



CITY OF HILLSBORO, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

SEPTEMBER 30, 2023

CITY OF HILLSBORO, TEXAS

ANNUAL FINANCIAL REPORT

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hillsboro, Texas (the "City") as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

OFFICE LOCATIONS

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2024, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Waco, Texas
June 13, 2024

Management's Discussion and Analysis

As management of the City of Hillsboro, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2023. 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, 2023, by \$39,384,197 (net position).
- The City's total net position increased in the current year by \$3,518,727, primarily due to the receipt of several federal grants including funds under the American Rescue Plan Act.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$16,688,318. Approximately 30% of this total amount, \$4,958,458, is unassigned fund balance available for use within the City's fund designation and fiscal policies.
- As of September 30, 2023, unassigned fund balance for the General Fund was \$4,974,360 or 39% 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 are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

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

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

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

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

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

The City maintains multiple governmental funds. Information is presented separately for the General Fund, the Economic Development Corporation Fund, the Hotel/Motel Tax Fund, the 2021 Bond Fund and the Debt Service Fund, which are considered to be major funds. A budgetary comparison schedule has been provided for the General Fund, the Economic Development Corporation Fund and the Hotel/Motel Tax Fund to demonstrate compliance with the annual appropriated budget in the required supplementary information section. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining fund statements elsewhere in this report.

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

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 immediately following the basic financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees. Additionally, budgetary schedules are provided for the General Fund and major special revenue funds to demonstrate compliance with the budget. Required supplementary information can be found immediately following the notes to the financial statements.

This report also presents combining fund statements for nonmajor funds that further support the information in the financial statements.

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 \$39,384,197 as of September 30, 2023.

NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2023	2022	2023	2022	2023	2022
Current and other assets	\$ 18,300,596	\$ 17,403,285	\$ 6,521,748	\$ 9,616,479	\$ 24,822,344	\$ 27,019,764
Capital assets	22,552,599	20,435,520	17,572,970	15,542,999	40,125,569	35,978,519
Total Assets	<u>40,853,195</u>	<u>37,838,805</u>	<u>24,094,718</u>	<u>25,159,478</u>	<u>64,947,913</u>	<u>62,998,283</u>
Deferred outflows of resources	1,920,169	717,588	400,276	114,986	2,320,445	832,574
Current liabilities	1,169,166	1,686,827	960,122	1,334,429	2,129,288	3,021,256
Noncurrent liabilities	14,417,500	12,425,259	10,973,201	11,028,212	25,390,701	23,453,471
Total Liabilities	<u>15,586,666</u>	<u>14,112,086</u>	<u>11,933,323</u>	<u>12,362,641</u>	<u>27,519,989</u>	<u>26,474,727</u>
Deferred inflows of resources	243,697	1,223,108	120,475	267,552	364,172	1,490,660
Net position:						
Net investment in capital assets	17,494,920	15,151,320	12,023,964	12,832,998	29,518,884	27,984,318
Restricted	6,053,373	5,482,890	-	-	6,053,373	5,482,890
Unrestricted	3,394,708	2,586,989	417,232	(188,727)	3,811,940	2,398,262
Total Net Position	<u>\$ 26,943,001</u>	<u>\$ 23,221,199</u>	<u>\$ 12,441,196</u>	<u>\$ 12,644,271</u>	<u>\$ 39,384,197</u>	<u>\$ 35,865,470</u>

By far, the largest portion of the City’s net position reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City’s investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted and may be used to meet the City’s ongoing obligations to its citizens and creditors. As of September 30, 2023, the City was able to report a positive balance in all three categories of net position.

CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2023	2022	2023	2022	2023	2022
REVENUES:						
Program revenues:						
Charges for services	\$ 1,224,328	\$ 1,017,433	\$ 6,500,043	\$ 6,163,724	\$ 7,724,371	\$ 7,181,157
Operating grants	1,238,016	312,211	-	-	1,238,016	312,211
General revenues:						
Property taxes	5,226,723	4,635,464	-	-	5,226,723	4,635,464
Sales taxes	5,482,627	5,042,249	-	-	5,482,627	5,042,249
Franchise taxes	648,122	597,313	-	-	648,122	597,313
Hotel/motel taxes	501,424	521,596	-	-	501,424	521,596
Other taxes	91,534	60,517	-	-	91,534	60,517
Unrestricted grants	1,104,313	343,498	656,573	-	1,760,886	343,498
Investment earnings	543,243	88,126	211,683	47,196	754,926	135,322
Miscellaneous	186,965	284,375	125,270	62,795	312,235	347,170
Total Revenues	<u>16,247,295</u>	<u>12,902,782</u>	<u>7,493,569</u>	<u>6,273,715</u>	<u>23,740,864</u>	<u>19,176,497</u>
EXPENSES:						
General government	3,252,835	2,762,166	-	-	3,252,835	2,762,166
Public safety	6,746,583	5,081,667	-	-	6,746,583	5,081,667
Streets	1,348,272	1,257,399	-	-	1,348,272	1,257,399
Community development	878,283	834,688	-	-	878,283	834,688
Interest on long-term debt	238,635	235,557	-	-	238,635	235,557
Water and sewer	-	-	6,249,661	4,824,883	6,249,661	4,824,883
Sanitation	-	-	903,788	866,368	903,788	866,368
Retail	-	-	66,304	-	66,304	-
Airport	-	-	537,776	388,510	537,776	388,510
Total Expenses	<u>12,464,608</u>	<u>10,171,477</u>	<u>7,757,529</u>	<u>6,079,761</u>	<u>20,222,137</u>	<u>16,251,238</u>
CHANGE IN NET POSITION BEFORE TRANSFERS	3,782,687	2,731,305	(263,960)	193,954	3,518,727	2,925,259
TRANSFERS	<u>(60,885)</u>	<u>282,500</u>	<u>60,885</u>	<u>(282,500)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	3,721,802	3,013,805	(203,075)	(88,546)	3,518,727	2,925,259
NET POSITION, BEGINNING	<u>23,221,199</u>	<u>20,207,394</u>	<u>12,644,271</u>	<u>12,732,817</u>	<u>35,865,470</u>	<u>32,940,211</u>
NET POSITION, ENDING	<u>\$ 26,943,001</u>	<u>\$ 23,221,199</u>	<u>\$ 12,441,196</u>	<u>\$ 12,644,271</u>	<u>\$ 39,384,197</u>	<u>\$ 35,865,470</u>

Governmental Activities. Governmental activities increased the City's net position by \$3,721,802. Key elements of this increase are as follows:

- Grant revenue increased by \$1,760,367
- Property tax revenue increased by 591,259
- Sales tax revenue increased by 440,378
- Investment earnings increased by 455,117

Business-type Activities. Business-type activities decreased the City's net position by \$203,075. Key elements of this decrease are as follows:

- Capital grants and contributions revenue decreased by \$73,747
- Water and sewer expenses increased by 1,424,778

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$16,688,318. Approximately 30% of this total amount, \$4,958,458 constitutes unassigned fund balance.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$4,974,360, while total fund balance reached \$5,317,141. This represents an increase of \$913,920 during the current fiscal year. This increase was primarily due to an increase in sales and property tax revenue, as well as intergovernmental revenue attributable to the spending of COVID-19 grant funds.

The fund balance of the City's Economic Development Corporation Fund increased by \$301,661 during the current fiscal year. This increase was primarily due to an increase in sales tax and investment earnings revenue. Sales tax revenues increased in conjunction with increased economic activity in the City.

The Hotel/Motel Tax Fund balance increased by \$223,552 during the current fiscal year. Hotel/Motel tax revenues were flat compared to the prior year, and expenditures only increased slightly, primarily due to inflation. This fund has reported similar increases to fund balance for several years; because the funds are restricted for the promotion of tourism, they are often accumulated over time for one-time expenditures.

The Debt Service Fund has a total fund balance of \$229,314, which was a \$95,133 increase over the prior year. This increase was due to an increase in property tax revenues discussed previously

The 2021 Bond Fund has a total fund balance of \$5,608,182 during the current fiscal year, which was a \$42,347 decrease over the prior year. This decrease was primarily due to an increase in capital outlay expenditures. The projects that will be funded by these bond proceeds have commenced and are expected to have significantly increased expenditures in future years.

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 \$417,232. The decrease in net position was \$203,075. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities. However, a notable change was the addition of the Retail Fund, a major enterprise fund. This fund was created upon purchase of a shopping center located along Interstate 35; it accounts for the rent income from tenants in the center, the operations and maintenance costs of the center, and the cost of the center itself, which is reported as an asset held for sale. The property will be held by the City for future development or sale.

General Fund Budgetary Highlights

Actual revenues exceeded budgeted revenues by \$1,106,052 while total appropriations exceeded expenditures by \$446,164 due to cost savings and a conservative method of budgeting contingent costs.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2023, amounts to \$40,125,569 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, and infrastructure.

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

- Purchase of land for approximately \$233,000
- Purchase of vehicles and heavy equipment totaling approximately \$639,000
- Capital expenditures for bond-funded water development projects of \$1,718,010
- Completion of the water meter replacement project, with a final cost of \$1,581,702

Additional information on the City's capital assets can be found in Note II to the financial statements.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total bonded debt of \$17,878,619. This amount includes bonded debt, backed by the full faith and credit of the City, as well as financing arrangements for purchasing equipment and vehicles.

For fiscal year 2023, total debt decreased. The City made scheduled principal payments of approximately \$1.7 million, while it also secured new financing of \$916,500. This new debt was used to purchase various equipment for City operations.

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

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

Additional information on the City's long term-debt can be found in Note II to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The fiscal year 2024 budget reflects the City's efforts to address the needs and issues of the community and meet desired levels of services while limiting expenditures to maintain a balanced budget. An increase in water/wastewater revenue is planned during this fiscal year, and funds from previous debt issuances and the American Recovery Plan Act are available to fund key projects as prioritized in the City's adopted Strategic Plan. In keeping with the Plan's emphasis on efficient, effective government, budgeted expenditures for each department have been based upon an evaluation of their impact and consistency with the City's approved priorities. A regular review of the core function of every City operation is instrumental in determining appropriate expenditure levels as we strive to maintain basic services and increase quality in key areas.

REQUESTS FOR INFORMATION

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

**BASIC
FINANCIAL STATEMENTS**

CITY OF HILLSBORO, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2023

	Governmental Activities	Business-type Activities	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and investments	\$ 11,203,360	\$ 5,404,373	\$ 16,607,733
Receivables (net of allowances for uncollectibles):			
Taxes	1,328,067	-	1,328,067
Accounts	281,329	883,811	1,165,140
Leases	-	67,527	67,527
Municipal court	358,655	-	358,655
Intergovernmental	300,237	-	300,237
Internal balances	4,803,237	(4,803,237)	-
Inventories	25,711	288,946	314,657
Assets held for sale	-	4,680,328	4,680,328
Capital assets not being depreciated	1,720,727	4,628,257	6,348,984
Capital assets, net of accumulated depreciation	<u>20,831,872</u>	<u>12,944,713</u>	<u>33,776,585</u>
Total assets	<u>40,853,195</u>	<u>24,094,718</u>	<u>64,947,913</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension related	<u>1,920,169</u>	<u>400,276</u>	<u>2,320,445</u>
Total deferred outflows of resources	<u>1,920,169</u>	<u>400,276</u>	<u>2,320,445</u>
LIABILITIES			
Accounts payable	787,574	498,938	1,286,512
Accrued liabilities	290,424	44,987	335,411
Accrued interest payable	84,337	76,566	160,903
Customer deposits	-	285,091	285,091
Arbitrage payable	6,831	54,540	61,371
Noncurrent liabilities:			
Due within one year - long-term debt	1,468,099	774,571	2,242,670
Due in more than one year:			
Long-term debt	9,687,610	9,518,678	19,206,288
Net pension liability	<u>3,261,791</u>	<u>679,952</u>	<u>3,941,743</u>
Total liabilities	<u>15,586,666</u>	<u>11,933,323</u>	<u>27,519,989</u>
DEFERRED INFLOWS OF RESOURCES			
Lease related	-	69,674	69,674
Pension related	<u>243,697</u>	<u>50,801</u>	<u>294,498</u>
Total deferred inflows of resources	<u>243,697</u>	<u>120,475</u>	<u>364,172</u>
NET POSITION			
Net investment in capital assets	17,494,920	12,023,964	29,518,884
Restricted for:			
Economic development	2,699,728	-	2,699,728
Tourism	2,471,785	-	2,471,785
Court security and technology	317,070	-	317,070
Debt service	186,720	-	186,720
Public safety	343,699	-	343,699
Library operations	34,371	-	34,371
Unrestricted	<u>3,394,708</u>	<u>417,232</u>	<u>3,811,940</u>
Total net position	<u>\$ 26,943,001</u>	<u>\$ 12,441,196</u>	<u>\$ 39,384,197</u>

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

CITY OF HILLSBORO, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2023

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Governmental activities:			
General government	\$ 3,252,835	\$ 168,669	\$ 25,164
Public safety	6,746,583	957,575	912,177
Streets	1,348,272	-	-
Community development	878,283	98,084	300,675
Interest on long-term debt	238,635	-	-
Total governmental activities	<u>12,464,608</u>	<u>1,224,328</u>	<u>1,238,016</u>
Business-type activities:			
Water and sewer	6,249,661	4,724,452	-
Sanitation	903,788	1,341,082	-
Retail	66,304	60,335	-
Airport	537,776	374,174	-
Total business-type activities	<u>7,757,529</u>	<u>6,500,043</u>	<u>-</u>
Total	<u>\$ 20,222,137</u>	<u>\$ 7,724,371</u>	<u>\$ 1,238,016</u>

General revenues:

Taxes:

 Property - general purposes

 Sales

 Franchise

 Hotel/motel

 Other

Grants and contributions not restricted to specific functions

Unrestricted investment earnings

Miscellaneous

Transfers

 Total general revenues and transfers

 Change in net position

Net position, beginning

Net position ending

Net (Expense) Revenue and
Changes in Net Position

Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
\$ -	\$ (3,059,002)	\$ -	\$ (3,059,002)
-	(4,876,831)	-	(4,876,831)
-	(1,348,272)	-	(1,348,272)
-	(479,524)	-	(479,524)
-	(238,635)	-	(238,635)
<u>-</u>	<u>(10,002,264)</u>	<u>-</u>	<u>(10,002,264)</u>
-	-	(1,525,209)	(1,525,209)
-	-	437,294	437,294
-	-	(5,969)	(5,969)
-	-	(163,602)	(163,602)
<u>656,573</u>	<u>-</u>	<u>(1,257,486)</u>	<u>(1,257,486)</u>
<u>\$ 656,573</u>	<u>(10,002,264)</u>	<u>(1,257,486)</u>	<u>(11,259,750)</u>
	5,226,723	-	5,226,723
	5,482,627	-	5,482,627
	648,122	-	648,122
	501,424	-	501,424
	91,534	-	91,534
	1,104,313	656,573	1,760,886
	543,243	211,683	754,926
	186,965	125,270	312,235
	(60,885)	60,885	-
	<u>13,724,066</u>	<u>1,054,411</u>	<u>14,778,477</u>
	3,721,802	(203,075)	3,518,727
	<u>23,221,199</u>	<u>12,644,271</u>	<u>35,865,470</u>
	<u>\$ 26,943,001</u>	<u>\$ 12,441,196</u>	<u>\$ 39,384,197</u>

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

CITY OF HILLSBORO, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2023

		Special Revenue	
	General	Economic Development Corporation	Hotel/Motel Tax
ASSETS			
Cash and investments	\$ 2,162,315	\$ 2,245,172	\$ 2,440,390
Receivables (net of allowance for uncollectibles):			
Taxes	1,079,120	73,444	105,374
Accounts	639,984	-	-
Due from other governments	37,468	-	-
Inventory	25,711	-	-
Due from other funds	<u>2,956,973</u>	<u>334,308</u>	<u>-</u>
Total assets	<u>6,901,571</u>	<u>2,652,924</u>	<u>2,545,764</u>
LIABILITIES			
Accounts payable	478,658	1,170	73,979
Accrued liabilities	285,758	2,595	-
Due to other funds	<u>334,308</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>1,098,724</u>	<u>3,765</u>	<u>73,979</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	127,051	-	-
Unavailable revenue - court fines	<u>358,655</u>	<u>-</u>	<u>-</u>
Total deferred inflows of resources	<u>485,706</u>	<u>-</u>	<u>-</u>
FUND BALANCE			
Nonspendable:			
Inventory	25,711	-	-
Restricted:			
Court security and technology	317,070	-	-
Debt service	-	-	-
Economic development	-	2,649,159	-
Library operations	-	-	-
Public safety	-	-	-
Tourism	-	-	2,471,785
Capital projects	-	-	-
Unassigned	<u>4,974,360</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>5,317,141</u>	<u>2,649,159</u>	<u>2,471,785</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 6,901,571</u>	<u>\$ 2,652,924</u>	<u>\$ 2,545,764</u>

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

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

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

Net position of governmental activities

	<u>Capital Projects</u>			
<u>Debt Service</u>	<u>2021 Bond</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	
\$ 200,928	\$ 3,737,945	\$ 416,610	\$ 11,203,360	
70,129	-	-	1,328,067	
-	-	-	639,984	
-	-	262,769	300,237	
-	-	-	25,711	
-	2,000,000	-	5,291,281	
<u>271,057</u>	<u>5,737,945</u>	<u>679,379</u>	<u>18,788,640</u>	
-	122,932	110,835	787,574	
-	6,831	2,071	297,255	
-	-	153,736	488,044	
-	<u>129,763</u>	<u>266,642</u>	<u>1,572,873</u>	
41,743	-	-	168,794	
-	-	-	358,655	
<u>41,743</u>	<u>-</u>	<u>-</u>	<u>527,449</u>	
-	-	-	25,711	
-	-	-	317,070	
229,314	-	-	229,314	
-	-	50,569	2,699,728	
-	-	34,371	34,371	
-	-	343,699	343,699	
-	-	-	2,471,785	
-	5,608,182	-	5,608,182	
-	-	(15,902)	4,958,458	
<u>229,314</u>	<u>5,608,182</u>	<u>412,737</u>	<u>16,688,318</u>	
\$ 271,057	\$ 5,737,945	\$ 679,379		
			22,552,599	
			527,449	
			<u>(12,825,365)</u>	
			<u>\$ 26,943,001</u>	

CITY OF HILLSBORO, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2023

	General	Special Revenue	
		Economic Development Corporation	Hotel/Motel Tax
REVENUES			
Taxes:			
Ad valorem	\$ 4,248,150	\$ -	\$ -
Sales	5,025,742	456,885	-
Franchise	648,122	-	-
Hotel/motel	-	-	501,424
Other	91,534	-	-
Fines and forfeitures	621,798	-	-
Charges for services	148,237	-	-
Intergovernmental	1,599,706	-	-
Licenses and permits	90,979	-	-
Investment earnings	238,005	102,237	6,683
Rentals	-	-	7,105
Cemetery lot sales and fees	27,925	-	-
Contributions	188,133	-	-
Miscellaneous	62,653	25,241	16,000
Total revenues	<u>12,990,984</u>	<u>584,363</u>	<u>531,212</u>
EXPENDITURES			
Current:			
General government	3,061,219	-	-
Public safety	6,169,112	-	-
Streets	987,938	-	-
Community development	324,134	270,702	188,660
Capital outlay	1,761,228	-	-
Debt service:			
Principal	352,841	-	-
Interest	29,404	-	-
Fees and costs of issuance	-	-	-
Total expenditures	<u>12,685,876</u>	<u>270,702</u>	<u>188,660</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>305,108</u>	<u>313,661</u>	<u>342,552</u>
OTHER FINANCING SOURCES (USES)			
Insurance recoveries	28,551	-	-
Issuance of long-term debt	846,857	-	-
Sale of capital assets	85,580	-	-
Transfers in	327,000	-	-
Transfers out	(679,176)	(12,000)	(119,000)
Total other financing sources (uses)	<u>608,812</u>	<u>(12,000)</u>	<u>(119,000)</u>
NET CHANGE IN FUND BALANCE	913,920	301,661	223,552
FUND BALANCE, BEGINNING	<u>4,403,221</u>	<u>2,347,498</u>	<u>2,248,233</u>
FUND BALANCE, ENDING	<u>\$ 5,317,141</u>	<u>\$ 2,649,159</u>	<u>\$ 2,471,785</u>

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

Debt Service	Capital Projects		Other Governmental Funds	Total Governmental Funds
	2021 Bond			
\$ 1,007,277	\$ -	\$ 24,541	\$ 5,279,968	
-	-	-	5,482,627	
-	-	-	648,122	
-	-	-	501,424	
-	-	-	91,534	
-	-	2,114	623,912	
-	-	-	148,237	
-	-	753,506	2,353,212	
-	-	-	90,979	
3,339	174,124	18,855	543,243	
-	-	-	7,105	
-	-	-	27,925	
-	-	4,455	192,588	
14,381	-	68,690	186,965	
<u>1,024,997</u>	<u>174,124</u>	<u>872,161</u>	<u>16,177,841</u>	
-	-	8,358	3,069,577	
-	-	169,926	6,339,038	
-	-	33,350	1,021,288	
-	-	-	783,496	
-	212,542	1,069,743	3,043,513	
730,000	-	24,172	1,107,013	
192,841	-	1,392	223,637	
7,023	-	-	7,023	
<u>929,864</u>	<u>212,542</u>	<u>1,306,941</u>	<u>15,594,585</u>	
<u>95,133</u>	<u>(38,418)</u>	<u>(434,780)</u>	<u>583,256</u>	
-	-	-	28,551	
-	-	-	846,857	
-	-	-	85,580	
-	-	426,220	753,220	
-	(3,929)	-	(814,105)	
-	<u>(3,929)</u>	<u>426,220</u>	<u>900,103</u>	
95,133	(42,347)	(8,560)	1,483,359	
<u>134,181</u>	<u>5,650,529</u>	<u>421,297</u>	<u>15,204,959</u>	
<u>\$ 229,314</u>	<u>\$ 5,608,182</u>	<u>\$ 412,737</u>	<u>\$ 16,688,318</u>	

CITY OF HILLSBORO, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED SEPTEMBER 30, 2023

Net change in fund balances - total governmental funds	\$ 1,483,359
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	2,117,079
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(44,677)
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.	252,471
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>(86,430)</u>
Change in net position of governmental activities	<u>\$ 3,721,802</u>

CITY OF HILLSBORO, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

SEPTEMBER 30, 2023

	Business-type Activities - Enterprise Funds				Totals
	Water and Wastewater	Sanitation	Retail	Nonmajor Enterprise Airport	
ASSETS					
Current assets:					
Cash and investments	\$ 4,925,013	\$ 450,667	\$ 28,593	\$ 100	\$ 5,404,373
Accounts receivable	795,148	66,452	-	22,211	883,811
Lease receivable	-	-	-	67,527	67,527
Inventories	242,327	-	-	46,619	288,946
Total current assets	<u>5,962,488</u>	<u>517,119</u>	<u>28,593</u>	<u>136,457</u>	<u>6,644,657</u>
Noncurrent assets:					
Assets held for sale	-	-	4,680,328	-	4,680,328
Capital assets not being depreciated	4,184,346	97,906	-	346,005	4,628,257
Capital assets net of accumulated depreciation	11,423,950	-	-	1,520,763	12,944,713
Total noncurrent assets	<u>15,608,296</u>	<u>97,906</u>	<u>4,680,328</u>	<u>1,866,768</u>	<u>22,253,298</u>
Total assets	<u>21,570,784</u>	<u>615,025</u>	<u>4,708,921</u>	<u>2,003,225</u>	<u>28,897,955</u>
DEFERRED OUTFLOWS OF RESOURCES					
Pension related	375,053	-	-	25,223	400,276
Total deferred outflows of resources	<u>375,053</u>	<u>-</u>	<u>-</u>	<u>25,223</u>	<u>400,276</u>
LIABILITIES					
Current liabilities:					
Accounts payable	385,072	72,433	10,740	30,693	498,938
Customer deposits	275,591	-	9,500	-	285,091
Accrued liabilities	41,645	-	-	3,342	44,987
Due to other funds	-	-	4,680,328	122,909	4,803,237
Accrued interest payable	76,566	-	-	-	76,566
Accrued compensated absences	27,126	-	-	5,223	32,349
Bonds payable	390,000	-	-	-	390,000
Financing arrangements	352,222	-	-	-	352,222
Total current liabilities	<u>1,548,222</u>	<u>72,433</u>	<u>4,700,568</u>	<u>162,167</u>	<u>6,483,390</u>
Noncurrent liabilities:					
Arbitrage payable	54,540	-	-	-	54,540
Bonds payable	8,408,619	-	-	-	8,408,619
Financing arrangements	1,077,711	-	-	-	1,077,711
Net pension liability	637,105	-	-	42,847	679,952
Accrued compensated absences	27,126	-	-	5,222	32,348
Total noncurrent liabilities	<u>10,205,101</u>	<u>-</u>	<u>-</u>	<u>48,069</u>	<u>10,253,170</u>
Total liabilities	<u>11,753,323</u>	<u>72,433</u>	<u>4,700,568</u>	<u>210,236</u>	<u>16,736,560</u>
DEFERRED INFLOWS OF RESOURCES					
Lease related	-	-	-	69,674	69,674
Pension related	47,600	-	-	3,201	50,801
Total deferred inflows of resources	<u>47,600</u>	<u>-</u>	<u>-</u>	<u>72,875</u>	<u>120,475</u>
NET POSITION					
Net investment in capital assets	10,059,290	97,906	-	1,866,768	12,023,964
Unrestricted	85,624	444,686	8,353	(121,431)	417,232
Total net position	<u>\$10,144,914</u>	<u>\$ 542,592</u>	<u>\$ 8,353</u>	<u>\$ 1,745,337</u>	<u>\$12,441,196</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, 2023

	Business-type Activities - Enterprise Funds				Totals
	Water and Wastewater	Sanitation	Retail	Nonmajor Enterprise Airport	
OPERATING REVENUES					
Charges for services:					
Water and sewer sales	\$ 4,631,586	\$ -	\$ -	\$ -	\$ 4,631,586
Sanitation sales	-	1,341,082	-	-	1,341,082
Airport fuel sales	-	-	-	324,336	324,336
Lease income	-	-	60,335	49,410	109,745
Other service charges	92,866	-	-	428	93,294
Miscellaneous	110,948	-	14,322	-	125,270
Total operating revenues	<u>4,835,400</u>	<u>1,341,082</u>	<u>74,657</u>	<u>374,174</u>	<u>6,625,313</u>
OPERATING EXPENSES					
Water purchases	2,711,619	-	-	-	2,711,619
Personnel	1,697,353	-	-	112,730	1,810,083
Supplies	91,219	-	406	295,169	386,794
Services	239,195	902,526	41,797	34,408	1,217,926
Maintenance	706,871	1,262	24,101	32,298	764,532
Minor equipment	1,551	-	-	4,204	5,755
Depreciation	545,825	-	-	58,967	604,792
Total operating expenses	<u>5,993,633</u>	<u>903,788</u>	<u>66,304</u>	<u>537,776</u>	<u>7,501,501</u>
OPERATING INCOME (LOSS)	<u>(1,158,233)</u>	<u>437,294</u>	<u>8,353</u>	<u>(163,602)</u>	<u>(876,188)</u>
NONOPERATING REVENUES (EXPENSES)					
Federal grant revenue	656,573	-	-	-	656,573
Investment income	211,683	-	-	-	211,683
Interest and fiscal charges	(256,028)	-	-	-	(256,028)
Total nonoperating revenues (expenses)	<u>612,228</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>612,228</u>
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	<u>(546,005)</u>	<u>437,294</u>	<u>8,353</u>	<u>(163,602)</u>	<u>(263,960)</u>
Transfers in	3,929	-	-	350,956	354,885
Transfers out	-	(294,000)	-	-	(294,000)
CHANGE IN NET POSITION	<u>(542,076)</u>	<u>143,294</u>	<u>8,353</u>	<u>187,354</u>	<u>(203,075)</u>
TOTAL NET POSITION, BEGINNING	<u>10,686,990</u>	<u>399,298</u>	<u>-</u>	<u>1,557,983</u>	<u>12,644,271</u>
TOTAL NET POSITION, ENDING	<u>\$ 10,144,914</u>	<u>\$ 542,592</u>	<u>\$ 8,353</u>	<u>\$ 1,745,337</u>	<u>\$12,441,196</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, 2023

	Business-type Activities - Enterprise Funds				Totals
	Water and Wastewater	Sanitation	Retail	Nonmajor Enterprise Airport	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 4,141,896	\$ 1,335,224	\$ 84,157	\$ 370,595	\$ 5,931,872
Cash payments to employees for services	(1,584,972)	-	-	(96,172)	(1,681,144)
Cash payments to suppliers for goods and services	(3,570,960)	(900,968)	(55,564)	(339,833)	(4,867,325)
Cash provided (used) by operating activities	(1,014,036)	434,256	28,593	(65,410)	(616,597)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Cash received from federal grants	656,573	-	-	-	656,573
Cash received from other funds	3,929	-	4,680,328	350,956	5,035,213
Purchase of assets held for sale	-	-	(4,680,328)	-	(4,680,328)
Cash paid to other funds	-	(294,000)	-	-	(294,000)
Cash provided (used) by noncapital financing activities	660,502	(294,000)	-	350,956	717,458
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal repayments on debt	(516,888)	-	-	-	(516,888)
Interest and fiscal charges on debt	(319,749)	-	-	-	(319,749)
Acquisition and construction of capital assets	(2,418,772)	-	-	(285,634)	(2,704,406)
Cash provided (used) by capital and related financing activities	(3,255,409)	-	-	(285,634)	(3,541,043)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	266,223	-	-	-	266,223
Cash provided (used) by investing activities	266,223	-	-	-	266,223
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,342,720)	140,256	28,593	(88)	(3,173,959)
CASH AND CASH EQUIVALENTS, BEGINNING	8,267,733	310,411	-	188	8,578,332
CASH AND CASH EQUIVALENTS, ENDING	\$ 4,925,013	\$ 450,667	\$ 28,593	\$ 100	\$ 5,404,373

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

CITY OF HILLSBORO, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Business-type Activities - Enterprise Funds				Totals
	Water and Wastewater	Sanitation	Retail	Nonmajor Enterprise Airport	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ (1,158,233)	\$ 437,294	\$ 8,353	\$ (163,602)	\$ (876,188)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	545,825	-	-	58,967	604,792
Change in assets and liabilities:					
Decrease (increase) in accounts receivable	(43,037)	(5,858)	-	(6,226)	(55,121)
Decrease (increase) in lease receivable	-	-	-	4,535	4,535
Decrease (increase) in inventory	(44,143)	-	-	15,501	(28,642)
Decrease (increase) in deferred outflows	(268,501)	-	-	(16,789)	(285,290)
Increase (decrease) in accounts payable	223,638	2,820	10,740	12,723	249,921
Increase (decrease) in accrued liabilities	12,301	-	-	1,749	14,050
Increase (decrease) in unearned revenue	(656,573)	-	-	-	(656,573)
Increase (decrease) in customer deposits	6,106	-	9,500	-	15,606
Increase (decrease) in vacation payable	23,394	-	-	10,445	33,839
Increase (decrease) in net pension liability	479,202	-	-	30,349	509,551
Decrease (increase) in deferred inflows	(134,015)	-	-	(13,062)	(147,077)
Total adjustments	<u>144,197</u>	<u>(3,038)</u>	<u>20,240</u>	<u>98,192</u>	<u>259,591</u>
Net cash provided (used) by operating activities	<u>\$ (1,014,036)</u>	<u>\$ 434,256</u>	<u>\$ 28,593</u>	<u>\$ (65,410)</u>	<u>\$ (616,597)</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES					
Capital assets acquired through financed purchases	\$ 69,643	\$ -	\$ -	\$ -	\$ 69,643

CITY OF HILLSBORO, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

The Hillsboro Economic Development Corporation (the "EDC") was organized as a Type A Sales Tax Corporation in 1992 for the purpose of promoting industrial recruitment and retention through funding buildings, land, equipment, and targeted infrastructure. The EDC is governed by a board of directors that is appointed by City Council. The City would be liable for any residual debts of the EDC, and it is thus included in these financial statements as a blended component unit and is presented as a major special revenue fund. The City does not have any discretely presented component units.

Government-wide Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

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

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

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

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

The **2021 Bond Fund** – accounts for the resources accumulated and payments made related to the 2021 Bond issuance.

The City reports the following major proprietary funds:

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

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

The **Retail Fund** – is used to account for the activities necessary for the retail mall operations.

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

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

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

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

Cash and Cash Equivalents

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

Investments

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

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

Short-term Interfund Receivables/Payables

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

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable on or before January 31 of the following year. All unpaid taxes become delinquent February 1 of the following year. City property tax revenue is recognized when levied. An allowance is established for delinquent taxes to the extent their collectability is improbable. For the year ended September 30, 2023, the City's property taxes were billed and collected by the Hill County Appraisal District. Receipts are remitted to the City monthly.

Ad valorem taxes for fiscal year 2023 were levied October 1, 2022, at the rate of \$.806400 per \$100 assessed valuation on a total taxable assessed valuation of \$675,102,996.

Inventories and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

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

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

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

Pensions

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

Compensated Absences

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

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

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

Long-term Obligations

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

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

Net Position Flow Assumption

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

Leases

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

Fund Balance Flow Assumption

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

Fund Balance Policies

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

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

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

Deferred Outflows/Inflows of Resources

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

- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Changes in actuarial assumptions and other inputs for pension – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

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

- Unavailable revenue is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that amounts become available.
- The difference in expected and actual pension experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five-year period.
- The City recognizes deferred inflows related to leases for its lessor transactions. These amounts offset the receivable related to the lease and will be recognized systematically in future years over the life of the lease.

II. DETAILED NOTES ON ALL FUNDS

Deposits and Investments

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

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

- a. ***Custodial Credit Risk*** – Deposits: In the case of deposits, this is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. As of September 30, 2022, the City's deposit balance (cash and certificates of deposit) was \$4,420,964. The City's deposits as of September 30, 2023 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

- b. **Credit Risk:** It is the City's policy to limit investments to investment types with an investment quality rating no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days. The City's investments were rated as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>
TexStar	AAAm	Standard & Poor's
Texas Range	AAAf	Fitch
TexPool	AAAm	Standard & Poor's

- c. **Interest Rate Risk:** In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to 90 days or less, dependent on market conditions.

- d. **Concentration of Credit Risk:** The City's investment policy states the maximum percentage allowed for each different investment instrument that can be used to make up the portfolio.

As of September 30, 2023, the City's investments consisted of:

	<u>Net Asset Value</u>
TexStar	\$ 7,073,911
Texas Range	2,616,059
TexPool	626,727
	<u>\$ 10,316,697</u>

TexStar, TexPool, and Texas Range balances are not evidenced by securities that exist in physical or book entry form, and, accordingly, are not categorized by risk. However, the nature of these funds requires that they be used to purchase investments authorized by the Texas Public Funds Investment Act of 1995. The primary objective of these investment pools is to provide a safe environment for the placement of public funds in short-term, fully collateralized investments. All the pools have a redemption notice period of one day and may redeem daily. The investment pools' authority may only impose restrictions on withdrawals in the event of a general suspension of trading on major securities markets, general banking moratorium, or a national state of emergency that affects the pool's liquidity.

Receivables

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

	<u>Governmental Funds</u>					<u>Enterprise Funds</u>			<u>Totals</u>
	<u>General</u>	<u>Debt Service</u>	<u>EDC</u>	<u>Hotel/Motel</u>	<u>Nonmajor Funds</u>	<u>Water and Wastewater</u>	<u>Sanitation</u>	<u>Airport</u>	
Receivables:									
Accounts:									
Customers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 812,077	\$ 66,452	\$ 22,211	\$ 900,740
Taxes:									
Property	688,904	194,802	-	-	-	-	-	-	883,706
Sales	807,879	-	73,444	-	-	-	-	-	881,323
Other	23,235	-	-	105,374	-	-	-	-	128,609
Court fines	2,391,030	-	-	-	-	-	-	-	2,391,030
EMS	2,787,690	-	-	-	-	-	-	-	2,787,690
Intergovernmental	37,468	-	-	-	262,769	-	-	-	300,237
Other	2,561	-	-	-	-	-	-	-	2,561
Gross receivables	<u>6,738,767</u>	<u>194,802</u>	<u>73,444</u>	<u>105,374</u>	<u>262,769</u>	<u>812,077</u>	<u>66,452</u>	<u>22,211</u>	<u>8,275,896</u>
Less: allowance for uncollectibles	<u>(4,982,195)</u>	<u>(124,673)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,929)</u>	<u>-</u>	<u>-</u>	<u>(5,123,797)</u>
Net total receivables	<u>\$ 1,756,572</u>	<u>\$ 70,129</u>	<u>\$ 73,444</u>	<u>\$ 105,374</u>	<u>\$ 262,769</u>	<u>\$ 795,148</u>	<u>\$ 66,452</u>	<u>\$ 22,211</u>	<u>\$ 3,152,099</u>

Leases Receivable

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

Principal and interest receipts to maturity are as follows:

Year Ending September 30,	Business-type Activities		Total
	Principal	Interest	
2024	\$ 4,541	\$ 84	\$ 4,625
2025	4,546	79	4,625
2026	4,552	73	4,625
2027	4,558	67	4,625
2028-2032	19,961	256	20,217
2033-2037	15,261	144	15,405
2038-2042	6,871	71	6,942
2043-2047	5,954	28	5,982
2048-2050	1,283	2	1,285
Total	<u>\$ 67,527</u>	<u>\$ 804</u>	<u>\$ 68,331</u>

Capital Assets

Capital asset activity for the year ended September 30, 2023, was as follows:

	Beginning Balance	Increase	Adjustment/ Decrease	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 803,137	\$ -	\$ -	\$ 803,137
Construction in progress	<u>1,681,043</u>	<u>1,701,793</u>	<u>(2,465,246)</u>	<u>917,590</u>
Total assets not being depreciated	<u>2,484,180</u>	<u>1,701,793</u>	<u>(2,465,246)</u>	<u>1,720,727</u>
Capital assets, being depreciated:				
Buildings and improvements	6,910,816	56,402	236,014	7,203,232
Machinery and equipment	6,801,614	1,304,869	-	8,106,483
Infrastructure	<u>17,457,779</u>	<u>-</u>	<u>2,229,232</u>	<u>19,687,011</u>
Total capital assets being depreciated	<u>31,170,209</u>	<u>1,361,271</u>	<u>2,465,246</u>	<u>34,996,726</u>
Accumulated depreciation:				
Buildings and improvements	(4,479,993)	(175,904)	-	(4,655,897)
Machinery and equipment	(5,178,884)	(420,925)	-	(5,599,809)
Infrastructure	<u>(3,559,992)</u>	<u>(349,156)</u>	<u>-</u>	<u>(3,909,148)</u>
Total accumulated depreciation	<u>(13,218,869)</u>	<u>(945,985)</u>	<u>-</u>	<u>(14,164,854)</u>
Total capital assets being depreciated, net	<u>17,951,340</u>	<u>415,286</u>	<u>2,465,246</u>	<u>20,831,872</u>
Governmental activities capital assets, net	<u>\$ 20,435,520</u>	<u>\$ 2,117,079</u>	<u>\$ -</u>	<u>\$ 22,552,599</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 378,391	\$ 247,422	\$ -	\$ 625,813
Construction in progress - Water/Sewer	3,328,591	2,255,555	(1,581,702)	4,002,444
Construction in progress - Airport	<u>11,378</u>	<u>236,044</u>	<u>(247,422)</u>	<u>-</u>
Total assets not being depreciated	<u>3,718,360</u>	<u>2,739,021</u>	<u>(1,829,124)</u>	<u>4,628,257</u>
Capital assets, being depreciated:				
Buildings and improvements	7,018,310	19,071	-	7,037,381
Machinery and equipment	1,912,402	124,093	-	2,036,495
Infrastructure	<u>19,839,972</u>	<u>-</u>	<u>1,581,702</u>	<u>21,421,674</u>
Total capital assets being depreciated	<u>28,770,684</u>	<u>143,164</u>	<u>1,581,702</u>	<u>30,495,550</u>
Accumulated depreciation:				
Buildings and improvements	(2,460,754)	(149,609)	-	(2,610,363)
Machinery and equipment	(1,809,853)	(24,441)	-	(1,834,294)
Infrastructure	<u>(12,675,438)</u>	<u>(430,742)</u>	<u>-</u>	<u>(13,106,180)</u>
Total accumulated depreciation	<u>(16,946,045)</u>	<u>(604,792)</u>	<u>-</u>	<u>(17,550,837)</u>
Total capital assets being depreciated, net	<u>11,824,639</u>	<u>(461,628)</u>	<u>1,581,702</u>	<u>12,944,713</u>
Business-type activities capital assets, net	<u>\$ 15,542,999</u>	<u>\$ 2,277,393</u>	<u>\$ (247,422)</u>	<u>\$ 17,572,970</u>

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

Governmental activities	
General government	\$ 155,589
Public safety	357,430
Public works	341,745
Community development	<u>91,221</u>
Total depreciation expense - governmental activities	<u>\$ 945,985</u>
Business-type activities:	
Water and wastewater	\$ 545,825
Airport	<u>58,967</u>
Total depreciation expense - business-type activities	<u>\$ 604,792</u>

Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2023, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental	\$ 153,736
General	Nonmajor enterprise	122,909
General	Retail	2,680,328
2021 Bond	Retail	2,000,000
EDC	General	<u>334,308</u>
Total		<u>\$ 5,291,281</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, 2023, are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>	<u>Purpose</u>
General	EDC	\$ 12,000	Admin costs
Nonmajor governmental	General	328,220	Supplement fund sources
Airport	General	350,956	Supplement capital funding
General	Hotel/Motel	21,000	Admin costs
Nonmajor governmental	Hotel/Motel	98,000	Supplement fund sources
General	Sanitation	294,000	Admin costs
Water and Wastewater	2021 Bond	<u>3,929</u>	
Total		<u>\$ 1,108,105</u>	

Long-term Debt

Long-term debt activity from the year ended September 30, 2023, was as follows:

	Debt Outstanding 09/30/22	Additions	Retirements	Debt Outstanding 09/30/23	Due Within One Year
Governmental:					
Certificates of obligation	\$ 5,635,000	\$ -	\$ (70,000)	\$ 5,565,000	\$ 105,000
General obligation bonds	2,295,000	-	(260,000)	2,035,000	260,000
GO bonds - Private Placement	1,880,000	-	(400,000)	1,480,000	410,000
Premium on bonds	230,901	-	(8,712)	222,189	-
Financing arrangements	893,828	846,847	(379,061)	1,361,614	448,335
Compensated absences	427,128	276,284	(213,564)	489,848	244,924
	<u>11,361,857</u>	<u>1,123,131</u>	<u>(1,331,337)</u>	<u>11,153,651</u>	<u>1,468,259</u>
Enterprise Fund:					
Certificates of obligation	6,195,000	-	(185,000)	6,010,000	245,000
TWDB Bonds - Direct Borrowing	2,710,000	-	(140,000)	2,570,000	145,000
Premium on bonds	230,489	-	(11,870)	218,619	-
Financing arrangements	1,691,464	69,643	(331,174)	1,429,933	352,222
Compensated absences	30,858	49,268	(15,429)	64,697	32,349
	<u>10,857,811</u>	<u>118,911</u>	<u>(683,473)</u>	<u>10,293,249</u>	<u>774,571</u>
Total	<u>\$ 22,219,668</u>	<u>\$ 1,242,042</u>	<u>\$ (2,014,810)</u>	<u>\$ 21,446,900</u>	<u>\$ 2,242,830</u>

The General Fund is generally used to liquidate compensated absences for governmental activities. Debt outstanding as of September 30, 2023, consisted of the following:

	Purpose of Issue	Amount Issued	Amount Outstanding	Interest Rate
Governmental				
General obligation bonds:				
2012 Series	Street Improvements	\$ 1,870,000	\$ 1,025,000	2.00%-3.00%
2012 Series Premium		87,406	39,335	
2012 Series	Refunding	895,000	65,000	2.00%-3.00%
2012 Series Premium		56,441	8,682	
2016 Series	Refunding	4,155,000	1,480,000	1.65%
2020 Series	Refunding	1,330,000	945,000	1.70%
Certificates of obligation bonds:				
2021 Series	Street Improvements	5,635,000	5,565,000	1.85%
2021 Series Premium		181,429	174,172	
Total governmental		<u>\$ 14,210,276</u>	<u>\$ 9,302,189</u>	
Business-type				
General obligation bonds:				
2019 Series		\$ 3,130,000	\$ 2,570,000	0.73%-2.14%
Certificates of obligation bonds:				
2022 Series		6,195,000	6,010,000	2.00%-4.00%
2022 Series Premium		237,414	218,618	
Total business-type		<u>\$ 9,562,414</u>	<u>\$ 8,798,618</u>	

Governmental bonds future requirements are as follows:

Year Ended September 30	Principal	Interest	Total Requirements
2024	\$ 365,000	\$ 154,245	\$ 519,245
2025	395,000	145,700	540,700
2026	445,000	136,348	581,348
2027	455,000	125,495	580,495
2028-2032	2,155,000	458,425	2,613,425
2033-2037	1,260,000	275,368	1,535,368
2038-2042	1,355,000	180,538	1,535,538
2043-2046	1,170,000	58,288	1,228,288
Total	\$ <u>7,600,000</u>	\$ <u>1,534,407</u>	\$ <u>9,134,407</u>

Private Placement			
Year Ended September 30	Principal	Interest	Total Requirements
2024	\$ 410,000	\$ 24,420	\$ 434,420
2025	420,000	17,655	437,655
2026	420,000	10,725	430,725
2027	115,000	3,795	118,795
2028	115,000	1,898	116,898
Total	\$ <u>1,480,000</u>	\$ <u>58,493</u>	\$ <u>1,538,493</u>

Business-type bonds future requirements are as follows:

Year Ended September 30	Principal	Interest	Total Requirements
2024	245,000	170,737	415,737
2025	250,000	162,468	412,468
2026	260,000	155,281	415,281
2027	265,000	148,456	413,456
2028-2032	1,450,000	634,750	2,084,750
2033-2037	1,640,000	427,700	2,067,700
2038-2042	1,900,000	174,000	2,074,000
Total	\$ <u>6,010,000</u>	\$ <u>1,873,392</u>	\$ <u>7,883,392</u>

Private Placement			
Year Ended September 30	Principal	Interest	Total Requirements
2024	\$ 145,000	\$ 44,741	\$ 189,741
2025	145,000	43,059	188,059
2026	145,000	41,232	186,232
2027	150,000	39,274	189,274
2028-2032	775,000	161,229	936,229
2033-2037	845,000	89,612	934,612
2038-2042	365,000	11,716	376,716
Total	\$ <u>2,570,000</u>	\$ <u>430,863</u>	\$ <u>3,000,863</u>

Certain obligations that were marketed as private placements or direct borrowings have been separately identified; however, the terms of these obligations are not significantly different than other obligations and do not have substantive acceleration clauses. Should the City default on these bonds, any registered owner of the obligations is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make payment.

New Debt Issuances

In December 2022, the City issued a finance contract classified as a financed purchase in the amount of \$916,500, for the purpose of financing miscellaneous equipment for the police and streets departments. The obligation is payable in five annual installments from 2024 through 2028 and bears interest at 5.125%.

Financing Arrangements

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

Governmental financing arrangement future requirements are as follows:

<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2024	\$ 448,335	\$ 60,301	\$ 508,636
2025	302,812	42,896	345,708
2026	246,154	29,993	276,147
2027	177,605	18,671	196,276
2028	<u>186,708</u>	<u>9,569</u>	<u>196,277</u>
Total	\$ <u>1,361,614</u>	\$ <u>161,430</u>	\$ <u>1,523,044</u>

Business-type financing arrangement future requirements are as follows:

<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2024	\$ 352,222	\$ 39,020	\$ 391,242
2025	344,748	29,431	374,179
2026	354,035	20,144	374,179
2027	363,580	10,599	374,179
2028	<u>15,348</u>	<u>796</u>	<u>16,144</u>
Total	\$ <u>1,429,933</u>	\$ <u>99,990</u>	\$ <u>1,529,923</u>

Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986 calculate and rebate arbitrage earnings to the federal government. Specifically, the excess of the aggregated amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, is to be rebated to the federal government. As of September 30, 2023, the City has recognized arbitrage liabilities of \$6,831 in the governmental activities and \$54,540 in the Water and Sewer Fund. Management has arranged for calculations each year to monitor these estimates.

Commitments

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

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

The City paid \$2,179,741 for water purchased from the District during the fiscal year ending September 30, 2023.

Retirement Plan

Texas Municipal Retirement System

Plan Description

The City participates as one of 901 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agency multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

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

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

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

Employees covered by benefit terms

At the December 31, 2022, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	82
Inactive employees entitled to but not yet receiving benefits	78
Active employees	<u>104</u>
	<u>264</u>

Contributions

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

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 11.60% and 12.42% in calendar years 2022 and 2023, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2023, were \$800,095, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2022, 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, 2022, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 11.5% including inflation
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a 4- year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income to satisfy the short-term and long-term funding needs of TMRS.

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

The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity	35.00%	7.70%
Core fixed income	6.00%	4.90%
Non-core fixed income	20.00%	8.70%
Other Public and Private Markets	12.00%	8.10%
Real Estate	12.00%	5.80%
Hedge Funds	5.00%	6.90%
Private equity	10.00%	11.80%
Total	100.00%	

Discount Rate

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

Changes in the Net Pension Liability

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2021	\$ 25,244,935	\$ 24,011,132	\$ 1,233,803
Changes for the year:			
Service cost	627,695	-	627,695
Interest	1,690,219	-	1,690,219
Change of benefit terms	-	-	-
Difference between expected and actual experience	(430,839)	-	(430,839)
Changes of assumptions	-	-	-
Contributions - employer	-	648,954	(648,954)
Contributions - employee	-	279,721	(279,721)
Net investment income	-	(1,752,472)	1,752,472
Benefit payments, including refunds of employee contributions	(1,037,006)	(1,037,006)	-
Administrative expense	-	(15,167)	15,167
Other changes	-	18,099	(18,099)
Net changes	850,069	(1,857,871)	2,707,940
Balance at 12/31/2022	\$ 26,095,004	\$ 22,153,261	\$ 3,941,743

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-point 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	\$ 7,883,167	\$ 3,941,743	\$ 742,845

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2023, the City recognized pension expense of \$895,058.

As of September 30, 2023, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 167,797	\$ 294,498
Difference between projected and actual investment earnings	1,539,029	-
Contributions subsequent to the measurement date	<u>613,618</u>	<u>-</u>
Total	<u>\$ 2,320,444</u>	<u>\$ 294,498</u>

\$613,618 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, 2024. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expenses as follows:

<u>Year Ending September 30,</u>	
2024	\$ 89,402
2025	261,849
2026	386,433
2027	<u>674,644</u>
	<u>\$ 1,412,328</u>

Contingencies

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

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

Risk Management

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

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

Tax Abatements

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

The City has entered into an agreement with a retail developer that refunds sales tax. The agreement for sales tax provides refunds of \$0.01 of the \$0.015 sales tax collected by the City on taxable sales at the entity for 10 years. The agreement requires a developer commitment of \$40 million in direct capital investment and minimum employment requirements. The City did not abate any sales tax for fiscal year 2023.

New Accounting Pronouncements

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

The GASB has amended the existing standards regarding capitalization thresholds for assets. The amended guidance for the capitalization threshold comes from GASB Implementation Guide 2021-1, Question 5.1. Capitalization policies adopted by governments include many considerations such as finding an appropriate balance between ensuring that all significant capital assets, collectively, are capitalized and minimizing the cost of recordkeeping for capital assets. A government should capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant. Computers, classroom furniture and library books are examples of asset types that may not meet a capitalization policy on an individual basis yet could be significantly collectively. In this example, if the \$150,000 aggregate amount (100 computers costing \$1,500 each) is significant, the government should capitalize the computers. The amended guidance is effective for reporting periods beginning after June 15, 2023, and the impact has not yet been determined.

GASB Statement No. 99, *Omnibus 2022* – The objective of this Statement is to correct practice issues identified during implementation and application of certain GASB Statements and financial reporting for financial guarantees. There are various effective dates 1.) upon issuance 2.) fiscal years beginning after June 15, 2022 and 3.) fiscal years beginning after June 15, 2023.

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

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

**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, 2023

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Ad valorem	\$ 4,243,000	\$ 4,223,100	\$ 4,248,150	\$ 25,050
Sales	3,700,000	5,051,670	5,025,742	(25,928)
Franchise	552,000	544,000	648,122	104,122
Other	58,100	78,000	91,534	13,534
Fines and forfeitures	472,600	516,900	621,798	104,898
Charges for services	133,000	135,500	148,237	12,737
Licenses and permits	44,000	88,300	90,979	2,679
Intergovernmental	559,600	552,200	1,283,244	731,044
Investment earnings	14,000	100,000	238,005	138,005
Cemetery lot sales and fees	43,100	43,100	27,925	(15,175)
Contributions	170,550	205,950	188,133	(17,817)
Miscellaneous	30,250	29,750	62,653	32,903
Total revenues, as budgeted	<u>10,020,200</u>	<u>11,568,470</u>	<u>12,674,522</u>	<u>1,106,052</u>
Plus: sub-funds 58 and 74 not included in budget			<u>316,462</u>	
Total revenues per basic financial statements			<u>12,990,984</u>	
EXPENDITURES				
General government:				
Legislative:				
Personnel	200	200	220	(20)
Supplies	800	800	158	642
Services	19,920	13,800	3,255	10,545
Maintenance	60	60	70	(10)
	<u>20,980</u>	<u>14,860</u>	<u>3,703</u>	<u>11,157</u>
Administration:				
Personnel	253,350	230,850	198,581	32,269
Supplies	6,000	6,000	3,948	2,052
Services	456,250	285,450	278,853	6,597
Maintenance	5,000	5,000	1,338	3,662
Minor equipment	1,000	1,000	368	632
	<u>721,600</u>	<u>528,300</u>	<u>483,088</u>	<u>45,212</u>
City Secretary:				
Personnel	147,770	147,200	137,685	9,515
Supplies	1,550	1,550	631	919
Services	15,200	10,350	2,384	7,966
Maintenance	3,250	6,750	5,405	1,345
Minor equipment	1,000	1,000	40	960
	<u>168,770</u>	<u>166,850</u>	<u>146,145</u>	<u>20,705</u>
Library:				
Personnel	401,600	449,760	438,989	10,771
Supplies	47,650	43,500	41,144	2,356
Services	62,800	62,800	51,967	10,833
Maintenance	19,000	21,200	24,594	(3,394)
Minor equipment	2,000	1,500	1,794	(294)
	<u>533,050</u>	<u>578,760</u>	<u>558,488</u>	<u>20,272</u>
Municipal court:				
Personnel	212,660	232,610	229,031	3,579
Supplies	5,475	5,450	3,649	1,801
Services	30,300	30,650	29,145	1,505
Maintenance	1,500	1,400	1,547	(147)
	<u>249,935</u>	<u>270,110</u>	<u>263,372</u>	<u>6,738</u>

The accompanying notes are an integral part of this schedule.

CITY OF HILLSBORO, TEXAS

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

GENERAL FUND
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2023

EXPENDITURES (Continued)	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Parks:				
Personnel	\$ 272,500	\$ 271,975	\$ 252,973	\$ 19,002
Supplies	32,850	39,050	34,733	4,317
Services	21,375	23,775	23,340	435
Maintenance	75,830	71,700	88,201	(16,501)
Minor equipment	2,000	7,000	6,835	165
Capital outlay	-	-	-	-
Debt service - principal	10,130	10,130	10,097	33
Debt service - interest	1,140	1,140	1,162	(22)
	<u>415,825</u>	<u>424,770</u>	<u>417,341</u>	<u>7,429</u>
Recreation:				
Personnel	229,720	178,360	169,520	8,840
Supplies	24,400	26,250	24,626	1,624
Services	110,575	120,705	104,228	16,477
Maintenance	10,150	13,650	12,415	1,235
Minor equipment	1,000	1,800	2,545	(745)
Capital outlay	64,000	39,700	39,693	7
	<u>439,845</u>	<u>380,465</u>	<u>353,027</u>	<u>27,438</u>
Maintenance shop:				
Personnel	69,540	-	-	-
Supplies	57,550	47,750	30,543	17,207
Services	7,340	11,890	11,216	674
Maintenance	95,820	177,500	198,748	(21,248)
Capital outlay	-	53,000	75,801	(22,801)
	<u>230,250</u>	<u>290,140</u>	<u>316,308</u>	<u>(26,168)</u>
Cemetery:				
Personnel	26,040	29,700	28,936	764
Supplies	250	800	719	81
Services	74,510	74,950	68,545	6,405
Maintenance	2,150	1,650	1,190	460
Minor equipment	-	1,200	1,092	108
	<u>102,950</u>	<u>108,300</u>	<u>100,482</u>	<u>7,818</u>
Legal:				
Personnel	48,605	48,605	50,092	(1,487)
Services	2,970	2,970	620	2,350
Maintenance	150	150	141	9
	<u>51,725</u>	<u>51,725</u>	<u>50,853</u>	<u>872</u>
Finance:				
Personnel	274,660	303,780	295,714	8,066
Supplies	5,600	6,500	6,364	136
Services	49,500	65,155	66,155	(1,000)
Maintenance	1,400	2,300	3,393	(1,093)
Minor equipment	1,000	1,600	1,873	(273)
Capital outlay	-	11,605	11,325	280
	<u>332,160</u>	<u>390,940</u>	<u>384,824</u>	<u>6,116</u>

The accompanying notes are an integral part of this schedule.

CITY OF HILLSBORO, TEXAS

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

GENERAL FUND
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2023

EXPENDITURES (Continued)	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Information systems:				
Personnel	\$ 102,325	\$ 102,085	\$ 104,225	\$ (2,140)
Supplies	1,650	1,750	1,896	(146)
Services	11,800	12,000	7,148	4,852
Maintenance	2,950	2,950	3,605	(655)
Minor equipment	-	5,000	4,792	208
Capital outlay	6,000	6,000	-	6,000
	<u>124,725</u>	<u>129,785</u>	<u>121,666</u>	<u>8,119</u>
Total general government	<u>3,391,815</u>	<u>3,335,005</u>	<u>3,199,297</u>	<u>135,708</u>
Public Safety:				
Police:				
Personnel	3,189,800	3,320,575	3,147,599	172,976
Supplies	170,300	181,750	200,160	(18,410)
Services	171,270	223,700	232,970	(9,270)
Maintenance	55,200	66,500	68,331	(1,831)
Minor equipment	18,000	25,000	67,466	(42,466)
Capital outlay	1,262,000	880,000	886,693	(6,693)
Debt service - principal	111,820	111,820	111,694	126
Debt service - interest	7,990	7,990	8,098	(108)
	<u>4,986,380</u>	<u>4,817,335</u>	<u>4,723,011</u>	<u>94,324</u>
Fire:				
Personnel	1,234,050	1,666,200	1,560,343	105,857
Supplies	127,300	164,405	159,857	4,548
Services	124,800	112,500	114,545	(2,045)
Maintenance	47,100	28,000	35,316	(7,316)
Minor equipment	2,000	9,000	7,854	1,146
Capital outlay	-	62,200	61,404	796
Debt service - principal	218,885	218,885	216,012	2,873
Debt service - interest	19,110	19,110	19,536	(426)
	<u>1,773,245</u>	<u>2,280,300</u>	<u>2,174,867</u>	<u>105,433</u>
Animal control:				
Personnel	87,735	167,640	162,297	5,343
Supplies	12,500	18,000	18,342	(342)
Services	3,350	4,150	2,154	1,996
Maintenance	11,060	11,060	8,655	2,405
Minor equipment	-	1,000	1,442	(442)
	<u>114,645</u>	<u>201,850</u>	<u>192,890</u>	<u>8,960</u>
Right-of-way:				
Personnel	15,000	-	-	-
Supplies	3,715	415	173	242
Maintenance	2,000	-	-	-
	<u>20,715</u>	<u>415</u>	<u>173</u>	<u>242</u>

The accompanying notes are an integral part of this schedule.

CITY OF HILLSBORO, TEXAS

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

GENERAL FUND
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES (Continued)				
Code Enforcement:				
Personnel	\$ 142,955	\$ 164,050	\$ 159,022	\$ 5,028
Supplies	13,300	13,600	10,179	3,421
Services	122,700	182,050	169,822	12,228
Maintenance	16,500	19,500	16,401	3,099
Minor equipment	24,500	24,200	26,184	(1,984)
	<u>319,955</u>	<u>403,400</u>	<u>381,608</u>	<u>21,792</u>
Total public safety	<u>7,214,940</u>	<u>7,703,300</u>	<u>7,472,549</u>	<u>230,751</u>
Streets:				
Streets:				
Personnel	447,020	715,100	622,614	92,486
Supplies	28,200	54,000	58,685	(4,685)
Services	154,975	163,000	176,640	(13,640)
Maintenance	140,270	162,020	128,837	33,183
Minor equipment	-	2,000	1,162	838
Capital outlay	120,000	275,800	274,972	828
Debt service - principal	10,560	10,560	10,556	4
Debt service - interest	610	610	608	2
	<u>901,635</u>	<u>1,383,090</u>	<u>1,274,074</u>	<u>109,016</u>
Total streets	<u>901,635</u>	<u>1,383,090</u>	<u>1,274,074</u>	<u>109,016</u>
Community Development:				
Community development:				
Personnel	107,870	142,200	135,834	6,366
Supplies	3,500	2,500	1,319	1,181
Services	81,100	79,300	124,015	(44,715)
Maintenance	5,500	8,000	7,003	997
Minor equipment	-	1,500	7,867	(6,367)
	<u>197,970</u>	<u>233,500</u>	<u>276,038</u>	<u>(42,538)</u>
Main Street:				
Personnel	142,955	54,970	42,345	12,625
Supplies	5,100	2,600	1,085	1,515
Services	7,300	3,600	4,596	(996)
Maintenance	10,000	150	70	80
Minor equipment	3,000	-	-	-
Debt service - principal	4,485	4,485	4,482	3
	<u>172,840</u>	<u>65,805</u>	<u>52,578</u>	<u>13,227</u>
Total community development	<u>370,810</u>	<u>299,305</u>	<u>328,616</u>	<u>(29,311)</u>
Total expenditures, as budgeted	<u>11,879,200</u>	<u>12,720,700</u>	<u>12,274,536</u>	<u>446,164</u>
Plus: sub-funds 58 and 74 not included in budget			<u>411,340</u>	
Total expenditures, per basic financial statements			<u>12,685,876</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,859,000)</u>	<u>(1,152,230)</u>	<u>399,986</u>	<u>1,552,216</u>
OTHER FINANCING SOURCES (USES)				
Insurance recoveries	-	-	28,551	28,551
Issuance of long-term debt	1,382,000	850,000	846,857	(3,143)
Proceeds from sale of capital asset	-	-	85,580	85,580
Transfers in	527,000	527,000	327,000	(200,000)
Transfers out	(50,000)	(50,000)	(679,176)	(629,176)
Total other financing sources (uses)	<u>1,859,000</u>	<u>1,327,000</u>	<u>608,812</u>	<u>(718,188)</u>
NET CHANGE IN FUND BALANCE (BUDGETED SUBFUNDS ONLY)	<u>\$ -</u>	<u>\$ 174,770</u>	<u>\$ 1,008,798</u>	<u>\$ 834,028</u>
FUND BALANCE, ENDING	<u>\$ 4,403,221</u>	<u>\$ 4,577,991</u>	<u>\$ 5,412,019</u>	<u>\$ 834,028</u>

The accompanying notes are an integral part of this schedule.

CITY OF HILLSBORO, TEXAS

ECONOMIC DEVELOPMENT CORPORATION FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Sales	\$ 320,000	\$ 320,000	\$ 456,885	\$ 136,885
Investment earnings	4,500	4,500	102,237	97,737
Miscellaneous	10,000	10,000	25,241	15,241
Total revenues	<u>334,500</u>	<u>334,500</u>	<u>584,363</u>	<u>249,863</u>
EXPENDITURES				
Current:				
Community development	<u>1,526,650</u>	<u>1,526,650</u>	<u>270,702</u>	<u>1,255,948</u>
Total expenditures	<u>1,526,650</u>	<u>1,526,650</u>	<u>270,702</u>	<u>1,255,948</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,192,150)</u>	<u>(1,192,150)</u>	<u>313,661</u>	<u>1,505,811</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(12,000)</u>	<u>(12,000)</u>	<u>(12,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(12,000)</u>	<u>(12,000)</u>	<u>(12,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(1,204,150)	(1,204,150)	301,661	1,505,811
FUND BALANCE, BEGINNING	<u>2,347,498</u>	<u>2,347,498</u>	<u>2,347,498</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 1,143,348</u>	<u>\$ 1,143,348</u>	<u>\$ 2,649,159</u>	<u>\$ 1,505,811</u>

The accompanying notes are an integral part of this schedule.

CITY OF HILLSBORO, TEXAS

HOTEL/MOTEL TAX FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Hotel/motel	\$ 400,000	\$ 400,000	\$ 501,424	\$ 101,424
Investment earnings	500	500	6,683	6,183
Rentals	8,300	8,300	7,105	(1,195)
Miscellaneous	250	250	16,000	15,750
Total revenues	<u>409,050</u>	<u>409,050</u>	<u>531,212</u>	<u>122,162</u>
EXPENDITURES				
Current:				
Community development	139,300	139,300	188,660	(49,360)
Capital outlay	<u>183,750</u>	<u>183,750</u>	-	<u>183,750</u>
Total expenditures	<u>323,050</u>	<u>323,050</u>	<u>188,660</u>	<u>134,390</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>86,000</u>	<u>86,000</u>	<u>342,552</u>	<u>256,552</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(86,000)</u>	<u>86,000</u>	<u>(119,000)</u>	<u>(205,000)</u>
Total other financing sources (uses)	<u>(86,000)</u>	<u>86,000</u>	<u>(119,000)</u>	<u>(205,000)</u>
NET CHANGE IN FUND BALANCE	-	172,000	223,552	51,552
FUND BALANCE, BEGINNING	<u>2,248,233</u>	<u>2,248,233</u>	<u>2,248,233</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 2,248,233</u>	<u>\$ 2,420,233</u>	<u>\$ 2,471,785</u>	<u>\$ 51,552</u>

The accompanying notes are an integral part of this schedule.

CITY OF HILLSBORO, TEXAS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS

FOR THE YEAR ENDED SEPTEMBER 30, 2023

Measurement Date December 31,	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
A. Total pension liability				
Service Cost	\$ 438,226	\$ 468,170	\$ 485,437	\$ 509,573
Interest (on the Total Pension Liability)	1,074,600	1,132,285	1,166,069	1,238,685
Difference between expected and actual experience	(118,737)	(20,246)	(66,470)	(126,840)
Change of assumptions	-	15,413	-	-
Benefit payments, including refunds of employee contributions	(596,553)	(573,439)	(435,866)	(606,753)
Net change in total pension liability	797,536	1,022,183	1,149,170	1,014,665
Total pension liability - beginning	<u>15,430,596</u>	<u>16,228,132</u>	<u>17,250,315</u>	<u>18,399,485</u>
Total pension liability - ending (a)	<u>\$ 16,228,132</u>	<u>\$ 17,250,315</u>	<u>\$ 18,399,485</u>	<u>\$ 19,414,150</u>
B. Plan fiduciary net position				
Contributions - employer	\$ 512,630	\$ 490,443	\$ 465,516	\$ 516,865
Contributions - employee	220,014	218,363	216,520	227,895
Net investment income	737,398	20,295	939,202	2,087,577
Benefit payments, including refunds of employee contributions	(596,553)	(573,439)	(435,866)	(606,753)
Administrative expenses	(7,698)	(12,362)	(10,607)	(10,825)
Other	<u>(633)</u>	<u>(611)</u>	<u>(571)</u>	<u>(549)</u>
Net change in plan fiduciary net position	865,158	142,689	1,174,194	2,214,210
Plan fiduciary net position - beginning	<u>12,889,137</u>	<u>13,754,295</u>	<u>13,896,984</u>	<u>15,071,178</u>
Plan fiduciary net position - ending (b)	<u>\$ 13,754,295</u>	<u>\$ 13,896,984</u>	<u>\$ 15,071,178</u>	<u>\$ 17,285,388</u>
C. Net pension liability - ending (a) - (b)				
	<u>\$ 2,473,837</u>	<u>\$ 3,353,331</u>	<u>\$ 3,328,307</u>	<u>\$ 2,128,762</u>
D. Plan fiduciary net position as a percentage of total pension liability				
	85%	81%	82%	89%
E. Covered payroll				
	\$ 4,400,270	\$ 4,367,256	\$ 4,330,395	\$ 4,557,901
F. Net position liability as a percentage of covered payroll				
	56%	77%	77%	47%

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

	2018	2019	2020	2021	2022
\$	507,970	\$ 547,971	\$ 591,998	\$ 542,661	\$ 627,695
	1,306,971	1,386,715	1,474,971	1,582,556	1,690,219
	(32,038)	(15,589)	321,918	310,131	(430,839)
	-	88,297	-	-	-
	(611,212)	(631,790)	(812,034)	(728,711)	(1,037,006)
	1,171,691	1,375,604	1,576,853	1,706,637	850,069
	<u>19,414,150</u>	<u>20,585,841</u>	<u>21,961,445</u>	<u>23,538,298</u>	<u>25,244,935</u>
\$	<u>20,585,841</u>	<u>21,961,445</u>	<u>23,538,298</u>	<u>25,244,935</u>	<u>26,095,004</u>
\$	524,444	\$ 542,084	\$ 602,683	\$ 553,454	\$ 648,954
	228,816	245,287	267,147	245,326	279,721
	(517,555)	2,612,206	1,491,659	2,762,400	(1,752,472)
	(611,212)	(631,790)	(812,034)	(728,711)	(1,037,006)
	(10,007)	(14,762)	(9,652)	(12,782)	(15,167)
	<u>(523)</u>	<u>(445)</u>	<u>(377)</u>	<u>88</u>	<u>18,099</u>
	(386,037)	2,752,580	1,539,426	2,819,775	(1,857,871)
	<u>17,285,388</u>	<u>16,899,351</u>	<u>19,651,931</u>	<u>21,191,357</u>	<u>24,011,132</u>
\$	<u>16,899,351</u>	<u>19,651,931</u>	<u>21,191,357</u>	<u>24,011,132</u>	<u>22,153,261</u>
\$	<u>3,686,490</u>	<u>2,309,514</u>	<u>2,346,941</u>	<u>1,233,803</u>	<u>3,941,743</u>
	82%	89%	90%	95%	85%
\$	4,576,310	\$ 4,905,739	\$ 5,342,944	\$ 4,906,521	\$ 5,594,429
	81%	47%	44%	25%	70%

CITY OF HILLSBORO, TEXAS

SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2023

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

NOTES TO SCHEDULE OF CONTRIBUTIONS

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 years
Asset Valuation Method	10 Year smoothed fair value; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information There were no benefit changes during the year.

2018	2019	2020	2021	2022	2023
\$ 518,280	\$ 541,406	\$ 542,084	\$ 554,408	\$ 618,365	\$ 800,095
<u>518,280</u>	<u>541,406</u>	<u>542,084</u>	<u>554,408</u>	<u>618,365</u>	<u>800,095</u>
-	-	-	-	-	-
4,533,953	4,857,497	5,139,977	4,914,966	5,368,735	6,548,124
11.4%	11.1%	10.5%	11.3%	11.5%	12.2%

CITY OF HILLSBORO, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2023

BUDGETARY INFORMATION

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

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

Maintenance Shop	\$	26,168
Community Development		42,538

These excess expenditures were funded by greater than anticipated revenues.

COMBINING STATEMENTS

CITY OF HILLSBORO, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2023

	Special Revenue			
	Library Special	Police Local Forfeiture	Police Federal Forfeiture	Main Street
ASSETS				
Cash and investments	\$ 36,282	\$ 325,081	\$ 18,618	\$ 1,398
Receivables (net of allowance for uncollectibles):				
Due from other governments	-	-	-	-
Total assets	36,282	325,081	18,618	1,398
LIABILITIES				
Accounts payable	1,911	-	-	13,251
Accrued liabilities	-	-	-	2,071
Due to other funds	-	-	-	1,978
Total liabilities	1,911	-	-	17,300
FUND BALANCE				
Restricted for:				
Library operations	34,371	-	-	-
Public safety	-	325,081	18,618	-
Economic development	-	-	-	-
Unassigned	-	-	-	(15,902)
Total fund balance	34,371	325,081	18,618	(15,902)
 Total liabilities and fund balance	 \$ 36,282	 \$ 325,081	 \$ 18,618	 \$ 1,398

Special Revenue			Total Nonmajor Governmental Funds
CDBG Park Drive	CDBG Sidewalk Grant	Tax Increment Fund	
\$ -	\$ -	\$ 35,231	\$ 416,610
<u>247,431</u>	<u>-</u>	<u>15,338</u>	<u>262,769</u>
<u>247,431</u>	<u>-</u>	<u>50,569</u>	<u>679,379</u>
95,673	-	-	110,835
-	-	-	2,071
<u>151,758</u>	<u>-</u>	<u>-</u>	<u>153,736</u>
<u>247,431</u>	<u>-</u>	<u>-</u>	<u>266,642</u>
-	-	-	34,371
-	-	-	343,699
-	-	50,569	50,569
<u>-</u>	<u>-</u>	<u>-</u>	<u>(15,902)</u>
<u>-</u>	<u>-</u>	<u>50,569</u>	<u>412,737</u>
\$ <u>247,431</u>	\$ <u>-</u>	\$ <u>50,569</u>	\$ <u>679,379</u>

CITY OF HILLSBORO, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Special Revenue			
	Library Special	Police Local Forfeiture	Police Federal Forfeiture	Main Street
REVENUES				
Taxes:				
Ad valorem	\$ -	\$ -	\$ -	\$ -
Forfeitures	-	2,114	-	-
Contributions	4,455	-	-	-
Investment earnings	-	17,054	1,187	614
Intergovernmental	6,077	-	-	-
Miscellaneous	-	1,280	-	67,410
Total revenues	<u>10,532</u>	<u>20,448</u>	<u>1,187</u>	<u>68,024</u>
EXPENDITURES				
Current:				
General government	8,358	-	-	-
Streets	-	-	-	-
Community development	-	-	-	169,926
Capital outlay	-	30,782	-	12,000
Debt service:				
Principal	-	24,172	-	-
Interest	-	1,392	-	-
Total expenditures	<u>8,358</u>	<u>56,346</u>	<u>-</u>	<u>181,926</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>2,174</u>	<u>(35,898)</u>	<u>1,187</u>	<u>(113,902)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	98,000
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>98,000</u>
NET CHANGE IN FUND BALANCE	2,174	(35,898)	1,187	(15,902)
FUND BALANCE, BEGINNING	<u>32,197</u>	<u>360,979</u>	<u>17,431</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 34,371</u>	<u>\$ 325,081</u>	<u>\$ 18,618</u>	<u>\$ (15,902)</u>

Special Revenue			Total
CDBG Park Drive	CDBG Sidewalk Grant	Tax Increment Fund	Nonmajor Governmental Funds
\$ -	\$ -	\$ 24,541	\$ 24,541
-	-	-	2,114
-	-	-	4,455
-	-	-	18,855
300,675	431,416	15,338	753,506
-	-	-	68,690
<u>300,675</u>	<u>431,416</u>	<u>39,879</u>	<u>872,161</u>
-	-	-	8,358
21,650	11,700	-	33,350
-	-	-	169,926
523,875	503,086	-	1,069,743
-	-	-	24,172
-	-	-	1,392
<u>545,525</u>	<u>514,786</u>	<u>-</u>	<u>1,306,941</u>
<u>(244,850)</u>	<u>(83,370)</u>	<u>39,879</u>	<u>(434,780)</u>
<u>244,850</u>	<u>83,370</u>	<u>-</u>	<u>426,220</u>
<u>244,850</u>	<u>83,370</u>	<u>-</u>	<u>426,220</u>
-	-	39,879	(8,560)
-	-	10,690	421,297
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,569</u>	<u>\$ 412,737</u>

SINGLE AUDIT SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hillsboro, Texas (the “City”), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated June 13, 2024.

Report on Internal Control over Financial Reporting

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

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

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

OFFICE LOCATIONS

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

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

Waco, Texas
June 13, 2024

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Hillsboro, Texas' (the "City") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2023. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2023.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

Waco, Texas
June 13, 2024

CITY OF HILLSBORO, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2023

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Assistance Listing Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
<u>U. S. Department of Housing and Urban Development</u>				
Passed through the Texas Department of Agriculture:				
CDBG - Park Drive	14.228	7219322	\$ 300,675	\$ -
CDBG - Sidewalk Grant	14.228	7220062	<u>431,416</u>	<u>-</u>
<i>Total 14.228</i>			<u>732,091</u>	<u>-</u>
<i>Total passed through the Texas Department of Agriculture</i>			<u>732,091</u>	<u>-</u>
<i>Total U. S. Department of Housing and Urban Development</i>			<u>732,091</u>	<u>-</u>
<u>U. S. Department of Transportation</u>				
Passed through the Texas Department of Transportation:				
Safe Routes to School Program (Highway Planning and Construction Cluster)	20.205	CSJ 0909-37-071	<u>316,462</u>	<u>-</u>
<i>Total passed through the Texas Department of Transportation</i>			<u>316,462</u>	<u>-</u>
<i>Total U. S. Department of Transportation</i>			<u>316,462</u>	<u>-</u>
<u>U. S. Department of Treasury</u>				
Passed through the Texas Division of Emergency Management:				
COVID-19 - Coronavirus Local Fiscal Recovery Fund	21.027	TX0001	<u>1,760,886</u>	<u>-</u>
<i>Total Passed through the Texas Division of Emergency Management</i>			<u>1,760,886</u>	<u>-</u>
<i>Total U. S. Department of Treasury</i>			<u>1,760,886</u>	<u>-</u>
<u>Environmental Protection Agency</u>				
Passed through the Texas Water Development Board:				
Capitalization Grants for Drinking Water State Revolving Funds (Drinking Water State Revolving Fund Cluster)	66.468	08-01-05209	<u>1,718,010</u>	<u>-</u>
<i>Total passed through the Texas Water Development Board</i>			<u>1,718,010</u>	<u>-</u>
<i>Total Environmental Protection Agency</i>			<u>1,718,010</u>	<u>-</u>
<i>Total Expenditures of Federal Awards</i>			\$ <u>4,527,449</u>	\$ <u>-</u>

The accompanying notes are an integral part of this schedule.

CITY OF HILLSBORO, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SEPTEMBER 30, 2023

1. GENERAL

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

2. BASIS OF ACCOUNTING

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

3. INDIRECT COSTS

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

CITY OF HILLSBORO, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2023

Section I. Summary of Auditor's Results

Financial Statements:

Type of auditors' report issued Unmodified

Internal control over financial reporting:

Material weakness(es) identified? None reported

Significant deficiency(ies) identified? None reported

Noncompliance material to financial statements noted? None

Federal Awards:

Internal control over major program:

Material weakness(es) identified? None reported

Significant deficiency(ies) identified? None reported

Type of auditors' report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a) of Uniform Guidance None

Identification of major program:

Assistance Listing Number: 21.027 Name of Federal Program or Cluster: COVID-19 - Coronavirus State and Local Fiscal Recovery Fund

Dollar threshold used to distinguish between type A and type B programs \$750,000

Auditee qualified as low-risk auditee? Yes

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

None

Section III. Findings and Questioned Costs for Federal Awards

None

CITY OF HILLSBORO, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2023

Finding 2022-001 | PayPal Controls

Finding Type: Significant Deficiency

Current Status: This matter has been resolved.