)	1,522,135
TOTAL NET POSITION, BEGINNING	<u>7,214,263</u>	<u>319,861</u>	<u>984,746</u>	<u>8,518,870</u>
TOTAL NET POSITION, ENDING	<u>\$ 8,847,932</u>	<u>\$ 251,508</u>	<u>\$ 941,565</u>	<u>\$ 10,041,005</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, 2013

	Business-type Activities - Enterprise Fund			
	Water and Wastewater	Sanitation	Airport	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 4,002,204	\$ 1,052,087	\$ 406,715	\$ 5,461,006
Cash payments to employees for services	(748,283)	-	(290,141)	(1,038,424)
Cash payments to suppliers for goods and services	(2,153,656)	(813,415)	(41,240)	(3,008,311)
Cash provided (used) by operating activities	<u>1,100,265</u>	<u>238,672</u>	<u>75,334</u>	<u>1,414,271</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash paid (to)/from other funds	(190,177)	(305,000)	-	(495,177)
Cash used for noncapital financing activities	<u>(190,177)</u>	<u>(305,000)</u>	<u>-</u>	<u>(495,177)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal repayments on debt	(568,777)	-	-	(568,777)
Capital lease payments	(24,705)	-	-	(24,705)
Interest and fiscal charges on debt	(50,823)	-	-	(50,823)
Capital contributions	1,432,450	-	-	1,432,450
Acquisition and construction of capital assets	(179,199)	-	(5,039)	(184,238)
Cash provided (used) by capital and related financing activities	<u>608,946</u>	<u>-</u>	<u>(5,039)</u>	<u>603,907</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	<u>1,671</u>	<u>-</u>	<u>-</u>	<u>1,671</u>
Cash provided by investing activities	<u>1,671</u>	<u>-</u>	<u>-</u>	<u>1,671</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>1,520,705</u>	<u>(66,328)</u>	<u>70,295</u>	<u>1,524,672</u>
CASH AND CASH EQUIVALENTS, BEGINNING	<u>1,494,467</u>	<u>231,794</u>	<u>116</u>	<u>1,726,377</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 3,015,172</u>	<u>\$ 165,466</u>	<u>\$ 70,411</u>	<u>\$ 3,251,049</u>

(continued)

CITY OF HILLSBORO, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	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)	\$ 599,945	\$ 236,647	\$(49,115)	\$ 787,477
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	476,904	2,100	24,804	503,808
Change in assets and liabilities:				
Decrease (increase) in accounts receivable	(8,971)	1,015	23,675	15,719
Increase (decrease) in accounts payable	27,585	(1,090)	30,415	56,910
Increase (decrease) in accrued liabilities	3,647	-	303	3,950
Increase (decrease) in vacation payable	4,147	-	2,192	6,339
Increase (decrease) in customer deposits	2,317	-	-	2,317
Increase (decrease) in deferred revenue	-	-	50,000	50,000
Decrease (increase) in inventory	(5,309)	-	(6,940)	(12,249)
Total adjustments	<u>500,320</u>	<u>2,025</u>	<u>124,449</u>	<u>626,794</u>
Net cash provided by operating activities	<u>\$ 1,100,265</u>	<u>\$ 238,672</u>	<u>\$ 75,334</u>	<u>\$ 1,414,271</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, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

Based on these criteria, the financial information of the Economic Development Corporation has been blended within the financial statements.

Government-wide Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

The City reports the following major governmental funds:

The ***General Fund*** – is the general operating fund of the City. It is used to account for all financial resources except those 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, CDBG Grant Fund, HIF Grant Fund, Industrial Development Fund, Library Special Fund, Police Local Forfeiture, Police Federal Forfeiture, Police Special Fund and the Safe Route to Schools 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.

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and wastewater function and various other functions of the 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 Position 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.

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, 2013, 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 2013 were levied October 1, 2012, at the rate of \$.818331 per \$100 assessed valuation on a total taxable assessed valuation of \$384,132,433.

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.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or

estimated historical cost if purchased or constructed. Donated capital assets are recorded at 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:

Assets	Years
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, 2013.

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, 2013, 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 position. 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.

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 Position

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.

In the government-wide financial statements, net position represent the difference between assets and liabilities. Net investment in capital assets 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 position is 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.

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, 2013, the City's deposit balance (cash and certificates of deposit) was \$4,256,034. The City's deposits at September 30, 2013 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.
- b. **Credit Risk:** It is the City's policy to limit investments to investment types with an investment quality rating no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days. The City's investments were rated AAAM by Standard and Poor's Investors Services.
- c. **Interest Rate Risk:** In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to 90 days or less, dependent on market conditions.
- d. **Concentration of Credit Risk:** The government's investment policy states the maximum percentage allowed for each different investment instrument that can be used to make up the portfolio.

At September 30, 2013, the primary government's investments consisted of:

	Fair Value
TexStar	\$ 2,269,339
Texas Term	3,455,710
State Treasurer's Investment Pool (TexPool)	555,884
	<u>\$ 6,280,933</u>

At September 30, 2013 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:

	Governmental Funds			Nonmajor Funds	Enterprise Funds			Totals
	General	Debt Service	EDC		Water and Wastewater	Sanitation	Airport	
Receivables:								
Accounts:								
Customers	\$ -	\$ -	\$ -	\$ -	\$ 552,823	\$ 49,441	\$ 28,194	\$ 630,458
Taxes:								
Property	228,759	115,277	-	-	-	-	-	344,036
Sales tax	425,831	-	38,712	-	-	-	-	464,543
Other	27,668	-	-	56,509	-	-	-	84,177
Intergovernmental	-	-	-	19,234	9,504	-	5,934	34,672
Other	2,509,965	-	-	400	-	-	-	2,510,365
Gross receivables	3,192,223	115,277	38,712	76,143	562,327	49,441	34,128	4,068,251
Less: allowance for uncollectibles	(2,338,542)	(86,458)	-	-	-	-	-	(2,425,000)
Net total receivables	\$ 853,681	\$ 28,819	\$ 38,712	\$ 76,143	\$ 562,327	\$ 49,441	\$ 34,128	\$ 1,643,251

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)	\$ 43,419
Delinquent court fines receivable (general fund)	272,970
Delinquent property taxes receivable (debt service)	<u>21,632</u>
Total Governmental Funds	<u>\$ 338,021</u>

Capital Assets

Capital asset activity for the year ended September 30, 2013, was as follows:

	Beginning Balance	Increase	Decrease	Adjustment	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 803,426	\$ -	\$ -	\$ -	\$ 803,426
Construction in progress	753,638	966,572	955,300	-	764,910
Total assets not being depreciated	<u>1,557,064</u>	<u>966,572</u>	<u>955,300</u>	<u>-</u>	<u>1,568,336</u>
Capital assets, being depreciated:					
Buildings and improvements	6,819,458	74,037	-	-	6,893,495
Machinery and equipment	4,239,374	306,604	36,658	6,999	4,516,319
Infrastructure	10,969,372	955,300	-	-	11,924,672
Total capital assets being depreciated	<u>22,028,204</u>	<u>1,335,941</u>	<u>36,658</u>	<u>6,999</u>	<u>23,334,486</u>
Accumulated depreciation:					
Buildings and improvements	2,868,393	180,146	-	-	3,048,539
Machinery and equipment	2,587,132	350,291	17,565	1,678	2,921,536
Infrastructure	702,130	238,493	-	-	940,623
Total accumulated depreciation	<u>6,157,655</u>	<u>768,930</u>	<u>17,565</u>	<u>1,678</u>	<u>6,910,698</u>
Total capital assets being depreciated, net	<u>15,870,549</u>	<u>567,011</u>	<u>19,093</u>	<u>5,321</u>	<u>16,423,788</u>
Governmental activities capital assets, net	<u>\$ 17,427,613</u>	<u>\$ 1,533,583</u>	<u>\$ 974,393</u>	<u>\$ 5,321</u>	<u>\$ 17,992,124</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 378,391	\$ -	\$ -	\$ -	\$ 378,391
Construction in progress - Water/Sewer	5,667	72,721	-	-	78,388
Construction in progress - Airport	-	5,039	-	-	5,039
Total assets not being depreciated	<u>384,058</u>	<u>77,760</u>	<u>-</u>	<u>-</u>	<u>461,818</u>
Capital assets, being depreciated:					
Buildings and improvements	5,865,462	-	-	(1)	5,865,461
Machinery and equipment	1,680,437	106,478	11,000	-	1,775,915
Infrastructure	14,410,108	-	2,375	-	14,407,733
Total capital assets being depreciated	<u>21,956,007</u>	<u>106,478</u>	<u>13,375</u>	<u>(1)</u>	<u>22,049,109</u>
Accumulated depreciation:					
Buildings and improvements	1,127,829	111,933	-	-	1,239,762
Machinery and equipment	1,391,233	77,913	11,000	-	1,458,146
Infrastructure	9,580,344	297,875	2,375	-	9,875,844
Total accumulated depreciation	<u>12,099,406</u>	<u>487,721</u>	<u>13,375</u>	<u>-</u>	<u>12,573,752</u>
Total capital assets being depreciated, net	<u>9,856,601</u>	<u>(381,243)</u>	<u>-</u>	<u>(1)</u>	<u>9,475,357</u>
Business-type activities capital assets, net	<u>\$ 10,240,659</u>	<u>\$ (303,483)</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ 9,937,175</u>

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

Governmental activities		
General government		\$ 160,798
Public safety		276,825
Public works		301,470
Community development		<u>29,837</u>
Total depreciation expense - governmental activities		<u>\$ 768,930</u>
Business-type activities:		
Water and wastewater		\$ 460,817
Sanitation		2,100
Airport		<u>24,804</u>
Total depreciation expense - business-type activities		<u>\$ 487,721</u>

Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2013, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
EDC	General	\$ 13,918
General	Nonmajor	<u>19,234</u>
Total		<u>\$ 33,152</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, 2013, are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General	Nonmajor	\$ 21,000
General	EDC	12,000
General	Sanitation	305,000
General	Water and wastewater	250,000
Nonmajor	Water and wastewater	100,000
Nonmajor	General	8,323
Nonmajor	Water and wastewater	<u>8,000</u>
Total		<u>\$ 704,323</u>

Long-term Debt

Long-term liability activity from the year ended September 30, 2013, was as follows:

	Debt Outstanding 09/30/12	Additions of New Debt	Retirements and Repayments	Adjustments	Debt Outstanding 09/30/13
<u>Governmental:</u>					
Certificates of obligation	\$ 235,000	\$ -	\$ 20,000	\$ -	\$ 215,000
General obligation bonds	10,480,000	-	625,000	-	9,855,000
Premium	252,604	-	16,916	-	235,688
Capital Leases	422,866	30,000	116,902	(1)	335,963
Net OPEB obligation	263,823	16,832	-	-	280,655
Vacation payable	259,048	21,671	-	-	280,719
	<u>11,913,341</u>	<u>68,503</u>	<u>778,818</u>	<u>(1)</u>	<u>11,203,025</u>
<u>Enterprise Fund</u>					
General obligation bonds	3,860,000	-	540,000	-	3,320,000
Premium	239,276	-	28,777	-	210,499
Capital Leases	24,705	-	24,705	-	-
Vacation payable	33,712	6,339	-	-	40,051
	<u>4,157,693</u>	<u>6,339</u>	<u>593,482</u>	<u>-</u>	<u>3,570,550</u>
 Total	 <u>\$ 16,071,034</u>	 <u>\$ 74,842</u>	 <u>\$ 1,372,300</u>	 <u>\$(1)</u>	 <u>\$ 14,773,575</u>

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

Debt outstanding as of September 30, 2013, consisted of the following:

	Purpose of Issue	Amount Issued	Amount Outstanding	Interest Rate
<u>Governmental</u>				
Certificates of obligation:				
2007 Series	City Hall renovations	\$ 315,000	\$ 215,000	4.53%
		<u>315,000</u>	<u>215,000</u>	
General obligation bonds:				
2006 Series	Street Improvements	4,000,000	3,070,000	3.75%-5.125%
2008 Series	Various improvements	2,000,000	1,705,000	4.625%-7.00%
2008 Series Premium		52,854	39,639	
2010 Series	Street Improvements	2,000,000	1,930,000	2.00%-4.05%
2010 Series Premium		43,967	37,372	
2010 Series	Refunding	1,525,000	450,000	2.00%-4.05%
2010 Series Premium		33,631	23,541	
2012 Series	Street Improvements	1,870,000	1,870,000	2.00%-3.00%
2012 Series Premium		87,406	83,036	
2012 Series	Refunding	895,000	830,000	2.00%-3.00%
2012 Series Premium		56,441	52,100	
		<u>12,564,299</u>	<u>10,090,688</u>	
Total Governmental Long-term		<u>12,879,299</u>	<u>10,305,688</u>	
<u>Enterprise Fund</u>				
General obligation bonds:				
2010 Series	Refunding	720,000	130,000	2.00%-4.25%
2010 Series Premium		32,895	13,158	
2012 Series	Refunding	3,520,000	3,190,000	2.00%-3.00%
2012 Series Premium		221,981	197,341	
		<u>4,494,876</u>	<u>3,530,499</u>	
Total Enterprise Fund		<u>4,494,876</u>	<u>3,530,499</u>	
		<u>\$ 17,374,175</u>	<u>\$ 13,836,187</u>	

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:	2014	\$ 20,000	\$ 9,740	\$ 29,740
	2015	20,000	8,833	28,833
	2016	20,000	7,928	27,928
	2017	25,000	7,021	32,021
	2018	25,000	5,889	30,889
	2019-2023	105,000	12,231	117,231
	2024-2028	-	-	-
		<u>215,000</u>	<u>51,642</u>	<u>266,642</u>
General Obligation Bonds:	2014	635,000	368,584	1,003,584
	2015	655,000	348,284	1,003,284
	2016	550,000	326,690	876,690
	2017	575,000	307,778	882,778
	2018	595,000	286,740	881,740
	2019-2023	3,245,000	1,080,893	4,325,893
	2024-2028	2,815,000	446,913	3,261,913
	2028-2032	785,000	56,412	841,412
		<u>9,855,000</u>	<u>3,222,294</u>	<u>13,077,294</u>
Total Governmental Debt:	2014	655,000	378,324	1,033,324
	2015	675,000	357,117	1,032,117
	2016	570,000	334,618	904,618
	2017	600,000	314,799	914,799
	2018	620,000	292,629	912,629
	2019-2023	3,350,000	1,093,124	4,443,124
	2024-2028	2,815,000	446,913	3,261,913
	2028-2032	785,000	56,412	841,412
		<u>10,070,000</u>	<u>3,273,936</u>	<u>13,343,936</u>
Total		<u>\$ 10,070,000</u>	<u>\$ 3,273,936</u>	<u>\$ 13,343,936</u>

Enterprise Fund debt requirements are as follows:

Year Ended September 30	Principal	Interest	Total Requirements
2014	\$ 385,000	\$ 85,294	\$ 470,294
2015	390,000	77,594	467,594
2016	335,000	69,550	404,550
2017	345,000	62,850	407,850
2018	350,000	55,950	405,950
2019-2023	<u>1,515,000</u>	<u>115,200</u>	<u>1,630,200</u>
Total	<u>\$ 3,320,000</u>	<u>\$ 466,438</u>	<u>\$ 3,786,438</u>

Advance Refunding

In 2012, the City issued \$6,285,000 of general obligation bonds, \$4,415,000 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 \$4,525,000 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 position. The reacquisition price exceeded the net carrying amount of the old debt by \$47,052. 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 13 years by \$664,834 and resulted in an economic gain of \$585,375.

Capital Leases

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

The assets acquired through capital leases are as follows:

	Asset
Governmental activities	
Assets:	
Roller and Dump Truck Trailer	\$ 151,000
Police Vehicles	185,635
EMS Vehicle/Equipment	250,000
HVAC system	30,000
Paver	<u>93,890</u>
Total	<u>\$ 710,525</u>
Water and Wastewater activities	
Wheel Loader	<u>\$ 113,700</u>
Total	<u>\$ 113,700</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2013, were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>
2014	\$ 145,408
2015	108,107
2016	<u>108,107</u>
Total minimum lease payments	361,622
Less: amount representing interest	<u>25,659</u>
Present value of minimum lease payments	<u>\$ 335,963</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 \$1,442,773 for water purchased from the District during the fiscal year ending September 30, 2013.

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.

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 2012	Plan Year 2013
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.

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	<u>09/30/13</u>			
Annual required contribution (ARC)			\$	512,183
Interest on Net Pension Obligation				-
Adjustment to the ARC				<u>-</u>
Annual Pension Cost (APC)				512,183
Contributions made			(<u>495,351)</u>
Increase (decrease) in net pension obligation				16,832
Net pension obligation/(Asset), beginning of year				<u>263,823</u>
Net pension obligation/(Asset), end of year			\$	<u><u>280,655</u></u>
<u>Accounting</u>	<u>Annual</u>	<u>Actual</u>	<u>Percentage</u>	<u>Net</u>
<u>Year</u>	<u>Pension</u>	<u>Contribution</u>	<u>of APC</u>	<u>Pension</u>
<u>Ending</u>	<u>Cost (APC)</u>	<u>Made</u>	<u>Contributed</u>	<u>Obligation</u>
09/30/11	\$ 516,613	\$ 443,216	86%	\$ 73,397
09/30/12	497,902	461,220	93%	36,682
09/30/13	512,183	495,351	97%	16,832

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Valuation Date	12/31/10	12/31/11	12/31/12
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 Equivalent Single Amortization Period	27.2 years; closed period	26.2 years; closed period	25.2 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.0%	7.0%
Projected Salary Increases*	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%
	2.1%	2.1%	2.1%

Funded Status and Funding Progress –

The funded status as of December 31, 2012, the most recent 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
12/31/2012	11,116,632	13,603,582	81.7%	2,486,950	4,030,361	61.7%

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.

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 completed during fiscal year 2011.

Risk Management

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

The City has experienced no significant reductions in coverage through the Pool over the past year.

There have been no insurance settlements exceeding Pool coverage for any of the past three years.

**REQUIRED
SUPPLEMENTARY INFORMATION**

CITY OF HILLSBORO, TEXAS

GENERAL FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Ad valorem	\$ 2,040,000	\$ 2,040,000	\$ 2,032,640	\$(7,360)
Sales, net of rebates	2,272,840	2,272,840	2,568,173	295,333
Franchise	490,000	490,000	476,554	(13,446)
Other	39,000	39,000	48,192	9,192
Services to others	4,500	4,500	6,104	1,604
Licenses and permits	54,150	54,150	59,594	5,444
Fines and forfeitures	902,200	902,200	968,363	66,163
Intergovernmental	78,800	78,800	17,500	(61,300)
Interest and penalties	45,000	45,000	63,139	18,139
Rentals	83,000	83,000	85,570	2,570
Charges for services	203,000	203,000	297,450	94,450
Cemetery lot sales and fees	26,300	26,300	27,850	1,550
Contributions	61,050	61,050	69,010	7,960
Other	48,760	48,760	58,508	9,748
Total revenues	6,348,600	6,348,600	6,778,647	430,047
EXPENDITURES				
Legislative:				
Personnel	300	300	298	2
Supplies	1,550	1,550	258	1,292
Services	21,150	21,150	22,574	(1,424)
	23,000	23,000	23,130	(130)
Administration:				
Personnel	246,075	246,075	256,390	(10,315)
Supplies	6,150	6,150	8,137	(1,987)
Services	149,250	149,250	132,665	16,585
Maintenance	4,500	4,500	5,123	(623)
Minor equipment	-	-	5,096	(5,096)
	405,975	405,975	407,411	(1,436)

(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, 2013

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES (Continued)				
Streets:				
Personnel	244,310	244,310	219,085	25,225
Supplies	59,450	59,450	38,934	20,516
Services	141,640	141,640	137,535	4,105
Maintenance	30,950	30,950	26,975	3,975
Debt service	37,300	37,300	37,300	-
	513,650	513,650	459,829	53,821
Police:				
Personnel	2,008,435	2,008,435	2,034,333	(25,898)
Supplies	152,450	152,450	214,745	(62,295)
Services	141,150	141,150	163,299	(22,149)
Maintenance	63,000	63,000	43,147	19,853
Minor equipment	2,000	2,000	29,290	(27,290)
Capital outlay	78,000	78,000	133,772	(55,772)
	2,445,035	2,445,035	2,618,586	(173,551)
Library:				
Personnel	279,550	279,550	274,291	5,259
Supplies	9,685	9,685	9,501	184
Services	39,490	39,490	50,410	(10,920)
Maintenance	15,000	15,000	12,534	2,466
Minor equipment	-	-	304	(304)
Capital outlay	32,500	32,500	70,432	(37,932)
	376,225	376,225	417,472	(41,247)
Fire:				
Personnel	1,122,285	1,122,285	1,269,504	(147,219)
Supplies	107,000	107,000	134,445	(27,445)
Services	105,700	105,700	109,683	(3,983)
Maintenance	23,200	23,200	26,791	(3,591)
Minor equipment	3,000	3,000	2,591	409
Debt service	54,500	54,500	54,452	48
	1,415,685	1,415,685	1,597,466	(181,781)

(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, 2013**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES (Continued)				
Municipal court:				
Personnel	142,195	142,195	144,471	(2,276)
Supplies	5,900	5,900	4,137	1,763
Services	56,350	56,350	89,074	(32,724)
Maintenance	2,500	2,500	966	1,534
Minor equipment	-	-	1,255	(1,255)
	<u>206,945</u>	<u>206,945</u>	<u>239,903</u>	<u>(32,958)</u>
Parks and recreation:				
Personnel	288,615	288,615	283,416	5,199
Supplies	26,000	26,000	30,640	(4,640)
Services	31,140	31,140	38,110	(6,970)
Maintenance	15,100	15,100	29,806	(14,706)
Minor equipment	1,500	1,500	6,671	(5,171)
Capital outlay	8,000	8,000	12,467	(4,467)
	<u>370,355</u>	<u>370,355</u>	<u>401,110</u>	<u>(30,755)</u>
Maintenance shop:				
Personnel	114,050	114,050	112,495	1,555
Supplies	73,475	73,475	70,647	2,828
Services	9,215	9,215	8,019	1,196
Maintenance	59,000	59,000	48,390	10,610
Minor equipment	-	-	7,870	(7,870)
Capital outlay	10,000	10,000	11,036	(1,036)
	<u>265,740</u>	<u>265,740</u>	<u>258,457</u>	<u>7,283</u>
Cemetery:				
Personnel	16,855	16,855	15,171	1,684
Supplies	3,200	3,200	253	2,947
Services	75,710	75,710	56,792	18,918
Maintenance	1,850	1,850	827	1,023
	<u>97,615</u>	<u>97,615</u>	<u>73,043</u>	<u>24,572</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, 2013

	Budget		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
EXPENDITURES (Continued)				
Community development:				
Personnel	132,635	132,635	132,995	(360)
Supplies	3,850	3,850	3,306	544
Services	121,060	121,060	110,748	10,312
Maintenance	6,500	6,500	9,218	(2,718)
Minor Equipment	500	500	302	198
	<u>264,545</u>	<u>264,545</u>	<u>256,569</u>	<u>7,976</u>
Legal:				
Personnel	31,625	31,625	32,249	(624)
Services	2,000	2,000	2,779	(779)
	<u>33,625</u>	<u>33,625</u>	<u>35,028</u>	<u>(1,403)</u>
Finance:				
Personnel	193,105	193,105	196,645	(3,540)
Supplies	3,800	3,800	4,693	(893)
Services	46,225	46,225	38,022	8,203
Maintenance	750	750	-	750
Minor equipment	1,500	1,500	1,655	(155)
	<u>245,380</u>	<u>245,380</u>	<u>241,015</u>	<u>4,365</u>
Information systems:				
Personnel	52,625	52,625	52,799	(174)
Supplies	850	850	1,849	(999)
Services	4,035	4,035	2,686	1,349
Maintenance	6,200	6,200	2,672	3,528
Minor equipment	-	-	11,947	(11,947)
Capital outlay	10,000	10,000	-	10,000
	<u>73,710</u>	<u>73,710</u>	<u>71,953</u>	<u>1,757</u>
Animal control:				
Personnel	47,445	47,445	42,097	5,348
Supplies	13,950	13,950	12,383	1,567
Services	3,350	3,350	2,358	992
Maintenance	10,200	10,200	10,302	(102)
Minor equipment	1,500	1,500	30	1,470
	<u>76,445</u>	<u>76,445</u>	<u>67,170</u>	<u>9,275</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, 2013

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
EXPENDITURES (Continued)				
Emergency Management:				
Personnel	59,170	59,170	18,643	40,527
Supplies	18,200	18,200	3,595	14,605
Services	34,500	34,500	19,113	15,387
Maintenance	2,300	2,300	352	1,948
Minor equipment	500	500	2,363	(1,863)
	<u>114,670</u>	<u>114,670</u>	<u>44,066</u>	<u>70,604</u>
Total expenditures	<u>6,928,600</u>	<u>6,928,600</u>	<u>7,212,208</u>	<u>(283,608)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(580,000)</u>	<u>(580,000)</u>	<u>(433,561)</u>	<u>146,439</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital lease	-	-	30,000	30,000
Operating transfers in	588,000	588,000	588,000	-
Operating transfers (out)	(8,000)	(8,000)	(8,323)	(323)
Total other financing sources (uses)	<u>580,000</u>	<u>580,000</u>	<u>609,677</u>	<u>29,677</u>
CHANGE IN FUND BALANCES	-	-	176,116	176,116
FUND BALANCES, BEGINNING	<u>1,147,692</u>	<u>1,147,692</u>	<u>1,147,692</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 1,147,692</u>	<u>\$ 1,147,692</u>	<u>\$ 1,323,808</u>	<u>\$ 176,116</u>

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

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, 2013

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Sales, net of rebates	198,090	198,090	233,487	35,397
Interest and penalties	7,000	7,000	12,586	5,586
Other	54,400	54,400	59,675	5,275
Total revenues	259,490	259,490	305,748	46,258
EXPENDITURES				
Community development:				
Personnel	17,998	17,998	17,607	391
Supplies	200	200	-	200
Services	1,604,390	1,604,390	8,590	1,595,800
Maintenance	12,500	12,500	5,000	7,500
	1,635,088	1,635,088	31,197	1,603,891
Total expenditures	1,635,088	1,635,088	31,197	1,603,891
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,375,598)	(1,375,598)	274,551	1,650,149
OTHER FINANCING SOURCES (USES)				
Operating transfers (out)	(12,000)	(12,000)	(12,000)	-
Total other financing sources (uses)	(12,000)	(12,000)	(12,000)	-
CHANGE IN FUND BALANCES	(1,387,598)	(1,387,598)	262,551	1,650,149
FUND BALANCES, BEGINNING	2,311,848	2,311,848	2,311,848	-
FUND BALANCES, ENDING	\$ 924,250	\$ 924,250	\$ 2,574,399	\$ 1,650,149

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

CITY OF HILLSBORO, TEXAS

**TMRS Analysis of Funding Progress
For the Year Ended September 30, 2013
(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
12/31/2010	9,225,141	12,297,814	75.0%	3,072,673	3,994,428	76.9%
12/31/2011	10,103,860	13,027,440	77.6%	2,923,580	4,069,166	71.8%
12/31/2012	11,116,632	13,603,582	81.7%	2,486,950	4,030,361	61.7%

CITY OF HILLSBORO, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION SEPTEMBER 30, 2013 (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 STATEMENTS

CITY OF HILLSBORO, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	Special Revenue Funds			
	Hotel/Motel Tax	Search and Rescue Equipment Grant	CDBG Grant	HIF Fund
ASSETS				
Cash and investments	\$ 454,677	\$ -	\$ -	\$ -
Taxes receivable	56,509	-	-	-
Accounts receivable	400	-	-	-
Intergovernmental receivable	-	19,234	-	-
Total assets	\$ 511,586	\$ 19,234	\$ -	\$ -
LIABILITIES				
Accounts payable	\$ 1,331	\$ -	\$ -	\$ -
Contracts payable	93,000	-	-	-
Accrued liabilities	-	-	-	-
Due to other funds	-	19,234	-	-
Total liabilities	94,331	19,234	-	-
FUND BALANCE				
Restricted for				
Industrial development	-	-	-	-
Library operations	-	-	-	-
Public safety	-	-	-	-
Tourism	417,255	-	-	-
Total fund balances	417,255	-	-	-
Total liabilities and fund equity	\$ 511,586	\$ 19,234	\$ -	\$ -

Special Revenue Funds						Capital Project	Total Nonmajor Governmental Funds
Industrial Development	Library Special	Police Local Forfeiture	Police Federal Forfeiture	Police Special	Safe Route To Schools	Capital Construction	
\$ 21	\$ 7,091	\$ 702,394	\$ 22,976	\$ 3,740	\$ -	\$ -	\$ 1,190,899
-	-	-	-	-	-	-	56,509
-	-	-	-	-	-	-	400
-	-	-	-	-	-	-	19,234
<u>\$ 21</u>	<u>\$ 7,091</u>	<u>\$ 702,394</u>	<u>\$ 22,976</u>	<u>\$ 3,740</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,267,042</u>
\$ -	\$ -	\$ -	\$ 9,180	\$ 2,719	\$ -	\$ -	\$ 13,230
-	-	-	-	-	-	-	93,000
-	-	1,819	-	-	-	-	1,819
-	-	-	-	-	-	-	19,234
-	-	<u>1,819</u>	<u>9,180</u>	<u>2,719</u>	-	-	<u>127,283</u>
21	-	-	-	-	-	-	21
-	7,091	-	-	-	-	-	7,091
-	-	700,575	13,796	1,021	-	-	715,392
-	-	-	-	-	-	-	417,255
<u>21</u>	<u>7,091</u>	<u>700,575</u>	<u>13,796</u>	<u>1,021</u>	-	-	<u>1,139,759</u>
<u>\$ 21</u>	<u>\$ 7,091</u>	<u>\$ 702,394</u>	<u>\$ 22,976</u>	<u>\$ 3,740</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,267,042</u>

CITY OF HILLSBORO, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Special Revenue Funds				
	Hotel/Motel Tax	Search and Rescue Equipment Grant	CDBG Grant	HIF Fund	Industrial Development
REVENUES					
Taxes	\$ 324,457	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	23,909	26,944	-	-
Fines and forfeitures	-	-	-	-	-
Interest	128	-	-	-	-
Rentals	7,095	-	-	-	-
Contributions	-	-	-	-	-
Other	572	-	-	-	-
Total revenues	<u>332,252</u>	<u>23,909</u>	<u>26,944</u>	<u>-</u>	<u>-</u>
EXPENDITURES					
Current:					
Personnel	-	-	-	-	-
Supplies	903	-	-	-	-
Services	177,010	14,333	-	100,000	-
Maintenance	2,601	-	-	-	-
Minor equipment	3,439	9,576	-	-	-
Capital outlay	-	-	34,944	-	-
Debt service:					
Principal	20,000	-	-	-	-
Interest	10,648	-	-	-	-
Total expenditures	<u>214,601</u>	<u>23,909</u>	<u>34,944</u>	<u>100,000</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>117,651</u>	<u>-</u>	<u>(8,000)</u>	<u>(100,000)</u>	<u>-</u>
OTHER FINANCING SOURCES(USES)					
Operating transfers in	-	-	8,000	100,000	-
Operating transfers out	<u>(21,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	96,651	-	-	-	-
FUND BALANCES, BEGINNING	<u>320,604</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21</u>
FUND BALANCES, ENDING	<u>\$ 417,255</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 21</u>

Special Revenue Funds					Capital Projects	Total Nonmajor Governmental Funds
Library Special	Police Local Forfeiture	Police Federal Forfeiture	Police Special	Safe Route To Schools	Capital Construction	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 324,457
-	-	-	-	262,680	-	313,533
-	132,509	22,330	-	-	-	154,839
-	4,800	7	-	-	7	4,942
-	-	-	-	-	-	7,095
-	-	-	723	-	-	723
-	-	-	-	-	-	572
<u>-</u>	<u>137,309</u>	<u>22,337</u>	<u>723</u>	<u>262,680</u>	<u>7</u>	<u>806,161</u>
-	63,112	-	-	-	-	63,112
-	5,416	7,530	217	-	-	14,066
-	9,269	19	493	-	-	301,124
-	4,000	1,407	-	-	-	8,008
-	8,106	20,363	2,600	-	-	44,084
25,270	103,540	5,915	-	262,680	22,119	454,468
-	35,392	-	-	-	-	55,392
-	7,524	-	-	-	-	18,172
<u>25,270</u>	<u>236,359</u>	<u>35,234</u>	<u>3,310</u>	<u>262,680</u>	<u>22,119</u>	<u>958,426</u>
(25,270)	(99,050)	(12,897)	(2,587)	-	(22,112)	(152,265)
-	-	-	-	-	8,323	116,323
-	-	-	-	-	-	(21,000)
(25,270)	(99,050)	(12,897)	(2,587)	-	(13,789)	(56,942)
<u>32,361</u>	<u>799,625</u>	<u>26,693</u>	<u>3,608</u>	<u>-</u>	<u>13,789</u>	<u>1,196,701</u>
\$ 7,091	\$ 700,575	\$ 13,796	\$ 1,021	\$ -	\$ -	\$ 1,139,759

COMPLIANCE SECTION



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

To the City Council
City of Hillsboro, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hillsboro, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City of Hillsboro, Texas's basic financial statements, and have issued our report thereon dated April 8, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Hillsboro, Texas
April 8, 2014