

HILL COUNTY, TEXAS

AUDITORS' REPORT

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
SEPTEMBER 30, 2005**

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HILL COUNTY, TEXAS

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INDEPENDENT AUDITORS' REPORT

To the Honorable County Judge and Commissioners' Court
Hill County, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hill County, Texas as of and for the year ended September 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hill County, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hill County, Texas, as of September 30, 2005, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2006, on our consideration of Hill County, Texas internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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The management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hill County, Texas's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

March 24, 2006

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Management's Discussion and Analysis

As management of Hill County, we offer readers of Hill County's financial statements this narrative overview and analysis of the financial activities of Hill County for the fiscal year ended September 30, 2005.

FINANCIAL HIGHLIGHTS

The assets of the Hill County exceeded its liabilities at the close of the most recent fiscal year by \$19,036,575 (*net assets*). Of this amount, \$7,747,607 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.

- The government's total net assets increased by \$651,382.
- As of the close of the current fiscal year, Hill County's governmental funds reported combined ending fund balances of \$7,361,684 an increase of \$1,120,855 in comparison with the prior year. This was due to prior period adjustment of \$919,638 and an increase in ad valorem taxes. \$7,175,205 is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2,555,541 or 37.25% of total General Fund expenditures.
- The Hill County's total debt decreased by \$60,241 (.71%) during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to Hill County's basic financial statements. Hill County's 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 Hill County's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as 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 vacation leave).

Both of the government-wide financial statements distinguish functions of Hill County that are principally supported by taxes, intergovernmental revenues, fines and fees (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Hill County has no business-type activities. The governmental activities of Hill County include general government, judicial, public safety, health and welfare, corrections and rehabilitation and roads and highways.

The government-wide financial statements can be found on pages 9 – 10 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Hill County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Hill County can be divided into two categories: governmental funds and fiduciary 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 *near-term inflows and outflows 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*.

Hill County maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Road & Bridge Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

Hill County adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 11 – 13 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support Hill County's own programs.

The basic fiduciary fund financial statements can be found on page 16 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 – 33 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents the combining statements referred to earlier in connection with nonmajor governmental funds. These statements are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 34 – 51 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of Hill County, assets exceeded liabilities by \$19,036,575 at the close of the most recent fiscal year.

Hill County’s investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding, is 54.50% of net assets. Hill County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although Hill County’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Hill County’s Net Assets

	Governmental Activities	
	2005	2004
Current and other assets	\$ 9,446,792	\$ 8,786,991
Capital assets	<u>18,799,445</u>	<u>17,829,245</u>
Total assets	<u>28,246,237</u>	<u>26,616,236</u>
Long-term liabilities	8,764,158	8,462,807
Other liabilities	<u>445,504</u>	<u>687,874</u>
Total liabilities	<u>9,209,662</u>	<u>9,150,681</u>
Net assets:		
Invested in capital assets, net of related debt	10,374,228	9,291,681
Restricted	914,740	1,350,819
Unrestricted	<u>7,747,607</u>	<u>6,823,055</u>
Total net assets	<u>\$ 19,036,575</u>	<u>\$ 17,465,555</u>

An additional portion of Hill County’s net assets (4.8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$7,747,607) may be used to meet the government’s ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Hill County is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental activities.

Governmental activities. Governmental activities increased Hill County's net assets by \$651,382, thereby accounting for 3.5% of the total net assets of Hill County.

Hill County's Changes in Net Assets

	Governmental Activities	
	2005	2004
REVENUES		
Program revenues:		
Charges for services	\$ 3,536,982	\$ 4,193,573
Operating grants and contributions	1,178,719	995,699
General revenues:		
Property taxes	6,812,221	5,123,104
Investment earnings	233,640	73,962
Sales taxes	1,212,739	1,018,735
Other taxes	170,446	47,672
Miscellaneous Income	655,576	732
Loss on sale of capital assets	-	(84,953)
Total revenues	<u>13,800,323</u>	<u>11,368,524</u>
EXPENSES		
General government	2,555,522	2,060,689
Judicial	3,207,987	1,942,319
Public safety	1,273,501	3,843,957
Corrections and rehabilitation	2,708,806	-
Health and welfare	370,780	495,976
Roads and highways	2,607,356	2,555,491
Interest on long-term debt	424,989	433,752
Total expenses	<u>13,148,941</u>	<u>11,332,184</u>
INCREASE IN NET ASSETS	651,382	36,340
NET ASSETS, BEGINNING	17,465,555	17,413,408
PRIOR PERIOD ADJUSTMENT	<u>919,638</u>	<u>15,807</u>
NET ASSETS, ENDING	<u>\$ 19,036,575</u>	<u>\$ 17,465,555</u>

In 2005, the Employee Hospitalization Fund was reclassified from Trust and Agency into the General Fund. This caused some disparity in comparing 2004 and 2005 data. The revenues recorded in the Employee Hospitalization fund for property taxes, investment earnings and sales taxes are not reflected in the 2004 figures displayed above. Property taxes, investment earnings and sales taxes recorded in the Employee Hospitalization Fund for 2004 are \$779,734, \$14,159 and \$187,733, respectively, and when added to the 2004 data above would yield comparable revenues of \$5,922,838 (property taxes), \$88,121 (investment earnings and \$1,206,468 (sales taxes)

Public safety expenses for 2004 included both judicial and corrections and rehabilitation expenditures, and those expenses were further divided for 2005. Employee hospitalization of \$850,250 is not included in the 2004 data above.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

The General Fund is the chief operating fund of Hill County. At the end of the current fiscal year, unreserved total fund balance of the General Fund was \$2,555,541. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 100% of total General Fund fund balance.

The fund balance of Hill County's General Fund increased by \$700,568 during the current fiscal year. Key factors in this growth are primarily due a prior period adjustment for employee hospitalization and increases in tax revenue over the prior year.

The fund balance of Hill County's Road and Bridge Funds increased by \$46,592 during the current fiscal year. The majority of this increase was due to a prior period adjustment for funds collected for a special road project.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor and can be briefly summarized as follows:

- The County had unexpected increases in charges for services and intergovernmental revenues. These differences were offset by increased appropriations in general government, public safety and judicial expenditures. These changes had no effect on the budgeted net income for the fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Hill County's investment in capital assets for its governmental activities as of September 30, 2005, amounts to \$18,799,445 (net of accumulated depreciation). This investment in capital assets includes buildings and improvements, vehicles and equipment, and infrastructure.

The County had the following additions to fixed asset:

Buildings and improvements	\$ 450,198
Purchase of vehicles and equipment	1,105,167
Infrastructure	<u>333,246</u>
Total	<u>\$ 1,888,611</u>

Additional information on Hill County's capital assets can be found in note 3 on page 32 of this report.

Long-term debt. At the end of the current fiscal year, Hill County had total debt outstanding of \$8,425,217.

At the end of the current fiscal year, the County had total bonded debt of \$8,180,000. All of which represents bonded debt backed by the full faith and credit of the County.

The County's overall debt decreased from the prior year. This was due to the regular principal payments of \$305,241, and new debt being issued in the amount of \$245,000.

Hill County maintains an "Aaa" rating from Standard & Poor's and Fitch and an "A1" rating from Moody's for general obligation debt.

Additional information on Hill County's long-term debt can be found in note 3 on pages 27 – 29 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Continued population growth will have a positive economic impact on the next fiscal year.
- Estimated Revenue for fiscal year 2006 is \$7,990,776 for the General Fund, and estimated expenditures are \$7,669,316.

All of these factors were considered in preparing Hill County's budget for the 2006 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Hill County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Auditor's office, P. O. Box 783, Hillsboro, Texas 76645.

BASIC FINANCIAL STATEMENTS

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HILL COUNTY, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

	Primary Government
	Governmental Activities
ASSETS	
Cash and investments	\$ 7,424,973
Receivables, net of allowances for uncollectibles	
Taxes	979,825
Other	911,306
Inventory	81,612
Prepaid assets	49,076
Capital assets:	
Buildings and improvements	18,751,327
Machinery and equipment	4,620,693
Infrastructure	677,746
Construction in progress	106,952
Accumulated depreciation	<u>(5,357,273)</u>
Total capital assets, net of accumulated depreciation	<u>18,799,445</u>
Total assets	<u>28,246,237</u>
LIABILITIES	
Accounts payable	394,777
Accrued interest	50,727
Noncurrent liabilities:	
Due within one year	387,054
Due in more than one year	<u>8,377,104</u>
Total liabilities	<u>9,209,662</u>
NET ASSETS	
Invested in capital assets, net of related debt	10,374,228
Restricted for:	
Debt service	251,796
Capital projects	662,944
Unrestricted	<u>7,747,607</u>
Total net assets	<u>\$ 19,036,575</u>

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

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HILL COUNTY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Primary Governmental Activities
Primary Government:				
Governmental activities:				
General government	\$ 2,555,522	\$ 778,165	\$ 195,337	\$(1,582,020)
Judicial	3,207,987	1,158,460	652,285	(1,397,242)
Public safety	1,273,501	67,317	7,252	(1,198,932)
Corrections and rehabilitation	2,708,806	398,843	323,845	(1,986,118)
Health and welfare	370,780	-	-	(370,780)
Roads and highways	2,607,356	1,134,197	-	(1,473,159)
Interest on long-term debt	424,989	-	-	(424,989)
Total governmental activities	<u>13,148,941</u>	<u>3,536,982</u>	<u>1,178,719</u>	<u>(8,433,240)</u>
Total primary government	<u>\$ 13,148,941</u>	<u>\$ 3,536,982</u>	<u>\$ 1,178,719</u>	<u>\$(8,433,240)</u>

General revenues:

Taxes:	
Property taxes, levied for general purposes	\$ 6,171,839
Property taxes, levied for debt service	640,382
Sales taxes	1,212,739
Other taxes	170,446
Investment earnings	233,640
Miscellaneous income	<u>655,576</u>
Total general revenues	<u>9,084,622</u>
Change in net assets	651,382
Net assets, beginning	17,465,555
Prior period adjustment	<u>919,638</u>
Net assets, ending	<u>\$ 19,036,575</u>

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

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HILL COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2005

	General	Road and Bridge	Other Governmental	Total Governmental Funds
ASSETS				
Cash and investments	\$ 2,578,009	\$ 1,514,540	\$ 3,332,424	\$ 7,424,973
Receivables, net of allowances for uncollectibles:				
Taxes receivable	649,606	193,583	136,636	979,825
Other receivable	5,254	-	32,314	37,568
Due from other funds	10,323	-	30,185	40,508
Total assets	\$ 3,243,192	\$ 1,708,123	\$ 3,531,559	\$ 8,482,874
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 232,994	\$ 90,122	\$ 71,661	\$ 394,777
Due to other funds	29,711	-	10,797	40,508
Deferred revenue	424,946	154,184	106,775	685,905
Total liabilities	687,651	244,306	189,233	1,121,190
Fund balances:				
Reserved for debt service	-	-	186,479	186,479
Unreserved, reported in:				
General fund	2,555,541	-	-	2,555,541
Capital projects	-	-	662,944	662,944
Special revenue funds	-	1,463,817	2,492,903	3,956,720
Total fund balances	2,555,541	1,463,817	3,342,326	7,361,684
Total liabilities and fund balances	\$ 3,243,192	\$ 1,708,123	\$ 3,531,559	\$ 8,482,874

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	18,799,445
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,351,390
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(8,475,944)
Net assets of governmental activities	\$ 19,036,575

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

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HILL COUNTY, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2005

	General	Road and Bridge	Other Governmental	Total Governmental Funds
REVENUES				
Taxes, penalties and interest	\$ 5,268,193	\$ 1,646,396	\$ 1,148,731	\$ 8,063,320
Charges for services	1,120,061	-	1,716,965	2,837,026
Licenses and permits	-	746,101	-	746,101
Interest	107,974	39,232	86,434	233,640
Fines and forfeitures	97,024	388,096	46,867	531,987
Intergovernmental	195,337	-	983,382	1,178,719
Miscellaneous	97,181	4,758	434,873	536,812
Total revenues	6,885,770	2,824,583	4,417,252	14,127,605
EXPENDITURES				
Current:				
General government	2,220,808	-	53,789	2,274,597
Public safety	1,233,506	-	101,009	1,334,515
Roads and highways	147,936	2,450,410	-	2,598,346
Judicial	1,297,685	-	1,947,088	3,244,773
Corrections and rehabilitation	1,597,813	-	883,311	2,481,124
Public health	133,149	-	194,632	327,781
Capital outlay:				
Current expenditures	229,131	673,740	492,289	1,395,160
Debt service:				
Principal retirement	-	85,243	220,000	305,243
Interest and fiscal charges	-	9,253	417,113	426,366
Total expenditures	6,860,028	3,218,646	4,309,231	14,387,905
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	25,742	(394,063)	108,021	(260,300)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	329,818	-	328,282	658,100
Operating transfers out	(64,547)	-	(593,553)	(658,100)
Proceeds from issuance of time warrants	-	245,000	-	245,000
Proceeds from sale of fixed assets	15,281	152,761	48,475	216,517
Total other financing sources (uses)	280,552	397,761	(216,796)	461,517
CHANGE IN FUND BALANCES	306,294	3,698	(108,775)	201,217
FUND BALANCES, BEGINNING	1,854,973	1,417,225	2,968,631	6,240,829
PRIOR PERIOD ADJUSTMENT	394,274	42,894	482,470	919,638
FUND BALANCES, ENDING	\$ 2,555,541	\$ 1,463,817	\$ 3,342,326	\$ 7,361,684

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

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HILL COUNTY, 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, 2005

Amounts reported for governmental activities in the Statement of Activities (page 10) are different because:

Net change in fund balances - total governmental funds (page 12)	\$ 201,217
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	970,200
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(446,046)
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 assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	61,620
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>135,609</u>)
Change in net assets of governmental activities (page 10)	\$ <u><u>651,382</u></u>

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

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HILL COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	Adopted Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Taxes, penalties and interest	\$ 5,086,383	\$ 5,086,383	\$ 5,268,193	\$ 181,810
Charges for services	992,515	1,003,771	1,120,061	116,290
Interest	25,535	25,535	107,974	82,439
Fines and forfeitures	73,200	73,200	97,024	23,824
Intergovernmental	-	176,861	195,337	18,476
Miscellaneous	88,850	88,850	97,181	8,331
Total revenues	<u>6,266,483</u>	<u>6,454,600</u>	<u>6,885,770</u>	<u>431,170</u>
EXPENDITURES				
Current:				
General government	2,257,849	2,421,929	2,220,808	201,121
Public safety	1,221,109	1,294,173	1,233,506	60,667
Roads and highways	165,852	165,852	147,936	17,916
Judicial	1,390,682	1,415,468	1,297,685	117,783
Corrections and rehabilitation	1,902,617	1,712,965	1,597,813	115,152
Public health	134,558	134,758	133,149	1,609
Capital outlay:				
Current expenditures	107,000	222,639	229,131	(6,492)
Total expenditures	<u>7,179,667</u>	<u>7,367,784</u>	<u>6,860,028</u>	<u>507,756</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(913,184)</u>	<u>(913,184)</u>	<u>25,742</u>	<u>938,926</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	671,475	671,475	329,818	(341,657)
Operating transfers out	(198,800)	(198,800)	(64,547)	134,253
Sale of general fixed assets	-	-	15,281	15,281
Total other financing sources (uses)	<u>472,675</u>	<u>472,675</u>	<u>280,552</u>	<u>(192,123)</u>
CHANGE IN FUND BALANCE	<u>(440,509)</u>	<u>(440,509)</u>	<u>306,294</u>	<u>746,803</u>
FUND BALANCE, BEGINNING	1,854,973	1,854,973	1,854,973	-
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>-</u>	<u>394,274</u>	<u>394,274</u>
FUND BALANCE, ENDING	<u>\$ 1,414,464</u>	<u>\$ 1,414,464</u>	<u>\$ 2,555,541</u>	<u>\$ 1,141,077</u>

The accompanying notes are an integral part of this statement.

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HILL COUNTY, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS)

ROAD AND BRIDGE

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	Adopted Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Taxes, penalties and interest	\$ 1,583,575	\$ 1,583,575	\$ 1,646,396	\$ 62,821
Licenses and permits	818,320	818,320	746,101	(72,219)
Interest revenue	11,618	11,618	39,232	27,614
Fines and forfeitures	297,120	297,120	388,096	90,976
Miscellaneous	<u>-</u>	<u>2,367</u>	<u>4,758</u>	<u>2,391</u>
Total revenues	<u>2,710,633</u>	<u>2,713,000</u>	<u>2,824,583</u>	<u>111,583</u>
EXPENDITURES				
Current:				
Roads and highways	2,550,643	2,633,279	2,450,410	182,869
Capital outlay:				
Current expenditures	488,000	573,960	673,740	(99,780)
Debt service:				
Principal retirement	39,731	39,832	85,243	(45,411)
Interest and fiscal charges	<u>9,253</u>	<u>9,253</u>	<u>9,253</u>	<u>-</u>
Total expenditures	<u>3,087,627</u>	<u>3,256,324</u>	<u>3,218,646</u>	<u>37,678</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(376,994)</u>	<u>(543,324)</u>	<u>(394,063)</u>	<u>73,905</u>
OTHER FINANCING SOURCES				
Proceeds from issuance of time warrants	-	89,394	245,000	155,606
Proceeds from sale of fixed assets	<u>-</u>	<u>76,936</u>	<u>152,761</u>	<u>75,825</u>
Total other financing sources	<u>-</u>	<u>166,330</u>	<u>397,761</u>	<u>231,431</u>
CHANGE IN FUND BALANCE	<u>(376,994)</u>	<u>(376,994)</u>	<u>3,698</u>	<u>380,692</u>
FUND BALANCE, BEGINNING	1,417,225	1,417,225	1,417,225	-
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>-</u>	<u>42,894</u>	<u>42,894</u>
FUND BALANCE, ENDING	<u>\$ 1,040,231</u>	<u>\$ 1,040,231</u>	<u>\$ 1,463,817</u>	<u>\$ 423,586</u>

The accompanying notes are an integral part of this statement.

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HILL COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 31, 2005

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ <u>2,061,599</u>
Total assets	\$ <u><u>2,061,599</u></u>
LIABILITIES	
Intergovernmental payable	\$ 1,417,663
Due to beneficiaries	<u>643,936</u>
Total liabilities	\$ <u><u>2,061,599</u></u>

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

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HILL COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Hill County is a political subdivision of the State of Texas. The County provides a full range of services authorized by statute. Such services include general governmental services such as recording and licensing, maintaining the County and district court systems, maintaining public facilities, ensuring public safety, corrections and rehabilitation, maintaining public health and welfare, aiding conservation, and maintaining County roads and bridges. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the government's operations and so data from those units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. Hill County has neither of these items. The Commissioners' Court, consisting of four Commissioners and the County Judge, all elected by the voters of Hill County, is the policy-making body of the County which operates under provisions of state statutes.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. Interfund activity has been eliminated from these statements. Governmental activities, which normally are supported by taxes, intergovernmental revenue, fines and fees are reported separately from business-type activities, which rely primarily on fees and charges from services provided for support. Hill County has no business-type activities.

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. Certain indirect costs have been included as part of the program expenses reported for the various functional activities. *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*.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The fund financial statements provide information about the County's funds. The emphasis of fund financial statements is on major governmental and non-major governmental funds each displayed in a separate column.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is 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*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is 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 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 County.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The County has the following major governmental funds:

The ***General Fund*** is the primary operating fund of the County. All general tax revenues and other receipts that are not allocated by law, by budget or by contractual agreement to some other fund are accounted for in this fund. General operating expenditures and capital improvement costs that are not paid through other funds are paid from the General Fund. This is considered the major governmental fund of the County.

The ***Road and Bridge Fund*** is the County's second major fund. This fund is used to account for funds used to maintain or build roads and bridges. All remaining governmental and fiduciary funds are aggregated and reported as nonmajor funds.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Additionally, the County reports the following fund types:

Governmental Funds:

Special Revenue Funds – *Special Revenue Funds* account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are restricted to expenditures for specific purposes. Included as a Special Revenue Fund is the Road and Bridge Fund which accounts for revenues and expenditures specifically designated for the maintenance and construction of County roads and bridges.

Debt Service Funds – The *Debt Service Funds* account for the accumulation of resources for, and payment of interest and principal on, the County's general long-term bonded debt.

Capital Projects Funds – The *Capital Projects Funds* account for all resources used in the acquisition and construction of major capital facilities other than road and bridge maintenance and construction.

Fiduciary Funds:

Trust and Agency Funds – *Trust and Agency Funds* account for assets held by the County in a trustee, custodian, or agent capacity. The Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. 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.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the County to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool.

Investments for the County are reported at fair value in accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. All investment income is recognized as revenue in the appropriate fund's financial statement of activity or statement of revenues, expenditures and changes in fund balance.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds." (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." As of September 30, 2005, the County had no amounts considered "advances."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectibles.

Prepaid Expenditures

When payment is made to a supplier of goods or services prior to the receipt of the goods or realization of the service, then the amount expended in excess of value received is recorded as a prepaid item in the government-wide financial statements only.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, sidewalks and similar items) are reported in the governmental column in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

GASB Statement 34 requires the County to report and depreciate new infrastructure assets effective with the beginning of the current year. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the County. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period and is first required for the fiscal year ending in 2007. The County has implemented the general provisions of GASB Statement No. 34 in the current year and hopes to implement the retroactive infrastructure provisions in future fiscal years.

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

<u>Assets</u>	<u>Years</u>
Buildings	20-50
Improvements	20-50
Equipment	5-20
Infrastructure (streets and drainage)	35-50

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay is accrued when incurred in the government-wide financial statements.

(continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

D. Assets, Liabilities and Net Assets or Equity (Continued)

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. The government has no business-type activities.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed in the General, Special Revenue and Capital Projects Funds. At the end of September 30, 2005, encumbrances lapsed and were subject to re-appropriation in the budget of the subsequent year.

(continued)

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budget Data

The budget amounts shown in the financial statements are the original and final authorized amounts as revised during the year. In accordance with state statutes, an annual budget is adopted for certain governmental funds of the County in accordance with generally accepted accounting principles. The procedures followed by Hill County in establishing the budgetary data reflected in the financial statements are as follows:

Budget Preparation

The County Judge, as the responsible budget officer, causes budget guidelines to be issued. Upon receiving operating requests from County officials, the County Judge submits a proposed operating budget covering the General, Road and Bridge, Special Revenue, and Debt Service Funds to the Commissioners' Court. The budget includes the proposed expenditures and the means of financing them.

Public Hearings

After proper publication of notices in compliance with various State statutes, a budget hearing for the purpose of obtaining public and taxpayer comments is conducted by the Commissioners' Court. Related public hearings are held regarding the proposed tax rates required to finance the proposed budget.

Budget Adoption

Following the public hearings, the Commissioners' Court makes such changes as may be warranted in the budget and adopts the budget through the passage of an order at one of its regularly scheduled meetings.

Budget Amendments

The Commissioners' Court, at its discretion, can transfer expenditures from one appropriation to another. The total expenditures may not be increased without additional public hearings.

(continued)

3. DETAILED NOTES ON ALL FUNDS

A. Cash 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 County 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 County 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 County to have independent auditors perform test procedures related to investment practices as provided by the Act. The County is in substantial compliance with the requirements of the Act and with local policies.

Custodial Credit Risk: In the case of deposits, this is the risk that in the event of a bank failure, the County's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2005, all of the County's \$10,030,566 deposit balance was covered by FDIC insurance or collateralized with securities held by the pledging financial institution.

The County did not have any investments during fiscal year 2005.

B. Post-Employment Health Care Benefits

COBRA Benefits

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the County provides health care benefits to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the former employee. This program is offered for a duration of eighteen months after the termination date. There is no associated cost to the County under this program. As of September 30, 2005, there was one participant in this program.

C. Inventories

The County does not maintain significant inventories. All items are purchased on an as-needed basis and are recorded as expenditures upon purchase.

(continued)

3. **DETAILED NOTES ON ALL FUNDS (Continued)**

D. Compensated Absences

Regular fulltime County employees are eligible to accrue annual leave. Employees are encouraged to take regular vacation at least annually. Employees are not credited with annual leave until the completion of six consecutive months of service with the County. Employees with up to 5 years of service will be entitled to 22 days of annual leave with pay; with 6 to 10 years of service, 24 days per year of annual leave pay; and 11 or more years of service, 27 days per year of annual leave with pay.

The maximum amount of unused annual leave that an employee can accumulate is 60 days. When an employee reaches the maximum accrual amount, that employee shall not be allowed to accrue additional annual leave time until sufficient time has been used.

The changes in compensated absences for the year are as follows:

	Balance as of <u>10/01/04</u>	<u>Additions</u>	<u>Deletions</u>	Balance as of <u>09/30/05</u>	Amounts Due in <u>One Year</u>
	\$ <u>304,358</u>	\$ <u>491,477</u>	\$ <u>456,894</u>	\$ <u>338,941</u>	\$ <u>67,788</u>
Totals	\$ <u>304,358</u>	\$ <u>491,477</u>	\$ <u>456,894</u>	\$ <u>338,941</u>	\$ <u>67,788</u>

E. Property Taxes

The County adopted M&O and I&S tax rates of .387032 and .048781 per \$100 of valuation respectively, in October 2004. The M&O rate is divided between the General Fund, Road and Bridge Funds, Indigent Health Care Fund and Employee Hospitalization Fund. The County also levied a Lateral Road and Bridge tax rate of .0726 per \$100 of valuation. Allowances for uncollectible taxes receivable are based on historic rates of non-payment.

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. The County bills and collects its own property taxes.

The total 2004 tax rate for taxes assessed October 1, 2004, was .508413 per \$100 valuation. Total assessment was \$5,683,312 on taxable value of approximately \$1,443,310,056.

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

F. Receivables

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:				
Taxes	\$ 702,564	\$ 212,749	\$ 149,943	\$ 1,065,256
Other	5,254	-	32,314	37,568
Intergovernmental	<u>10,323</u>	<u>-</u>	<u>30,185</u>	<u>40,508</u>
Gross receivables	718,141	212,749	212,442	1,143,332
Less: allowance for uncollectibles	<u>52,958</u>	<u>19,166</u>	<u>13,307</u>	<u>85,431</u>
Net total receivables	<u>\$ 665,183</u>	<u>\$ 193,583</u>	<u>\$ 199,135</u>	<u>\$ 1,057,901</u>

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

	<u>Unavailable</u>
General fund:	
Property taxes receivable	\$ 424,946
Road and bridge funds:	
Property taxes receivable	154,184
Nonmajor funds:	
Property taxes receivable	<u>106,775</u>
Governmental funds	<u>\$ 685,905</u>

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-term Liabilities

Long-term liability activity from the year ended September 30, 2005, was as follows:

	Debt Outstanding 09/30/04	Additions of New Debt	Retirements and Repayments	Debt Outstanding 09/30/05
<u>Governmental:</u>				
Certificates of obligation	\$ 8,400,000	\$ -	\$ 220,000	\$ 8,180,000
Time warrants and loans	<u>85,458</u>	<u>245,000</u>	<u>85,241</u>	<u>245,217</u>
	<u>\$ 8,485,458</u>	<u>\$ 245,000</u>	<u>\$ 305,241</u>	<u>\$ 8,425,217</u>

Certificates of Obligation

On April 1, 1997, the County issued \$2,000,000 of certificates of obligation bonds to help fund the construction of the new courthouse. The certificates are to be repaid in annual installments ranging from \$15,000 to \$170,000 beginning September 30, 2000 through September 30, 2017. Interest is payable semi-annually beginning September 30, 1997 through September 30, 2017, at rates ranging from 4.3% to 5.875%.

On September 10, 2001, the County issued \$6,990,000 of certificates of obligation bonds to help fund the acquisition, construction and improvements to the jail facilities and renovating and improving the County Courthouse and County Courthouse Annex. The certificates are to be repaid in annual installments ranging from \$120,000 to \$605,000 beginning August 15, 2003 to August 15, 2026. Interest is payable semi-annually beginning February 15, 2002 through August 15, 2026, at rates ranging from 4.5% to 5.0%.

The following is a summary of debt service transactions of the County for the fiscal year ended September 30, 2005:

	Balance at October 1, 2004	Issued	Retired	Balance at September 30, 2005
1997 Certificates of Obligation	\$ 1,655,000	\$ -	\$ 90,000	\$ 1,565,000
2001 Certificates of Obligation	<u>6,745,000</u>	<u>-</u>	<u>130,000</u>	<u>6,615,000</u>
Total	<u>\$ 8,400,000</u>	<u>\$ -</u>	<u>\$ 220,000</u>	<u>\$ 8,180,000</u>

(continued)

3. **DETAILED NOTES ON ALL FUNDS (Continued)**

G. **Long-term Liabilities** (Continued)

Certificates of Obligation (Continued)

Annual debt service requirements to maturity are as follows:

<u>September 30,</u>	<u>Certificates of Obligation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 230,000	\$ 405,813	\$ 635,813
2007	240,000	394,276	634,276
2008	255,000	382,226	637,226
2009	265,000	369,366	634,366
2010	280,000	355,886	635,886
2011-2015	1,625,000	1,556,488	3,181,488
2016-2020	2,055,000	1,116,873	3,171,873
2021-2025	2,625,000	557,025	3,182,025
2026-2030	<u>605,000</u>	<u>30,250</u>	<u>635,250</u>
	<u>\$ 8,180,000</u>	<u>\$ 5,168,203</u>	<u>\$ 13,348,203</u>

Time Warrants

The County is indebted to Citizens National Bank and Koch Financial Group relating to the purchase of various machinery and equipment. These loans all bear interest between 4.5% and 6.0% per annum and are payable in annual installments ranging from four to five years. Following is a summary of time warrants transactions for the year ended September 30, 2005:

	<u>Balance at October 1, 2004</u>	<u>Issued</u>	<u>Payments</u>	<u>Balance at September 30, 2005</u>
Time warrants Precinct #3	\$ 7,630	\$ -	\$ 7,630	\$ -
Time warrants Precinct #2	67,141		27,906	39,235
Time warrants Precinct #4	10,687		10,687	-
Time warrants Precinct #1	-	89,394	11,931	77,463
Loan Koch Financial Group Pct #3	-	<u>155,606</u>	<u>27,087</u>	<u>128,519</u>
Total	<u>\$ 85,458</u>	<u>\$ 245,000</u>	<u>\$ 85,241</u>	<u>\$ 245,217</u>

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-term Liabilities (Continued)

Time Warrants (continued)

Annual installments due to maturity are as follows:

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 89,266	\$ 10,580	\$ 99,846
2007	79,450	5,606	85,056
2008	58,958	2,519	61,477
2009	<u>17,543</u>	<u>199</u>	<u>17,742</u>
Totals	\$ <u>245,217</u>	\$ <u>18,904</u>	\$ <u>264,121</u>

H. Pension Plan

Plan Description

Hill County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 559 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service, but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

H. Pension Plan (Continued)

Funding Policy

The employer has elected the annually determined contribution rate (Variable Rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 6.96% for the months of the accounting year in 2004, and 6.45% for the months of the accounting year in 2005.

The contribution rate payable by the employee members for calendar year 2005 is the rate of 6.00% as adopted by the governing body of the employer.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2001 and December 31, 2002, the basis for determining the contribution rates for calendar years 2004 and 2005. The December 31, 2004, actuarial valuation is the most recent valuation.

Actuarial Valuation Information

Actuarial Valuation Date	12/31/02	12/31/03	12/31/04
Actuarial cost method	entry age	entry age	entry age
Amortization method	level percentage of payroll, open	level percentage of payroll, open	level percentage of payroll, open
Amortization period in years	20 years	20 years	20 years
Asset valuation method	long-term appreciation with adjustment	long-term appreciation with adjustment	long-term appreciation with adjustment
Actuarial Assumptions:			
Investment return	8.00%	8.00%	8.00%
Projected salary increases	5.5%	5.5%	5.5%
Inflation	3.5%	3.5%	3.5%
Cost-of-living adjustments	0.0%	0.0%	0.0%

Trend Information for the Retirement Plan for the Employees of Hill County

<u>Accounting Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
09/30/03	\$ 331,360	100%	\$ -
09/30/04	456,200	100%	-
09/30/05	340,695	100%	-

(continued)

3. **DETAILED NOTES ON ALL FUNDS (Continued)**

H. **Pension Plan** (Continued)

Transition Disclosure

It was determined in accordance with GASB Statement No. 27 that the pension liability was zero at the transition to that statement effective at the beginning of this accounting year, because all actuarially required contributions for the accounting years beginning in 1987 up to the beginning of this accounting year have been paid. There was no previously reported pension liability before the transition. Therefore, the difference between the pension liability at transition and the previously reported pension liability is zero.

**Schedule of Funding Progress for the Retirement Plan
For the Employees of Hill County**

Year	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (1) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2002	\$ 6,529,116	\$ 7,705,110	\$ 1,175,994	84.74%	\$ 4,479,506	26.25%
2003	6,529,116	7,705,110	1,175,994	84.74%	4,479,506	26.25%
2004	7,221,286	8,387,324	1,166,038	86.10%	4,764,763	24.47%

- (1) The annual covered payroll is based on the employee contributions received by TCDRS for the year ending with the valuation date.
- (2) Revised economic and demographic assumptions due to an experience review were reflected in this valuation.

I. **Prior Period Adjustment**

The prior period adjustments in the General Fund, Road and Bridge Precinct #2, Sales Tax Escrow and Criminal Justice Funds are all due to the reclassification of trust and agency funds. Employee Hospital and Payroll clearing are included in the General Fund, Oak Springs Subdivision is included in Road and Bridge Precinct #2, Juvenile Court Costs and Operators and Chauffeurs are included in Criminal Justice Fund.

J. **Commitment and Contingencies**

The County has received Federal and State financial assistance in the form of grants and entitlements that are subject to review and audit by the grantor agencies. Such audits could result in requests for reimbursement by the grantor agencies for expenditures disallowed under terms and conditions specified in the grant agreements. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

K. Capital Assets

Capital asset activity for the year ended September 30, 2005, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 106,952	\$ -	\$ 106,952
Total assets not being depreciated	<u>-</u>	<u>106,952</u>	<u>-</u>	<u>106,952</u>
Capital assets, being depreciated:				
Buildings and improvements	18,301,129	450,198	-	18,751,327
Vehicles, Machinery and equipment	4,077,636	1,105,167	562,110	4,620,693
Infrastructure	344,500	333,246	-	677,746
Total capital assets being depreciated	<u>22,723,265</u>	<u>1,888,611</u>	<u>562,110</u>	<u>24,049,766</u>
Accumulated depreciation:				
Buildings and improvements	1,755,482	457,266	-	2,212,748
Machinery and equipment	3,130,402	442,619	464,357	3,108,664
Infrastructure	8,136	27,725	-	35,861
Total accumulated depreciation	<u>4,894,020</u>	<u>927,610</u>	<u>464,357</u>	<u>5,357,273</u>
Total capital assets being depreciated, net	<u>17,829,245</u>	<u>961,001</u>	<u>97,753</u>	<u>18,692,493</u>
Governmental activities capital assets, net	<u>\$ 17,829,245</u>	<u>\$ 1,067,953</u>	<u>\$ 97,753</u>	<u>\$ 18,799,445</u>

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

Governmental activities:	
General government	\$ 282,230
Public safety	104,283
Corrections and rehabilitation	215,096
Roads and highways	<u>326,001</u>
Total depreciation expense - governmental activities	<u>\$ 927,610</u>

(continued)

3. **DETAILED NOTES ON ALL FUNDS (Continued)**

L. Interfund Receivables, Payables and Transfers

Interfund Transfers:

The composition of interfund transfers as of September 30, 2005, is as follows:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>	<u>Reason</u>
Nonmajor fund	General	\$ 64,547	Cover expenditures
Nonmajor fund	Nonmajor fund	263,735	Cover expenditures
General	Nonmajor fund	<u>329,818</u>	Cover expenditures
Total		<u>\$ 658,100</u>	

The composition of interfund balances as of September 30, 2005, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Reason</u>
Nonmajor fund	General	\$ 29,711	Cover expenditures
Nonmajor fund	Nonmajor fund	474	Cover expenditures
General	Nonmajor fund	<u>10,323</u>	Cover expenditures
Total		<u>\$ 40,508</u>	

Balances resulted from the time lag between the dates that 1) interfund goods and services are provided on reimbursable expenditures, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

M. Risk Management

The County is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the County carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

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COMBINING STATEMENTS

HILL COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2005

	Special Revenue				
	Indigent Health Care	Adult Probation	Law Library	Jury	Juvenile Probation
ASSETS					
Cash	\$ 227,549	\$ 368,042	\$ 75,774	\$ 143,053	\$ 285,674
Receivables (net of allowance for uncollectible of \$13,327)					
Taxes	63,376	-	-	-	-
Due from other governments	-	-	-	11,620	19,156
Due from other funds	-	2,691	-	1,708	6,108
Total assets	<u>\$ 290,925</u>	<u>\$ 370,733</u>	<u>\$ 75,774</u>	<u>\$ 156,381</u>	<u>\$ 310,938</u>
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 22,953	\$ 6,550	\$ 904	\$ 22,551	\$ 17,779
Due to other funds	-	-	-	-	5,697
Deferred taxes	41,458	-	-	-	-
Total liabilities	<u>64,411</u>	<u>6,550</u>	<u>904</u>	<u>22,551</u>	<u>23,476</u>
Fund balance					
Unreserved	<u>226,514</u>	<u>364,183</u>	<u>74,870</u>	<u>133,830</u>	<u>287,462</u>
Total fund balance	<u>226,514</u>	<u>364,183</u>	<u>74,870</u>	<u>133,830</u>	<u>287,462</u>
Total liabilities and fund balance	<u>\$ 290,925</u>	<u>\$ 370,733</u>	<u>\$ 75,774</u>	<u>\$ 156,381</u>	<u>\$ 310,938</u>

Special Revenue

<u>Criminal Justice</u>	<u>D.A.R.E.</u>	<u>Crime Victims Assistance 1, 2 & 3</u>	<u>County Clerk</u>	<u>Records Preservation and Management</u>
\$ 299,990	\$ 48	\$ 2,251	\$ 64,889	\$ 22,640
-	-	-	-	-
-	-	1,538	-	-
<u>16,260</u>	<u>-</u>	<u>2,715</u>	<u>-</u>	<u>-</u>
<u>\$ 316,250</u>	<u>\$ 48</u>	<u>\$ 6,504</u>	<u>\$ 64,889</u>	<u>\$ 22,640</u>
\$ -	\$ 38	\$ 230	\$ 586	\$ -
-	-	5,100	-	-
-	-	-	-	-
<u>-</u>	<u>38</u>	<u>5,330</u>	<u>586</u>	<u>-</u>
<u>316,250</u>	<u>10</u>	<u>1,174</u>	<u>64,303</u>	<u>22,640</u>
<u>316,250</u>	<u>10</u>	<u>1,174</u>	<u>64,303</u>	<u>22,640</u>
<u>\$ 316,250</u>	<u>\$ 48</u>	<u>\$ 6,504</u>	<u>\$ 64,889</u>	<u>\$ 22,640</u>

(continued)

HILL COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
(Continued)
SEPTEMBER 30, 2005

	Special Revenue				
	<u>Courthouse Security</u>	<u>Probate Records Management</u>	<u>Hot Check Restitution</u>	<u>Sheriff Department</u>	<u>D.A. Forfeited Property</u>
ASSETS					
Cash	\$ 109,697	\$ 10,402	\$ 26,330	\$ 67,633	\$ 51,302
Receivables (net of allowance for uncollectible of \$13,327)					
Taxes	-	-	-	-	-
Due from other governments	-	-	-	-	-
Due from other funds	-	-	-	685	-
Total assets	<u>\$ 109,697</u>	<u>\$ 10,402</u>	<u>\$ 26,330</u>	<u>\$ 68,318</u>	<u>\$ 51,302</u>
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-
Deferred taxes	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance					
Unreserved	<u>109,697</u>	<u>10,402</u>	<u>26,330</u>	<u>68,318</u>	<u>51,302</u>
Total fund balance	<u>109,697</u>	<u>10,402</u>	<u>26,330</u>	<u>68,318</u>	<u>51,302</u>
Total liabilities and fund balance	<u>\$ 109,697</u>	<u>\$ 10,402</u>	<u>\$ 26,330</u>	<u>\$ 68,318</u>	<u>\$ 51,302</u>

Special Revenue

<u>J. P. Court Costs</u>	<u>Juvenile Court Costs</u>	<u>COPS 1998</u>	<u>Child Welfare Board</u>	<u>Youth Coll. 1, 2, & 3</u>	<u>Court Reporter Service</u>
\$ 91,464	\$ 69	\$ 76,740	\$ 52	\$ 13,049	\$ 17,282
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	18	-	-
<u>\$ 91,464</u>	<u>\$ 69</u>	<u>\$ 76,740</u>	<u>\$ 70</u>	<u>\$ 13,049</u>	<u>\$ 17,282</u>
\$ -	\$ -	\$ -	\$ 70	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	70	-	-
<u>91,464</u>	<u>69</u>	<u>76,740</u>	<u>-</u>	<u>13,049</u>	<u>17,282</u>
<u>91,464</u>	<u>69</u>	<u>76,740</u>	<u>-</u>	<u>13,049</u>	<u>17,282</u>
<u>\$ 91,464</u>	<u>\$ 69</u>	<u>\$ 76,740</u>	<u>\$ 70</u>	<u>\$ 13,049</u>	<u>\$ 17,282</u>

(continued)

HILL COUNTY, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

(Continued)

SEPTEMBER 30, 2005

	Special Revenue			
	C.A. Hot Check Fund	Hill County for MADD	Sales Tax Escrow	D.A. Seizure Account
ASSETS				
Cash	\$ 18,917	\$ 745	\$ 406,829	\$ 110,523
Receivables (net of allowance for uncollectible of \$13,327)				
Taxes	-	-	-	-
Due from other governments	-	-	-	-
Due from other funds	-	-	-	-
	-	-	-	-
Total assets	<u>\$ 18,917</u>	<u>\$ 745</u>	<u>\$ 406,829</u>	<u>\$ 110,523</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-
Deferred taxes	-	-	-	-
Total liabilities	-	-	-	-
Fund balance				
Unreserved	<u>18,917</u>	<u>745</u>	<u>406,829</u>	<u>110,523</u>
Total fund balance	<u>18,917</u>	<u>745</u>	<u>406,829</u>	<u>110,523</u>
Total liabilities and fund balance	<u>\$ 18,917</u>	<u>\$ 745</u>	<u>\$ 406,829</u>	<u>\$ 110,523</u>

<u>Debt Service</u>			<u>Capital Projects</u>		
<u>Debt Service</u>	<u>Road District #25</u>	<u>Road District #26</u>	<u>Jail/Armory</u>	<u>Courthouse Project</u>	<u>Totals</u>
\$ 169,295	\$ 642	\$ 8,599	\$ 182,715	\$ 480,229	\$ 3,332,424
73,260	-	-	-	-	136,636
-	-	-	-	-	32,314
-	-	-	-	-	30,185
<u>\$ 242,555</u>	<u>\$ 642</u>	<u>\$ 8,599</u>	<u>\$ 182,715</u>	<u>\$ 480,229</u>	<u>\$ 3,531,559</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 71,661
-	-	-	-	-	10,797
65,317	-	-	-	-	106,775
<u>65,317</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>189,233</u>
<u>177,238</u>	<u>642</u>	<u>8,599</u>	<u>182,715</u>	<u>480,229</u>	<u>3,342,326</u>
<u>177,238</u>	<u>642</u>	<u>8,599</u>	<u>182,715</u>	<u>480,229</u>	<u>3,342,326</u>
<u>\$ 242,555</u>	<u>\$ 642</u>	<u>\$ 8,599</u>	<u>\$ 182,715</u>	<u>\$ 480,229</u>	<u>\$ 3,531,559</u>

HILL COUNTY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	Special Revenue				
	<u>Indigent Health Care</u>	<u>Adult Probation</u>	<u>Law Library</u>	<u>Jury</u>	<u>Juvenile Probation</u>
REVENUES					
Taxes, penalties and interest	\$ 503,931	\$ -	\$ -	\$ -	\$ -
Charges for services	-	328,316	25,665	328,767	6,848
Interest	8,362	9,236	1,729	4,268	6,514
Fines and forfeitures	-	-	-	-	-
Intergovernmental	-	323,845	-	43,219	574,297
Miscellaneous	1,083	74,961	4,059	175	76,689
Total revenues	<u>513,376</u>	<u>736,358</u>	<u>31,453</u>	<u>376,429</u>	<u>664,348</u>
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	-	13,157	-	-
Judicial	-	-	-	439,196	574,926
Corrections and rehabilitation	108,131	775,180	-	-	-
Public health	192,509	-	-	-	-
Capital outlay:					
Current expenditures	-	798	67	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>300,640</u>	<u>775,978</u>	<u>13,224</u>	<u>439,196</u>	<u>574,926</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>212,736</u>	<u>(39,620)</u>	<u>18,229</u>	<u>(62,767)</u>	<u>89,422</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	-	19,599	-	-	51,786
Operating transfers out	(150,000)	(16,996)	-	-	(5,479)
Sale of general fixed assets	-	-	-	-	-
Total other financing sources (uses)	<u>(150,000)</u>	<u>2,603</u>	<u>-</u>	<u>-</u>	<u>46,307</u>
CHANGE IN FUND BALANCES	62,736	(37,017)	18,229	(62,767)	135,729
FUND BALANCES, BEGINNING	163,778	401,200	56,641	196,597	151,733
PRIOR PERIOD ADJUSTMENT	-	-	-	-	-
FUND BALANCES, ENDING	<u>\$ 226,514</u>	<u>\$ 364,183</u>	<u>\$ 74,870</u>	<u>\$ 133,830</u>	<u>\$ 287,462</u>

Special Revenue

Criminal Justice	D.A.R.E.	Crime Victims Assistance	County Clerk	Records Preservation and Management
\$ -	\$ -	\$ -	\$ -	\$ -
833,956	-	-	62,738	21,380
5,946	5	80	2,022	393
-	-	-	-	-
-	-	34,769	-	-
90	250	-	-	-
<u>839,992</u>	<u>255</u>	<u>34,849</u>	<u>64,760</u>	<u>21,773</u>
-	-	-	53,789	-
-	254	-	-	-
667,026	-	49,883	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	17,137	-
-	-	-	-	-
-	-	-	-	-
<u>667,026</u>	<u>254</u>	<u>49,883</u>	<u>70,926</u>	<u>-</u>
172,966	1	(15,034)	(6,166)	21,773
91,345	-	12,715	-	-
(182,412)	-	-	-	-
-	-	-	-	-
<u>(91,067)</u>	<u>-</u>	<u>12,715</u>	<u>-</u>	<u>-</u>
81,899	1	(2,319)	(6,166)	21,773
158,201	9	3,493	70,469	867
76,150	-	-	-	-
<u>\$ 316,250</u>	<u>\$ 10</u>	<u>\$ 1,174</u>	<u>\$ 64,303</u>	<u>\$ 22,640</u>

(continued)

HILL COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
(Continued)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	Special Revenue				
	Courthouse Security	Probate Records Management	Hot Check Restitution	Sheriff Department	Election Contract
REVENUES					
Taxes, penalties and interest	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	45,059	787	37,047	-	-
Interest	2,684	246	738	1,840	-
Fines and forfeitures	-	-	-	-	-
Intergovernmental	-	-	-	7,252	-
Miscellaneous	-	-	195	3,585	59
Total revenues	<u>47,743</u>	<u>1,033</u>	<u>37,980</u>	<u>12,677</u>	<u>59</u>
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	87,598	-
Judicial	-	-	38,437	-	-
Corrections and rehabilitation	-	-	-	-	-
Public health	-	-	-	-	-
Capital outlay:					
Current expenditures	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>38,437</u>	<u>87,598</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>47,743</u>	<u>1,033</u>	<u>(457)</u>	<u>(74,921)</u>	<u>59</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	-	-	-	-	-
Operating transfers out	(69,459)	-	(702)	-	(63)
Proceeds from sale of fixed assets	-	-	-	48,475	-
Total other financing sources (uses)	<u>(69,459)</u>	<u>-</u>	<u>(702)</u>	<u>48,475</u>	<u>(63)</u>
CHANGE IN FUND BALANCES	(21,716)	1,033	(1,159)	(26,446)	(4)
FUND BALANCES, BEGINNING	131,413	9,369	27,489	94,764	4
PRIOR PERIOD ADJUSTMENT	-	-	-	-	-
FUND BALANCES, ENDING	<u>\$ 109,697</u>	<u>\$ 10,402</u>	<u>\$ 26,330</u>	<u>\$ 68,318</u>	<u>\$ -</u>

Special Revenue

D.A. Forfeited Property	J. P. Court Costs	Juvenile Court Costs	COPS	Child Welfare Board	Youth Coll. 1, 2, & 3	Tobacco Compliance
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	16,959	745	-	-	-	-
1,221	352	132	2,390	12	320	1
6,446	35,354	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	1,488	-	-
<u>7,667</u>	<u>52,665</u>	<u>877</u>	<u>2,390</u>	<u>1,500</u>	<u>320</u>	<u>1</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
163,620	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	2,123	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>163,620</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,123</u>	<u>-</u>	<u>-</u>
(155,953)	<u>52,665</u>	<u>877</u>	<u>2,390</u>	(623)	<u>320</u>	<u>1</u>
152,819	-	-	-	18	-	-
-	(8,845)	(6,323)	-	-	-	(43)
-	-	-	-	-	-	-
<u>152,819</u>	<u>(8,845)</u>	<u>(6,323)</u>	<u>-</u>	<u>18</u>	<u>-</u>	<u>(43)</u>
(3,134)	43,820	(5,446)	2,390	(605)	320	(42)
54,436	47,644	5,515	74,350	605	12,729	42
-	-	-	-	-	-	-
<u>\$ 51,302</u>	<u>\$ 91,464</u>	<u>\$ 69</u>	<u>\$ 76,740</u>	<u>\$ -</u>	<u>\$ 13,049</u>	<u>\$ -</u>

(continued)

HILL COUNTY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

(Continued)

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	Special Revenue				
	Court Reporter Service	C.A. Hot Check Fund	Hill County for MADD	Sales Tax Escrow	D.A. Seizure Account
REVENUES					
Taxes, penalties and interest	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	8,698	-	-	-	-
Interest	333	437	10	509	1,695
Fines and forfeitures	-	5,067	-	-	-
Intergovernmental	-	-	-	-	-
Miscellaneous	-	-	430	-	271,809
Total revenues	9,031	5,504	440	509	273,504
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Judicial	-	3,838	-	-	10,162
Corrections and rehabilitation	-	-	-	-	-
Public health	-	-	-	-	-
Capital outlay:					
Current expenditures	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	-	3,838	-	-	10,162
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES					
	9,031	1,666	440	509	263,342
OTHER FINANCING SOURCES (USES)					
Operating transfers in	-	-	-	-	-
Operating transfers out	-	(412)	-	-	(152,819)
Sale of general fixed assets	-	-	-	-	-
Total other financing sources (uses)	-	(412)	-	-	(152,819)
CHANGE IN FUND BALANCES	9,031	1,254	440	509	110,523
FUND BALANCES, BEGINNING	8,251	17,663	305	-	-
PRIOR PERIOD ADJUSTMENT	-	-	-	406,320	-
FUND BALANCES, ENDING	\$ 17,282	\$ 18,917	\$ 745	\$ 406,829	\$ 110,523

Debt Service			Capital Projects		Totals
Debt Service	Road District #25	Road District #26	Jail/Armory	Courthouse Project	
\$ 644,800	\$ -	\$ -	\$ -	\$ -	\$ 1,148,731
-	-	-	-	-	1,716,965
8,991	16	211	13,961	11,780	86,434
-	-	-	-	-	46,867
-	-	-	-	-	983,382
-	-	-	-	-	434,873
<u>653,791</u>	<u>16</u>	<u>211</u>	<u>13,961</u>	# <u>11,780</u>	<u>4,417,252</u>
-	-	-	-	-	53,789
-	-	-	-	-	101,009
-	-	-	-	-	1,947,088
-	-	-	-	-	883,311
-	-	-	-	-	194,632
-	-	-	474,287	-	492,289
220,000	-	-	-	-	220,000
<u>417,113</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>417,113</u>
<u>637,113</u>	<u>-</u>	<u>-</u>	<u>474,287</u>	<u>-</u>	<u>4,309,231</u>
<u>16,678</u>	<u>16</u>	<u>211</u>	(460,326)	<u>11,780</u>	<u>108,021</u>
-	-	-	-	-	328,282
-	-	-	-	-	(593,553)
-	-	-	-	-	48,475
-	-	-	-	-	(216,796)
16,678	16	211	(460,326)	11,780	(108,775)
160,560	626	8,388	643,041	468,449	2,968,631
-	-	-	-	-	482,470
<u>\$ 177,238</u>	<u>\$ 642</u>	<u>\$ 8,599</u>	<u>\$ 182,715</u>	<u>\$ 480,229</u>	<u>\$ 3,342,326</u>

HILL COUNTY, TEXAS
COMBINING BALANCE SHEET
ROAD AND BRIDGE FUNDS
SEPTEMBER 30, 2005

	<u>General Road and Bridge</u>	<u>Road and Bridge Precinct #1</u>	<u>Road and Bridge Precinct #2</u>	<u>Road and Bridge Precinct #3</u>	<u>Road and Bridge Precinct #4</u>
ASSETS					
Cash	\$ 234,715	\$ 133,478	\$ 128,004	\$ 355,000	\$ 91,069
Receivables (net of allowance for uncollectibles):					
Taxes	<u>-</u>	<u>19,049</u>	<u>18,844</u>	<u>23,582</u>	<u>17,744</u>
Total assets	<u>\$ 234,715</u>	<u>\$ 152,527</u>	<u>\$ 146,848</u>	<u>\$ 378,582</u>	<u>\$ 108,813</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 678	\$ 31,723	\$ 15,501	\$ 10,020	\$ 20,447
Deferred taxes	<u>-</u>	<u>12,351</u>	<u>12,187</u>	<u>15,979</u>	<u>11,306</u>
Total liabilities	<u>678</u>	<u>44,074</u>	<u>27,688</u>	<u>25,999</u>	<u>31,753</u>
Fund balances					
Unreserved	<u>234,037</u>	<u>108,453</u>	<u>119,160</u>	<u>352,583</u>	<u>77,060</u>
Total fund balances	<u>234,037</u>	<u>108,453</u>	<u>119,160</u>	<u>352,583</u>	<u>77,060</u>
Total liabilities and fund balances	<u>\$ 234,715</u>	<u>\$ 152,527</u>	<u>\$ 146,848</u>	<u>\$ 378,582</u>	<u>\$ 108,813</u>

<u>F/M Lateral Precinct #1</u>	<u>F/M Lateral Precinct #2</u>	<u>F/M Lateral Precinct #3</u>	<u>F/M Lateral Precinct #4</u>	<u>F/M Lateral Refund #4</u>	<u>Totals</u>
\$ 86,366	\$ 127,883	\$ 149,107	\$ 208,858	\$ 60	\$ 1,514,540
<u>27,962</u>	<u>27,790</u>	<u>31,736</u>	<u>26,876</u>	<u>-</u>	<u>193,583</u>
<u>\$ 114,328</u>	<u>\$ 155,673</u>	<u>\$ 180,843</u>	<u>\$ 235,734</u>	<u>\$ 60</u>	<u>\$ 1,708,123</u>
\$ 6,562	\$ 1,617	\$ 3,574	\$ -	\$ -	\$ 90,122
<u>25,027</u>	<u>24,874</u>	<u>28,405</u>	<u>24,055</u>	<u>-</u>	<u>154,184</u>
<u>31,589</u>	<u>26,491</u>	<u>31,979</u>	<u>24,055</u>	<u>-</u>	<u>244,306</u>
<u>82,739</u>	<u>129,182</u>	<u>148,864</u>	<u>211,679</u>	<u>60</u>	<u>1,463,817</u>
<u>82,739</u>	<u>129,182</u>	<u>148,864</u>	<u>211,679</u>	<u>60</u>	<u>1,463,817</u>
<u>\$ 114,328</u>	<u>\$ 155,673</u>	<u>\$ 180,843</u>	<u>\$ 235,734</u>	<u>\$ 60</u>	<u>\$ 1,708,123</u>

HILL COUNTY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

ROAD AND BRIDGE FUNDS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	General Road and Bridge	Road and Bridge Precinct #1	Road and Bridge Precinct #2	Road and Bridge Precinct #3	Road and Bridge Precinct #4
REVENUES					
Taxes, penalties and interest	\$ -	\$ 159,195	\$ 158,270	\$ 179,560	\$ 153,334
Licenses and permits	-	182,422	181,302	207,043	175,334
Interest	-	4,034	16,329	8,462	10,407
Fines and forfeitures	388,096	-	-	-	-
Miscellaneous	-	-	1,719	3,020	19
Total revenues	388,096	345,651	357,620	398,085	339,094
EXPENDITURES					
Current:					
Roads and highways	263,675	414,440	340,634	422,895	374,500
Capital outlay:					
Current expenditures	6,962	91,475	9,455	92,867	54,692
Debt service:					
Principal retirement	-	11,931	27,906	-	10,688
Interest and fiscal charges	-	1,567	2,638	-	107
Total expenditures	270,637	519,413	380,633	515,762	439,987
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES					
	117,459	(173,762)	(23,013)	(117,677)	(100,893)
OTHER FINANCING SOURCES (USES)					
Proceeds from issuance of time warrants	-	89,394	-	-	-
Proceeds from sale of fixed assets	-	34,150	13,860	33,751	17,000
Total other financing sources (uses)	-	123,544	13,860	33,751	17,000
CHANGE IN FUND BALANCES	117,459	(50,218)	(9,153)	(83,926)	(83,893)
FUND BALANCES, BEGINNING	116,578	158,671	85,419	436,509	160,953
PRIOR PERIOD ADJUSTMENT	-	-	42,894	-	-
FUND BALANCES, ENDING	\$ 234,037	\$ 108,453	\$ 119,160	\$ 352,583	\$ 77,060

F/M Lateral Precinct #1	F/M Lateral Precinct #2	F/M Lateral Precinct #3	F/M Lateral Precinct #4	Lateral Road Refund Precinct #1	Lateral Road Refund Precinct #2	Lateral Road Refund Precinct #3	Lateral Road Refund Precinct #4	Totals
\$ 232,076	\$ 230,669	\$ 263,019	\$ 223,167	\$ 11,517	\$ 11,447	\$ 13,072	\$ 11,070	\$ 1,646,396
-	-	-	-	-	-	-	-	746,101
-	-	-	-	-	-	-	-	39,232
-	-	-	-	-	-	-	-	388,096
-	-	-	-	-	-	-	-	4,758
<u>232,076</u>	<u>230,669</u>	<u>263,019</u>	<u>223,167</u>	<u>11,517</u>	<u>11,447</u>	<u>13,072</u>	<u>11,070</u>	<u>2,824,583</u>
147,969	188,243	161,638	89,310	11,517	11,447	13,072	11,070	2,450,410
62,255	45,250	237,784	73,000	-	-	-	-	673,740
-	-	34,718	-	-	-	-	-	85,243
-	-	4,941	-	-	-	-	-	9,253
<u>210,224</u>	<u>233,493</u>	<u>439,081</u>	<u>162,310</u>	<u>11,517</u>	<u>11,447</u>	<u>13,072</u>	<u>11,070</u>	<u>3,218,646</u>
<u>21,852</u>	<u>(2,824)</u>	<u>(176,062)</u>	<u>60,857</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(394,063)</u>
-	-	155,606	-	-	-	-	-	245,000
-	-	54,000	-	-	-	-	-	152,761
-	-	209,606	-	-	-	-	-	397,761
21,852	(2,824)	33,544	60,857	-	-	-	-	3,698
60,887	132,006	115,320	150,822	-	-	-	60	1,417,225
-	-	-	-	-	-	-	-	42,894
<u>\$ 82,739</u>	<u>\$ 129,182</u>	<u>\$ 148,864</u>	<u>\$ 211,679</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60</u>	<u>\$ 1,463,817</u>

HILL COUNTY, TEXAS

COMBINING BALANCE SHEET

TRUST AND AGENCY FUNDS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005
 (With Comparative Totals for September 30, 2004)

	<u>Tax Assessor/ Collector</u>	<u>Justice of the Peace</u>	<u>County Clerk</u>	<u>District Clerk</u>	<u>Sheriff Department</u>	<u>District Attorney</u>
ASSETS						
Cash	\$ 456,796	\$ 91,906	\$ 58,816	\$ 1,341,906	\$ 89,946	\$ 22,229
Due from other funds	-	-	-	-	-	-
Taxes receivables (net of allowance for uncollectible of \$10,055)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 456,796</u>	<u>\$ 91,906</u>	<u>\$ 58,816</u>	<u>\$ 1,341,906</u>	<u>\$ 89,946</u>	<u>\$ 22,229</u>
LIABILITIES						
Deferred taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental payable	456,796	91,906	45,932	735,633	87,396	-
Due to beneficiaries	-	-	12,884	606,273	2,550	22,229
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>\$ 456,796</u>	<u>\$ 91,906</u>	<u>\$ 58,816</u>	<u>\$ 1,341,906</u>	<u>\$ 89,946</u>	<u>\$ 22,229</u>

Totals	
(Memorandum Only)	
September 30, 2005	September 30, 2004
\$ 2,061,599 - <hr style="width: 100%;"/> -	\$ 2,949,088 20,135 <hr style="width: 100%;"/> 125,654
<hr style="width: 100%;"/> \$ 2,061,599	<hr style="width: 100%;"/> \$ 3,094,877
\$ - 1,417,663 643,936 <hr style="width: 100%;"/> -	\$ 80,830 2,321,954 671,958 20,135 <hr style="width: 100%;"/> 20,135
<hr style="width: 100%;"/> \$ 2,061,599	<hr style="width: 100%;"/> \$ 3,094,877

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

Honorable County Judge and Members of the
Commissioners' Court of Hill County
Hillsboro, Texas

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hill County, Texas (County) as of and for the year ended September 30, 2005, which collectively comprise Hill County, Texas's basic financial statements and have issued our report thereon dated March 24, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

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Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters that we have reported to management in a separate letter dated March 24, 2006.

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

Patillo, Brown & Hill, L.L.P.

March 24, 2006

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