

City of



Annual Financial Report

For the Year Ended

September 30, 2016

CITY OF HILLSBORO, TEXAS

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SEPTEMBER 30, 2016

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P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hillsboro, Texas (the "City"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Waco, Texas
May 11, 2017

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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, 2016. We encourage readers to consider the information presented here in conjunction with the financial statements which can be found in the following section of this report.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceed its liabilities and deferred inflows of resources as of September 30, 2016, by \$26,137,853 (net position). Of this amount, \$692,598 (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 in the current year by \$1,099,963.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,049,323. Approximately 17% of this total amount, \$1,178,807, is unassigned fund balance available for use within the City's fund designation and fiscal policies.
- As of September 30, 2016, unassigned fund balance for the General Fund was \$1,178,807 or 16 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, deferred inflows and outflows of resources and liabilities, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, streets, 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, Hotel/Motel Tax, Texas Capital and Debt Service Funds, which are considered to be major funds. A budgetary comparison schedule has been provided for the General Fund, EDC and Hotel/Motel Tax Fund to demonstrate compliance with the annual appropriated budget in the required supplementary information section. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining fund statements elsewhere in this report.

Proprietary Funds. The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise funds to account for water, wastewater, 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 18 – 21 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 – 42 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 53 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, net position was \$26,137,853 as of September 30, 2016.

CITY OF HILLSBORO'S NET POSITION

| | Governmental Activities | | Business-type Activities | | Totals | |
|--------------------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Current assets | \$ 8,193,777 | \$ 8,667,473 | \$ 1,989,635 | \$ 3,204,368 | \$ 10,183,412 | \$ 11,871,841 |
| Capital assets | 19,303,818 | 18,718,931 | 11,902,373 | 10,984,472 | 31,206,191 | 29,703,403 |
| Total Assets | <u>27,497,595</u> | <u>27,386,404</u> | <u>13,892,008</u> | <u>14,188,840</u> | <u>41,389,603</u> | <u>41,575,244</u> |
| Total deferred outflows of resources | 1,205,224 | 427,273 | 198,155 | 99,868 | 1,403,379 | 527,141 |
| Liabilities | 845,383 | 819,549 | 600,825 | 768,150 | 1,446,208 | 1,587,699 |
| Noncurrent liabilities | 12,332,118 | 12,216,636 | 2,900,138 | 3,169,947 | 15,232,256 | 15,386,583 |
| Total Liabilities | <u>13,177,501</u> | <u>13,036,185</u> | <u>3,500,963</u> | <u>3,938,097</u> | <u>16,678,464</u> | <u>16,974,282</u> |
| Total deferred inflows of resources | 65,702 | 76,853 | 10,963 | 13,360 | 76,665 | 90,213 |
| Net position: | | | | | | |
| Net investment in capital assets | 10,226,139 | 8,806,706 | 9,511,060 | 8,220,171 | 19,737,199 | 17,026,877 |
| Restricted | 5,836,121 | 6,234,472 | - | - | 5,836,121 | 6,234,472 |
| Unrestricted | (502,644) | (340,539) | 1,067,177 | 2,117,080 | 564,533 | 1,776,541 |
| Total Net Position | <u>\$ 15,559,616</u> | <u>\$ 14,700,639</u> | <u>\$ 10,578,237</u> | <u>\$ 10,337,251</u> | <u>\$ 26,137,853</u> | <u>\$ 25,037,890</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 of \$692,598 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 | |
|---|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| REVENUES: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 1,280,875 | \$ 1,583,233 | \$ 5,175,592 | \$ 5,216,465 | \$ 6,456,467 | \$ 6,799,698 |
| Operating grants | 11,511 | 14,607 | - | - | 11,511 | 14,607 |
| Capital grants and contributions | 513,847 | 81,405 | 384,000 | 474,576 | 897,847 | 555,981 |
| General revenues: | | | | | | |
| Property taxes | 3,429,504 | 3,407,362 | - | - | 3,429,504 | 3,407,362 |
| Sales taxes | 3,004,748 | 2,797,640 | - | - | 3,004,748 | 2,797,640 |
| Franchise taxes | 468,741 | 496,830 | - | - | 468,741 | 496,830 |
| Hotel/motel taxes | 356,840 | 328,770 | - | - | 356,840 | 328,770 |
| Other taxes | 48,011 | 50,286 | - | - | 48,011 | 50,286 |
| Investment earnings | 95,224 | 88,368 | 4,216 | 1,426 | 99,440 | 89,794 |
| Miscellaneous | 96,415 | 185,359 | 41,829 | 36,614 | 138,244 | 221,973 |
| Total Revenues | <u>9,305,716</u> | <u>9,033,860</u> | <u>5,605,637</u> | <u>5,729,081</u> | <u>14,911,353</u> | <u>14,762,941</u> |
| EXPENSES: | | | | | | |
| General government | 2,019,231 | 1,927,350 | - | - | 2,019,231 | 1,927,350 |
| Public safety | 4,860,854 | 4,492,380 | - | - | 4,860,854 | 4,492,380 |
| Streets | 1,009,922 | 906,176 | - | - | 1,009,922 | 906,176 |
| Community development | 734,949 | 807,485 | - | - | 734,949 | 807,485 |
| Interest on long-term debt | 308,233 | 366,847 | - | - | 308,233 | 366,847 |
| Water and sewer | - | - | 3,668,390 | 3,593,989 | 3,668,390 | 3,593,989 |
| Sanitation | - | - | 826,006 | 808,906 | 826,006 | 808,906 |
| Airport | - | - | 383,805 | 289,482 | 383,805 | 289,482 |
| Total Expenses | <u>8,933,189</u> | <u>8,500,238</u> | <u>4,878,201</u> | <u>4,692,377</u> | <u>13,811,390</u> | <u>13,192,615</u> |
| INCREASES IN NET POSITION BEFORE TRANSFERS | 372,527 | 533,622 | 727,436 | 1,036,704 | 1,099,963 | 1,570,326 |
| GAIN ON SALE OF CAPITAL ASSET TRANSFERS | - | 10,753 | - | - | - | 10,753 |
| | <u>486,450</u> | <u>505,000</u> | <u>(486,450)</u> | <u>(505,000)</u> | <u>-</u> | <u>-</u> |
| CHANGE IN NET POSITION | 858,977 | 1,049,375 | 240,986 | 531,704 | 1,099,963 | 1,581,079 |
| NET POSITION, BEGINNING | 14,700,639 | 15,204,391 | 10,337,251 | 10,125,006 | 25,037,890 | 25,329,397 |
| PRIOR PERIOD ADJUSTMENT | - | <u>(1,553,127)</u> | - | <u>(319,459)</u> | - | <u>(1,872,586)</u> |
| NET POSITION, ENDING | <u>\$ 15,559,616</u> | <u>\$ 14,700,639</u> | <u>\$ 10,578,237</u> | <u>\$ 10,337,251</u> | <u>\$ 26,137,853</u> | <u>\$ 25,037,890</u> |

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

The City's net position increased by \$1,099,963 during the current fiscal year, which was less than the prior year increase of \$1,581,079. This was mainly due to increases in general government, public safety, streets and airport expenses as well as a decrease in charges for services. This was offset by increases in capital grants and contributions and sales tax revenue.

Governmental Activities. Governmental activities increased the City’s net position by \$858,977, thereby accounting for 78% of the total growth in the net position of the City. This increase was less than the prior year increase of \$1,049,375. Key elements of this are as follows:

- Public safety expense increased by \$368,474
- Streets expenses increased by 103,746
- Capital grants and contributions increased by 432,442

Business-type Activities. Business-type activities increased the City’s net position by \$240,986, accounting for 22% of the total growth in the net position of the City. This increase was less than the prior year increase of \$531,704. Key elements of this increase are as follows:

- Capital grants and contributions decreased by \$90,576
- Charges for services decreased by 40,873
- Airport expenses increased by 94,323

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 \$7,049,323. Approximately 17% of this total amount, \$1,178,807 constitutes unassigned fund balance. Refer to pages 13-16 of this report for a more detailed presentation of governmental fund balances.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,178,807, while total fund balance reached \$1,512,132.

The fund balance of the City’s General Fund increased by \$117,749 during the current fiscal year. This increase was less than the prior year increase of \$309,816. Key factors in this change is the increase in transfers out, as well as increases in personnel, supplies, services and maintenance expenditures. This was offset by an increase in property tax revenue.

The fund balance of the City’s Economic Development Corporation fund balance increased by \$86,392 during the current fiscal year. This increase was less than the prior year increase of \$140,329 primarily due to a decrease in other revenue.

The Hotel/Motel Tax fund balance increased by \$105,857 during the current fiscal year. This increase is more than the prior year increase of \$103,004 mainly due to an increase in in hotel/motel tax revenue as well as a decrease in services expenditures. This was offset by an increase in transfers out.

The Texas Capital Fund balance increased by \$50,000 during the current fiscal year. This increase is primarily due to transfers in.

The Debt Service Fund has a total fund balance of \$205,676 which was a \$17,237 increase over the prior year. This was slightly more than the prior year increase mainly due to decreased debt service expenditures.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the City's Enterprise Funds at the end of the year amounted to \$1,045,252. The increase in net position was \$240,986. 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 2016.

Budgeted revenues exceeded actual revenues by \$539,762 while total appropriations exceeded expenditures by \$172,695.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business type activities as of September 30, 2016, amounts to \$31,206,191 (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:

- Completion of sewer improvement projects of \$2,563,240
- Street improvements of \$1,349,490
- Acquired equipment for \$34,567

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

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total bonded debt of \$10,560,000. 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 33 – 35 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when preparing the City of Hillsboro's budget for the 2017 fiscal year. The property tax rate for the fiscal year 2017 remained the same at 0.806400 per \$100 assessed value. The fee schedule and water rates anticipate a slight increase (2%). 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 a 10% increase in health care costs.

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 Frank Johnson, City Manager, P.O. Box 568, Hillsboro, Texas 76645 or call (254) 582-3271.

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**BASIC
FINANCIAL STATEMENTS**

CITY OF HILLSBORO, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2016

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|---------------|
| ASSETS | | | |
| Cash and investments | \$ 6,570,798 | \$ 1,146,603 | \$ 7,717,401 |
| Receivables (net of allowances for uncollectibles): | | | |
| Taxes | 864,669 | - | 864,669 |
| Accounts | 156,469 | 632,502 | 788,971 |
| Intergovernmental | 336,889 | 86,995 | 423,884 |
| Other | 229,152 | - | 229,152 |
| Inventories | 34,395 | 123,535 | 157,930 |
| Prepays | 1,405 | - | 1,405 |
| Capital assets: | | | |
| Land | 803,426 | 378,391 | 1,181,817 |
| Buildings and improvements | 6,235,603 | 6,495,476 | 12,731,079 |
| Machinery and equipment | 5,595,693 | 1,802,297 | 7,397,990 |
| Infrastructure/water and wastewater distribution | 11,931,125 | 16,815,813 | 28,746,938 |
| Construction in progress | 3,653,643 | 8,881 | 3,662,524 |
| Less: accumulated depreciation | (8,915,672) | (13,598,485) | (22,514,157) |
| Total capital assets | 19,303,818 | 11,902,373 | 31,206,191 |
| Total assets | 27,497,595 | 13,892,008 | 41,389,603 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred charge on refunding | 149,135 | 21,935 | 171,070 |
| Deferred outflow related to TMRS | 1,056,089 | 176,220 | 1,232,309 |
| Total deferred outflows of resources | 1,205,224 | 198,155 | 1,403,379 |
| LIABILITIES | | | |
| Accounts payable | 374,020 | 261,882 | 635,902 |
| Accrued liabilities | 302,798 | 43,404 | 346,202 |
| Accrued interest payable | 68,565 | 16,793 | 85,358 |
| Unearned revenue | - | 39,110 | 39,110 |
| Customer deposits | - | 239,636 | 239,636 |
| Noncurrent liabilities: | | | |
| Due within one year | 762,541 | 350,768 | 1,113,309 |
| Due in more than one year | 11,569,577 | 2,549,370 | 14,118,947 |
| Total liabilities | 13,077,501 | 3,500,963 | 16,578,464 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflow related to TMRS | 65,702 | 10,963 | 76,665 |
| Total deferred inflows of resources | 65,702 | 10,963 | 76,665 |
| NET POSITION | | | |
| Net investment in capital assets | 10,226,139 | 9,532,995 | 19,759,134 |
| Restricted for: | | | |
| Economic development | 3,066,392 | - | 3,066,392 |
| Tourism | 1,565,955 | - | 1,565,955 |
| Court security and technology | 298,930 | - | 298,930 |
| Debt service | 205,676 | - | 205,676 |
| Other purposes | 549,168 | - | 549,168 |
| Unrestricted | (352,644) | 1,045,242 | 692,598 |
| Total net position | \$ 15,559,616 | \$ 10,578,237 | \$ 26,137,853 |

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, 2016

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|----------------------------------|----------------------|-------------------------|--|--|--|-----------------------------|----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Governmental activities: | | | | | | | |
| General government | \$ 2,019,231 | \$ 32,425 | \$ 9,376 | \$ - | \$(1,977,430) | \$ - | \$(1,977,430) |
| Public safety | 4,860,854 | 1,175,220 | 2,135 | - | (3,683,499) | - | (3,683,499) |
| Streets | 1,009,922 | - | - | 513,847 | (496,075) | - | (496,075) |
| Community development | 734,949 | 73,230 | - | - | (661,719) | - | (661,719) |
| Interest on long-term debt | 308,233 | - | - | - | (308,233) | - | (308,233) |
| Total governmental activities | <u>8,933,189</u> | <u>1,280,875</u> | <u>11,511</u> | <u>513,847</u> | <u>(7,126,956)</u> | <u>-</u> | <u>(7,126,956)</u> |
| Business-type activities: | | | | | | | |
| Water and sewer | 3,668,390 | 3,783,847 | - | 363,780 | - | 479,237 | 479,237 |
| Sanitation | 826,006 | 1,096,199 | - | - | - | 270,193 | 270,193 |
| Airport | 383,805 | 295,546 | - | 20,220 | - | (68,039) | (68,039) |
| Total business-type activities | <u>4,878,201</u> | <u>5,175,592</u> | <u>-</u> | <u>384,000</u> | <u>-</u> | <u>681,391</u> | <u>681,391</u> |
| Total | <u>\$ 13,811,390</u> | <u>\$ 6,456,467</u> | <u>\$ 11,511</u> | <u>\$ 897,847</u> | <u>(7,126,956)</u> | <u>681,391</u> | <u>(6,445,565)</u> |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property - general purposes | | | | | 2,554,296 | - | 2,554,296 |
| Property - debt service | | | | | 875,208 | - | 875,208 |
| Sales taxes | | | | | 3,004,748 | - | 3,004,748 |
| Franchise taxes | | | | | 468,741 | - | 468,741 |
| Hotel/Motel taxes | | | | | 356,840 | - | 356,840 |
| Other taxes | | | | | 48,011 | - | 48,011 |
| Investment earnings | | | | | 95,224 | 4,216 | 99,440 |
| Miscellaneous | | | | | 96,415 | 41,829 | 138,244 |
| Transfers | | | | | 486,450 | (486,450) | - |
| Total general revenues | | | | | <u>7,985,933</u> | <u>(440,405)</u> | <u>7,545,528</u> |
| Change in net position | | | | | 858,977 | 240,986 | 1,099,963 |
| Net position, beginning | | | | | <u>14,700,639</u> | <u>10,337,251</u> | <u>25,037,890</u> |
| Net position ending | | | | | <u>\$ 15,559,616</u> | <u>\$ 10,578,237</u> | <u>\$ 26,137,853</u> |

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

CITY OF HILLSBORO, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2016

| | <u>General</u> | <u>Economic Development Corporation</u> | <u>Hotel/Motel Tax</u> | <u>Texas Capital Fund</u> |
|---|-------------------------|---|----------------------------|-------------------------------|
| ASSETS | | | | |
| Cash and investments | \$ 1,201,002 | \$ 3,050,830 | \$ 1,500,981 | \$ 570 |
| Receivables (net of allowance for uncollectibles): | | | | |
| Taxes | 674,052 | 45,051 | 66,611 | - |
| Accounts | 346,451 | - | - | - |
| Intergovernmental | - | - | - | 336,889 |
| Inventory | 34,395 | - | - | - |
| Due from other funds | 254,463 | - | - | - |
| Prepaid items | 1,405 | - | - | - |
| Total assets | <u>2,511,768</u> | <u>3,095,881</u> | <u>1,567,592</u> | <u>337,459</u> |
| LIABILITIES | | | | |
| Accounts payable | 308,144 | 8,232 | 1,637 | 50,625 |
| Accrued liabilities | 297,108 | 3,628 | - | - |
| Due to other funds | - | 17,629 | - | 236,834 |
| Total liabilities | <u>605,252</u> | <u>29,489</u> | <u>1,637</u> | <u>287,459</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenue - property taxes | 165,232 | - | - | - |
| Unavailable revenue - court fines | 229,152 | - | - | - |
| Total deferred inflows of resources | <u>394,384</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| FUND BALANCE | | | | |
| Nonspendable: | | | | |
| Inventory | 34,395 | - | - | - |
| Restricted: | | | | |
| Court security and technology | 298,930 | - | - | - |
| Debt service | - | - | - | - |
| Economic development | - | 3,066,392 | - | - |
| Industrial development | - | - | - | - |
| Library operations | - | - | - | - |
| Public safety | - | - | - | 50,000 |
| Tourism | - | - | 1,565,955 | - |
| Capital projects | - | - | - | - |
| Unassigned | <u>1,178,807</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total fund balances | <u>1,512,132</u> | <u>3,066,392</u> | <u>1,565,955</u> | <u>50,000</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 2,511,768</u> | <u>\$ 3,095,881</u> | <u>\$ 1,567,592</u> | <u>\$ 337,459</u> |

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

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

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

Net position of governmental activities

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

| <u>Debt Service</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|-------------------------|---|---|
| \$ 199,973 | \$ 617,442 | \$ 6,570,798 |
| 78,955 | - | 864,669 |
| - | 39,170 | 385,621 |
| - | - | 336,889 |
| - | - | 34,395 |
| - | - | 254,463 |
| - | - | 1,405 |
| <u>278,928</u> | <u>656,612</u> | <u>8,448,240</u> |
| - | 5,382 | 374,020 |
| - | 2,062 | 302,798 |
| - | - | 254,463 |
| <u>-</u> | <u>7,444</u> | <u>931,281</u> |
| 73,252 | - | 238,484 |
| - | - | 229,152 |
| <u>73,252</u> | <u>-</u> | <u>467,636</u> |
| - | - | 34,395 |
| - | - | 298,930 |
| 205,676 | - | 205,676 |
| - | - | 3,066,392 |
| - | 21 | 21 |
| - | 7,591 | 7,591 |
| - | 491,556 | 541,556 |
| - | - | 1,565,955 |
| - | 150,000 | 150,000 |
| - | - | 1,178,807 |
| <u>205,676</u> | <u>649,168</u> | <u>7,049,323</u> |
| <u>\$ 278,928</u> | <u>\$ 656,612</u> | |
| | | 19,303,818 |
| | | 399,071 |
| | | (11,192,596) |
| | | <u>\$ 15,559,616</u> |

CITY OF HILLSBORO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | General | Economic Development Corporation | Hotel/Motel Tax | Texas Capital Fund |
|--|--------------|--|--------------------|-----------------------|
| REVENUES | | | | |
| Taxes: | | | | |
| Ad valorem | \$ 2,553,497 | \$ - | \$ - | \$ - |
| Sales | 2,754,352 | 250,396 | - | - |
| Franchise | 468,741 | - | - | - |
| Hotel/motel | - | - | 356,840 | - |
| Other | 48,011 | - | - | - |
| Fines and forfeitures | 870,348 | - | - | - |
| Intergovernmental | 9,376 | - | - | 513,847 |
| Charges for services | 293,712 | - | - | - |
| Licenses and permits | 65,157 | - | - | - |
| Investment earnings | 56,994 | 14,619 | 390 | - |
| Rentals | 2,915 | - | 8,073 | - |
| Cemetery lot sales and fees | 22,545 | - | - | - |
| Contributions | 131,146 | - | - | - |
| Other | 59,694 | 10,410 | 632 | - |
| Total revenues | 7,336,488 | 275,425 | 365,935 | 513,847 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Personnel | 5,355,346 | 87,689 | 8,048 | - |
| Supplies | 424,253 | 239 | 967 | - |
| Services | 1,063,287 | 29,200 | 152,500 | 63,777 |
| Maintenance | 270,131 | 59,905 | 1,896 | - |
| Minor equipment | 19,838 | - | 2,045 | - |
| Capital outlay | 78,602 | - | - | 450,640 |
| Debt service: | | | | |
| Principal | 171,427 | - | 20,000 | - |
| Interest | 27,429 | - | 7,922 | - |
| Bond issuance costs | - | - | - | - |
| Total expenditures | 7,410,313 | 177,033 | 193,378 | 514,417 |
| EXCESS (DEFICIENCY) OF REVENUES | | | | |
| OVER (UNDER) EXPENDITURES | (73,825) | 98,392 | 172,557 | (570) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Issuance of long-term debt | - | - | - | - |
| Payment to escrow agent | - | - | - | - |
| Transfers in | 561,600 | - | - | 50,570 |
| Transfers out | (370,026) | (12,000) | (66,700) | - |
| Total other financing sources (uses) | 191,574 | (12,000) | (66,700) | 50,570 |
| NET CHANGE IN FUND BALANCES | 117,749 | 86,392 | 105,857 | 50,000 |
| FUND BALANCES, BEGINNING | 1,394,383 | 2,980,000 | 1,460,098 | - |
| FUND BALANCES, ENDING | \$ 1,512,132 | \$ 3,066,392 | \$ 1,565,955 | \$ 50,000 |

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

| Debt Service | Other Governmental Funds | Total Governmental Funds |
|-------------------|--------------------------------|--------------------------------|
| \$ 876,115 | \$ - | \$ 3,429,612 |
| - | - | 3,004,748 |
| - | - | 468,741 |
| - | - | 356,840 |
| - | - | 48,011 |
| - | 42,008 | 912,356 |
| - | - | 523,223 |
| - | - | 293,712 |
| - | - | 65,157 |
| 17,499 | 5,722 | 95,224 |
| - | - | 10,988 |
| - | - | 22,545 |
| - | - | 131,146 |
| - | 25,679 | 96,415 |
| <u>893,614</u> | <u>73,409</u> | <u>9,458,718</u> |
| - | 50,432 | 5,501,515 |
| - | 25,957 | 451,416 |
| 3,332 | 39,494 | 1,351,590 |
| - | 4,010 | 335,942 |
| - | - | 21,883 |
| - | 891,403 | 1,420,645 |
| 610,000 | 41,284 | 842,711 |
| 263,045 | 1,672 | 300,068 |
| 59,155 | - | 59,155 |
| <u>935,532</u> | <u>1,054,252</u> | <u>10,284,925</u> |
| (41,918) | (980,843) | (826,207) |
| 4,155,000 | - | 4,155,000 |
| (4,095,845) | - | (4,095,845) |
| - | 323,006 | 935,176 |
| - | - | (448,726) |
| <u>59,155</u> | <u>323,006</u> | <u>545,605</u> |
| 17,237 | (657,837) | (280,602) |
| <u>188,439</u> | <u>1,307,005</u> | <u>7,329,925</u> |
| <u>\$ 205,676</u> | <u>\$ 649,168</u> | <u>\$ 7,049,323</u> |

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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, 2016

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

| | |
|--|-------------------|
| Net change in fund balances - total governmental funds | \$(280,602) |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period. | 584,887 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | (153,002) |
| The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | 674,096 |
| 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>33,598</u> |
| Change in net position of governmental activities | <u>\$ 858,977</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, 2016

| ASSETS | Business-type Activities - Enterprise Funds | | | |
|---|---|-------------------|---------------------|----------------------|
| | Water and Wastewater | Sanitation | Airport | Totals |
| Cash and investments | \$ 999,938 | \$ 146,665 | \$ - | \$ 1,146,603 |
| Accounts receivable | 564,707 | 50,916 | 16,879 | 632,502 |
| Intergovernmental receivable | 67,346 | - | 19,649 | 86,995 |
| Inventories | 95,271 | - | 28,264 | 123,535 |
| Capital assets | <u>10,383,679</u> | <u>97,906</u> | <u>1,420,788</u> | <u>11,902,373</u> |
| Total assets | <u>12,110,941</u> | <u>295,487</u> | <u>1,485,580</u> | <u>13,892,008</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred charge on refunding | 21,935 | - | - | 21,935 |
| Deferred outflows related to TMRS | <u>161,556</u> | <u>-</u> | <u>14,664</u> | <u>176,220</u> |
| Total deferred outflows of resources | <u>183,491</u> | <u>-</u> | <u>14,664</u> | <u>198,155</u> |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | 167,978 | 70,843 | 23,061 | 261,882 |
| Customer deposits | 239,636 | - | - | 239,636 |
| Accrued liabilities | 40,439 | - | 2,965 | 43,404 |
| Accrued interest payable | 16,793 | - | - | 16,793 |
| Unearned revenue | - | - | 39,110 | 39,110 |
| Capital lease payable | 15,768 | - | - | 15,768 |
| Bonds payable | <u>335,000</u> | <u>-</u> | <u>-</u> | <u>335,000</u> |
| Total current liabilities | <u>815,614</u> | <u>70,843</u> | <u>65,136</u> | <u>951,593</u> |
| Noncurrent liabilities: | | | | |
| Capital lease payable | 34,798 | - | - | 34,798 |
| Bonds payable | 2,005,747 | - | - | 2,005,747 |
| Net pension liability | 439,621 | - | 39,905 | 479,526 |
| Accrued compensated absences | <u>29,299</u> | <u>-</u> | <u>-</u> | <u>29,299</u> |
| Total long-term liabilities | <u>2,509,465</u> | <u>-</u> | <u>39,905</u> | <u>2,549,370</u> |
| Total liabilities | <u>3,325,079</u> | <u>70,843</u> | <u>105,041</u> | <u>3,500,963</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred inflows related to TMRS | <u>10,051</u> | <u>-</u> | <u>912</u> | <u>10,963</u> |
| Total deferred inflows of resources | <u>10,051</u> | <u>-</u> | <u>912</u> | <u>10,963</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 8,014,301 | 97,906 | 1,420,788 | 9,532,995 |
| Unrestricted | <u>945,001</u> | <u>126,738</u> | <u>(26,497)</u> | <u>1,045,242</u> |
| Total net position | <u>\$ 8,959,302</u> | <u>\$ 224,644</u> | <u>\$ 1,394,291</u> | <u>\$ 10,578,237</u> |

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

CITY OF HILLSBORO, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Business-type Activities - Enterprise Funds | | | |
|---|---|-------------------|---------------------|----------------------|
| | Water and Wastewater | Sanitation | Airport | Totals |
| OPERATING REVENUES | | | | |
| Water and sewer sales | \$ 3,674,423 | \$ - | \$ - | \$ 3,674,423 |
| Other service charges | 109,424 | 1,096,199 | 295,546 | 1,501,169 |
| Miscellaneous | 41,829 | - | - | 41,829 |
| Total operating revenues | <u>3,825,676</u> | <u>1,096,199</u> | <u>295,546</u> | <u>5,217,421</u> |
| OPERATING EXPENSES | | | | |
| Water purchases | 1,632,563 | - | - | 1,632,563 |
| Personnel | 944,356 | - | 85,893 | 1,030,249 |
| Supplies | 100,727 | - | 193,071 | 293,798 |
| Services | 224,002 | 819,980 | 60,182 | 1,104,164 |
| Maintenance | 276,877 | 6,026 | 12,370 | 295,273 |
| Minor equipment | 6,910 | - | 122 | 7,032 |
| Depreciation and amortization | 435,357 | - | 32,167 | 467,524 |
| Total operating expenses | <u>3,620,792</u> | <u>826,006</u> | <u>383,805</u> | <u>4,830,603</u> |
| OPERATING INCOME (LOSS) | <u>204,884</u> | <u>270,193</u> | <u>(88,259)</u> | <u>386,818</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Interest income | 4,216 | - | - | 4,216 |
| Grants | 363,780 | - | 20,220 | 384,000 |
| Interest expense | (47,598) | - | - | (47,598) |
| Total nonoperating revenues (expenses) | <u>320,398</u> | <u>-</u> | <u>20,220</u> | <u>340,618</u> |
| INCOME (LOSS) BEFORE TRANSFERS | 525,282 | 270,193 | (68,039) | 727,436 |
| Transfers in | - | - | 18,550 | 18,550 |
| Transfers out | (250,000) | (255,000) | - | (505,000) |
| CHANGE IN NET POSITION | 275,282 | 15,193 | (49,489) | 240,986 |
| TOTAL NET POSITION, BEGINNING | <u>8,684,020</u> | <u>209,451</u> | <u>1,443,780</u> | <u>10,337,251</u> |
| TOTAL NET POSITION, ENDING | <u>\$ 8,959,302</u> | <u>\$ 224,644</u> | <u>\$ 1,394,291</u> | <u>\$ 10,578,237</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, 2016

| | Business-type Activities - Enterprise Funds | | | |
|---|---|-------------------|------------------|---------------------|
| | Water and Wastewater | Sanitation | Airport | Totals |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Cash received from customers | \$ 3,854,538 | \$ 1,095,703 | \$ 264,640 | \$ 5,214,881 |
| Cash payments to employees for services | (826,377) | - | (70,247) | (896,624) |
| Cash payments to suppliers for goods and services | (2,536,364) | (820,545) | (240,173) | (3,597,082) |
| Cash provided (used) by operating activities | <u>491,797</u> | <u>275,158</u> | <u>(45,780)</u> | <u>721,175</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Advances from other funds | - | - | 18,550 | 18,550 |
| Cash paid to other funds | (250,000) | (255,000) | - | (505,000) |
| Cash provided (used) by noncapital financing activities | <u>(250,000)</u> | <u>(255,000)</u> | <u>18,550</u> | <u>(486,450)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Principal repayments on debt | (372,988) | - | - | (372,988) |
| Capital grants | 466,316 | - | 20,220 | 486,536 |
| Interest and fiscal charges on debt | (49,610) | - | - | (49,610) |
| Acquisition and construction of capital assets | (1,372,889) | - | (8,880) | (1,381,769) |
| Cash provided (used) by capital and related financing activities | <u>(1,329,171)</u> | <u>-</u> | <u>11,340</u> | <u>(1,317,831)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Interest on investments | 4,216 | - | - | 4,216 |
| Cash provided by investing activities | <u>4,216</u> | <u>-</u> | <u>-</u> | <u>4,216</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | <u>(1,083,158)</u> | <u>20,158</u> | <u>(15,890)</u> | <u>(1,078,890)</u> |
| CASH AND CASH EQUIVALENTS, BEGINNING | <u>2,083,096</u> | <u>126,507</u> | <u>15,890</u> | <u>2,225,493</u> |
| CASH AND CASH EQUIVALENTS, ENDING | <u>\$ 999,938</u> | <u>\$ 146,665</u> | <u>\$ -</u> | <u>\$ 1,146,603</u> |

(continued)

CITY OF HILLSBORO, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Business-type Activities - Enterprise Fund | | | |
|--|--|-------------------|--------------------|-------------------|
| | Water and Wastewater | Sanitation | Airport | Totals |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | | | |
| Operating income (loss) | \$ 204,884 | \$ 270,193 | \$(88,259) | \$ 386,818 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | |
| Depreciation and amortization | 435,357 | - | 32,167 | 467,524 |
| Change in assets and liabilities: | | | | |
| Decrease (increase) in accounts receivable | 21,692 | (496) | (5,737) | 15,459 |
| Decrease (increase) in inventory | 30,481 | - | 7,016 | 37,497 |
| Decrease (increase) in prepaid expenses | - | - | - | - |
| Decrease (increase) in due from other governments | - | - | (19,649) | (19,649) |
| Decrease (increase) in deferred outflow related to TMRS | (90,286) | - | (11,657) | (101,943) |
| Increase (decrease) in accounts payable | (200,762) | 5,461 | 20,066 | (175,235) |
| Increase (decrease) in accrued liabilities | 7,912 | - | 360 | 8,272 |
| Increase (decrease) in unearned revenue | - | - | (5,520) | (5,520) |
| Increase (decrease) in customer deposits | 7,170 | - | - | 7,170 |
| Increase (decrease) in vacation payable | (9,972) | - | - | (9,972) |
| Increase (decrease) in net pension liability | 88,089 | - | 25,062 | 113,151 |
| Decrease (increase) in deferred inflow related to TMRS | (2,768) | - | 371 | (2,397) |
| Total adjustments | <u>286,913</u> | <u>4,965</u> | <u>42,479</u> | <u>334,357</u> |
| Net cash provided (used) by operating activities | <u>\$ 491,797</u> | <u>\$ 275,158</u> | <u>\$(45,780)</u> | <u>\$ 721,175</u> |

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

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CITY OF HILLSBORO, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

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

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

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

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

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

The City reports the following major proprietary funds:

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

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

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

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. Nonmajor special revenue funds include the Industrial Development Fund, Library Special Fund, Police Local Forfeiture Fund, Police Federal Forfeiture Fund, Police Special Fund, Main Street Fund, Street Improvement Fund and the Capital Projects Fund.

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, 2015, 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 2016 were levied October 1, 2015, at the rate of \$.818331 per \$100 assessed valuation on a total taxable assessed valuation of \$433,579,107.

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 acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

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

Pensions

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

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, 2016.

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 80 hours per year of vacation with pay (120 hours for firefighters); with three to nine years of service, 120 hours per year of vacation with pay (180 hours for firefighters); and with 10 years of service and longer, 160 hours per year of vacation with pay (240 hours for firefighters).

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

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, 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.

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

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, deferred outflows of resources 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.

Deferred outflows/inflows of resources

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

- Deferred charges on refundings – A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five year period.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item that qualifies for reporting in this category. The difference in expected and actual pension experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

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, 2016, the City’s deposit balance (cash and certificates of deposit) was \$4,100,879. The City’s deposits at September 30, 2016 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, 2016, the City’s investments consisted of:

| | <u>Net Asset Value</u> |
|---|------------------------|
| TexStar | \$ 734,596 |
| Texas Term | 2,356,750 |
| State Treasurer's Investment Pool (TexPool) | <u>558,715</u> |
| | <u>\$ 3,650,061</u> |

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

Receivables

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

| | Governmental Funds | | | | | | Enterprise Funds | | | Totals |
|------------------------------------|--------------------|--------------|-----------|-------------|---------------|----------------|----------------------|------------|-----------|--------------|
| | General | Debt Service | EDC | Hotel/Motel | Texas Capital | Nonmajor Funds | Water and Wastewater | Sanitation | Airport | |
| Receivables: | | | | | | | | | | |
| Accounts: | | | | | | | | | | |
| Customers | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 564,707 | \$ 50,916 | \$ 16,879 | \$ 632,502 |
| Taxes: | | | | | | | | | | |
| Property | 240,416 | 105,274 | - | - | - | - | - | - | - | 345,690 |
| Sales tax | 470,434 | - | 42,767 | 66,611 | - | - | - | - | - | 579,812 |
| Other | 23,306 | - | - | - | - | - | - | - | - | 23,306 |
| Intergovernmental | - | - | - | - | 336,889 | 39,170 | 67,346 | - | 19,649 | 463,054 |
| Other | 2,393,117 | - | 2,284 | - | - | - | - | - | - | 2,395,401 |
| Gross receivables | 3,127,273 | 105,274 | 45,051 | 66,611 | 336,889 | 39,170 | 632,053 | 50,916 | 36,528 | 4,439,765 |
| Less: allowance for uncollectibles | (2,106,770) | (26,319) | - | - | - | - | - | - | - | (2,133,089) |
| Net total receivables | \$ 1,020,503 | \$ 78,955 | \$ 45,051 | \$ 66,611 | \$ 336,889 | \$ 39,170 | \$ 632,053 | \$ 50,916 | \$ 36,528 | \$ 2,306,676 |
| Deferred inflows of resources | | | | | | | | | | |
| Property taxes | 165,232 | 73,252 | - | - | - | - | - | - | - | 238,484 |
| Court fines | 229,152 | - | - | - | - | - | - | - | - | 229,152 |
| Related to TMRS | - | - | - | - | - | - | 10,051 | - | 912 | 10,963 |
| Total deferred inflows | \$ 394,384 | \$ 73,252 | \$ - | \$ - | \$ - | \$ - | \$ 10,051 | \$ - | \$ 912 | \$ 478,599 |

Capital Assets

Capital asset activity for the year ended September 30, 2016, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---|-------------------|------------|--------------|----------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 803,426 | \$ - | \$ - | \$ 803,426 |
| Construction in progress | 2,304,153 | 1,349,490 | - | 3,653,643 |
| Total assets not being depreciated | 3,107,579 | 1,349,490 | - | 4,457,069 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 6,235,603 | - | - | 6,235,603 |
| Machinery and equipment | 5,644,095 | 34,567 | (82,969) | 5,595,693 |
| Infrastructure | 11,931,125 | - | - | 11,931,125 |
| Total capital assets being depreciated | 23,810,823 | 34,567 | (82,969) | 23,762,421 |
| Accumulated depreciation: | | | | |
| Buildings and improvements | (3,232,154) | (189,433) | - | (3,421,587) |
| Machinery and equipment | (3,549,707) | (358,829) | 70,555 | (3,837,981) |
| Infrastructure | (1,417,610) | (238,494) | - | (1,656,104) |
| Total accumulated depreciation | (8,199,471) | (786,756) | 70,555 | (8,915,672) |
| Total capital assets being depreciated, net | 15,611,352 | (752,189) | (12,414) | 14,846,749 |
| Governmental activities capital assets, net | \$ 18,718,931 | \$ 597,301 | \$ (12,414) | \$ 19,303,818 |

| | Beginning Balance | Increase | Decrease | Ending Balance |
|--|----------------------|---------------------|------------------------|----------------------|
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 378,391 | \$ - | \$ - | \$ 378,391 |
| Construction in progress - Water/Sewer | 1,190,352 | 1,372,888 | (2,563,240) | - |
| Construction in progress - Airport | - | 8,881 | - | 8,881 |
| Total assets not being depreciated | <u>1,568,743</u> | <u>1,381,769</u> | <u>(2,563,240)</u> | <u>387,272</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 6,495,476 | - | - | 6,495,476 |
| Machinery and equipment | 1,802,297 | - | - | 1,802,297 |
| Infrastructure | 14,252,573 | 2,563,240 | - | 16,815,813 |
| Total capital assets being depreciated | <u>22,550,346</u> | <u>2,563,240</u> | <u>-</u> | <u>25,113,586</u> |
| Accumulated depreciation: | | | | |
| Buildings and improvements | (1,475,595) | (124,546) | - | (1,600,141) |
| Machinery and equipment | (1,401,506) | (75,757) | - | (1,477,263) |
| Infrastructure | (10,257,516) | (263,565) | - | (10,521,081) |
| Total accumulated depreciation | <u>(13,134,617)</u> | <u>(463,868)</u> | <u>-</u> | <u>(13,598,485)</u> |
| Total capital assets being depreciated, net | <u>9,415,729</u> | <u>2,099,372</u> | <u>-</u> | <u>11,515,101</u> |
| Business-type activities capital assets, net | <u>\$ 10,984,472</u> | <u>\$ 3,481,141</u> | <u>\$ (2,563,240)</u> | <u>\$ 11,902,373</u> |

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

| | | |
|---|--|-------------------|
| Governmental activities | | |
| General government | | \$ 159,915 |
| Public safety | | 300,810 |
| Public works | | 238,929 |
| Community development | | <u>87,102</u> |
| Total depreciation expense - governmental activities | | <u>\$ 786,756</u> |
| Business-type activities: | | |
| Water and wastewater | | \$ 431,701 |
| Airport | | <u>32,167</u> |
| Total depreciation expense - business-type activities | | <u>\$ 463,868</u> |

Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2016, is as follows:

| Receivable Fund | Payable Fund | Amount |
|-----------------|--------------------|-------------------|
| General | EDC | \$ 17,629 |
| General | Texas Capital Fund | <u>236,834</u> |
| Total | | <u>\$ 254,463</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, 2016, are as follows:

| <u>Transfers In</u> | <u>Transfers Out</u> | <u>Amount</u> |
|---------------------|----------------------|-------------------|
| General | EDC | \$ 12,000 |
| General | Hotel/Motel | 44,600 |
| General | Sanitation | 255,000 |
| Airport | General | 18,550 |
| Texas Capital | General | 50,570 |
| Nonmajor | Hotel/Motel | 22,100 |
| General | Water and wastewater | 250,000 |
| Nonmajor | General | <u>300,906</u> |
| Total | | <u>\$ 953,726</u> |

Long-term Debt

Long-term liability activity from the year ended September 30, 2016, was as follows:

| | <u>Debt Outstanding 09/30/15</u> | <u>Additions</u> | <u>Retirements</u> | <u>Refundings</u> | <u>Debt Outstanding 09/30/16</u> |
|-------------------------------|--|---------------------|-----------------------|-----------------------|--|
| <u>Governmental:</u> | | | | | |
| Certificates of obligation | \$ 175,000 | \$ - | \$(20,000) | \$(155,000) | \$ - |
| General obligation bonds | 8,565,000 | 4,155,000 | (610,000) | (3,760,000) | 8,350,000 |
| Premium | 201,856 | - | (16,916) | (31,710) | 153,230 |
| Capital Leases | 867,730 | - | (212,711) | - | 655,019 |
| Net Pension Liability | 2,107,462 | 1,186,653 | (420,310) | - | 2,873,805 |
| Vacation payable | 299,588 | 476 | - | - | 300,064 |
| | <u>12,216,636</u> | <u>5,342,129</u> | <u>(1,279,937)</u> | <u>(3,946,710)</u> | <u>12,332,118</u> |
| <u>Enterprise Fund</u> | | | | | |
| General obligation bonds | 2,545,000 | - | (335,000) | - | 2,210,000 |
| Premium | 152,945 | - | (22,198) | - | 130,747 |
| Capital Leases | 66,356 | - | (15,790) | - | 50,566 |
| Net Pension Liability | 366,375 | 183,284 | (70,133) | - | 479,526 |
| Vacation payable | 39,271 | - | (9,972) | - | 29,299 |
| | <u>3,169,947</u> | <u>183,284</u> | <u>(453,093)</u> | <u>-</u> | <u>2,900,138</u> |
| Total | <u>\$ 15,386,583</u> | <u>\$ 5,525,413</u> | <u>\$(1,733,030)</u> | <u>\$(3,946,710)</u> | <u>\$ 15,232,256</u> |

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

Debt outstanding as of September 30, 2016, consisted of the following:

| | Purpose of Issue | Amount Issued | Amount Outstanding | Interest Rate |
|------------------------------|----------------------|-------------------|--------------------|---------------|
| <u>Governmental</u> | | | | |
| General obligation bonds: | | | | |
| 2008 Series | Various improvements | 2,000,000 | 195,000 | 4.625%-7.00% |
| 2010 Series | Street Improvements | 2,000,000 | 1,665,000 | 2.00%-4.05% |
| 2010 Series Premium | | 43,967 | 30,777 | |
| 2010 Series | Refunding | 1,525,000 | 110,000 | 2.00%-4.05% |
| 2010 Series Premium | | 33,631 | 13,453 | |
| 2012 Series | Street Improvements | 1,870,000 | 1,655,000 | 2.00%-3.00% |
| 2012 Series Premium | | 87,406 | 69,925 | |
| 2012 Series | Refunding | 895,000 | 630,000 | 2.00%-3.00% |
| 2012 Series Premium | | 56,441 | 39,075 | |
| 2016 Series | Refunding | 4,155,000 | 4,095,000 | 1.65% |
| | | <u>12,666,445</u> | <u>8,503,230</u> | |
| Total Governmental Long-term | | <u>12,666,445</u> | <u>8,503,230</u> | |
| <u>Enterprise Fund</u> | | | | |
| General obligation bonds: | | | | |
| 2012 Series | Refunding | 3,520,000 | 2,210,000 | 2.00%-3.00% |
| 2012 Series Premium | | 221,981 | 130,747 | |
| | | <u>4,494,876</u> | <u>2,340,747</u> | |
| Total Enterprise Fund | | <u>4,494,876</u> | <u>2,340,747</u> | |

Debt service requirements are as follows:

| | Year Ended September 30 | Principal | Interest | Total Requirements |
|---------------------------|----------------------------|---------------------|---------------------|-----------------------|
| General Obligation Bonds: | | | | |
| | 2017 | \$ 660,000 | \$ 215,299 | \$ 875,299 |
| | 2018 | 675,000 | 197,164 | 872,164 |
| | 2019 | 690,000 | 176,896 | 866,896 |
| | 2020 | 695,000 | 161,596 | 856,596 |
| | 2021 | 720,000 | 146,146 | 866,146 |
| | 2022-2026 | 3,395,000 | 481,076 | 3,876,076 |
| | 2027-2031 | 1,385,000 | 139,999 | 1,524,999 |
| | 2032-2036 | 130,000 | 3,900 | 133,900 |
| | Total | <u>\$ 8,350,000</u> | <u>\$ 1,522,076</u> | <u>\$ 9,872,076</u> |

Enterprise Fund debt requirements are as follows:

| | Year Ended September 30 | Principal | Interest | Total Requirements |
|--|----------------------------|---------------------|-------------------|-----------------------|
| | 2017 | \$ 345,000 | \$ 62,850 | \$ 407,850 |
| | 2018 | 350,000 | 55,950 | 405,950 |
| | 2019 | 365,000 | 45,450 | 410,450 |
| | 2020 | 370,000 | 34,500 | 404,500 |
| | 2021 | 385,000 | 23,400 | 408,400 |
| | 2022-maturity | <u>395,000</u> | <u>11,850</u> | <u>406,850</u> |
| | Total | <u>\$ 2,210,000</u> | <u>\$ 234,000</u> | <u>\$ 2,444,000</u> |

Capital Leases

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

The assets acquired through capital leases are as follows:

| | Asset |
|---------------------------------|---------------------|
| Governmental activities | |
| Assets: | |
| Roller and Dump Truck Trailer | \$ 151,000 |
| Police Vehicles | 185,635 |
| EMS Vehicle/Equipment | 250,000 |
| HVAC system | 30,000 |
| Paver | 93,890 |
| Backhoe | 119,252 |
| Fire Laddertruck | 848,215 |
| Fire Vehicle | <u>26,735</u> |
| Total | <u>\$ 1,704,727</u> |
| Water and Wastewater activities | |
| Wheel Loader | \$ 113,700 |
| Backhoe | <u>82,500</u> |
| Total | <u>\$ 196,200</u> |

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2016, were as follows:

| <u>Year Ending September 30,</u> | <u>Governmental Activities</u> |
|---|-------------------------------------|
| 2017 | \$ 124,434 |
| 2018 | 124,434 |
| 2019 | 98,698 |
| 2020 | 98,698 |
| 2021 | 98,698 |
| 2022-2026 | <u>197,396</u> |
| Total minimum lease payments | 742,358 |
| Less: amount representing interest | <u>87,339</u> |
| Present value of minimum lease payments | <u>\$ 655,019</u> |
| | |
| <u>Year Ending September 30,</u> | <u>Business-type Activities</u> |
| 2017 | \$ 18,048 |
| 2018 | 18,048 |
| 2019 | <u>18,047</u> |
| Total minimum lease payments | 54,143 |
| Less: amount representing interest | <u>3,577</u> |
| Present value of minimum lease payments | <u>\$ 50,566</u> |

Commitments

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

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

The City paid \$1,632,563 for water purchased from the District during the fiscal year ending September 30, 2016.

Retirement Plan

Texas Municipal Retirement System

Plan Description - The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agency multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.org.

All eligible employees of the City are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in over of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Beginning in 1996, the City granted an annually repeating (automatic) basis a monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 1996, the City provided on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

A summary of plan provisions for the City are as follows:

| | |
|-----------------------------------|---|
| Employee deposit rate | 5% |
| Matching ratio (City to employee) | 2 to 1 |
| Years required for vesting | 5 |
| Service retirement eligibility | 20 years to any age, 5 years at age 60 and above |
| Updated service credit | 100% Repeating, Transfers |
| Annuity increase to retirees | 70% of CPI Repeating |

Employees covered by benefit terms

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|--|------------|
| Inactive employees or beneficiaries currently receiving benefits | 55 |
| Inactive employees entitled to but not yet receiving benefits | 70 |
| Active employees | <u>101</u> |
| | <u>226</u> |

Contributions

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

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 11.23% and 10.75% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$488,084, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

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

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

Actuarial assumptions used in the December 31, 2015 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering the 2009 through 2011, and the dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS. The target allocation and best estimates of arithmetic real rates return for each major assets class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return (Arithmetic)</u> |
|-----------------------|--------------------------|--|
| Domestic Equity | 17.5% | 4.55% |
| International Equity | 17.5% | 6.10% |
| Core Fixed Income | 10.0% | 1.00% |
| Non-Core Fixed Income | 20.0% | 3.65% |
| Real Return | 10.0% | 4.03% |
| Real Estate | 10.0% | 5.00% |
| Absolute Return | 10.0% | 4.00% |
| Private Equity | <u>5.0%</u> | 8.00% |
| Total | 100.0% | |

Discount Rate

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

Changes in the Net Pension Liability

| | Increase (Decrease) | | |
|---|----------------------------|--------------------------------|---------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension |
| | (a) | (b) | (a) - (b) |
| Balance at 12/31/2014 | \$ 16,228,132 | \$ 13,754,295 | \$ 2,473,837 |
| Changes for the year: | | | |
| Service cost | 468,170 | - | 468,170 |
| Interest | 1,132,285 | - | 1,132,285 |
| Difference between expected and actual experience | (20,246) | - | (20,246) |
| Changes of assumptions | 15,413 | - | - |
| Contributions - employer | - | 490,443 | (490,443) |
| Contributions - employee | - | 218,363 | (218,363) |
| Net investment income | - | 20,295 | (20,295) |
| Benefit payments, including refunds of employee contributions | (573,439) | (573,439) | - |
| Administrative expense | - | (12,362) | 12,362 |
| Other changes | - | (611) | 611 |
| Net changes | <u>1,022,183</u> | <u>142,689</u> | <u>879,494</u> |
| Balance at 12/31/2015 | <u>\$ 17,250,315</u> | <u>\$ 13,896,984</u> | <u>\$ 3,353,331</u> |

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

| | 1% Decrease in Discount Rate (5.75%) | Discount Rate (6.75%) | 1% Increase in Discount Rate (7.75%) |
|------------------------------|--|--------------------------|--|
| City's net pension liability | \$ 6,124,749 | \$ 3,353,331 | \$ 1,117,690 |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. The report may be obtained on the Internet at www.tmr.org.

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

For the year ended September 30, 2016, the City recognized pension expense of \$623,952.

At September 30, 2016, the City reported deferred outflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual economic experience | \$ - | \$ 76,665 |
| Changes in actuarial assumptions | 11,400 | - |
| Difference between projected and actual investment earnings | 852,910 | - |
| Contributions subsequent to the measurement date | <u>367,999</u> | <u>-</u> |
| Total | <u>\$ 1,232,309</u> | <u>\$ 76,665</u> |

\$367,999 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expenses as follows:

| Year Ending December 31, | |
|-----------------------------|-------------------|
| 2017 | \$ 191,687 |
| 2018 | 191,687 |
| 2019 | 215,769 |
| 2020 | 188,502 |
| Thereafter | <u>-</u> |
| | <u>\$ 787,645</u> |

Contingencies

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

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

Economic Development Corporation Fund

The 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.

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**REQUIRED
SUPPLEMENTARY INFORMATION**

CITY OF HILLSBORO, TEXAS

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

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|-----------------------------|--------------|--------------|--------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes: | | | | |
| Ad valorem | \$ 2,512,000 | \$ 2,512,000 | \$ 2,553,497 | \$ 41,497 |
| Sales | 2,525,000 | 2,525,000 | 2,754,352 | 229,352 |
| Franchise | 485,500 | 485,500 | 468,741 | (16,759) |
| Other | 44,000 | 44,000 | 48,011 | 4,011 |
| Services to others | 5,000 | 5,000 | 5,193 | 193 |
| Licenses and permits | 55,300 | 55,300 | 65,157 | 9,857 |
| Fines and forfeitures | 959,750 | 959,750 | 870,348 | (89,402) |
| Intergovernmental | 750,000 | 750,000 | 9,376 | (740,624) |
| Interest and penalties | 52,000 | 52,000 | 56,994 | 4,994 |
| Rentals | 6,000 | 6,000 | 2,915 | (3,085) |
| Charges for services | 315,000 | 315,000 | 288,519 | (26,481) |
| Cemetery lot sales and fees | 24,800 | 24,800 | 22,545 | (2,255) |
| Contributions | 120,900 | 120,900 | 131,146 | 10,246 |
| Other | 21,000 | 21,000 | 59,694 | 38,694 |
| Total revenues | 7,876,250 | 7,876,250 | 7,336,488 | (539,762) |
| EXPENDITURES | | | | |
| Legislative: | | | | |
| Personnel | 310 | 310 | 316 | (6) |
| Supplies | 1,050 | 1,050 | 1,440 | (390) |
| Services | 22,450 | 22,450 | 12,581 | 9,869 |
| | 23,810 | 23,810 | 14,337 | 9,473 |
| Administration: | | | | |
| Personnel | 262,815 | 262,815 | 278,867 | (16,052) |
| Supplies | 6,775 | 6,775 | 6,887 | (112) |
| Services | 196,900 | 196,900 | 198,184 | (1,284) |
| Maintenance | 7,000 | 7,000 | 6,366 | 634 |
| Minor equipment | 4,000 | 4,000 | 1,986 | 2,014 |
| | 477,490 | 477,490 | 492,290 | (14,800) |
| Streets: | | | | |
| Personnel | 256,200 | 256,200 | 301,466 | (45,266) |
| Supplies | 49,000 | 49,000 | 24,179 | 24,821 |
| Services | 139,770 | 139,770 | 134,015 | 5,755 |
| Maintenance | 48,400 | 48,400 | 35,102 | 13,298 |
| Debt service - principal | 23,240 | 23,240 | 23,317 | (77) |
| Debt service - interest | 2,510 | 2,510 | 2,419 | 91 |
| | 519,120 | 519,120 | 520,498 | (1,378) |

(continued)

CITY OF HILLSBORO, TEXAS

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

GENERAL FUND

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|---------------------------------|------------------|------------------|------------------|---|
| | Original | Final | | |
| EXPENDITURES (Continued) | | | | |
| Police: | | | | |
| Personnel | 2,197,930 | 2,197,930 | 2,084,639 | 113,291 |
| Supplies | 166,700 | 166,700 | 143,998 | 22,702 |
| Services | 156,900 | 156,900 | 160,730 | (3,830) |
| Maintenance | 51,800 | 51,800 | 52,761 | (961) |
| Minor equipment | 7,000 | 7,000 | 7,367 | (367) |
| Capital outlay | 27,000 | 27,000 | 28,813 | (1,813) |
| | <u>2,607,330</u> | <u>2,607,330</u> | <u>2,478,308</u> | <u>129,022</u> |
| Library: | | | | |
| Personnel | 307,270 | 307,270 | 308,568 | (1,298) |
| Supplies | 12,050 | 12,050 | 9,055 | 2,995 |
| Services | 50,925 | 50,925 | 70,776 | (19,851) |
| Maintenance | 18,000 | 18,000 | 11,804 | 6,196 |
| Minor equipment | 1,000 | 1,000 | - | 1,000 |
| Capital outlay | 32,500 | 32,500 | 25,096 | 7,404 |
| Debt service - principal | 10,285 | 10,285 | 10,271 | 14 |
| Debt service - interest | 460 | 460 | 442 | 18 |
| | <u>432,490</u> | <u>432,490</u> | <u>436,012</u> | <u>(3,522)</u> |
| Fire: | | | | |
| Personnel | 1,128,680 | 1,128,680 | 1,110,648 | 18,032 |
| Supplies | 142,750 | 142,750 | 109,983 | 32,767 |
| Services | 125,700 | 125,700 | 133,053 | (7,353) |
| Maintenance | 19,000 | 19,000 | 24,021 | (5,021) |
| Minor equipment | 5,000 | 5,000 | 687 | 4,313 |
| Debt service - principal | 137,230 | 137,230 | 137,839 | (609) |
| Debt service - interest | 25,450 | 25,450 | 24,568 | 882 |
| | <u>1,583,810</u> | <u>1,583,810</u> | <u>1,540,799</u> | <u>43,011</u> |
| Municipal court: | | | | |
| Personnel | 172,180 | 172,180 | 197,241 | (25,061) |
| Supplies | 4,550 | 4,550 | 5,213 | (663) |
| Services | 51,600 | 51,600 | 56,330 | (4,730) |
| Maintenance | 2,500 | 2,500 | 23,046 | (20,546) |
| | <u>230,830</u> | <u>230,830</u> | <u>281,830</u> | <u>(51,000)</u> |

(continued)

CITY OF HILLSBORO, TEXAS

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

GENERAL FUND

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|---------------------------------|----------------|----------------|----------------|---|
| | Original | Final | | |
| EXPENDITURES (Continued) | | | | |
| Parks: | | | | |
| Personnel | 271,065 | 271,065 | 284,969 | (13,904) |
| Supplies | 33,100 | 33,100 | 24,302 | 8,798 |
| Services | 34,620 | 34,620 | 37,326 | (2,706) |
| Maintenance | 27,500 | 27,500 | 20,147 | 7,353 |
| Minor equipment | 3,000 | 3,000 | 115 | 2,885 |
| Capital outlay | 5,000 | 5,000 | 2,400 | 2,600 |
| | <u>374,285</u> | <u>374,285</u> | <u>369,259</u> | <u>5,026</u> |
| Recreation: | | | | |
| Personnel | 5,000 | 5,000 | 433 | 4,567 |
| Supplies | 1,000 | 1,000 | 1,144 | (144) |
| Services | 500 | 500 | 1,081 | (581) |
| Minor equipment | 1,000 | 1,000 | - | 1,000 |
| | <u>7,500</u> | <u>7,500</u> | <u>2,658</u> | <u>4,842</u> |
| Maintenance shop: | | | | |
| Personnel | 105,210 | 105,210 | 115,194 | (9,984) |
| Supplies | 73,975 | 73,975 | 81,117 | (7,142) |
| Services | 11,055 | 11,055 | 8,578 | 2,477 |
| Maintenance | 66,000 | 66,000 | 73,098 | (7,098) |
| Minor equipment | 4,000 | 4,000 | 4,641 | (641) |
| | <u>260,240</u> | <u>260,240</u> | <u>282,628</u> | <u>(22,388)</u> |
| Cemetery: | | | | |
| Personnel | 17,730 | 17,730 | 16,992 | 738 |
| Supplies | 2,450 | 2,450 | 1,025 | 1,425 |
| Services | 54,615 | 54,615 | 49,871 | 4,744 |
| Maintenance | 1,300 | 1,300 | 560 | 740 |
| | <u>76,095</u> | <u>76,095</u> | <u>68,448</u> | <u>7,647</u> |
| Community development: | | | | |
| Personnel | 143,885 | 143,885 | 143,936 | (51) |
| Supplies | 2,800 | 2,800 | 892 | 1,908 |
| Services | 21,850 | 21,850 | 15,621 | 6,229 |
| Maintenance | 7,000 | 7,000 | 5,289 | 1,711 |
| Minor equipment | 1,000 | 1,000 | 127 | 873 |
| Capital outlay | 17,000 | 17,000 | 17,539 | (539) |
| | <u>193,535</u> | <u>193,535</u> | <u>183,404</u> | <u>10,131</u> |

(continued)

CITY OF HILLSBORO, TEXAS

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

GENERAL FUND

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|---------------------------------|----------------|----------------|----------------|---|
| | Original | Final | | |
| EXPENDITURES (Continued) | | | | |
| Legal: | | | | |
| Personnel | 31,655 | 31,655 | 33,423 | (1,768) |
| Services | <u>1,800</u> | <u>1,800</u> | <u>4,023</u> | <u>(2,223)</u> |
| | <u>33,455</u> | <u>33,455</u> | <u>37,446</u> | <u>(3,991)</u> |
| Finance: | | | | |
| Personnel | 199,815 | 199,815 | 210,855 | (11,040) |
| Supplies | 5,000 | 5,000 | 4,084 | 916 |
| Services | 43,365 | 43,365 | 39,522 | 3,843 |
| Maintenance | 750 | 750 | - | 750 |
| Minor equipment | <u>10,000</u> | <u>10,000</u> | <u>1,965</u> | <u>8,035</u> |
| | <u>258,930</u> | <u>258,930</u> | <u>256,426</u> | <u>2,504</u> |
| Information systems: | | | | |
| Personnel | 105,820 | 105,820 | 109,940 | (4,120) |
| Supplies | 3,500 | 3,500 | 2,783 | 717 |
| Services | 10,890 | 10,890 | 4,162 | 6,728 |
| Maintenance | 4,900 | 4,900 | 3,951 | 949 |
| Minor equipment | 1,000 | 1,000 | 951 | 49 |
| Capital outlay | <u>10,000</u> | <u>10,000</u> | <u>4,573</u> | <u>5,427</u> |
| | <u>136,110</u> | <u>136,110</u> | <u>126,360</u> | <u>9,750</u> |
| Animal control: | | | | |
| Personnel | 40,445 | 40,445 | 49,573 | (9,128) |
| Supplies | 14,700 | 14,700 | 6,429 | 8,271 |
| Services | 3,450 | 3,450 | 2,580 | 870 |
| Maintenance | 10,500 | 10,500 | 10,970 | (470) |
| Minor equipment | <u>500</u> | <u>500</u> | <u>300</u> | <u>200</u> |
| | <u>69,595</u> | <u>69,595</u> | <u>69,852</u> | <u>(257)</u> |

(continued)

CITY OF HILLSBORO, TEXAS

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

GENERAL FUND

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|--|------------------|------------------|------------------|---|
| | Original | Final | | |
| EXPENDITURES (Continued) | | | | |
| Code Enforcement: | | | | |
| Personnel | 73,765 | 73,765 | 108,286 | (34,521) |
| Supplies | 3,550 | 3,550 | 1,722 | 1,828 |
| Services | 220,950 | 220,950 | 134,854 | 86,096 |
| Maintenance | 3,160 | 3,160 | 3,016 | 144 |
| Minor equipment | 1,800 | 1,800 | 1,699 | 101 |
| Capital outlay | - | - | 181 | (181) |
| | 303,225 | 303,225 | 249,758 | 53,467 |
| Total expenditures | 7,587,850 | 7,587,850 | 7,410,313 | 172,695 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 288,400 | 288,400 | (73,825) | (362,225) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 661,600 | 661,600 | 561,600 | (100,000) |
| Transfers out | (950,000) | (950,000) | (370,026) | 579,974 |
| Total other financing sources (uses) | (288,400) | (288,400) | 191,574 | 479,974 |
| NET CHANGE IN FUND BALANCE | - | - | 117,749 | 117,749 |
| FUND BALANCES, BEGINNING | 1,394,383 | 1,394,383 | 1,394,383 | - |
| FUND BALANCES, ENDING | \$ 1,394,383 | \$ 1,394,383 | \$ 1,512,132 | \$ 117,749 |

CITY OF HILLSBORO, TEXAS

ECONOMIC DEVELOPMENT CORPORATION FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|--|--------------|--------------|--------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes: | | | | |
| Sales | \$ 213,180 | \$ 213,180 | \$ 250,396 | \$ 37,216 |
| Interest and penalties | 9,000 | 9,000 | 14,619 | 5,619 |
| Other | 10,000 | 10,000 | 10,410 | 410 |
| Total revenues | 232,180 | 232,180 | 275,425 | 43,245 |
| EXPENDITURES | | | | |
| Community development: | | | | |
| Personnel | 82,790 | 82,790 | 87,689 | (4,899) |
| Supplies | 800 | 800 | 239 | 561 |
| Services | 462,320 | 462,320 | 29,200 | 433,120 |
| Maintenance | 1,040,000 | 1,040,000 | 59,905 | 980,095 |
| Minor equipment | 1,000 | 1,000 | - | 1,000 |
| | 1,586,910 | 1,586,910 | 177,033 | 1,409,877 |
| Total expenditures | 1,586,910 | 1,586,910 | 177,033 | 1,409,877 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (1,354,730) | (1,354,730) | 98,392 | 1,453,122 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | (62,000) | (62,000) | (12,000) | 50,000 |
| Total other financing sources (uses) | (62,000) | (62,000) | (12,000) | 50,000 |
| NET CHANGE IN FUND BALANCE | (1,416,730) | (1,416,730) | 86,392 | 1,503,122 |
| FUND BALANCES, BEGINNING | 2,980,000 | 2,980,000 | 2,980,000 | - |
| FUND BALANCES, ENDING | \$ 1,563,270 | \$ 1,563,270 | \$ 3,066,392 | \$ 1,503,122 |

CITY OF HILLSBORO, TEXAS

HOTEL/MOTEL TAX FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|--|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes: | | | | |
| Hotel/motel | \$ 280,000 | \$ 280,000 | \$ 356,840 | \$ 76,840 |
| Investment earnings | - | - | 390 | 390 |
| Rentals | 6,000 | 6,000 | 8,073 | 2,073 |
| Other | <u>395</u> | <u>395</u> | <u>632</u> | <u>237</u> |
| Total revenues | <u>286,395</u> | <u>286,395</u> | <u>365,935</u> | <u>79,540</u> |
| EXPENDITURES | | | | |
| Community development: | | | | |
| Personnel | 16,040 | 16,040 | 8,048 | 7,992 |
| Supplies | 1,400 | 1,400 | 967 | 433 |
| Services | 189,680 | 189,680 | 152,500 | 37,180 |
| Maintenance | 4,000 | 4,000 | 1,896 | 2,104 |
| Minor equipment | 2,750 | 2,750 | 2,045 | 705 |
| Debt service: | | | | |
| Principal | 20,000 | 20,000 | 20,000 | - |
| Interest | <u>7,925</u> | <u>7,925</u> | <u>7,922</u> | <u>3</u> |
| Total expenditures | <u>241,795</u> | <u>241,795</u> | <u>193,378</u> | <u>48,417</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 44,600 | 44,600 | 172,557 | 127,957 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | <u>(44,600)</u> | <u>(44,600)</u> | <u>(66,700)</u> | <u>(22,100)</u> |
| Total other financing sources (uses) | <u>(44,600)</u> | <u>(44,600)</u> | <u>(66,700)</u> | <u>(22,100)</u> |
| NET CHANGE IN FUND BALANCE | - | - | 105,857 | 105,857 |
| FUND BALANCES, BEGINNING | <u>1,460,098</u> | <u>1,460,098</u> | <u>1,460,098</u> | <u>-</u> |
| FUND BALANCES, ENDING | <u>\$ 1,460,098</u> | <u>\$ 1,460,098</u> | <u>\$ 1,565,955</u> | <u>\$ 105,857</u> |

CITY OF HILLSBORO, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| Plan Year | 2014 | 2015 |
|--|---------------------|---------------------|
| A. Total pension liability | | |
| Service Cost | \$ 438,226 | \$ 468,170 |
| Interest (on the Total Pension Liability) | 1,074,600 | 1,132,285 |
| Difference between expected and actual experience | (118,737) | (20,246) |
| Change of assumptions | - | 15,413 |
| Benefit payments, including refunds of employee contributions | (596,553) | (573,439) |
| Net change in total pension liability | 797,536 | 1,022,183 |
| Total pension liability - beginning | 15,430,596 | 16,228,132 |
| Total pension liability - ending (a) | \$ 16,228,132 | \$ 17,250,315 |
| B. Plan fiduciary net position | | |
| Contributions - employer | \$ 512,630 | \$ 490,443 |
| Contributions - employee | 220,014 | 218,363 |
| Net investment income | 737,398 | 20,295 |
| Benefit payments, including refunds of employee contributions | (596,553) | (573,439) |
| Administrative expenses | (7,698) | (12,362) |
| Other | (633) | (611) |
| Net change in plan fiduciary net position | 865,158 | 142,689 |
| Plan fiduciary net position - beginning | 12,889,137 | 13,754,295 |
| Plan fiduciary net position - ending (b) | \$ 13,754,295 | \$ 13,896,984 |
| C. Net pension liability - ending (a) - (b) | \$ 2,473,837 | \$ 3,353,331 |
| D. Plan fiduciary net position as a percentage of total pension liability | 85% | 81% |
| E. Covered employee payroll | \$ 4,400,270 | \$ 4,367,256 |
| F. Net position liability as a percentage of covered employee payroll | 56% | 77% |

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

CITY OF HILLSBORO, TEXAS
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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

NOTES TO SCHEDULE OF CONTRIBUTIONS

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

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|--|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percentage of Payroll, Closed |
| Remaining Amortization Period | 30 years |
| Asset Valuation Method | 10 Year smoothed market; 15% soft corridor |
| Inflation | 2.50% |
| Salary Increases | 3.50% to 10.50% including inflation |
| Investment Rate of Return | 6.75% |
| Retirement Age | Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014. |
| Mortality | RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis of with BB. |

Other Information There were no benefit changes during the year.

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

CITY OF HILLSBORO, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION SEPTEMBER 30, 2016

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 excess appropriations in other departments. Expenditures exceeded appropriations in the Economic Development Fund in the personnel functions. This excess expenditure was funded by excess appropriations in other functions. Expenditures did not exceed appropriations in the Hotel/Motel Fund.

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COMBINING STATEMENTS

CITY OF HILLSBORO, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

| | Special Revenue Funds | | | |
|-------------------------------------|---------------------------|-----------------|----------------------------|------------------------------|
| | Industrial Development | Library Special | Police Local Forfeiture | Police Federal Forfeiture |
| ASSETS | | | | |
| Cash and investments | \$ 21 | \$ 7,591 | \$ 434,258 | \$ 16,002 |
| Accounts receivable | - | - | 39,085 | - |
| Total assets | 21 | 7,591 | 473,343 | 16,002 |
| LIABILITIES | | | | |
| Accounts payable | - | - | 622 | - |
| Accrued liabilities | - | - | - | - |
| Total liabilities | - | - | 622 | - |
| FUND BALANCE | | | | |
| Resticted for: | | | | |
| Industrial development | 21 | - | - | - |
| Library operations | - | 7,591 | - | - |
| Public safety | - | - | 472,721 | 16,002 |
| Capital projects | - | - | - | - |
| Total fund balances | 21 | 7,591 | 472,721 | 16,002 |
| Total liabilities and fund balances | \$ 21 | \$ 7,591 | \$ 473,343 | \$ 16,002 |

| Special Revenue Funds | | Capital Projects Funds | | Total Nonmajor Governmental Funds |
|-----------------------|-----------------|------------------------|---------------------|--|
| Police Special | Main Street | Street Improvement | Capital Projects | |
| \$ 2,898 | \$ 4,314 | \$ 150,000 | \$ 2,358 | \$ 617,442 |
| - | 85 | - | - | 39,170 |
| <u>2,898</u> | <u>4,399</u> | <u>150,000</u> | <u>2,358</u> | <u>656,612</u> |
| 65 | 2,337 | - | 2,358 | 5,382 |
| - | 2,062 | - | - | 2,062 |
| <u>65</u> | <u>4,399</u> | <u>-</u> | <u>2,358</u> | <u>7,444</u> |
| - | - | - | - | 21 |
| - | - | - | - | 7,591 |
| 2,833 | - | - | - | 491,556 |
| - | - | 150,000 | - | 150,000 |
| <u>2,833</u> | <u>-</u> | <u>150,000</u> | <u>-</u> | <u>649,168</u> |
| <u>\$ 2,898</u> | <u>\$ 4,399</u> | <u>\$ 150,000</u> | <u>\$ 2,358</u> | <u>\$ 656,612</u> |

CITY OF HILLSBORO, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Special Revenue Funds | | | |
|--|---------------------------|-------------------------|----------------------------|------------------------------|
| | Industrial Development | Library Special Fund | Police Local Forfeiture | Police Federal Forfeiture |
| REVENUES | | | | |
| Fines and forfeitures | \$ - | \$ - | \$ 42,008 | \$ - |
| Investment earnings | - | - | 3,443 | 39 |
| Other | - | - | - | - |
| Total revenues | - | - | 45,451 | 39 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Personnel | - | - | - | - |
| Services | - | - | 120 | - |
| Supplies | - | - | - | - |
| Maintenance | - | - | 4,010 | - |
| Capital outlay | - | - | 39,802 | - |
| Debt service: | | | | |
| Principal | - | - | 41,284 | - |
| Interest | - | - | 1,672 | - |
| Total expenditures | - | - | 86,888 | - |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | - | - | (41,437) | 39 |
| OTHER FINANCING SOURCES(USES) | | | | |
| Transfers in | - | - | - | - |
| NET CHANGE IN FUND BALANCES | - | - | (41,437) | 39 |
| FUND BALANCES, BEGINNING | 21 | 7,591 | 514,158 | 15,963 |
| FUND BALANCES, ENDING | \$ 21 | \$ 7,591 | \$ 472,721 | \$ 16,002 |

| Special Revenue Funds | | Capital Projects Funds | | Total Nonmajor Governmental Funds |
|-----------------------|----------------|-------------------------------|---------------------|--|
| Police Special | Main Street | Street Improvement Fund | Capital Projects | |
| \$ - | \$ - | \$ - | \$ - | \$ 42,008 |
| - | 75 | - | 2,165 | 5,722 |
| - | 25,679 | - | - | 25,679 |
| - | 25,754 | - | 2,165 | 73,409 |
| - | 50,432 | - | - | 50,432 |
| 159 | 39,215 | - | - | 39,494 |
| 654 | 25,303 | - | - | 25,957 |
| - | - | - | - | 4,010 |
| - | - | - | 851,601 | 891,403 |
| - | - | - | - | 41,284 |
| - | - | - | - | 1,672 |
| 813 | 114,950 | - | 851,601 | 1,054,252 |
| (813) | (89,196) | - | (849,436) | (980,843) |
| - | 89,196 | 150,000 | 83,810 | 323,006 |
| (813) | - | 150,000 | (765,626) | (657,837) |
| 3,646 | - | - | 765,626 | 1,307,005 |
| \$ 2,833 | \$ - | \$ 150,000 | \$ - | \$ 649,168 |

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