



HILLSBORO

WHERE CONNECTION HAPPENS

CITY OF HILLSBORO, TEXAS

ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR
ENDED SEPTEMBER 30, 2025**

CITY OF HILLSBORO, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2025

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CITY OF HILLSBORO, TEXAS

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FINANCIAL SECTION

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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, 2025, 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, 2025, 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. twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
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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, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are 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 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 March 26, 2026, 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
March 26, 2026

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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, 2025. 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, 2025, by \$50,315,665 (net position).
- The City's total net position increased in the current year by \$10,092,685, primarily due to the contribution of grant-funded improvements to the City's airport totaling \$7.6 million. The City's governmental activities also experienced increased property and sales tax revenues.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$13,809,704. Approximately 35% of this total amount, \$4,829,717, is unassigned fund balance available for use within the City's fund designation and fiscal policies.
- As of September 30, 2025, unassigned fund balance for the General Fund was \$4,829,717 or 34% 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 \$50,315,665 as of September 30, 2025.

NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2025	2024	2025	2024	2025	2024
Current and other assets	\$ 15,489,417	\$ 14,793,327	\$ 893,079	\$ 3,771,452	\$ 16,382,496	\$ 18,564,779
Capital assets	<u>27,481,527</u>	<u>26,474,466</u>	<u>28,874,050</u>	<u>19,192,884</u>	<u>56,355,577</u>	<u>45,667,350</u>
Total Assets	<u>42,970,944</u>	<u>41,267,793</u>	<u>29,767,129</u>	<u>22,964,336</u>	<u>72,738,073</u>	<u>64,232,129</u>
Deferred outflows of resources	<u>806,603</u>	<u>1,080,747</u>	<u>172,998</u>	<u>233,391</u>	<u>979,601</u>	<u>1,314,138</u>
Current liabilities	1,111,145	1,455,882	1,626,393	1,133,244	2,737,538	2,589,126
Noncurrent liabilities	<u>10,948,825</u>	<u>12,354,489</u>	<u>9,263,683</u>	<u>9,998,552</u>	<u>20,212,508</u>	<u>22,353,041</u>
Total Liabilities	<u>12,059,970</u>	<u>13,810,371</u>	<u>10,890,076</u>	<u>11,131,796</u>	<u>22,950,046</u>	<u>24,942,167</u>
Deferred inflows of resources	<u>324,428</u>	<u>262,042</u>	<u>127,535</u>	<u>119,078</u>	<u>451,963</u>	<u>381,120</u>
Net position:						
Net investment in capital assets	20,587,832	19,303,110	20,729,844	12,022,247	41,317,676	31,325,357
Restricted	7,047,292	6,399,187	-	-	7,047,292	6,399,187
Unrestricted	<u>3,758,025</u>	<u>2,573,830</u>	<u>(1,807,328)</u>	<u>(75,394)</u>	<u>1,950,697</u>	<u>2,498,436</u>
Total Net Position	<u>\$ 31,393,149</u>	<u>\$ 28,276,127</u>	<u>\$ 18,922,516</u>	<u>\$ 11,946,853</u>	<u>\$ 50,315,665</u>	<u>\$ 40,222,980</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, 2025, the City was able to report a positive balance in two of the three categories of net position. Unrestricted net position was a deficit in both years for the business-type activities.

CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2025	2024	2025	2024	2025	2024
REVENUES:						
Program revenues:						
Charges for services	\$ 1,677,718	\$ 1,516,846	\$ 8,680,539	\$ 7,471,123	\$ 10,358,257	\$ 8,987,969
Operating grants	944,265	8,728	1,500	100	945,765	8,828
Capital grants	-	-	7,911,139	31,565	7,911,139	31,565
General revenues:						
Property taxes	6,288,133	6,067,062	-	-	6,288,133	6,067,062
Sales taxes	5,679,175	5,501,871	-	-	5,679,175	5,501,871
Franchise taxes	795,774	655,823	-	-	795,774	655,823
Hotel/motel taxes	523,783	560,076	-	-	523,783	560,076
Other taxes	122,262	127,614	-	-	122,262	127,614
Unrestricted grants	-	-	28,922	-	28,922	-
Investment earnings	254,166	347,121	77,460	125,091	331,626	472,212
Miscellaneous	254,563	271,089	132,991	93,394	387,554	364,483
Total Revenues	16,539,839	15,056,230	16,832,551	7,721,273	33,372,390	22,777,503
EXPENSES:						
General government	3,444,378	3,109,787	-	-	3,444,378	3,109,787
Public safety	7,041,930	7,079,685	-	-	7,041,930	7,079,685
Streets	1,763,374	1,751,401	-	-	1,763,374	1,751,401
Community development	1,265,982	1,499,331	-	-	1,265,982	1,499,331
Interest on long-term debt	201,153	213,334	-	-	201,153	213,334
Water and sewer	-	-	7,507,132	6,442,988	7,507,132	6,442,988
Sanitation	-	-	1,178,833	1,036,660	1,178,833	1,036,660
Retail	-	-	313,277	252,039	313,277	252,039
Airport	-	-	563,646	553,495	563,646	553,495
Total Expenses	13,716,817	13,653,538	9,562,888	8,285,182	23,279,705	21,938,720
CHANGE IN NET POSITION BEFORE TRANSFERS	2,823,022	1,402,692	7,269,663	(563,909)	10,092,685	838,783
TRANSFERS	294,000	(69,566)	(294,000)	69,566	-	-
CHANGE IN NET POSITION	3,117,022	1,333,126	6,975,663	(494,343)	10,092,685	838,783
NET POSITION, BEGINNING	28,276,127	26,943,001	11,946,853	12,441,196	40,222,980	39,384,197
NET POSITION, ENDING	\$ 31,393,149	\$ 28,276,127	\$ 18,922,516	\$ 11,946,853	\$ 50,315,665	\$ 40,222,980

Governmental Activities. Governmental activities increased the City's net position by \$3,117,022. Key elements of this change are as follows:

- Program revenues increased due to an increase in operating grants and contributions, primarily because of CDBG grant revenues.
- Property and sales tax revenues increased due to economic growth within the City, primarily caused by the completion and opening of a Buc-ees travel center within the City in 2025.
- Expenses were stable, with slight salary increases offset by a lower pension expense that resulted from market gains on plan assets.

Business-type Activities. Business-type activities increased the City's net position by \$6,975,663. This large increase is mainly attributed to a jump of \$7,911,139 in capital grants and contributions for airport activities during this fiscal year. The City received completed airport improvements with a value of \$7.6 million from the Texas Department of Transportation, which contracted for all work performed.

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 \$13,809,704. Approximately 35% of this total amount, \$4,829,717, 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 \$4,829,717, while total fund balance reached \$5,196,366. This represents an increase of \$970,750 during the current fiscal year. This increase was primarily due to a decrease in capital outlay expenditures, as well as a the property and sales tax revenue increases discussed previously.

The fund balance of the City's Economic Development Corporation Fund increased by \$174,301 during the current fiscal year. This increase was larger than prior year's increase primarily due to the sales tax activity discussed previously.

The Hotel/Motel Tax Fund balance increased by \$338,673 during the current fiscal year. Hotel/motel tax revenues slightly decreased compared to the prior year, though expenditures decreased significantly. 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 \$310,299, which was a \$47,036 increase over the prior year. This increase was due to an increase in property tax revenues as discussed previously.

The 2021 Bond Fund has a total fund balance of \$1,893,392 during the current fiscal year, which was a \$638,082 or 25% decrease from the prior year. This decrease was primarily due to continued 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 a deficit of \$1,807,328. However, net position increased overall by \$6,975,663, mainly due to a large influx of federal grant revenue for airport projects. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Actual revenues exceeded budgeted revenues by \$1,079,004 while total expenditures exceeded appropriations by \$44,178 due primarily to inflation.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2025, amounts to \$56,355,577 (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:

- Construction in progress related to bond-funded projects totaling approximately \$626,489 in governmental activities, \$2.4 million in water and sewer infrastructure, and \$7.6 million of airport improvements.
- Machinery and equipment purchased under governmental activities totaled approximately \$1.1 million.

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 debt of \$17,633,957. 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 2025, total debt decreased. The City made scheduled principal payments of approximately \$1.9 million. The City incurred an additional financed purchase of approximately \$366,000 for software updates. Besides this, the City took out and paid back \$1,080,000 in short-term loans during fiscal year 2025.

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 2026 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 went into effect during the fiscal year, and funds from previous debt issuances 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**

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CITY OF HILLSBORO, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2025

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 6,989,474	\$ 252,358	\$ 7,241,832
Receivables (net of allowances for uncollectibles):			
Taxes	1,521,787	-	1,521,787
Accounts	351,455	1,114,395	1,465,850
Leases	-	58,440	58,440
Municipal court	363,043	-	363,043
Intergovernmental	67,734	61,167	128,901
Internal balances	6,174,173	(6,174,173)	-
Inventories	21,751	280,258	302,009
Assets held for sale	-	5,300,634	5,300,634
Capital assets not being depreciated	5,086,202	16,844,389	21,930,591
Capital assets, net of accumulated depreciation	<u>22,395,325</u>	<u>12,029,661</u>	<u>34,424,986</u>
Total assets	<u>42,970,944</u>	<u>29,767,129</u>	<u>72,738,073</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension related	<u>806,603</u>	<u>172,998</u>	<u>979,601</u>
Total deferred outflows of resources	<u>806,603</u>	<u>172,998</u>	<u>979,601</u>
LIABILITIES			
Accounts payable	461,825	909,990	1,371,815
Accrued liabilities	462,024	59,631	521,655
Accrued interest payable	74,179	74,179	148,358
Customer deposits	-	332,625	332,625
Arbitrage payable	113,117	249,968	363,085
Long-term liabilities:			
Due within one year - long-term debt	1,522,507	855,136	2,377,643
Due in more than one year:			
Long-term debt	7,814,804	8,062,916	15,877,720
Net pension liability	<u>1,611,514</u>	<u>345,631</u>	<u>1,957,145</u>
Total liabilities	<u>12,059,970</u>	<u>10,890,076</u>	<u>22,950,046</u>
DEFERRED INFLOWS OF RESOURCES			
Lease related	-	57,952	57,952
Pension related	<u>324,428</u>	<u>69,583</u>	<u>394,011</u>
Total deferred inflows of resources	<u>324,428</u>	<u>127,535</u>	<u>451,963</u>
NET POSITION			
Net investment in capital assets	20,587,832	20,729,844	41,317,676
Restricted for:			
Economic development	3,048,339	-	3,048,339
Tourism	2,968,741	-	2,968,741
Court security and technology	344,898	-	344,898
Debt service	292,747	-	292,747
Public safety	354,972	-	354,972
Library operations	37,595	-	37,595
Unrestricted	<u>3,758,025</u>	<u>(1,807,328)</u>	<u>1,950,697</u>
Total net position	<u>\$ 31,393,149</u>	<u>\$ 18,922,516</u>	<u>\$ 50,315,665</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, 2025

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 3,444,378	\$ 171,438	\$ 65,751	\$ -
Public safety	7,041,930	1,279,785	878,514	-
Streets	1,763,374	-	-	-
Community development	1,265,982	226,495	-	-
Interest on long-term debt	201,153	-	-	-
Total governmental activities	<u>13,716,817</u>	<u>1,677,718</u>	<u>944,265</u>	<u>-</u>
Business-type activities:				
Water and sewer	7,507,132	6,952,601	-	-
Sanitation	1,178,833	1,360,335	-	-
Retail	313,277	109,294	-	-
Airport	563,646	258,309	1,500	7,911,139
Total business-type activities	<u>9,562,888</u>	<u>8,680,539</u>	<u>1,500</u>	<u>7,911,139</u>
Total	<u>\$ 23,279,705</u>	<u>\$ 10,358,257</u>	<u>\$ 945,765</u>	<u>\$ 7,911,139</u>

General revenues:

 Taxes:

- Property - general purposes
- Sales
- Franchise
- Hotel/motel
- Other

 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

Governmental Activities	Business-type Activities	Total
\$ (3,207,189)	\$ -	\$ (3,207,189)
(4,883,631)	-	(4,883,631)
(1,763,374)	-	(1,763,374)
(1,039,486)	-	(1,039,486)
<u>(201,153)</u>	<u>-</u>	<u>(201,153)</u>
<u>(11,094,834)</u>	<u>-</u>	<u>(11,094,834)</u>
-	(554,531)	(554,531)
-	181,502	181,502
-	(203,983)	(203,983)
-	<u>7,607,302</u>	<u>7,607,302</u>
-	<u>7,030,290</u>	<u>7,030,290</u>
<u>(11,094,834)</u>	<u>7,030,290</u>	<u>(4,064,544)</u>
6,288,133	-	6,288,133
5,679,175	-	5,679,175
795,774	-	795,774
523,783	-	523,783
122,262	-	122,262
254,166	77,460	331,626
254,563	132,991	387,554
<u>294,000</u>	<u>(294,000)</u>	<u>-</u>
<u>14,211,856</u>	<u>(54,627)</u>	<u>14,157,229</u>
3,117,022	6,975,663	10,092,685
<u>28,276,127</u>	<u>11,946,853</u>	<u>40,222,980</u>
<u>\$ 31,393,149</u>	<u>\$ 18,922,516</u>	<u>\$ 50,315,665</u>

CITY OF HILLSBORO, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2025

		Special Revenue		
	General	Economic Development Corporation	Hotel/Motel Tax	Debt Service
ASSETS				
Cash and investments	\$ 786,170	\$ 2,583,157	\$ 2,704,087	\$ 306,265
Receivables (net of allowance):				
Taxes	1,240,054	83,913	133,659	64,161
Accounts	714,498	-	-	-
Due from other governments	-	-	-	-
Inventory	21,751	-	-	-
Due from other funds	<u>4,096,151</u>	<u>179,939</u>	<u>131,000</u>	<u>-</u>
Total assets	<u>6,858,624</u>	<u>2,847,009</u>	<u>2,968,746</u>	<u>370,426</u>
LIABILITIES				
Accounts payable	439,252	6,078	5	3,500
Accrued liabilities	456,947	5,077	-	-
Due to other funds	<u>179,939</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>1,076,138</u>	<u>11,155</u>	<u>5</u>	<u>3,500</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	223,077	-	-	56,627
Unavailable revenue - court fines	<u>363,043</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total deferred inflows of resources	<u>586,120</u>	<u>-</u>	<u>-</u>	<u>56,627</u>
FUND BALANCE				
Nonspendable:				
Inventory	21,751	-	-	-
Restricted:				
Court security and technology	344,898	-	-	-
Debt service	-	-	-	310,299
Economic development	-	2,835,854	-	-
Library operations	-	-	-	-
Public safety	-	-	-	-
Tourism	-	-	2,968,741	-
Capital projects	-	-	-	-
Unassigned	<u>4,829,717</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>5,196,366</u>	<u>2,835,854</u>	<u>2,968,741</u>	<u>310,299</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 6,858,624</u>	<u>\$ 2,847,009</u>	<u>\$ 2,968,746</u>	<u>\$ 370,426</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

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

Capital Projects

2021 Bond	Other Governmental Funds	Total Governmental Funds
\$ 7,423	\$ 602,372	\$ 6,989,474
-	-	1,521,787
-	-	714,498
-	67,734	67,734
-	-	21,751
2,000,000	-	6,407,090
2,007,423	670,106	15,722,334
914	12,076	461,825
113,117	-	575,141
-	52,978	232,917
114,031	65,054	1,269,883
-	-	279,704
-	-	363,043
-	-	642,747
-	-	21,751
-	-	344,898
-	-	310,299
-	212,485	3,048,339
-	37,595	37,595
-	354,972	354,972
-	-	2,968,741
1,893,392	-	1,893,392
-	-	4,829,717
1,893,392	605,052	13,809,704
\$ 2,007,423	\$ 670,106	
		27,481,527
		642,747
		(10,540,829)
		\$ 31,393,149

CITY OF HILLSBORO, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	General	Special Revenue		Debt Service
		Economic Development Corporation	Hotel/Motel Tax	
REVENUES				
Taxes:				
Ad valorem	\$ 5,205,885	\$ -	\$ -	\$ 1,027,726
Sales	5,173,499	505,676	-	-
Franchise	795,774	-	-	-
Hotel/motel	-	-	523,783	-
Other	122,262	-	-	-
Fines and forfeitures	718,241	-	-	-
Charges for services	381,214	-	-	-
Intergovernmental	908,875	-	-	-
Licenses and permits	216,730	-	-	-
Investment earnings	110,129	109,025	7,186	3,508
Rentals	-	-	9,765	-
Cemetery lot sales and fees	32,280	-	-	-
Contributions	190,121	-	-	-
Miscellaneous	95,309	70,512	-	-
Total revenues	<u>13,950,319</u>	<u>685,213</u>	<u>540,734</u>	<u>1,031,234</u>
EXPENDITURES				
Current:				
General government	3,269,547	-	-	-
Public safety	8,150,924	-	-	-
Streets	1,242,233	-	-	-
Community development	475,267	498,912	109,061	-
Capital outlay	110,171	-	-	-
Debt service:				
Principal	806,354	-	-	815,000
Interest	54,597	-	-	163,373
Fees and costs of issuance	-	-	-	5,825
Total expenditures	<u>14,109,093</u>	<u>498,912</u>	<u>109,061</u>	<u>984,198</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(158,774)</u>	<u>186,301</u>	<u>431,673</u>	<u>47,036</u>
OTHER FINANCING SOURCES (USES)				
Insurance recoveries	26,338	-	-	-
Issuance of long-term debt	721,580	-	-	-
Sale of capital assets	54,606	-	-	-
Transfers in	327,000	-	-	-
Transfers out	-	(12,000)	(93,000)	-
Total other financing sources (uses)	<u>1,129,524</u>	<u>(12,000)</u>	<u>(93,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	970,750	174,301	338,673	47,036
FUND BALANCE, BEGINNING	<u>4,225,616</u>	<u>2,661,553</u>	<u>2,630,068</u>	<u>263,263</u>
FUND BALANCE, ENDING	<u>\$ 5,196,366</u>	<u>\$ 2,835,854</u>	<u>\$ 2,968,741</u>	<u>\$ 310,299</u>

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

<u>Capital Projects</u>		
<u>2021 Bond</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 61,299	\$ 6,294,910
-	-	5,679,175
-	-	795,774
-	-	523,783
-	-	122,262
-	10,466	728,707
-	-	381,214
-	67,734	976,609
-	-	216,730
6,277	18,041	254,166
-	-	9,765
-	-	32,280
-	5,968	196,089
-	88,742	254,563
<u>6,277</u>	<u>252,250</u>	<u>16,466,027</u>
-	37,590	3,307,137
-	2,761	8,153,685
-	-	1,242,233
-	97,683	1,180,923
644,359	29,207	783,737
-	-	1,621,354
-	-	217,970
-	-	5,825
<u>644,359</u>	<u>167,241</u>	<u>16,512,864</u>
<u>(638,082)</u>	<u>85,009</u>	<u>(46,837)</u>
-	-	26,338
-	-	721,580
-	-	54,606
-	72,000	399,000
-	-	(105,000)
<u>-</u>	<u>72,000</u>	<u>1,096,524</u>
(638,082)	157,009	1,049,687
<u>2,531,474</u>	<u>448,043</u>	<u>12,760,017</u>
<u>\$ 1,893,392</u>	<u>\$ 605,052</u>	<u>\$ 13,809,704</u>

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CITY OF HILLSBORO, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2025

Net change in fund balances - total governmental funds	\$ 1,049,687
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.	1,007,061
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(9,708)
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.	1,060,454
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>9,528</u>
Change in net position of governmental activities	<u>\$ 3,117,022</u>

CITY OF HILLSBORO, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

SEPTEMBER 30, 2025

	Business-type Activities - Enterprise Funds		
	Water and Wastewater	Sanitation	Retail
ASSETS			
Current assets:			
Cash and investments	\$ -	\$ 225,681	\$ -
Accounts receivable	989,412	60,062	-
Due from other governments	-	-	-
Lease receivable	-	-	-
Due from other funds	-	400,000	-
Inventories	243,948	-	-
Total current assets	<u>1,233,360</u>	<u>685,743</u>	<u>-</u>
Noncurrent assets:			
Assets held for sale	-	-	5,300,634
Capital assets not being depreciated	7,934,798	97,906	-
Capital assets net of accumulated depreciation	10,628,188	-	-
Total noncurrent assets	<u>18,562,986</u>	<u>97,906</u>	<u>5,300,634</u>
Total assets	<u>19,796,346</u>	<u>783,649</u>	<u>5,300,634</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension related	158,010	-	-
Total deferred outflows of resources	<u>158,010</u>	<u>-</u>	<u>-</u>
LIABILITIES			
Current liabilities:			
Accounts payable	463,579	215,656	209,023
Customer deposits	329,125	-	3,500
Accrued liabilities	53,401	-	-
Due to other funds	135,721	-	5,350,543
Accrued interest payable	74,179	-	-
Accrued compensated absences	29,866	-	-
Bonds payable	405,000	-	-
Financing arrangements	414,545	-	-
Total current liabilities	<u>1,905,416</u>	<u>215,656</u>	<u>5,563,066</u>
Noncurrent liabilities:			
Arbitrage payable	249,968	-	-
Bonds payable	7,584,877	-	-
Financing arrangements	442,448	-	-
Net pension liability	315,687	-	-
Accrued compensated absences	29,865	-	-
Total noncurrent liabilities	<u>8,622,845</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>10,528,261</u>	<u>215,656</u>	<u>5,563,066</u>
DEFERRED INFLOWS OF RESOURCES			
Lease related	-	-	-
Pension related	63,554	-	-
Total deferred inflows of resources	<u>63,554</u>	<u>-</u>	<u>-</u>
NET POSITION			
Net investment in capital assets	10,418,780	97,906	-
Unrestricted	(1,056,239)	470,087	(262,432)
Total net position	<u>\$ 9,362,541</u>	<u>\$ 567,993</u>	<u>\$ (262,432)</u>

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

Business-type Activities -
Enterprise Funds

Airport	Totals
\$ 26,677	\$ 252,358
64,921	1,114,395
61,167	61,167
58,440	58,440
-	400,000
<u>36,310</u>	<u>280,258</u>
<u>247,515</u>	<u>2,166,618</u>
-	5,300,634
8,811,685	16,844,389
<u>1,401,473</u>	<u>12,029,661</u>
<u>10,213,158</u>	<u>34,174,684</u>
<u>10,460,673</u>	<u>36,341,302</u>
14,988	172,998
<u>14,988</u>	<u>172,998</u>
21,732	909,990
-	332,625
6,230	59,631
1,087,909	6,574,173
-	74,179
5,725	35,591
-	405,000
-	414,545
<u>1,121,596</u>	<u>8,805,734</u>
-	249,968
-	7,584,877
-	442,448
29,944	345,631
<u>5,726</u>	<u>35,591</u>
<u>35,670</u>	<u>8,658,515</u>
<u>1,157,266</u>	<u>17,464,249</u>
57,952	57,952
<u>6,029</u>	<u>69,583</u>
<u>63,981</u>	<u>127,535</u>
10,213,158	20,729,844
<u>(958,744)</u>	<u>(1,807,328)</u>
<u>\$ 9,254,414</u>	<u>\$ 18,922,516</u>

CITY OF HILLSBORO, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Business-type Activities - Enterprise Funds		
	Water and Wastewater	Sanitation	Retail
OPERATING REVENUES			
Charges for services:			
Water and sewer sales	\$ 6,749,844	\$ -	\$ -
Sanitation sales	-	1,360,335	-
Airport fuel sales	-	-	-
Lease income	-	-	109,294
Other service charges	202,757	-	-
Contributions	-	-	-
Miscellaneous	<u>132,391</u>	<u>-</u>	<u>600</u>
Total operating revenues	<u>7,084,992</u>	<u>1,360,335</u>	<u>109,894</u>
 OPERATING EXPENSES			
Water purchases	3,770,794	-	-
Personnel	1,746,929	-	-
Supplies	96,677	-	1,234
Services	220,734	1,171,057	100,627
Maintenance	916,342	7,776	206,246
Minor equipment	1,697	-	-
Depreciation	<u>527,236</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>7,280,409</u>	<u>1,178,833</u>	<u>308,107</u>
 OPERATING INCOME (LOSS)	 <u>(195,417)</u>	 <u>181,502</u>	 <u>(198,213)</u>
 NONOPERATING REVENUES (EXPENSES)			
Federal grant revenue	28,922	-	-
Investment income	77,460	-	-
Interest and fiscal charges	<u>(226,723)</u>	<u>-</u>	<u>(5,170)</u>
Total nonoperating revenues (expenses)	<u>(120,341)</u>	<u>-</u>	<u>(5,170)</u>
 INCOME (LOSS) BEFORE TRANSFERS	 (315,758)	 181,502	 (203,383)
Transfers out	<u>-</u>	<u>(294,000)</u>	<u>-</u>
 CHANGE IN NET POSITION	 (315,758)	 (112,498)	 (203,383)
 TOTAL NET POSITION, BEGINNING	 <u>9,678,299</u>	 <u>680,491</u>	 <u>(59,049)</u>
 TOTAL NET POSITION, ENDING	 <u>\$ 9,362,541</u>	 <u>\$ 567,993</u>	 <u>\$ (262,432)</u>

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

Business-type Activities -
Enterprise Funds

Airport	Totals
\$ -	\$ 6,749,844
-	1,360,335
201,827	201,827
53,415	162,709
3,067	205,824
1,500	1,500
<u>-</u>	<u>132,991</u>
<u>259,809</u>	<u>8,815,030</u>
-	3,770,794
165,383	1,912,312
164,198	262,109
30,808	1,523,226
143,678	1,274,042
234	1,931
<u>59,345</u>	<u>586,581</u>
<u>563,646</u>	<u>9,330,995</u>
<u>(303,837)</u>	<u>(515,965)</u>
7,911,139	7,940,061
-	77,460
<u>-</u>	<u>(231,893)</u>
<u>7,911,139</u>	<u>7,785,628</u>
7,607,302	7,269,663
<u>-</u>	<u>(294,000)</u>
7,607,302	6,975,663
<u>1,647,112</u>	<u>11,946,853</u>
<u>\$ 9,254,414</u>	<u>\$ 18,922,516</u>

CITY OF HILLSBORO, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Business-type Activities - Enterprise Funds		
	Water and Wastewater	Sanitation	Retail
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 7,189,305	\$ 1,372,778	\$ 109,894
Cash payments to employees for services	(1,770,881)	-	-
Cash payments to suppliers for goods and services	<u>(5,332,564)</u>	<u>(1,052,963)</u>	<u>(333,672)</u>
Cash provided (used) by operating activities	<u>85,860</u>	<u>319,815</u>	<u>(223,778)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash received from federal grants	28,922	-	-
Cash received from other funds	135,721	-	640,215
Cash paid for development of land held for sale	-	-	(411,283)
Cash paid to other funds	<u>-</u>	<u>(294,000)</u>	<u>-</u>
Cash provided (used) by noncapital financing activities	<u>164,643</u>	<u>(294,000)</u>	<u>228,932</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal repayments on debt	(739,521)	-	-
Interest and fiscal charges on debt	(233,087)	-	(5,170)
Capital grants	-	-	-
Acquisition and construction of capital assets	<u>(2,211,110)</u>	<u>-</u>	<u>-</u>
Cash provided (used) by capital and related financing activities	<u>(3,183,718)</u>	<u>-</u>	<u>(5,170)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	<u>126,870</u>	<u>-</u>	<u>-</u>
Cash provided (used) by investing activities	<u>126,870</u>	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,806,345)	25,815	(16)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>2,806,345</u>	<u>199,866</u>	<u>16</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ -</u>	<u>\$ 225,681</u>	<u>\$ -</u>

Business-type Activities -
Enterprise Funds

Airport	Totals
\$ 202,623	\$ 8,874,600
(165,813)	(1,936,694)
(331,383)	(7,050,582)
(294,573)	(112,676)
-	28,922
-	775,936
-	(411,283)
-	(294,000)
-	99,575
-	(739,521)
-	(238,257)
318,657	318,657
-	(2,211,110)
318,657	(2,870,231)
-	126,870
-	126,870
24,084	(2,756,462)
2,593	3,008,820
\$ 26,677	\$ 252,358

CITY OF HILLSBORO, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Business-type Activities - Enterprise Funds		
	Water and Wastewater	Sanitation	Retail
RECONCILIATION OF OPERATING INCOME			
(LOSS) TO NET CASH PROVIDED (USED) BY			
OPERATING ACTIVITIES			
Operating income (loss)	\$ (195,417)	\$ 181,502	\$ (198,213)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	527,236	-	-
Change in assets and liabilities:			
Decrease (increase) in accounts receivable	69,129	12,443	-
Decrease (increase) in lease receivable	-	-	-
Decrease (increase) in inventory	(20,242)	-	-
Decrease (increase) in deferred outflows	56,457	-	-
Increase (decrease) in accounts payable	(306,078)	125,870	(25,565)
Increase (decrease) in accrued liabilities	8,839	-	-
Increase (decrease) in customer deposits	35,184	-	-
Increase (decrease) in vacation payable	(1,194)	-	-
Increase (decrease) in net pension liability	(99,607)	-	-
Decrease (increase) in deferred inflows	11,553	-	-
Total adjustments	281,277	138,313	(25,565)
Net cash provided (used) by operating activities	\$ 85,860	\$ 319,815	\$ (223,778)
NONCASH INVESTING, CAPITAL, AND			
FINANCING ACTIVITIES			
Capital assets acquired through financing arrangement	\$ 124,030	\$ -	\$ -
Accrual of construction-related payables and retainage	369,727	-	-
Contribution of capital assets	-	-	-

Business-type Activities -
Enterprise Funds

	Airport	Totals		Totals
	\$ (303,837)	\$ (515,965)		
	59,345	586,581		
	(57,195)	24,377		
	4,546	4,546		
	(12,798)	(33,040)		
	3,936	60,393		
	20,333	(185,440)		
	899	9,738		
	-	35,184		
	(6)	(1,200)		
	(6,700)	(106,307)		
	<u>(3,096)</u>	<u>8,457</u>		
	<u>9,264</u>	<u>403,289</u>		
	<u>\$ (294,573)</u>	<u>\$ (112,676)</u>		
	\$ -	\$ 124,030		
	-	369,727		
	7,562,880	7,562,880		

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CITY OF HILLSBORO, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2025

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 the 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.

The **Airport Fund** – is used to account for the activities of the municipal airport.

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 the 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 the 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, 2025, 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 2025 were levied October 1, 2024, at the rate of \$0.7706 per \$100 assessed valuation on a total taxable assessed valuation of \$836,957,891.

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
Right-to-use subscription	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. The City estimates the amount of leave time more likely than not to be used using historical usage patterns of its employees.

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 authorized by resolution 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.

Change in Accounting Principle

During fiscal year 2025, the City adopted new accounting guidance, 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.

After completing updated estimates of compensated absences under GASB 101, management determined that the estimated liability as of the beginning of fiscal year 2025 was not significantly different from the liability as previously reported. As such, the cumulative effect of the change was reported with salary expenditures rather than a restatement of beginning net position.

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, 2025, the City’s deposit balance (cash and certificates of deposit) was \$2,210,514. The City’s deposits as of September 30, 2025, 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	AAAmf	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, 2025, the City’s investments consisted of:

	<u>Net Asset Value</u>
TexStar	\$ 450,926
Texas Range	1,956,320
TexPool	691,932
	<u>\$ 3,099,178</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:

	Governmental Funds					Enterprise Funds			Totals
	General	Debt Service	EDC	Hotel/Motel	Nonmajor Governmental	Water and Wastewater	Sanitation	Airport	
Receivables:									
Accounts:									
Customers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,004,010	\$ 60,062	\$ 64,921	\$ 1,128,993
Taxes:									
Property	724,044	178,223	-	-	-	-	-	-	902,267
Sales	923,039	-	83,913	-	-	-	-	-	1,006,952
Other	56,359	-	-	133,659	-	-	-	-	190,018
Court fines	2,420,290	-	-	-	-	-	-	-	2,420,290
EMS	3,219,672	-	-	-	-	-	-	-	3,219,672
Intergovernmental	-	-	-	-	67,734	-	-	61,167	128,901
Lease	-	-	-	-	-	-	-	58,440	58,440
Other	29,488	-	-	-	-	1,778	-	-	31,266
Gross receivables	<u>7,372,892</u>	<u>178,223</u>	<u>83,913</u>	<u>133,659</u>	<u>67,734</u>	<u>1,005,788</u>	<u>60,062</u>	<u>184,528</u>	<u>9,086,799</u>
Less: allowance for uncollectibles	<u>(5,418,340)</u>	<u>(114,062)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,376)</u>	<u>-</u>	<u>-</u>	<u>(5,548,778)</u>
Net total receivables	<u>\$ 1,954,552</u>	<u>\$ 64,161</u>	<u>\$ 83,913</u>	<u>\$ 133,659</u>	<u>\$ 67,734</u>	<u>\$ 989,412</u>	<u>\$ 60,062</u>	<u>\$ 184,528</u>	<u>\$ 3,538,021</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	
2026	\$ 4,552	\$ 73	\$ 4,625
2027	4,558	67	4,625
2028	4,563	62	4,625
2029	4,123	56	4,179
2030	3,858	51	3,909
2031-2035	16,819	186	17,005
2036-2040	9,977	94	10,071
2041-2045	6,897	45	6,942
2046-2050	3,093	9	3,102
Total	<u>\$ 58,440</u>	<u>\$ 643</u>	<u>\$ 59,083</u>

Short-term Debt

The City has secured a line of credit with one of its depository institutions to fund short-term cash flow when the need arises. The line carries an interest rate of 8.5% and a maximum amount of \$900,000. As shown in the schedule below, the balance as of September 30, 2025 is \$0 and the entire amount of the line is unused.

Changes in short-term debt for the year are as follows:

	Debt Outstanding 10/1/2024	Additions	Retirements	Debt Outstanding 9/30/2025
Line of Credit:				
Governmental activities	\$ -	\$ 480,000	\$ (480,000)	\$ -
Business-type activities	-	600,000	(600,000)	-
Total line of credit	<u>\$ -</u>	<u>\$ 1,080,000</u>	<u>\$ (1,080,000)</u>	<u>\$ -</u>

Capital Assets

Capital asset activity for the year ended September 30, 2025, was as follows:

	Beginning Balance	Increase	Adjustment/ Decrease	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 803,137	\$ 226,462	\$ -	\$ 1,029,599
Construction in progress	<u>3,430,114</u>	<u>626,489</u>	<u>-</u>	<u>4,056,603</u>
Total assets not being depreciated	<u>4,233,251</u>	<u>852,951</u>	<u>-</u>	<u>5,086,202</u>
Capital assets, being depreciated:				
Buildings and improvements	7,824,833	162,852	-	7,987,685
Machinery and equipment	9,027,724	871,135	-	9,898,859
Software	-	241,580	-	241,580
Infrastructure	<u>20,670,206</u>	<u>33,314</u>	<u>-</u>	<u>20,703,520</u>
Total capital assets being depreciated	<u>37,522,763</u>	<u>1,308,881</u>	<u>-</u>	<u>38,831,644</u>
Accumulated depreciation:				
Buildings and improvements	(4,835,618)	(202,650)	2,576	(5,035,692)
Machinery and equipment	(6,143,042)	(542,337)	-	(6,685,379)
Software	-	(9,725)	-	(9,725)
Infrastructure	<u>(4,302,888)</u>	<u>(402,635)</u>	<u>-</u>	<u>(4,705,523)</u>
Total accumulated depreciation	<u>(15,281,548)</u>	<u>(1,157,347)</u>	<u>2,576</u>	<u>(16,436,319)</u>
Total capital assets being depreciated, net	<u>22,241,215</u>	<u>151,534</u>	<u>2,576</u>	<u>22,395,325</u>
Governmental activities capital assets, net	<u>\$ 26,474,466</u>	<u>\$ 1,004,485</u>	<u>\$ 2,576</u>	<u>\$ 27,481,527</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 625,813	\$ -	\$ -	\$ 625,813
Construction in progress - Water/Sewer	5,307,741	2,445,154	-	7,752,895
Construction in progress - Airport	<u>902,800</u>	<u>7,624,047</u>	<u>(61,166)</u>	<u>8,465,681</u>
Total assets not being depreciated	<u>6,836,354</u>	<u>10,069,201</u>	<u>(61,166)</u>	<u>16,844,389</u>
Capital assets, being depreciated:				
Buildings and improvements	7,037,381	-	-	7,037,381
Machinery and equipment	2,059,851	69,419	-	2,129,270
Software	-	124,030	-	124,030
Infrastructure	<u>21,421,674</u>	<u>66,263</u>	<u>-</u>	<u>21,487,937</u>
Total capital assets being depreciated	<u>30,518,906</u>	<u>259,712</u>	<u>-</u>	<u>30,778,618</u>
Accumulated depreciation:				
Buildings and improvements	(2,760,155)	(149,198)	-	(2,909,353)
Machinery and equipment	(1,869,751)	(28,626)	-	(1,898,377)
Software	-	(9,302)	-	(9,302)
Infrastructure	<u>(13,532,470)</u>	<u>(399,455)</u>	<u>-</u>	<u>(13,931,925)</u>
Total accumulated depreciation	<u>(18,162,376)</u>	<u>(586,581)</u>	<u>-</u>	<u>(18,748,957)</u>
Total capital assets being depreciated, net	<u>12,356,530</u>	<u>(326,869)</u>	<u>-</u>	<u>12,029,661</u>
Business-type activities capital assets, net	<u>\$ 19,192,884</u>	<u>\$ 9,742,332</u>	<u>\$ (61,166)</u>	<u>\$ 28,874,050</u>

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

Governmental activities	
General government	\$ 121,738
Public safety	514,767
Public works	361,030
Community development	<u>159,812</u>
Total depreciation expense - governmental activities	<u>\$ 1,157,347</u>
Business-type activities:	
Water and wastewater	\$ 527,236
Airport	<u>59,345</u>
Total depreciation expense - business-type activities	<u>\$ 586,581</u>

Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2025, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Retail	\$ 3,320,543
General	Nonmajor governmental	1,978
General	Airport	637,909
General	Water and Wastewater	135,721
Hotel/Motel Tax	Nonmajor governmental	51,000
Hotel/Motel Tax	Retail	30,000
Hotel/Motel Tax	Airport	50,000
Sanitation	Airport	400,000
2021 Bond	Retail	2,000,000
EDC	General	<u>179,939</u>
Total		<u>\$ 6,807,090</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, 2025, are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>	<u>Purpose</u>
General	EDC	\$ 12,000	Admin costs
General	Hotel/Motel	21,000	Admin costs
Nonmajor governmental	Hotel/Motel	72,000	Admin costs
General	Sanitation	<u>294,000</u>	Admin costs
Total		<u>\$ 399,000</u>	

Long-term Debt

Long-term debt activity from the year ended September 30, 2025, was as follows:

	Debt			Debt	
	Outstanding 10/1/2024	Additions	Retirements	Outstanding 9/30/2025	Due Within One Year
Governmental activities:					
Certificates of obligation	\$ 5,460,000	\$ -	\$ (120,000)	\$ 5,340,000	\$ 205,000
General obligation bonds	1,775,000	-	(275,000)	1,500,000	240,000
GO bonds - Private Placement	1,070,000	-	(420,000)	650,000	420,000
Premium on bonds	206,221	-	(15,969)	190,252	-
Financing arrangements	1,191,609	241,580	(326,354)	1,106,835	382,395
Compensated absences	<u>558,904</u>	-	<u>(8,680)</u>	<u>550,224</u>	<u>275,112</u>
Total governmental activities	<u>10,261,734</u>	<u>241,580</u>	<u>(1,166,003)</u>	<u>9,337,311</u>	<u>1,522,507</u>
Business-type activities:					
Certificates of obligation	5,765,000	-	(250,000)	5,515,000	260,000
TWDB Bonds - Direct Borrowing	2,425,000	-	(145,000)	2,280,000	145,000
Premium on bonds	206,748	-	(11,871)	194,877	-
Financing arrangements	1,077,484	124,030	(344,521)	856,993	414,545
Compensated absences	<u>72,382</u>	-	<u>(1,200)</u>	<u>71,182</u>	<u>35,591</u>
Total business-type activities	<u>9,546,614</u>	<u>124,030</u>	<u>(752,592)</u>	<u>8,918,052</u>	<u>855,136</u>
Total primary government	<u>\$ 19,808,348</u>	<u>\$ 365,610</u>	<u>\$ (1,918,595)</u>	<u>\$ 18,255,363</u>	<u>\$ 2,377,643</u>

Current-year increases and decreases to compensated absences are presented as a net change in the schedule above.

Bonds Payable. Bonds outstanding as of September 30, 2025, consisted of the following:

	Purpose of Issue	Amount Issued	Amount Outstanding	Interest Rate
<u>Governmental</u>				
General obligation bonds:				
2012 Series	Street Improvements	\$ 1,870,000	\$ 820,000	2.00%-3.00%
2012 Series Premium		87,406	30,594	
2016 Series	Refunding	4,155,000	650,000	1.65%
2020 Series	Refunding	1,330,000	680,000	1.70%
Certificates of obligation bonds:				
2021 Series	Street Improvements	5,635,000	5,340,000	1.85%
2021 Series Premium		181,429	159,658	
Total governmental		<u>\$ 13,258,835</u>	<u>\$ 7,680,252</u>	
<u>Business-type</u>				
General obligation bonds:				
2019 Series		\$ 3,130,000	\$ 2,280,000	0.73%-2.14%
Certificates of obligation bonds:				
2022 Series		6,195,000	5,515,000	2.00%-4.00%
2022 Series Premium		237,414	194,877	
Total business-type		<u>\$ 9,562,414</u>	<u>\$ 7,989,877</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.

Governmental bonds future requirements are as follows:

Year Ended September 30	Principal	Interest	Total Requirements
2026	\$ 445,000	\$ 136,347	\$ 581,347
2027	455,000	125,494	580,494
2028	465,000	114,343	579,343
2029	470,000	102,890	572,890
2030	490,000	91,288	581,288
2031-2035	1,475,000	325,388	1,800,388
2036-2040	1,315,000	220,990	1,535,990
2041-2045	1,425,000	111,720	1,536,720
2046-2047	300,000	6,000	306,000
Total	<u>\$ 6,840,000</u>	<u>\$ 1,234,460</u>	<u>\$ 8,074,460</u>

Private Placement			
Year Ended September 30	Principal	Interest	Total Requirements
2026	\$ 420,000	\$ 10,725	\$ 430,725
2027	115,000	3,795	118,795
2028	115,000	1,898	116,898
Total	<u>\$ 650,000</u>	<u>\$ 16,418</u>	<u>\$ 666,418</u>

Business-type bonds future requirements are as follows:

Year Ended September 30	Principal	Interest	Total Requirements
2026	\$ 260,000	\$ 155,282	\$ 415,282
2027	265,000	148,456	413,456
2028	275,000	141,500	416,500
2029	280,000	133,250	413,250
2030	290,000	124,850	414,850
2031-2035	1,565,000	506,250	2,071,250
2036-2040	1,790,000	283,050	2,073,050
2041-2042	<u>790,000</u>	<u>35,700</u>	<u>825,700</u>
Total	<u>\$ 5,515,000</u>	<u>\$ 1,528,338</u>	<u>\$ 7,043,338</u>

Private Placement			
Year Ended September 30	Principal	Interest	Total Requirements
2026	\$ 145,000	\$ 41,231	\$ 186,231
2027	150,000	39,274	189,274
2028	150,000	37,114	187,114
2029	150,000	34,834	184,834
2030	155,000	32,419	187,419
2031-2035	820,000	120,350	940,350
2036-2039	<u>710,000</u>	<u>37,840</u>	<u>747,840</u>
Total	<u>\$ 2,280,000</u>	<u>\$ 343,062</u>	<u>\$ 2,623,062</u>

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. In fiscal year 2025, the City entered into a financing arrangement to fund the upfront costs related to upgrading the City's financial software to enhance operational efficiency in the Human Resources and Finance departments. The City is required to make two fixed annual payments of \$204,233 at an interest rate of 6.998%. The software is split between governmental activities and business-type activities.

Governmental financing arrangement future requirements are as follows:

Year Ended September 30	Principal	Interest	Total Requirements
2026	\$ 382,395	\$ 68,991	\$ 451,386
2027	321,728	53,946	375,674
2028	209,391	32,738	242,129
2029	25,089	22,412	47,501
2030	27,680	10,010	37,690
2031-2034	<u>140,552</u>	<u>21,857</u>	<u>162,409</u>
Total	<u>\$ 1,106,835</u>	<u>\$ 209,954</u>	<u>\$ 1,316,789</u>

Business-type financing arrangement future requirements are as follows:

Year Ended September 30	Principal	Interest	Total Requirements
2026	\$ 414,545	\$ 28,909	\$ 443,454
2027	427,100	15,130	442,230
2028	<u>15,348</u>	<u>796</u>	<u>16,144</u>
Total	<u>\$ 856,993</u>	<u>\$ 44,835</u>	<u>\$ 901,828</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, 2025, the City has recognized arbitrage liabilities of \$113,117 in the governmental activities and \$249,968 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.

During the fiscal year ending September 30, 2025, the City paid the District \$3,397,392, which includes both volumetric charges for purchased water as well as the City's share of the District's operating costs.

Defined Benefit Pension Plan

Plan Description

The City participates as one of 942 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 one of seven payment 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 Retroactive Repeating

Employees covered by benefit terms

At the December 31, 2024, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	91
Inactive employees entitled to but not yet receiving benefits	95
Active employees	<u>121</u>
	<u><u>307</u></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 11.42% and 10.79% in calendar years 2024 and 2025, respectively. The City’s contributions to TMRS for the fiscal year ended September 30, 2025, were \$850,889, and were equal to the required contributions.

Net Pension Liability

The City’s Net Pension Liability (NPL) was measured as of December 31, 2024, 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, 2024, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.6% to 11.85% 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 110% of the Public Safety table used for males and 100% of 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. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates for active, healthy retirees and beneficiaries are projected on a fully generational basis by the most recent Scale MP-2021 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 disables. The rates are projected on a fully generational basis by the most recent Scale MP-2021 to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2018, to December 31, 2022. The assumptions were adopted in 2023 and first used in the December 31, 2023, 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 by best estimate ranges of expected returns for each major asset class. The long-term expected rate of return is determined by weighting the expected return for each major asset class by the respective target asset allocation percentage.

The target allocation and best estimates of the expected return for each major asset class in fiscal year 2025 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.0%	7.10%
Core Fixed Income	6.0%	5.00%
Non-Core Fixed Income	6.0%	6.80%
Hedge Funds	5.0%	6.40%
Private Equity	13.0%	8.50%
Private Debt	13.0%	8.20%
Real Estate	12.0%	6.70%
Infrastructure	6.0%	6.00%
Other Private Markets	4.0%	7.30%
Total	100.0%	

Discount Rate

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

Changes in the Net Pension Liability

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2023	\$ 27,571,799	\$ 25,027,106	\$ 2,544,693
Changes for the year:			
Service cost	909,205	-	909,205
Interest	1,842,027	-	1,842,027
Difference between expected and actual experience	499,837	-	499,837
Changes of assumptions		-	-
Contributions - employer	-	873,265	(873,265)
Contributions - employee	-	382,340	(382,340)
Net investment income	-	2,600,077	(2,600,077)
Benefit payments, including refunds of employee contributions	(1,474,236)	(1,474,236)	-
Administrative expense	-	(16,675)	16,675
Other changes	-	(390)	390
Net changes	1,776,833	2,364,381	(587,548)
Balance at 12/31/2024	\$ 29,348,632	\$ 27,391,487	\$ 1,957,145

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

	<u>1% Decrease in Discount Rate (5.75%)</u>	<u>Discount Rate (6.75%)</u>	<u>1% Increase in Discount Rate (7.75%)</u>
City's net pension liability	\$ 6,335,905	\$ 1,957,145	\$ (1,600,628)

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, 2025, the City recognized pension expense of \$658,263. As of September 30, 2025, 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	\$ 366,048	\$ 21,814
Changes in actuarial assumptions	-	85,489
Difference between projected and actual investment earnings		286,708
Contributions subsequent to the measurement date	<u>613,553</u>	<u>-</u>
Total	<u>\$ 979,601</u>	<u>\$ 394,011</u>

\$613,553 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, 2026. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending September 30,</u>	
2026	\$ 73,429
2027	416,479
2028	(335,719)
2029	(182,152)

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 abated \$388,935 in sales tax for fiscal year 2025.

New Accounting Pronouncements

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

GASB Statement No. 103, *Financial Reporting Model Improvements* – The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. This Statement will become effective for reporting periods beginning after June 15, 2025, and the impact has not yet been determined.

GASB Statement No. 104, *Disclosure of Certain Capital Assets* – The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be presented separately in the note disclosures, including right-to-use assets related to leases, Subscription-Based Information Technology Arrangements, and public-private or public-public partnerships. Other intangible assets are also required to be presented separately by major class. Additional disclosures have also been required for capital assets held for sale. This Statement will become effective for reporting periods beginning after June 15, 2025, and the impact has not yet been determined.

GASB Statement No. 105, *Subsequent Events* – The objective of this Statement is to provide users of government financial statements with essential information about certain types of subsequent events. This Statement defines subsequent events as transactions or other events that occur after the date of the financial reporting statements but before the date the financial statements are available to be issued and clarifies the categories of subsequent events, when recognition is required, and when note disclosure is required. This Statement will become effective for reporting periods beginning after June 15, 2026, and the impact has not yet been determined.

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**REQUIRED
SUPPLEMENTARY INFORMATION**

CITY OF HILLSBORO, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Ad valorem	\$ 5,101,500	\$ 5,229,000	\$ 5,205,885	\$ (23,115)
Sales	4,675,000	4,585,000	5,173,499	588,499
Franchise	689,000	679,835	795,774	115,939
Other	131,000	131,000	122,262	(8,738)
Fines and forfeitures	578,780	592,200	718,241	126,041
Charges for services	272,500	262,500	381,214	118,714
Intergovernmental	2,400	862,200	908,875	46,675
Licenses and permits	108,200	121,100	216,730	95,630
Investment earnings	130,000	110,000	110,129	129
Cemetery lot sales and fees	38,100	28,100	32,280	4,180
Contributions	175,280	201,700	190,121	(11,579)
Miscellaneous	32,400	68,680	95,309	26,629
Total revenues	<u>11,934,160</u>	<u>12,871,315</u>	<u>13,950,319</u>	<u>1,079,004</u>
EXPENDITURES				
Legislative	12,490	12,490	10,304	2,186
Human Resources	160,820	160,820	156,030	4,790
City Manager	615,825	625,225	662,042	(36,817)
City Secretary	101,760	100,760	86,863	13,897
Streets	1,411,275	1,349,740	1,331,583	18,157
Police	4,716,750	5,291,550	5,092,328	199,222
Library	519,350	523,350	509,817	13,533
Fire	2,078,045	3,187,845	3,433,041	(245,196)
Municipal Court	238,995	228,995	215,115	13,880
Parks	474,185	510,050	486,075	23,975
Recreation	331,030	258,930	196,553	62,377
Maintenance Shop	201,940	169,540	140,366	29,174
Cemetery	95,710	115,415	124,657	(9,242)
Community Development	325,010	357,510	498,119	(140,609)
Legal	50,725	50,725	48,509	2,216
Finance	488,535	450,535	431,453	19,082
Information Systems	121,820	121,820	127,388	(5,568)
Animal Control	109,970	122,470	103,160	19,310
Code Enforcement	434,780	333,600	367,175	(33,575)
Main Street	114,745	93,545	88,515	5,030
Total expenditures	<u>12,603,760</u>	<u>14,064,915</u>	<u>14,109,093</u>	<u>(44,178)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(669,600)</u>	<u>(1,193,600)</u>	<u>(158,774)</u>	<u>1,034,826</u>
OTHER FINANCING SOURCES (USES)				
Insurance recoveries	60,000	-	26,338	26,338
Issuance of long-term debt	220,000	725,000	721,580	(3,420)
Sale of capital assets	-	-	54,606	54,606
Transfers in	577,000	556,000	327,000	(229,000)
Transfers out	(187,400)	(87,400)	-	87,400
Total other financing sources (uses)	<u>669,600</u>	<u>1,193,600</u>	<u>1,129,524</u>	<u>(64,076)</u>
NET CHANGE IN FUND BALANCE	-	-	970,750	970,750
FUND BALANCE, BEGINNING	<u>4,225,616</u>	<u>4,225,616</u>	<u>4,225,616</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 4,225,616</u>	<u>\$ 4,225,616</u>	<u>\$ 5,196,366</u>	<u>\$ 970,750</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, 2025

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Sales	\$ 360,000	\$ 360,000	\$ 505,676	\$ 145,676
Investment earnings	15,000	15,000	109,025	94,025
Miscellaneous	<u>25,000</u>	<u>25,000</u>	<u>70,512</u>	<u>45,512</u>
Total revenues	<u>400,000</u>	<u>400,000</u>	<u>685,213</u>	<u>285,213</u>
EXPENDITURES				
Current:				
Community development	<u>1,493,655</u>	<u>1,493,655</u>	<u>498,912</u>	<u>994,743</u>
Total expenditures	<u>1,493,655</u>	<u>1,493,655</u>	<u>498,912</u>	<u>994,743</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,093,655)</u>	<u>(1,093,655)</u>	<u>186,301</u>	<u>1,279,956</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	(1,105,655)	(1,105,655)	174,301	1,279,956
FUND BALANCE, BEGINNING	<u>2,661,553</u>	<u>2,661,553</u>	<u>2,661,553</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 1,555,898</u>	<u>\$ 1,555,898</u>	<u>\$ 2,835,854</u>	<u>\$ 1,279,956</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, 2025

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Hotel/motel	\$ 529,000	\$ 529,000	\$ 523,783	\$ (5,217)
Investment earnings	7,000	7,000	7,186	186
Rentals	<u>11,000</u>	<u>11,000</u>	<u>9,765</u>	<u>(1,235)</u>
Total revenues	<u>547,000</u>	<u>547,000</u>	<u>540,734</u>	<u>(6,266)</u>
EXPENDITURES				
Current:				
Community development	154,000	154,000	109,061	44,939
Capital outlay	<u>300,000</u>	<u>300,000</u>	<u>-</u>	<u>300,000</u>
Total expenditures	<u>454,000</u>	<u>454,000</u>	<u>109,061</u>	<u>344,939</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>93,000</u>	<u>93,000</u>	<u>431,673</u>	<u>338,673</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(93,000)</u>	<u>(93,000)</u>	<u>(93,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(93,000)</u>	<u>(93,000)</u>	<u>(93,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	-	338,673	338,673
FUND BALANCE, BEGINNING	<u>2,630,068</u>	<u>2,630,068</u>	<u>2,630,068</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 2,630,068</u>	<u>\$ 2,630,068</u>	<u>\$ 2,968,741</u>	<u>\$ 338,673</u>

The accompanying notes are an integral part of this schedule.

CITY OF HILLSBORO, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2025

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 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.

CITY OF HILLSBORO, TEXAS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS

FOR THE YEAR ENDED SEPTEMBER 30, 2025

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

2018	2019	2020	2021	2022	2023	2024
\$ 507,970	\$ 547,971	\$ 591,998	\$ 542,661	\$ 627,695	\$ 788,388	\$ 909,205
1,306,971	1,386,715	1,474,971	1,582,556	1,690,219	1,757,346	1,842,027
(32,038)	(15,589)	321,918	310,131	(430,839)	75,397	499,837
-	88,297	-	-	-	(235,464)	-
(611,212)	(631,790)	(812,034)	(728,711)	(1,037,006)	(908,872)	(1,474,236)
1,171,691	1,375,604	1,576,853	1,706,637	850,069	1,476,795	1,776,833
<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>26,095,004</u>	<u>27,571,799</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>	<u>\$ 27,571,799</u>	<u>\$ 29,348,632</u>
\$ 524,444	\$ 542,084	\$ 602,683	\$ 553,454	\$ 648,954	\$ 880,850	\$ 873,265
228,816	245,287	267,147	245,326	279,721	354,609	382,340
(517,555)	2,612,206	1,491,659	2,762,400	(1,752,472)	2,563,684	2,600,077
(611,212)	(631,790)	(812,034)	(728,711)	(1,037,006)	(908,872)	(1,474,236)
(10,007)	(14,762)	(9,652)	(12,782)	(15,167)	(16,312)	(16,675)
<u>(523)</u>	<u>(445)</u>	<u>(377)</u>	<u>88</u>	<u>18,099</u>	<u>(114)</u>	<u>(390)</u>
(386,037)	2,752,580	1,539,426	2,819,775	(1,857,871)	2,873,845	2,364,381
<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>22,153,261</u>	<u>25,027,106</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>\$ 25,027,106</u>	<u>\$ 27,391,487</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>	<u>\$ 2,544,693</u>	<u>\$ 1,957,145</u>
82%	89%	90%	95%	85%	91%	93%
\$ 4,576,310	\$ 4,905,739	\$ 5,342,944	\$ 4,906,521	\$ 5,594,429	\$ 6,987,527	\$ 7,649,806
81%	47%	44%	25%	70%	36%	26%

CITY OF HILLSBORO, TEXAS

SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2025

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

NOTES TO SCHEDULE OF CONTRIBUTIONS

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	22 years
Asset Valuation Method	10 Year smoothed fair value; 12% soft corridor
Inflation	2.50%
Salary Increases	3.60% to 11.85% 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 2023 valuation pursuant to an experience study of the period ending 2022.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence). Pre-retirement: PUB(10) mortality tables, with the 110% of the Public Safety table used for males and the 100% of the General Employee table used for females. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).

Other Information There were no benefit changes during the year.

2019	2020	2021	2022	2023	2024	2025
\$ 541,406	\$ 542,084	\$ 554,408	\$ 618,365	\$ 800,095	\$ 890,573	\$ 850,889
<u>541,406</u>	<u>542,084</u>	<u>554,408</u>	<u>618,365</u>	<u>800,095</u>	<u>890,573</u>	<u>850,889</u>
-	-	-	-	-	-	-
4,857,497	5,139,977	4,914,966	5,368,735	6,548,124	7,619,115	7,763,816
11.1%	10.5%	11.3%	11.5%	12.2%	11.7%	11.0%

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SUPPLEMENTARY INFORMATION

CITY OF HILLSBORO, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2025

	Special Revenue		
	Library Special	Police Local Forfeiture	Police Federal Forfeiture
ASSETS			
Cash and investments	\$ 18,264	\$ 334,153	\$ 20,819
Due from other governments	<u>29,422</u>	<u>-</u>	<u>-</u>
Total assets	<u>47,686</u>	<u>334,153</u>	<u>20,819</u>
LIABILITIES			
Accounts payable	10,091	-	-
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>10,091</u>	<u>-</u>	<u>-</u>
FUND BALANCE			
Restricted for:			
Library operations	37,595	-	-
Public safety	-	334,153	20,819
Economic development	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>37,595</u>	<u>334,153</u>	<u>20,819</u>
Total liabilities and fund balance	<u>\$ 47,686</u>	<u>\$ 334,153</u>	<u>\$ 20,819</u>

<u>Special Revenue</u>		
<u>Main Street</u>	<u>Tax Increment Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 55,194	\$ 173,942	\$ 602,372
-	38,312	67,734
<u>55,194</u>	<u>212,254</u>	<u>670,106</u>
1,985	-	12,076
<u>52,978</u>	<u>-</u>	<u>52,978</u>
<u>54,963</u>	<u>-</u>	<u>65,054</u>
-	-	37,595
-	-	354,972
<u>231</u>	<u>212,254</u>	<u>212,485</u>
<u>231</u>	<u>212,254</u>	<u>605,052</u>
\$ 55,194	\$ 212,254	\$ 670,106

CITY OF HILLSBORO, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Special Revenue		
	Library Special	Police Local Forfeiture	Police Federal Forfeiture
REVENUES			
Taxes:			
Ad valorem	\$ -	\$ -	\$ -
Forfeitures	-	10,466	-
Contributions	5,968	-	-
Investment earnings	-	15,818	821
Intergovernmental	29,422	-	-
Miscellaneous	-	-	-
Total revenues	35,390	26,284	821
EXPENDITURES			
Current:			
General government	18,483	19,107	-
Public safety	-	2,761	-
Community development	-	-	-
Capital outlay	16,907	12,300	-
Total expenditures	35,390	34,168	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(7,884)	821
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Total other financing sources (uses)	-	-	-
NET CHANGE IN FUND BALANCE	-	(7,884)	821
FUND BALANCE, BEGINNING	37,595	342,037	19,998
FUND BALANCE, ENDING	\$ 37,595	\$ 334,153	\$ 20,819

Special Revenue		Total Nonmajor Governmental Funds
Main Street	Tax Increment Fund	
\$ -	\$ 61,299	\$ 61,299
-	-	10,466
-	-	5,968
1,402	-	18,041
-	38,312	67,734
<u>88,742</u>	<u>-</u>	<u>88,742</u>
<u>90,144</u>	<u>99,611</u>	<u>252,250</u>
-	-	37,590
-	-	2,761
97,683	-	97,683
-	-	29,207
<u>97,683</u>	<u>-</u>	<u>167,241</u>
<u>(7,539)</u>	<u>99,611</u>	<u>85,009</u>
<u>72,000</u>	<u>-</u>	<u>72,000</u>
<u>72,000</u>	<u>-</u>	<u>72,000</u>
64,461	99,611	157,009
<u>(64,230)</u>	<u>112,643</u>	<u>448,043</u>
<u>\$ 231</u>	<u>\$ 212,254</u>	<u>\$ 605,052</u>

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