

HILL COUNTY, TEXAS

AUDITORS' REPORT

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
SEPTEMBER 30, 2004**

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HILL COUNTY, TEXAS

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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, 2004, 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 an opinion 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, 2004, 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 January 26, 2005, 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.

As described in Note 1 the County has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of September 30, 2004.

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.

January 26, 2005

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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, 2004.

FINANCIAL HIGHLIGHTS

The assets of the Hill County exceeded its liabilities at the close of the most recent fiscal year by \$17,465,555 (*net assets*). Of this amount, \$6,823,055 (*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 \$36,340.
- As of the close of the current fiscal year, Hill County's governmental funds reported combined ending fund balances of \$6,240,829, an increase of \$257,604 in comparison with the prior year. This was due to an increase in property tax collections and the completion of the new jail facility. \$6,071,255 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 \$1,854,973 or 35.79% of total General Fund expenditures.
- The Hill County's total debt decreased by \$295,195 (3.36%) 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 and intergovernmental revenues (*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*). The governmental activities of Hill County include general government, judicial, public safety, health and welfare, 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 34 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 32 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 – 52 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 \$17,465,555 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 53.2% 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 2004
Current and other assets	\$ 8,786,991
Capital assets	17,829,245
Total assets	<u>26,616,236</u>
Long-term liabilities	8,462,807
Other liabilities	687,874
Total liabilities	<u>9,150,681</u>
Net assets:	
Invested in capital assets, net of related debt	9,291,681
Restricted	1,350,819
Unrestricted	<u>6,823,055</u>
Total net assets	<u>\$ 17,465,555</u>

An additional portion of Hill County’s net assets (7.73%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$6,823,055) 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 \$36,340, thereby accounting for 0.21% of the total net assets of Hill County. There is no comparative data as this is the first year of GASB 34 implementation for Hill County.

Hill County’s Changes in Net Assets

	<u>Governmental Activities 2004</u>
REVENUES	
Program revenues:	
Charges for services	\$ 4,193,573
Operating grants and contributions	995,699
General revenues:	
Property taxes	5,123,104
Investment earnings	73,962
Sales taxes	1,018,735
Other taxes	47,672
Miscellaneous Income	732
Loss on sale of capital assets	(84,953)
Total Revenues	<u>11,368,524</u>
EXPENSES	
General government	2,060,689
Judicial	1,942,319
Public safety	3,843,957
Health and welfare	495,976
Roads and highways	2,555,491
Interest on long-term debt	<u>433,752</u>
Total Expenses	<u>11,332,184</u>
INCREASE IN NET ASSETS	36,340
NET ASSETS, BEGINNING	17,413,408
PRIOR PERIOD ADJUSTMENT	<u>15,807</u>
NET ASSETS, ENDING	<u>\$ 17,465,555</u>

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 \$1,854,973. 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 35.79% of total General Fund expenditures.

The fund balance of Hill County's General Fund increased by \$278,089 during the current fiscal year. Key factors in this growth are primarily due to higher than expected charges for services and expenditures kept below budgeted amounts.

The Capital Projects Funds combined have an ending fund balance of \$1.11 million. These funds are for possible future courthouse projects and the purchase of a new building.

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 District 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, 2004, amounts to \$17,829,245 (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	\$ 5,769,241
Purchase of vehicles and equipment	187,702
Infrastructure	<u>344,500</u>
Total	<u>\$ 6,301,443</u>

Additional information on Hill County's capital assets can be found in note 2 on page 31 of this report.

Long-term debt. At the end of the current fiscal year, Hill County had total debt outstanding of \$8,485,458.

At the end of the current fiscal year, the County had total bonded debt of \$8,400,000. 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 \$295,195. No new debt was issued during 2004.

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 2 on pages 26 – 28 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 2005 is \$6,781,387 for the General Fund, and estimated expenditures are \$7,031,394.

All of these factors were considered in preparing Hill County's budget for the 2005 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, 2004

	Primary Government
	Governmental Activities
ASSETS	
Cash and investments	\$ 6,301,051
Receivables, net of allowances for uncollectibles	
Taxes	787,835
Grants	14,522
Other	1,451,870
Inventory	60,153
Prepaid assets	171,560
Capital assets:	
Buildings and improvements	18,301,129
Machinery and equipment	4,077,636
Infrastructure	344,500
Accumulated depreciation	(4,894,020)
Total capital assets, net of accumulated depreciation	17,829,245
 Total assets	 26,616,236
LIABILITIES	
Accounts payable	308,760
Accrued interest	52,105
Noncurrent liabilities:	
Due within one year	327,009
Due in more than one year	8,462,807
Total liabilities	9,150,681
NET ASSETS	
Invested in capital assets, net of related debt	9,291,681
Restricted for:	
Debt service	239,329
Capital projects	1,111,490
Unrestricted	6,823,055
 Total net assets	 \$ 17,465,555

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, 2004

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	\$ 2,060,689	\$ 1,390,215	\$ 71,876	\$(598,598)
Judicial	1,942,319	1,897,397	416,414	371,492
Public safety	3,843,957	873,856	481,849	(2,488,252)
Health and welfare	495,976	-	-	(495,976)
Roads and highways	2,555,491	32,105	25,560	(2,497,826)
Interest on long-term debt	433,752	-	-	(433,752)
Total governmental activities	11,332,184	4,193,573	995,699	(6,142,912)
Total primary government	\$ 11,332,184	\$ 4,193,573	\$ 995,699	\$(6,142,912)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				\$ 4,471,069
Property taxes, levied for debt service				652,035
Sales taxes				1,018,735
Other taxes				47,672
Investment earnings				73,962
Miscellaneous income				732
Loss on sale of capital assets				(84,953)
Total general revenues				6,179,252
Change in net assets				36,340
Net assets, beginning				17,413,408
Prior period adjustment				15,807
Net assets, ending				\$ 17,465,555

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, 2004

	General	Road and Bridge	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 1,805,608	\$ 1,475,122	\$ 3,020,321	\$ 6,301,051
Receivables, net of allowances for uncollectibles:				
Taxes receivable	470,274	181,345	136,216	787,835
Grants receivable	-	-	14,522	14,522
Due from other funds	11,597	-	10,166	21,763
Total assets	\$ 2,287,479	\$ 1,656,467	\$ 3,181,225	\$ 7,125,171
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 123,503	\$ 95,074	\$ 90,183	\$ 308,760
Accrued liabilities	-	-	-	-
Due to other funds	6,487	-	15,276	21,763
Deferred revenue	302,516	144,168	107,135	553,819
Total liabilities	432,506	239,242	212,594	884,342
Fund balances:				
Reserved for debt service	-	-	169,574	169,574
Unreserved, reported in:				
General fund	1,854,973	-	-	1,854,973
Capital projects	-	-	1,111,490	1,111,490
Special revenue funds	-	1,417,225	1,687,567	3,104,792
Total fund balances	1,854,973	1,417,225	2,968,631	6,240,829
Total liabilities and fund balances	\$ 2,287,479	\$ 1,656,467	\$ 3,181,225	\$ 7,125,171

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.	17,829,245
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	2,237,402
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(8,841,921)
Net assets of governmental activities	\$ 17,465,555

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, 2004

	General	Road and Bridge	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes, penalties and interest	\$ 3,753,949	\$ 1,499,919	\$ 1,119,655	\$ 6,373,523
Charges for services	1,195,259	-	1,374,125	2,569,384
Licenses and permits	-	742,333	-	742,333
Interest	27,996	13,055	32,568	73,619
Fines and forfeitures	26,582	303,143	112,510	442,235
Intergovernmental	27,534	-	887,497	915,031
Miscellaneous	163,009	73	168,343	331,425
Total revenues	5,194,329	2,558,523	3,694,698	11,447,550
EXPENDITURES				
Current:				
General government	1,808,421	-	84,947	1,893,368
Public safety	2,410,509	-	1,270,509	3,681,018
Roads and highways	-	2,306,262	105,112	2,411,374
Judicial	816,166	-	1,023,163	1,839,329
Public health	95,528	-	397,518	493,046
Capital outlay:				
Current expenditures	52,628	239,455	70,481	362,564
Debt service:				
Principal retirement	-	85,195	210,000	295,195
Interest and fiscal charges	-	7,118	427,948	435,066
Total expenditures	5,183,252	2,638,030	3,589,678	11,410,960
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	11,077	(79,507)	105,020	36,590
OTHER FINANCING SOURCES (USES)				
Operating transfers in	185,123	176,000	161,066	522,189
Operating transfers out	(86,319)	-	(435,870)	(522,189)
Sale of general fixed assets	168,208	52,806	-	221,014
Total other financing sources (uses)	267,012	228,806	(274,804)	221,014
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)				
	278,089	149,299	(169,784)	257,604
FUND BALANCES, BEGINNING	1,576,884	1,267,926	3,122,608	5,967,418
PRIOR PERIOD ADJUSTMENT	-	-	15,807	15,807
FUND BALANCES, ENDING	\$ 1,854,973	\$ 1,417,225	\$ 2,968,631	\$ 6,240,829

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, 2004

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)	\$ 268,837
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.	(503,904)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	2,285
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.	296,509
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.	(16,154)
Change in net assets of governmental activities (page 10)	\$ <u>47,573</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, 2004

	Adopted Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Taxes, penalties and interest	\$ 3,994,532	\$ 3,994,532	\$ 3,753,949	\$(240,583)
Charges for services	772,850	946,581	1,195,259	248,678
Interest	40,000	40,000	27,996	(12,004)
Fines and forfeitures	27,039	27,039	26,582	(457)
Intergovernmental	-	27,534	27,534	-
Miscellaneous	84,403	84,403	163,009	78,606
Total revenues	<u>4,918,824</u>	<u>5,120,089</u>	<u>5,194,329</u>	<u>74,240</u>
EXPENDITURES				
Current:				
General government	1,885,916	1,944,436	1,808,421	136,015
Public safety	2,397,084	2,453,608	2,410,509	43,099
Judicial	780,741	857,413	816,166	41,247
Public health	111,718	111,968	95,528	16,440
Capital outlay:				
Current expenditures	70,583	79,882	52,628	27,254
Total expenditures	<u>5,246,042</u>	<u>5,447,307</u>	<u>5,183,252</u>	<u>264,055</u>
EXCESS (DEFICIENCY) OF REVENUES				
OVER (UNDER) EXPENDITURES	<u>(327,218)</u>	<u>(327,218)</u>	<u>11,077</u>	<u>338,295</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	247,917	247,917	185,123	(62,794)
Operating transfers out	(84,419)	(86,319)	(86,319)	-
Sale of general fixed assets	165,000	166,900	168,208	1,308
Total other financing sources (uses)	<u>328,498</u>	<u>328,498</u>	<u>267,012</u>	<u>(61,486)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER				
FINANCING SOURCES OVER (UNDER) EXPENDITURES				
AND OTHER FINANCING SOURCES (USES)	1,280	1,280	278,089	276,809
FUND BALANCE, BEGINNING				
	<u>1,576,884</u>	<u>1,576,884</u>	<u>1,576,884</u>	<u>-</u>
FUND BALANCE, ENDING				
	<u>\$ 1,578,164</u>	<u>\$ 1,578,164</u>	<u>\$ 1,854,973</u>	<u>\$ 276,809</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, 2004

	Adopted Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Taxes, penalties and interest	\$ 1,473,271	\$ 1,475,735	\$ 1,499,919	\$ 24,184
Licenses and permits	827,305	827,305	742,333	(84,972)
Interest revenue	19,665	19,665	13,055	(6,610)
Fines and forfeitures	228,766	228,766	303,143	74,377
Miscellaneous	-	-	73	73
Total revenues	2,549,007	2,551,471	2,558,523	7,052
EXPENDITURES				
Current:				
Public works	2,410,549	2,614,763	2,306,262	308,501
Capital outlay:				
Current expenditures	467,888	283,228	239,455	43,773
Debt service:				
Principal retirement	58,740	58,740	85,195	(26,455)
Interest and fiscal charges	3,040	3,040	7,118	(4,078)
Total expenditures	2,940,217	2,959,771	2,638,030	321,741
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(391,210)	(408,300)	(79,507)	(314,689)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	176,000	176,000	176,000	-
Sale of general fixed assets	-	17,090	52,806	35,716
Total other financing sources (uses)	176,000	193,090	228,806	35,716
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(215,210)	(215,210)	149,299	364,509
FUND BALANCE, BEGINNING	1,267,926	1,267,926	1,267,926	-
FUND BALANCE, ENDING	\$ 1,052,716	\$ 1,052,716	\$ 1,417,225	\$ 364,509

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, 2004

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 2,949,088
Due from other funds	20,135
Taxes receivable (net of allowance for uncollectible)	<u>125,654</u>
Total assets	\$ <u>3,094,877</u>
LIABILITIES	
Deferred revenue	\$ 80,830
Due to other funds	20,135
Due to other agencies and individuals	<u>2,993,912</u>
Total liabilities	\$ <u>3,094,877</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, 2004

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, 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. Implementation of New Accounting Pronouncement

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments. Certain of the significant changes in the statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the County's overall financial position and results of operations.
- A change in the fund financial statements to focus on major funds.
- Reporting revenues by function and classifying revenues as program revenues or general revenues.
- Classification of net assets into three categories, invested in fixed assets net of related debt, restricted net assets and unrestricted net assets.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The County implemented the general provisions of the statement in the current year and plans to retroactively report infrastructure in future years.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation

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.

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.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. The County has no proprietary funds at this time. 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.

(continued)

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

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

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.

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 & 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.

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.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

E. 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."

(continued)

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

E. **Assets, Liabilities and Net Assets or Equity** (Continued)

Receivables and Payables (Continued)

All property tax receivables are shown net of an allowance for uncollectible amounts. The property tax receivable allowance is equal to 10 percent of outstanding property taxes at September 30, 2004.

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)

E. 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, 2004, encumbrances lapsed and were subject to re-appropriation in the budget of the subsequent year.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Insurance

The County maintains third party insurance coverage for general liability, property, automobile liability, public official liability and worker's compensation. The County also provides group health insurance coverage for full time employees. There was no significant change in coverage from the prior year. Settlements have not exceeded insurance coverage for each of the past four fiscal years.

2. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

The County conducts all its banking and investment transactions with its depository bank except for those accounts established by individual elective offices.

Deposits

At September 30, 2004, the carrying amount of the County's deposits was \$9,292,978 and the bank balances totaled \$9,748,868. Of the bank balance, \$357,374 was covered by federal depository insurance and \$9,391,494 was covered by collateral, being held at The Independent BankersBank – Dallas, the County's safekeeping bank agent. The County has a three-party safekeeping agreement between the County, Colonial Trust Company - Hillsboro and The Independent BankersBank – Dallas. The County does not carry any bank balance over and above the insured and secured amounts.

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, 2004, 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)

2. DETAILED NOTES ON ALL FUNDS (Continued)

D. Compensated Absences

Regular full-time 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:

	<u>Balance as of 10/01/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of 09/30/04</u>	<u>Amounts Due in One Year</u>
	\$ <u>255,396</u>	\$ <u>476,710</u>	\$ <u>427,748</u>	\$ <u>304,358</u>	\$ <u>60,871</u>
Totals	\$ <u>255,396</u>	\$ <u>476,710</u>	\$ <u>427,748</u>	\$ <u>304,358</u>	\$ <u>60,871</u>

E. Property Taxes

The County adopted M&O and I&S tax rates of .3667 and .0547 per \$100 of valuation respectively, in October 2003. 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 .0712 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 2003 tax rate for taxes assessed October 1, 2003, was .4926 per \$100 valuation. Total assessment was \$5,074,369 on taxable value of approximately \$1,310,428,140. Total taxes receivable as of September 30, 2004, were \$789,057.

(continued)

2. DETAILED NOTES ON ALL FUNDS (Continued)

F. Receivables

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

	<u>General</u>	<u>Road & Bridge</u>	<u>Nonmajor Funds</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Receivables:					
Taxes	\$ 507,907	\$ 199,235	\$ 149,543	\$ 135,709	\$ 992,394
Grants	-	-	14,522	-	14,522
Intergovernmental	<u>11,597</u>	<u>-</u>	<u>10,166</u>	<u>-</u>	<u>21,763</u>
Gross receivables	519,504	199,235	174,231	135,709	1,028,679
Less: allowance for uncollectibles	<u>37,633</u>	<u>17,890</u>	<u>13,327</u>	<u>10,055</u>	<u>78,905</u>
Net Total Receivables	<u>\$ 481,871</u>	<u>\$ 181,345</u>	<u>\$ 160,904</u>	<u>\$ 125,654</u>	<u>\$ 949,774</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>	<u>Total</u>
General fund:		
Property taxes receivable	\$ 302,516	\$ 302,516
Road & Bridge Funds:		
Property taxes receivable	144,168	144,168
Nonmajor funds:		
Property taxes receivable	<u>107,135</u>	<u>107,135</u>
Governmental Funds	<u>\$ 553,819</u>	<u>\$ 553,819</u>

(continued)

2. DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-term Liabilities

Long-term liability activity from the year ended September 30, 2004, was as follows:

	Debt Outstanding 09/30/03	Additions of New Debt	Retirements and Repayments	Debt Outstanding 09/30/04
<u>Governmental:</u>				
Certificates of obligation	\$ 8,610,000	\$ -	\$ 210,000	\$ 8,400,000
Time Warrants	170,653	-	85,195	85,458
	<u>\$ 8,780,653</u>	<u>\$ -</u>	<u>\$ 295,195</u>	<u>\$ 8,485,458</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, 2004:

	Balance at October 1, 2003	Issued	Retired	Balance at September 30, 2004
1997 Certificates of Obligation	\$ 1,740,000	\$ -	\$ 85,000	\$ 1,655,000
2001 Certificates of Obligation	6,870,000	-	125,000	6,745,000
Total	<u>\$ 8,610,000</u>	<u>\$ -</u>	<u>\$ 210,000</u>	<u>\$ 8,400,000</u>

(continued)

2. 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>
2005	\$ 220,000	\$ 416,838	\$ 636,838
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
2010-2014	1,550,000	1,632,592	3,182,592
2015-2019	1,960,000	1,213,580	3,173,580
2020-2024	2,500,000	681,100	3,181,100
2025-2029	<u>1,180,000</u>	<u>89,250</u>	<u>1,269,250</u>
	<u>\$ 8,400,000</u>	<u>\$ 5,585,041</u>	<u>\$ 13,985,041</u>

Time Warrants

The County is indebted to Colonial Trust Company relating to the purchase of various machinery and equipment. These time warrants all bear interest at 6% 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, 2004:

	<u>Balance at October 1, 2003</u>	<u>Issued</u>	<u>Payments</u>	<u>Balance at September 30, 2004</u>
Time warrants Precinct #3	\$ 25,184	\$ -	\$ 17,554	\$ 7,630
Time warrants Precinct #2	93,597	-	26,456	67,141
Time warrants Precinct #4	<u>51,872</u>	<u>-</u>	<u>41,185</u>	<u>10,687</u>
Total	<u>\$ 170,653</u>	<u>\$ -</u>	<u>\$ 85,195</u>	<u>\$ 85,458</u>

(continued)

2. 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>
2005	\$ 46,138	\$ 2,946	\$ 49,084
2006	29,244	1,300	30,544
2007	<u>10,076</u>	<u>105</u>	<u>10,181</u>
Totals	<u>\$ 85,458</u>	<u>\$ 4,351</u>	<u>\$ 89,809</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 553 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)

2. **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 6.93% for the months of the accounting year in 2003, and 6.96% for the months of the accounting year in 2004.

The contribution rate payable by the employee members for calendar year 2004 is the rate of 6% 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, 2000 and December 31, 2001, the basis for determining the contribution rates for calendar years 2003 and 2004. The December 31, 2003, actuarial valuation is the most recent valuation.

Actuarial Valuation Information

Actuarial Valuation Date	12/31/01	12/31/02	12/31/03
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>
09/30/02	291,206	100%	\$ -
09/30/03	331,360	100%	-
09/30/04	456,200	100%	-

(continued)

2. 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)
2001	5,753,493	7,067,332	1,313,839	81.41%	4,091,543	32.11%
2002	6,362,511	7,724,017	1,361,506	82.37%	4,364,422	31.20%
2003	6,529,116	7,705,110	1,175,995	84.73%	4,479,506	26.25%

- (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.

(continued)

2. DETAILED NOTES ON ALL FUNDS (Continued)

I. Capital Assets

Capital asset activity for the year ended September 30, 2004, was as follows:

	Beginning Balance	Increases	Decreases	GASB 34 Adjustment	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Construction in progress	\$ 5,769,241	\$ -	\$ 5,769,241	\$ -	\$ -
Total assets not being depreciated	<u>5,769,241</u>	<u>-</u>	<u>5,769,241</u>	<u>-</u>	<u>-</u>
Capital assets, being depreciated:					
Buildings and improvements	13,021,888	5,769,241	490,000	-	18,301,129
Vehicles, Machinery and equipment	3,950,115	187,702	255,715	195,534	4,077,636
Infrastructure	-	344,500	-	-	344,500
Total capital assets being depreciated	<u>16,972,003</u>	<u>6,301,443</u>	<u>745,715</u>	<u>195,534</u>	<u>22,723,265</u>
Accumulated depreciation:					
Buildings and improvements	1,900,094	42,242	186,854	-	1,755,482
Machinery and equipment	2,703,535	679,761	252,894	-	3,130,402
Infrastructure	-	8,136	-	-	8,136
Total accumulated depreciation	<u>4,603,629</u>	<u>730,139</u>	<u>439,748</u>	<u>-</u>	<u>4,894,020</u>
Total capital assets being depreciated, net	<u>12,368,374</u>	<u>5,571,304</u>	<u>305,967</u>	<u>195,534</u>	<u>17,829,245</u>
Governmental activities capital assets, net	<u>\$ 18,137,615</u>	<u>\$ 5,571,304</u>	<u>\$ 6,075,208</u>	<u>\$ 195,534</u>	<u>\$ 17,829,245</u>

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

Governmental activities:	
General government	\$ 164,028
Public safety	147,819
Roads and highways	313,715
Judicial	97,635
Health and welfare	<u>6,942</u>
Total depreciation expense - governmental activities	<u>\$ 730,139</u>

(continued)

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

J. Interfund Receivables, Payables and Transfers

Interfund Transfers:

The composition of interfund transfers as of September 30, 2004, is as follows:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>	<u>Reason</u>
Nonmajor fund	General	\$ 185,123	Cover expenditures
Nonmajor fund	Road and bridge	176,000	Cover expenditures
Nonmajor fund	Nonmajor fund	74,747	Cover expenditures
General	Nonmajor fund	<u>86,319</u>	Cover expenditures
Total		<u>\$ 522,189</u>	

The composition of interfund balances as of September 30, 2004, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Reason</u>
Nonmajor fund	General	\$ 6,487	Cover expenditures
Nonmajor fund	Nonmajor fund	3,679	Cover expenditures
General	Nonmajor fund	<u>11,597</u>	Cover expenditures
Total		<u>\$ 21,763</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.

K. 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.

(continued)

2. DETAILED NOTES ON ALL FUNDS (Continued)

L. 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.

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COMBINING STATEMENTS

HILL COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2004

	Special Revenue				
	Indigent Health Care	Adult Probation	Law Library	Law Enforcement Block Grant	Jury
ASSETS					
Cash	\$ 179,871	\$ 404,637	\$ 57,635	\$ 123	\$ 211,937
Receivables (net of allowance for uncollectible of \$13,327)					
Taxes	58,140	-	-	-	-
Due from other funds	-	-	-	-	-
Due from other funds	-	-	-	-	3,325
Total assets	<u>\$ 238,011</u>	<u>\$ 404,637</u>	<u>\$ 57,635</u>	<u>\$ 123</u>	<u>\$ 215,262</u>
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 36,833	\$ 3,437	\$ 994	\$ -	\$ 15,330
Due to other funds	-	-	-	-	3,335
Deferred taxes	37,400	-	-	-	-
Total liabilities	<u>74,233</u>	<u>3,437</u>	<u>994</u>	<u>-</u>	<u>18,665</u>
Fund balance					
Unreserved	163,778	401,200	56,641	123	196,597
Total fund balance	<u>163,778</u>	<u>401,200</u>	<u>56,641</u>	<u>123</u>	<u>196,597</u>
Total liabilities and fund balance	<u>\$ 238,011</u>	<u>\$ 404,637</u>	<u>\$ 57,635</u>	<u>\$ 123</u>	<u>\$ 215,262</u>

Special Revenue

<u>Juvenile Probation</u>	<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>
\$ 157,244	\$ 172,544	\$ 9	\$ -	\$ 70,510	\$ 894
-	-	-	-	-	-
5,734	-	-	8,788	-	-
<u>6,841</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 169,819</u>	<u>\$ 172,544</u>	<u>\$ 9</u>	<u>\$ 8,788</u>	<u>\$ 70,510</u>	<u>\$ 894</u>
\$ 11,368	\$ 14,343	\$ -	\$ 195	\$ 41	\$ 27
6,841	-	-	5,100	-	-
-	-	-	-	-	-
<u>18,209</u>	<u>14,343</u>	<u>-</u>	<u>5,295</u>	<u>41</u>	<u>27</u>
<u>151,610</u>	<u>158,201</u>	<u>9</u>	<u>3,493</u>	<u>70,469</u>	<u>867</u>
<u>151,610</u>	<u>158,201</u>	<u>9</u>	<u>3,493</u>	<u>70,469</u>	<u>867</u>
<u>\$ 169,819</u>	<u>\$ 172,544</u>	<u>\$ 9</u>	<u>\$ 8,788</u>	<u>\$ 70,510</u>	<u>\$ 894</u>

(continued)

HILL COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
(Continued)
SEPTEMBER 30, 2004

	Special Revenue				
	Courthouse Security	Probate Records Management	Hot Check Restitution	Sheriff Department	Election Contract
ASSETS					
Cash	\$ 131,413	\$ 9,369	\$ 27,489	\$ 95,364	\$ 4
Receivables (net of allowance for uncollectible of \$13,327)					
Taxes	-	-	-	-	-
Due from other funds	-	-	-	-	-
Due from other funds	-	-	-	-	-
Total assets	\$ 131,413	\$ 9,369	\$ 27,489	\$ 95,364	\$ 4
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ 600	\$ -
Due to other funds	-	-	-	-	-
Deferred taxes	-	-	-	-	-
Total liabilities	-	-	-	600	-
Fund balance					
Unreserved	131,413	9,369	27,489	94,764	4
Total fund balance	131,413	9,369	27,489	94,764	4
Total liabilities and fund balance	\$ 131,413	\$ 9,369	\$ 27,489	\$ 95,364	\$ 4

Special Revenue

D.A. Forfeited Property	J. P. Court Costs	Juvenile Court Costs	COPS 1998	Child Welfare Board	Youth Coll. 1, 2, & 3	Tobacco Compliance	Step Grant- Woodrow Osceola	Court Reporter Service
\$ 54,436	\$ 47,644	\$ 5,515	\$ 74,527	\$ 605	\$ 12,729	\$ 42	\$ -	\$ 8,251
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>\$ 54,436</u>	<u>\$ 47,644</u>	<u>\$ 5,515</u>	<u>\$ 74,527</u>	<u>\$ 605</u>	<u>\$ 12,729</u>	<u>\$ 42</u>	<u>\$ -</u>	<u>\$ 8,251</u>
\$ -	\$ -	\$ -	\$ 177	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	177	-	-	-	-	-
<u>54,436</u>	<u>47,644</u>	<u>5,515</u>	<u>74,350</u>	<u>605</u>	<u>12,729</u>	<u>42</u>	<u>-</u>	<u>8,251</u>
<u>54,436</u>	<u>47,644</u>	<u>5,515</u>	<u>74,350</u>	<u>605</u>	<u>12,729</u>	<u>42</u>	<u>-</u>	<u>8,251</u>
<u>\$ 54,436</u>	<u>\$ 47,644</u>	<u>\$ 5,515</u>	<u>\$ 74,527</u>	<u>\$ 605</u>	<u>\$ 12,729</u>	<u>\$ 42</u>	<u>\$ -</u>	<u>\$ 8,251</u>

(continued)

HILL COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
(Continued)
SEPTEMBER 30, 2004

	Special Revenue		Debt Service	
	C.A. Hot Check Fund	Hill County for MADD	Debt Service	Road District #25
ASSETS				
Cash	\$ 17,663	\$ 305	\$ 152,219	\$ 626
Receivables (net of allowance for uncollectible of \$13,327)				
Taxes	-	-	78,076	-
Due from other funds	-	-	-	-
Due from other funds	-	-	-	-
Total assets	<u>\$ 17,663</u>	<u>\$ 305</u>	<u>\$ 230,295</u>	<u>\$ 626</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-
Deferred taxes	-	-	69,735	-
Total liabilities	-	-	69,735	-
Fund balance				
Unreserved	<u>17,663</u>	<u>305</u>	<u>160,560</u>	<u>626</u>
Total fund balance	<u>17,663</u>	<u>305</u>	<u>160,560</u>	<u>626</u>
Total liabilities and fund balance	<u>\$ 17,663</u>	<u>\$ 305</u>	<u>\$ 230,295</u>	<u>\$ 626</u>

<u>Debt Service</u>	<u>Capital Projects</u>		
Road District #26	Jail/Armory	Courthouse Project	Totals
\$ 8,388	\$ 649,879	\$ 468,449	\$ 3,020,321
-	-	-	136,216
-	-	-	14,522
<u>-</u>	<u>-</u>	<u>-</u>	<u>10,166</u>
<u>\$ 8,388</u>	<u>\$ 649,879</u>	<u>\$ 468,449</u>	<u>\$ 3,181,225</u>
\$ -	\$ 6,838	\$ -	\$ 90,183
-	-	-	15,276
<u>-</u>	<u>-</u>	<u>-</u>	<u>107,135</u>
<u>-</u>	<u>6,838</u>	<u>-</u>	<u>212,594</u>
<u>8,388</u>	<u>643,041</u>	<u>468,449</u>	<u>2,968,631</u>
<u>8,388</u>	<u>643,041</u>	<u>468,449</u>	<u>2,968,631</u>
<u>\$ 8,388</u>	<u>\$ 649,879</u>	<u>\$ 468,449</u>	<u>\$ 3,181,225</u>

HILL COUNTY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

	Indigent Health Care	Adult Probation	Law Library	Law Enforcement Block Grant
REVENUES				
Taxes, penalties and interest	\$ 450,702	\$ -	\$ -	\$ -
Charges for services	-	345,361	23,910	-
Licenses and permits	-	-	-	-
Interest	2,108	4,032	534	1
Fines and forfeitures	-	-	-	-
Intergovernmental	-	369,772	-	-
Due from other funds	-	-	-	-
Miscellaneous	-	58,078	-	-
Total revenues	452,810	777,243	24,444	1
EXPENDITURES				
Current:				
General government	-	-	-	-
Public safety	-	771,409	13,108	-
Roads and highways	-	-	-	-
Judicial	-	-	-	-
Public health	397,518	-	-	-
Capital outlay:				
Current expenditures	-	9,982	74	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	397,518	781,391	13,182	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	55,292	(4,148)	11,262	1
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	64,047	-	-
Operating transfers out	-	(63,905)	-	-
Sale of general fixed assets	-	-	-	-
Total other financing sources (uses)	-	142	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	55,292	(4,006)	11,262	1
FUND BALANCE, BEGINNING	108,486	405,206	45,379	122
PRIOR PERIOD ADJUSTMENT	-	-	-	-
FUND BALANCE, ENDING	\$ 163,778	\$ 401,200	\$ 56,641	\$ 123

<u>Jury</u>	<u>Juvenile Probation</u>	<u>Criminal Justice</u>	<u>D.A.R.E.</u>	<u>Crime Victims Assistance</u>	<u>County Clerk</u>	<u>Records Preservation and Management</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
283,886	7,720	542,297	-	-	60,609	17,447
-	-	-	-	-	-	-
2,750	1,767	1,839	-	32	857	4
-	-	-	-	-	-	-
18,667	436,585	-	-	38,629	-	-
-	-	-	-	-	-	-
86	49,300	-	-	-	-	-
<u>305,389</u>	<u>495,372</u>	<u>544,136</u>	<u>-</u>	<u>38,661</u>	<u>61,466</u>	<u>17,451</u>
-	-	-	-	-	50,312	16,459
-	426,883	-	-	50,025	-	-
-	-	-	-	-	-	-
432,371	50,393	457,010	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	21,875	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>432,371</u>	<u>477,276</u>	<u>457,010</u>	<u>-</u>	<u>50,025</u>	<u>72,187</u>	<u>16,459</u>
(126,982)	18,096	87,126	-	(11,364)	(10,721)	992
-	54,158	-	-	11,570	-	1,900
-	(4,923)	(91,335)	-	-	-	-
-	-	-	-	-	-	-
-	49,235	(91,335)	-	11,570	-	1,900
(126,982)	67,331	(4,209)	-	206	(10,721)	2,892
323,579	84,279	162,410	9	3,287	81,190	(2,025)
-	-	-	-	-	-	-
<u>\$ 196,597</u>	<u>\$ 151,610</u>	<u>\$ 158,201</u>	<u>\$ 9</u>	<u>\$ 3,493</u>	<u>\$ 70,469</u>	<u>\$ 867</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, 2004

	Courthouse Security	Probate Records Management	Hot Check Restitution	Sheriff Department	Election Contract	D.A. Forfeited Property
REVENUES						
Taxes, penalties and interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	38,670	698	32,761	-	-	-
Licenses and permits	-	-	-	-	-	-
Interest	1,603	91	269	981	-	362
Fines and forfeitures	-	-	-	-	-	81,327
Intergovernmental	-	-	-	5,668	-	-
Due from other funds	-	-	-	-	-	-
Miscellaneous	-	-	1,227	-	-	-
Total revenues	<u>40,273</u>	<u>789</u>	<u>34,257</u>	<u>6,649</u>	<u>-</u>	<u>81,689</u>
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	9,084	-	-
Roads and highways	-	-	-	-	-	-
Judicial	-	-	34,380	-	-	46,163
Public health	-	-	-	-	-	-
Capital outlay:						
Current expenditures	11,963	-	-	-	-	-
Debt service:						
Principal retirement	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	<u>11,963</u>	<u>-</u>	<u>34,380</u>	<u>9,084</u>	<u>-</u>	<u>46,163</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>28,310</u>	<u>789</u>	<u>(123)</u>	<u>(2,435)</u>	<u>-</u>	<u>35,526</u>
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	-	-	-
Operating transfers out	(83,902)	-	(257)	-	-	-
Sale of general fixed assets	-	-	-	-	-	-
Total other financing sources (uses)	<u>(83,902)</u>	<u>-</u>	<u>(257)</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>(55,592)</u>	<u>789</u>	<u>(380)</u>	<u>(2,435)</u>	<u>-</u>	<u>35,526</u>
FUND BALANCE, BEGINNING	187,005	8,580	27,869	97,199	4	18,910
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 131,413</u>	<u>\$ 9,369</u>	<u>\$ 27,489</u>	<u>\$ 94,764</u>	<u>\$ 4</u>	<u>\$ 54,436</u>

<u>J. P. Court Costs</u>	<u>Juvenile Court Costs</u>	<u>COPS</u>	<u>Child Welfare Board</u>	<u>Youth Coll. 1, 2, & 3</u>	<u>Tobacco Compliance</u>	<u>Step Grant- Woodrow Osceola</u>	<u>Court Reporter Service</u>	<u>C.A. Hot Check Fund</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11,914	647	-	-	-	-	-	8,205	-
-	-	-	-	-	-	-	-	-
374	53	295	4	127	-	-	46	167
25,231	-	-	-	-	-	-	-	5,952
-	-	-	-	-	-	18,176	-	-
-	-	-	2,677	-	-	-	-	-
-	-	55,683	-	-	-	-	-	-
<u>37,519</u>	<u>700</u>	<u>55,978</u>	<u>2,681</u>	<u>127</u>	<u>-</u>	<u>18,176</u>	<u>8,251</u>	<u>6,119</u>
-	-	-	-	-	-	18,176	-	-
-	-	-	-	-	-	-	-	-
-	-	105,112	-	-	-	-	-	-
-	-	-	-	-	-	-	-	2,846
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>105,112</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,176</u>	<u>-</u>	<u>2,846</u>
<u>37,519</u>	<u>700</u>	<u>(49,134)</u>	<u>2,681</u>	<u>127</u>	<u>-</u>	<u>-</u>	<u>8,251</u>	<u>3,273</u>
-	-	29,391	-	-	-	-	-	-
(187,799)	-	-	(2,076)	-	-	-	-	(1,417)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(187,799)</u>	<u>-</u>	<u>29,391</u>	<u>(2,076)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,417)</u>
(150,280)	700	(19,743)	605	127	-	-	8,251	1,856
197,924	4,815	94,093	-	12,602	42	-	-	-
-	-	-	-	-	-	-	-	15,807
<u>\$ 47,644</u>	<u>\$ 5,515</u>	<u>\$ 74,350</u>	<u>\$ 605</u>	<u>\$ 12,729</u>	<u>\$ 42</u>	<u>\$ -</u>	<u>\$ 8,251</u>	<u>\$ 17,663</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, 2004

	Hill County for MADD	Debt Service	Road District #25	Road District #26	Jail/Armory
REVENUES					
Taxes, penalties and interest	\$ -	\$ 668,953	\$ -	\$ -	\$ -
Charges for services	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Interest	1	2,869	6	84	6,625
Fines and forfeitures	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Due from other funds	560	-	-	-	-
Miscellaneous	-	-	-	-	-
Total revenues	561	671,822	6	84	6,625
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Roads and highways	-	-	-	-	-
Judicial	-	-	-	-	-
Public health	-	-	-	-	-
Capital outlay:					
Current expenditures	-	-	-	-	26,587
Debt service:					
Principal retirement	-	210,000	-	-	-
Interest and fiscal charges	-	427,948	-	-	-
Total expenditures	-	637,948	-	-	26,587
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	561	33,874	6	84	(19,962)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	-	-	-	-	-
Operating transfers out	(256)	-	-	-	-
Sale of general fixed assets	-	-	-	-	-
Total other financing sources (uses)	(256)	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	305	33,874	6	84	(19,962)
FUND BALANCE, BEGINNING	-	126,686	620	8,304	663,003
PRIOR PERIOD ADJUSTMENT	-	-	-	-	-
FUND BALANCE, ENDING	\$ 305	\$ 160,560	\$ 626	\$ 8,388	\$ 643,041

<u>Courthouse Project</u>	<u>Totals</u>
\$ -	\$ 1,119,655
-	1,374,125
-	-
4,687	32,568
-	112,510
-	887,497
732	3,969
-	<u>164,374</u>
<u>5,419</u>	<u>3,694,698</u>
-	84,947
-	1,270,509
-	105,112
-	1,023,163
-	397,518
-	70,481
-	210,000
-	<u>427,948</u>
-	<u>3,589,678</u>
<u>5,419</u>	<u>105,020</u>
-	161,066
-	(435,870)
-	-
-	<u>(274,804)</u>
5,419	(169,784)
463,030	3,122,608
-	<u>15,807</u>
<u>\$ 468,449</u>	<u>\$ 2,968,631</u>

HILL COUNTY, TEXAS
COMBINING BALANCE SHEET
ROAD AND BRIDGE FUNDS
SEPTEMBER 30, 2004

	<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	\$ 121,902	\$ 158,622	\$ 98,776	\$ 438,738	\$ 167,049
Receivables (net of allowance for Due from other funds					
Taxes	<u>-</u>	<u>17,369</u>	<u>17,152</u>	<u>22,166</u>	<u>15,988</u>
Total assets	<u>\$ 121,902</u>	<u>\$ 175,991</u>	<u>\$ 115,928</u>	<u>\$ 460,904</u>	<u>\$ 183,037</u>
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 5,324	\$ 6,147	\$ 19,476	\$ 10,136	\$ 11,799
Deferred taxes	<u>-</u>	<u>11,173</u>	<u>11,033</u>	<u>14,259</u>	<u>10,285</u>
Total liabilities	<u>5,324</u>	<u>17,320</u>	<u>30,509</u>	<u>24,395</u>	<u>22,084</u>
Fund Balance					
Unreserved	<u>116,578</u>	<u>158,671</u>	<u>85,419</u>	<u>436,509</u>	<u>160,953</u>
Total fund balance	<u>116,578</u>	<u>158,671</u>	<u>85,419</u>	<u>436,509</u>	<u>160,953</u>
Total liabilities and fund balance	<u>\$ 121,902</u>	<u>\$ 175,991</u>	<u>\$ 115,928</u>	<u>\$ 460,904</u>	<u>\$ 183,037</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>
\$ 76,289	\$ 153,354	\$ 111,888	\$ 148,444	\$ 60	\$ 1,475,122
<u>25,972</u>	<u>25,646</u>	<u>33,144</u>	<u>23,908</u>	<u>-</u>	<u>181,345</u>
<u>\$ 102,261</u>	<u>\$ 179,000</u>	<u>\$ 145,032</u>	<u>\$ 172,352</u>	<u>\$ 60</u>	<u>\$ 1,656,467</u>
\$ 18,091	\$ 24,003	\$ -	\$ 98	\$ -	\$ 95,074
<u>23,283</u>	<u>22,991</u>	<u>29,712</u>	<u>21,432</u>	<u>-</u>	<u>144,168</u>
<u>41,374</u>	<u>46,994</u>	<u>29,712</u>	<u>21,530</u>	<u>-</u>	<u>239,242</u>
<u>60,887</u>	<u>132,006</u>	<u>115,320</u>	<u>150,822</u>	<u>60</u>	<u>1,417,225</u>
<u>60,887</u>	<u>132,006</u>	<u>115,320</u>	<u>150,822</u>	<u>60</u>	<u>1,417,225</u>
<u>\$ 102,261</u>	<u>\$ 179,000</u>	<u>\$ 145,032</u>	<u>\$ 172,352</u>	<u>\$ 60</u>	<u>\$ 1,656,467</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, 2004

	General Road and Bridge	Road and Bridge Precinct #1	Road and Bridge Precinct #2	Road and Bridge Precinct #3
REVENUES				
Taxes, penalties and interest	\$ -	\$ 140,140	\$ 138,405	\$ 178,329
Licenses and permits	-	177,417	175,191	226,412
Interest	-	1,377	5,234	2,889
Due from other funds	303,143	-	-	-
Miscellaneous	-	-	35	-
Total revenues	303,143	318,934	318,865	407,630
EXPENDITURES				
Current:				
Roads and highways	197,727	345,546	444,447	348,207
Capital outlay:				
Current expenditures	5,897	-	33,279	56,100
Debt service:				
Principal retirement	-	-	26,455	-
Interest and fiscal charges	-	-	4,089	-
Total expenditures	203,624	345,546	508,270	404,307
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	99,519	(26,612)	(189,405)	3,323
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	44,000	44,000	44,000
Operating transfers out	-	-	-	-
Proceeds from issuance of time warrants	-	-	-	-
Sale of general fixed assets	-	18,679	17,090	17,037
Total other financing sources (uses)	-	62,679	61,090	61,037
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	99,519	36,067	(128,315)	64,360
FUND BALANCE, BEGINNING	17,059	122,604	213,734	372,149
FUND BALANCE, ENDING	\$ 116,578	\$ 158,671	\$ 85,419	\$ 436,509

<u>Road and Bridge Precinct #4</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>Lateral Road Refund Precinct #1</u>	<u>Lateral Road Refund Precinct #2</u>
\$ 129,144	\$ 207,150	\$ 204,548	\$ 264,354	\$ 190,682	\$ 11,273	\$ 11,131
163,313	-	-	-	-	-	-
3,554	-	1	-	-	-	-
-	-	-	-	-	-	-
38	-	-	-	-	-	-
<u>296,049</u>	<u>207,150</u>	<u>204,549</u>	<u>264,354</u>	<u>190,682</u>	<u>11,273</u>	<u>11,131</u>
284,880	196,457	137,872	201,655	102,304	11,273	11,131
-	10,400	62,579	8,000	63,200	-	-
41,185	-	-	17,555	-	-	-
1,994	-	-	1,035	-	-	-
<u>328,059</u>	<u>206,857</u>	<u>200,451</u>	<u>228,245</u>	<u>165,504</u>	<u>11,273</u>	<u>11,131</u>
(32,010)	293	4,098	36,109	25,178	-	-
44,000	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>44,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
11,990	293	4,098	36,109	25,178	-	-
<u>148,963</u>	<u>60,594</u>	<u>127,908</u>	<u>79,211</u>	<u>125,644</u>	<u>-</u>	<u>-</u>
\$ <u>160,953</u>	\$ <u>60,887</u>	\$ <u>132,006</u>	\$ <u>115,320</u>	\$ <u>150,822</u>	\$ <u>-</u>	\$ <u>-</u>

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HILL COUNTY, TEXAS

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

**ROAD AND BRIDGE FUNDS
(Continued)**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

	<u>Lateral Road Refund Precinct #3</u>	<u>Lateral Road Refund Precinct #4</u>	<u>Totals</u>
REVENUES			
Taxes, penalties and interest	\$ 14,386	\$ 10,377	\$ 1,499,919
Licenses and permits	-	-	742,333
Interest	-	-	13,055
Due from other funds	-	-	303,143
Miscellaneous	-	-	73
Total revenues	<u>14,386</u>	<u>10,377</u>	<u>2,558,523</u>
EXPENDITURES			
Current:			
Roads and highways	14,386	10,377	2,306,262
Capital outlay:			
Current expenditures	-	-	239,455
Debt service:			
Principal retirement	-	-	85,195
Interest and fiscal charges	-	-	7,118
Total expenditures	<u>14,386</u>	<u>10,377</u>	<u>2,638,030</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>(79,507)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	176,000
Operating transfers out	-	-	-
Proceeds from issuance of time warrants	-	-	-
Sale of general fixed assets	-	-	52,806
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>228,806</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>149,299</u>
FUND BALANCE, BEGINNING	<u>-</u>	<u>60</u>	<u>1,267,926</u>
FUND BALANCE, ENDING	<u>\$ -</u>	<u>\$ 60</u>	<u>\$ 1,417,225</u>

HILL COUNTY, TEXAS

COMBINING BALANCE SHEET

TRUST AND AGENCY FUNDS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

(With Comparative Totals for September 30, 2003)

	<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	\$ 450,316	\$ 79,177	\$ 47,490	\$ 1,352,878	\$ 97,685	\$ 26,738
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>\$ 450,316</u>	<u>\$ 79,177</u>	<u>\$ 47,490</u>	<u>\$ 1,352,878</u>	<u>\$ 97,685</u>	<u>\$ 26,738</u>
LIABILITIES						
Deferred taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental payable	450,316	79,177	38,191	766,040	97,685	-
Due to beneficiaries	-	-	9,299	586,838	-	26,738
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>\$ 450,316</u>	<u>\$ 79,177</u>	<u>\$ 47,490</u>	<u>\$ 1,352,878</u>	<u>\$ 97,685</u>	<u>\$ 26,738</u>

<u>Employee Hospital</u>	<u>Payroll Clearing</u>	<u>Victims of Crime</u>	<u>Operators/ Chauffeurs</u>	<u>Sales Tax Escrow</u>	<u>Totals (Memorandum Only)</u>	
					<u>September 30, 2004</u>	<u>September 30, 2003</u>
\$ 343,116	\$ 69,218	\$ 61,771	\$ 14,379	\$ 406,320	\$ 2,949,088	\$ 2,725,317
20,135	-	-	-	-	20,135	-
<u>125,654</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>125,654</u>	<u>136,561</u>
<u>\$ 488,905</u>	<u>\$ 69,218</u>	<u>\$ 61,771</u>	<u>\$ 14,379</u>	<u>\$ 406,320</u>	<u>\$ 3,094,877</u>	<u>\$ 2,861,878</u>
\$ 80,830	\$ -	\$ -	\$ -	\$ -	\$ 80,830	\$ 94,647
408,075	-	61,771	14,379	406,320	2,321,954	2,114,974
-	49,083	-	-	-	671,958	639,949
<u>-</u>	<u>20,135</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,135</u>	<u>12,308</u>
<u>\$ 488,905</u>	<u>\$ 69,218</u>	<u>\$ 61,771</u>	<u>\$ 14,379</u>	<u>\$ 406,320</u>	<u>\$ 3,094,877</u>	<u>\$ 2,861,878</u>

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PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**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, 2004, which collectively comprise Hill County, Texas's basic financial statements and have issued our report thereon dated January 26, 2005. 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.

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 January 26, 2005.

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.

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

January 26, 2005