

HILL COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended
September 30, 2011

Hill County, Texas
Annual Financial Report
For the Fiscal Year Ended September 30, 2011

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INTRODUCTORY SECTION



COUNTY OF HILL

80 N. Waco St.
Hillsboro, Texas 76645

March 29, 2012

The Honorable District Judge
F.B. (Bob) McGregor, 66th Judicial District

The Honorable Commissioners' Court, Hill County, Texas
Justin W. Lewis County Judge
Danny Bodeker County Commissioner, Precinct One
Steve Sulak County Commissioner, Precinct Two
Larry Wright County Commissioner, Precinct Three
Harley Davis County Commissioner, Precinct Four

The Citizens of Hill County

In compliance with the statutory duties of the County Auditor as prescribed by Section 114.025 of the Texas Local Government Code, the Comprehensive Annual Financial Report (CAFR) of Hill County, Texas is submitted herewith.

This report consists of management's representations concerning the finances of Hill County. Consequently management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, the management of Hill County has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of Hill County's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). The cost of internal control should not outweigh the benefit; therefore, Hill County's comprehensive framework of internal control has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As financial management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Hill County's basic financial statements were audited by Beyer and Co., licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of Hill County for the fiscal year ended September 30, 2011 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that Hill County's financial statements for the

The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that Hill County's financial statements for the fiscal year ended September 30, 2011 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. Hill County's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

Located about 65 miles south of Dallas, Hill County is a member of the Heart of Texas Council of Governments comprised of six counties. Interstate 35, a major thoroughfare, crosses the county centrally from north to south. The Interstate-35 east and west split is located just north of the county seat of Hillsboro, allowing both commercial and retail trade to benefit the County. Hill County is also the home of Lake Whitney and Lake Aquilla, two Corp of Engineer Lakes, bringing tourism into the area. In 1852 a movement began to divide Navarro County, which resulted in Hill County being established on May 14, 1853. Hill County was named for Dr. George Washington Hill who had served as Secretary of War for President Sam Houston of the Texas Republic and also had been previously elected to the state legislature from Navarro County.

Hill County is a political subdivision of the State of Texas with no legislative powers and very restrictive judicial and administrative powers. The governing body of the County is the Commissioners' Court which consists of five members. The County Judge presides over the Court; and the Commissioners from each of the four precincts make up the remaining members. The Court has only such powers as are conferred upon it by the Constitution, Statutes, or by citizens - including judicial, detention facilities, public safety, county roads, emergency medical service, health and limited social services, public improvements, libraries, and general administrative services.

In counties with a population less than 125,000 the County Judge serves as the budget officer, assisted by the County Auditor. The County Judge may also solicit from each department whatever data may be required to prepare an accurate budget. The budget is presented on a line-item basis and adopted on the fund level. The budget must be itemized to make possible a comparison of the proposed expenditures with the prior year expenditures. The budget must show, as accurately as possible, the purpose of each expenditure and the amount of money appropriated. Upon completion of the proposed budget, the County Judge files a copy with the County Clerk. The Commissioners' Court holds a public hearing on the proposed budget. Any taxpayer of the County may attend and participate in the hearing.

At the conclusion of the public hearing, the Commissioners' Court takes action on the proposed budget. The Commissioners' Court may make any changes in the proposed budget that it considers warranted by law and required in the best interest of the taxpayers. The Commissioners' Court may levy taxes only in accordance with the budget. After final approval of the budget, the County Judge shall file a copy with the County Clerk and may spend county funds only in strict compliance with the budget, except in an emergency.

The Commissioners' Court may authorize an emergency expenditure as an amendment to the original budget only in a case of grave public necessity to meet an unusual and unforeseen condition that could not have been included in the original budget through the use of reasonably diligent thought and attention. If the Court amends the original budget to meet an emergency, the Court files a copy of its order amending the budget with the County Clerk. The clerk attaches the copy to the original budget.

The Commissioners' Court, by order, may amend the budget to transfer an amount budgeted for one item to another budgeted item within the same fund without authorizing an emergency expenditure.

State law requires counties to adopt a budget before adopting a tax rate. The Commissioners' Court may levy taxes only in accordance with the budget. Chapter 26 of the Property Tax Code requires taxing units to comply with truth-in-taxation laws in setting tax rates. This law has two purposes:

- to make the taxpayers more knowledgeable about tax rate proposals;
- to allow taxpayers to roll back or limit a tax increase in certain cases.

Economic Condition and Outlook

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which Hill County operates.

Hill County is experiencing many of the same problems and economic conditions as other Texas counties. While initially benefitting from the Barnett Shale gas exploration activities a few years ago, the County has seen a decrease in gas exploration due to the declining price of natural gas. However, the royalty income, created by the original drilling activity and continued producing wells, is still boosting the economy, but has a lesser impact than it did a few years ago. Extreme drought conditions in 2011 had a severe impact on local tourism dollars coming into the County; however it appears that sales tax collections are increasing during the current year. The County's tax base experienced a slight decrease in valuation of approximately 2.29% for fiscal year 2011 which is mostly attributed to the fall in the price of natural gas. However, Hill County is well positioned, financially, with the above average fund balances it maintains meaning that the downturn will not create an unmanageable hardship.

Looking ahead, Hill County must continue to monitor all financial resources and carefully plan for future years. While increased growth in some areas of the County offers hope for the future, some areas of the County are not experiencing economic growth. In addition, such growth will demand more services in the future. County officials will have to continue to work with a spirit of cooperation and expect change to meet future needs of governmental operations.

Weather conditions look more favorable for tourism during 2012. With the recent hike in fuel prices we are anticipating that more families may plan "staycations" and utilize the area lakes this summer in an attempt to tone down travel expenses. The loss to property valuations for tax year 2011 (fiscal year 2012) was less than 1% and should bring an end to our decline in tax base. A major expense for the County in fiscal year 2012 will be the repairing and cleaning of the limestone exterior of the courthouse. The

expenditure has been budgeted and will be paid for out of a portion of the capital project fund. The County is anticipating additional job growth in the next few years with the construction of a power plant on the Brazos River in western Hill County. The plant is forecasted to add an additional 350 jobs once it is open and operating. The County works closely with the Economic Development Board to provide tax incentives to businesses relocating to the area.

Cash management policies and practices: In accordance with Section 116.112, Local Government Code, the County Treasurer, with the approval of the Commissioners' Court, is authorized to invest idle unobligated county funds that have been deposited in a county depository. The Treasurer may invest those funds as allowed by statute. Interest rates on the deposits are governed by the county depository contract which was awarded to Wells Fargo Bank during the current year.

Risk management: The County provides for the management of risks through a combination of self-insurance and traditional insurance. Property and casualty coverage has continued to be obtainable at reasonable premium rates on building and improvements. Comprehensive general liability and public officials liability coverage has continued to be obtainable at reasonable premium rates. Workers Compensation coverage with Texas Association of Counties is partially self-funded.


The County of Hill provides basic group medical benefits to its employees through pooled coverage in the Texas Association of Counties. The provider of the medical benefits is Blue Cross Blue Shield of Texas.

Pension and other post-employment benefits: Hill County continues to provide retirement, disability, and death benefits for all full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The plan provisions are adopted by the Commissioners' Court within the options available in the Texas State Statutes governing TCDRS. Members are vested after eight years of service but must leave accumulated contributions in the plan to receive employer contributions. The employee members' contribution rate as adopted by the Court is 6% of gross compensation. The County's 2011 employer rate is 7.19%. The County provides an option to employees to participate in COBRA benefits as required by law.

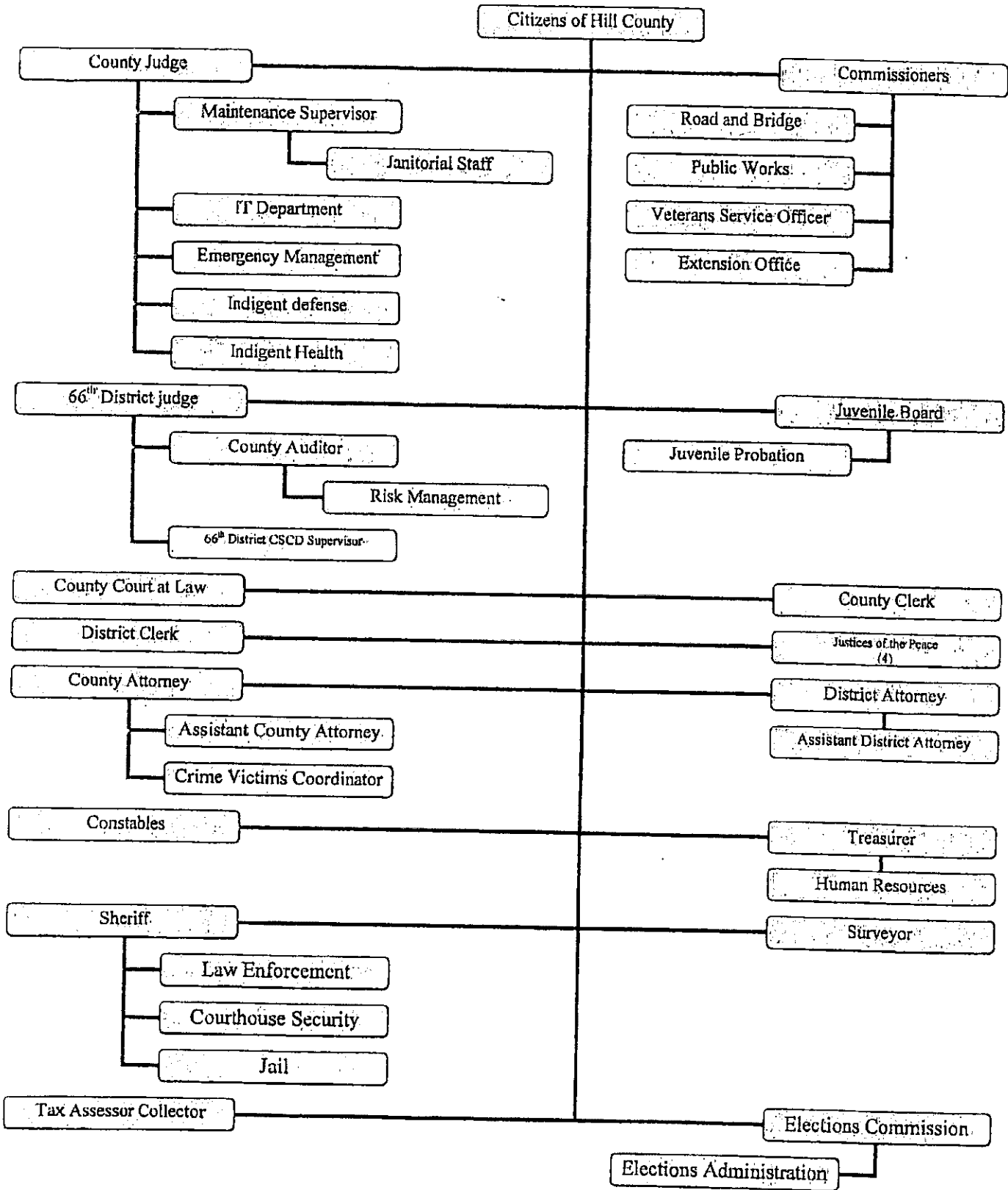
The production of this report is attributable to the dedication and work of the County Auditor's Office staff and Wayne Beyer, CPA and his staff, our independent auditor.

Additionally, our sincere appreciation is extended to all Hill County Elected Officials, department heads, and staff for their cooperation and leadership in conducting the financial affairs of the County. I would like to extend special thanks to my staff who worked so diligently throughout the year.

Respectfully submitted,


Susan S. Swilling
Hill County Auditor

HILL COUNTY ORGANIZATION CHART



HILL COUNTY, TEXAS

PRINCIPAL OFFICIALS

FOR THE YEAR ENDING SEPTEMBER 30, 2011

Commissioners Court

Justin Lewis
Danny Bodeker
Steven Sulak
Larry Wright
Harley Davis

County Judge
Commissioner, Precinct 1
Commissioner, Precinct 2
Commissioner, Precinct 3
Commissioner, Precinct 4

Judicial

F. B. (Bob) McGregor
A. Lee Harris
John Milburn
Charles Jones
Brad Henley
Martis Ward

Judge, 66th Judicial District Court
County Court-At-Law
Justice of the Peace, Precinct 1
Justice of the Peace, Precinct 2
Justice of the Peace, Precinct 3
Justice of the Peace, Precinct 4

Law Enforcement and Legal

Dan V. Dent
Mark F. Pratt
Jeffery T. Lyon
David Bledsoe
Billy Ray Gerke
Leddy Fowler
Bill Wilkins
Deborah Pruitt *
Tina Lincoln *

Criminal District Attorney
County Attorney
County Sheriff
Constable, Precinct 1
Constable, Precinct 2
Constable, Precinct 3
Constable, Precinct 4
Community Supervision Director
Juvenile Probation Director

Financial Administration

Susan Swilling *
Becky Wilkins
Marchel Eubank

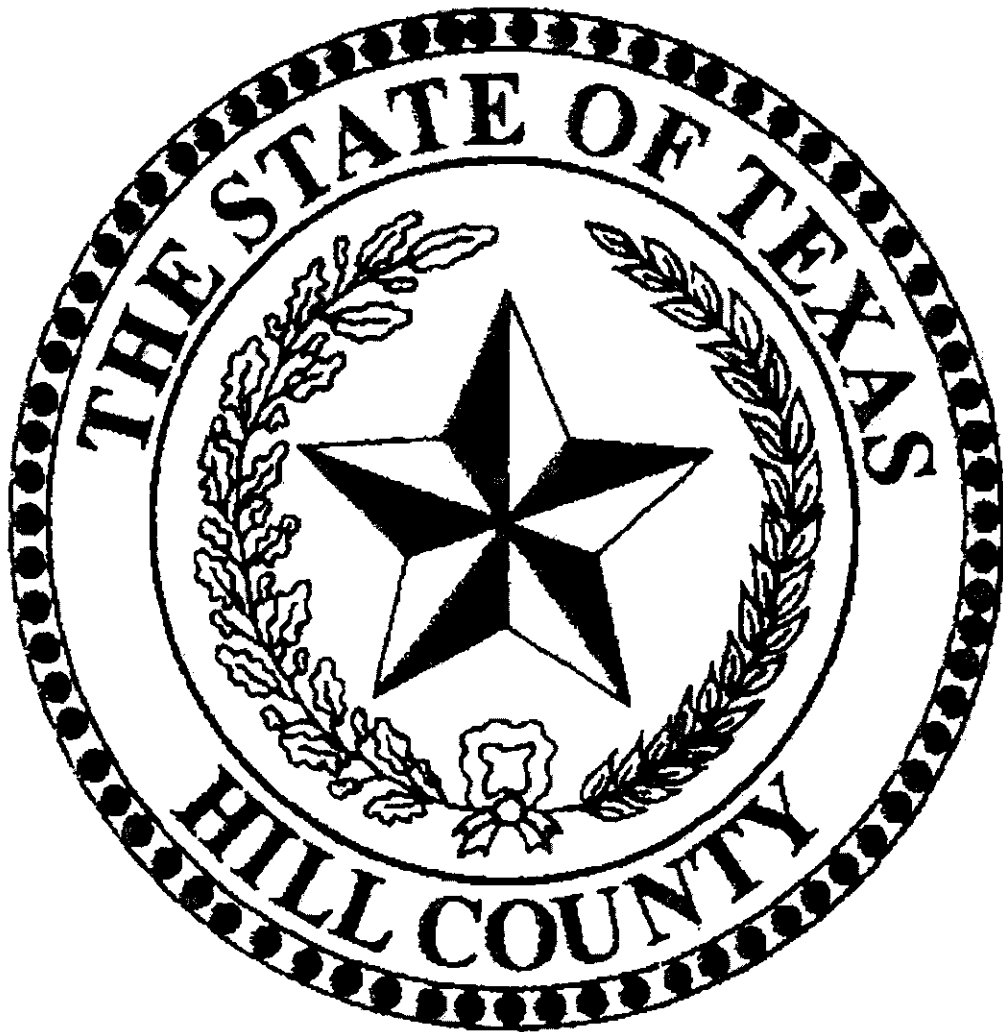
County Auditor
County Treasurer
County Tax Assessor-Collector

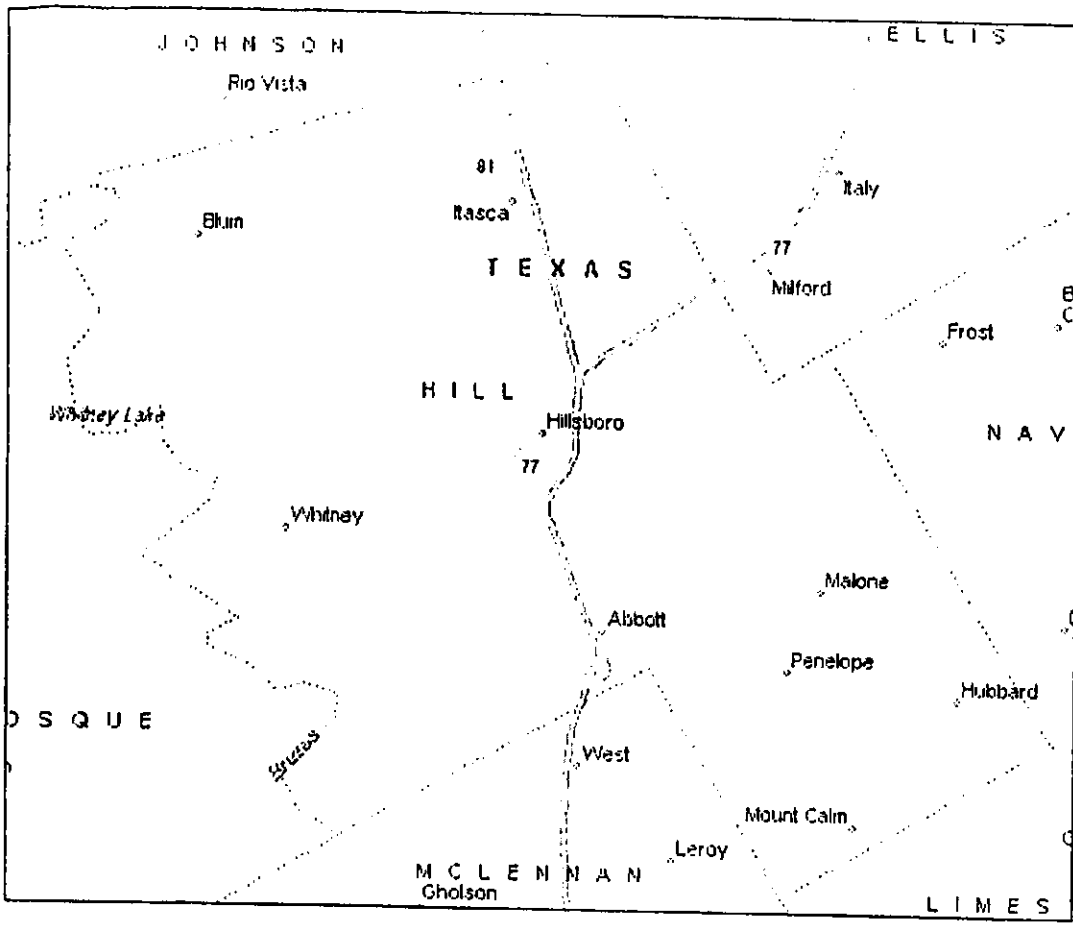
Recording Officials

Angelia Orr
Nicole Tanner

District Clerk
County Clerk

*Appointed officials. All others are elected.







FINANCIAL SECTION

BEYER & CO.
CERTIFIED PUBLIC ACCOUNTANTS

Wayne R. Beyer, C.P.A.

442 WEST OAKLAWN
P.O. BOX 366 830/569-8781 FAX 830/569-6776
PLEASANTON, TEXAS 78064

111 NORTH ODEM
830/569-8781 FAX 830/569-6776
SINTON, TEXAS 78387

INDEPENDENT AUDITOR'S REPORT

To the Commissioner's 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, 2011, 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's 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. 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 opinion.

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, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of funding progress for the Public Employees Retirement System and budgetary comparison information on pages 3 through 10, page 42 and pages 52 through 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Uvalde County, Texas' financial statements as a whole. The introductory section, combining and individual non-major fund financial statements, the non-major budgetary comparison information, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major fund financial statements and the non-major budgetary comparison information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Respectfully submitted,

Beyer & Co.

BEYER & COMPANY
Certified Public Accountants
Pleasanton, Texas
March 29, 2012

Management's Discussion and Analysis

Financial Highlights

- The assets of Hill County, Texas exceeded its liabilities at the close of the most recent fiscal year by \$26,870,919 (net assets). Of this amount, \$4,879,811 (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 \$3,088,486. This increase is attributable to a donation of bridges from the State of Texas valued at \$2,925,217. The charges for services increased by \$1,066,918 due mainly to an increase in court fines and operating grants and contributions decreased by \$978,608 due mainly to a decrease in forfeiture income. The decrease of \$290,284 in the remaining revenues were offset by a decrease of \$351,891 in expenditures.
- As of the close of the current fiscal year, Hill County, Texas's governmental funds reported combined ending fund balances of \$7,737,155 an increase of \$263,652 in comparison with the prior year. Approximately 39% of this total amount, \$3,074,936, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, the unreserved fund balance for the general fund was \$3,105,138, or 32 percent of total general fund expenditures, the fund balance for the road and bridge fund was \$2,353,534, or 66 percent of total road and bridge fund expenditures, and the fund balance for the indigent health care fund was \$159,528, or 17 percent of total indigent health care.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Hill County, Texas's basic financial statements. Hill County, Texas's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements: The government-wide financial statements are designed to provide readers with a broad overview of Hill County, Texas's finances, in a manner similar to a private-sector business.

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

The government-wide financial statements distinguish functions of Hill County, Texas 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, Texas include general administration, public safety, public transportation, health and welfare, judicial, public facilities, legal, financial administration, conservation, and capital projects.

The government-wide financial statements include only Hill County, Texas itself (known as the primary government). The government-wide financial statements can be found on pages 11-12 of this report.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Hill County, Texas, 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, Texas are governmental 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, Texas maintains thirty (30) 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, the indigent health care fund, and the road and bridge funds, all of which are considered to be major funds. Data from the other twenty seven (27) 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.

Budgets for all budgeted General, Debt Service and Special Revenue Funds are adopted on a budgetary basis which is in conformity with generally accepted accounting principles (GAAP). Budgets for the 2011 fiscal year were adopted for the General Fund, the Road and Bridge Funds, County Clerk Records, the Law Library Fund, the Jury Fund, the Records Preservation and Management Fund, the D.A. Forfeited Property Fund, the Indigent Health Care, Probation Education, Justice Court Technology Fund, the Interest and Sinking Fund, the Investigative Fund, the Courthouse Security Fund, the Elections Machine Fund, the County Clerk Archive fund, and the District Clerk Archive fund.

The basic governmental fund financial statements can be found on pages 13-21 of this report.

Proprietary funds:

Hill County, Texas maintains no type of proprietary fund.

Notes to the financial statements:

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-41 of this report.

Other information:

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning Hill County, Texas's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 42 of this report.

The combining statements referred to earlier in connection with major road and bridge funds, agency funds, and non-major governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 43-51 of this report. The budget comparison schedules in connection with the non-major governmental funds can be found on pages 52-64 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, Texas, assets exceeded liabilities by \$26,870,919 at the close of the most recent fiscal year.

Sixty-four percent of Hill County, Texas's net assets (\$17,328,889) reflect its investment in capital assets (e.g., land, buildings, machinery, infrastructure, and equipment); less any related debt used to acquire those assets that is still outstanding. Hill County, Texas uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Hill County, Texas'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, TEXAS
NET ASSETS**

	Governmental Activities		Total	
	2011	2010	2011	2010
Current and Other Assets	\$10,949,994	\$10,842,052	\$10,949,994	\$10,842,052
Capital Assets:	24,486,040	21,933,917	24,486,040	21,933,917
Total Assets	35,436,034	32,775,969	35,436,034	32,775,969
Long-Term Liabilities	7,668,825	7,780,129	7,668,825	7,780,129
Other Liabilities	896,290	1,213,407	896,290	1,213,407
Total Liabilities	8,565,115	8,993,536	8,565,115	8,993,536
Invested in Capital Assets, Net of Related Debt	17,328,889	14,724,845	17,328,889	14,724,845
Restricted	4,662,219	4,069,999	4,662,219	4,069,999
Unrestricted	4,879,811	4,987,589	4,879,811	4,987,589
Total Net Assets	\$26,870,919	\$23,782,433	\$26,870,919	\$23,782,433

An additional portion of Hill County, Texas's net assets (17 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$4,879,811) may be used to meet the governments on going obligations to citizens and creditors. At the end of the current fiscal year, Hill County, Texas reported a positive balance in the governmental activities. For the prior fiscal year, Hill County, Texas reported positive balances in net assets, both for the government as a whole, as well as for its separate governmental activities.

Governmental activities:

Governmental activities increased Hill County, Texas's net assets by \$3,088,486, thereby accounting for 100 percent of the total increase in the net assets of Hill County, Texas.

**HILL COUNTY, TEXAS
CHANGE IN NET ASSETS**

	Governmental Activities		Total	
	2011	2010	2011	2010
Revenues:				
Program Revenues:				
Charges for Services	\$5,416,197	\$4,349,279	\$5,416,197	\$4,349,279
Operating Grants and Contributions	1,466,080	2,444,688	1,466,080	2,444,688
Capital Grants and Contributions	3,139,046	445,416	3,139,046	445,416
General Revenues:				
Maintenance and Operations Taxes	9,271,081	9,488,891	9,271,081	9,488,891
Sales Taxes	1,460,061	1,482,698	1,460,061	1,482,698
Other Taxes	107,906	103,433	107,906	103,433
Unrestricted Investment Earnings	159,162	211,104	159,162	211,104
Miscellaneous	474,843	472,475	474,843	472,475
Total Revenue	21,494,376	18,997,984	21,494,376	18,997,984
Expenses:				
General Administration	1,996,623	1,822,935	1,996,623	1,822,935
Legal	371,978	382,089	371,978	382,089
Judicial	3,352,430	2,772,521	3,352,430	2,772,521
Financial Administration	721,383	736,347	721,383	736,347
Public Facilities	675,167	679,385	675,167	679,385
Public Safety	6,337,504	7,180,138	6,337,504	7,180,138
Public Transportation	3,461,988	3,636,553	3,461,988	3,636,553
Health and Welfare	1,164,990	1,028,786	1,164,990	1,028,786
Conservation - Agriculture	104,688	128,235	104,688	128,235
Interest and Fiscal Charges	219,139	390,792	219,139	390,792
Total Expenses	18,405,890	18,757,781	18,405,890	18,757,781
Increase in Net Assets Before Transfers and Special Items	3,088,486	240,203	3,088,486	240,203
Transfers	0	0	0	0
Increase in Net Assets	3,088,486	240,203	3,088,486	240,203
Net Assets at 09/30/2010	23,782,433	23,542,230	23,782,433	23,542,230
Net Assets at 09/30/2011	\$26,870,919	\$23,782,433	\$26,870,919	\$23,782,433

The government's total net assets increased by \$3,088,486. This increase is attributable to a donation of bridges from the State of Texas valued at \$2,925,217. The charges for services increased by \$1,066,918 due mainly to an increase in court fines and operating grants and contributions decreased by \$978,608 due mainly to a decrease in forfeiture income. The decrease of \$290,284 in the remaining revenues were offset by a decrease of \$351,891 in expenditures.

Expenses and Program Revenues - Governmental Activities

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Government Activities:				
General Administration	\$1,996,623	\$325,953	\$56,475	\$0
Legal	371,978	62,340	62,500	
Judicial	3,352,430	2,984,706	165,700	
Financial Administration	721,383	473,015		
Public Facilities	675,167			
Public Safety	6,337,504	747,193	1,002,567	
Public Transportation	3,461,988	822,990	155,680	3,139,046
Health and Welfare	1,164,990		23,158	
Conservation - Agriculture	104,688			
Interest and Fiscal Charges	219,139			
Total Government Activities	<u>\$18,405,890</u>	<u>\$5,416,197</u>	<u>\$1,466,080</u>	<u>\$3,139,046</u>

Revenues by Source - Governmental Activities

	REVENUES	%
Charges for Services	\$5,416,197	25.20%
Operating Grants and Contributions	1,466,080	6.82%
Capital Grants and Contributions	3,139,046	14.60%
Property Taxes, Levies for General Purposes	9,271,081	43.13%
Sales Taxes	1,460,061	6.79%
Other Taxes	107,906	0.50%
Unrestricted Investment Earnings	159,162	0.74%
Miscellaneous	474,843	2.21%
	<u>\$21,494,376</u>	<u>100.00%</u>

The increase or decrease in expenses closely parallels a rise or fall in demand for services.

Financial Analysis of the Government's Funds

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

Governmental funds:

The focus of Hill County, Texas'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, Texas'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.

As of the end of the current fiscal year, Hill County, Texas's governmental funds reported combined ending fund balances of \$7,737,155, an increase of \$263,652 in comparison with the prior year. Approximately 40 percent of this total amount \$3,074,936 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remaining restricted and committed amounts of \$4,662,219 are to be used for the various functions of the County.

The general fund is the chief operating fund of Hill County, Texas. At the end of the current fiscal year, unreserved fund balance of the general fund was \$3,105,138, while total fund balance reached \$3,105,138. 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 32 percent of total general fund expenditures, while total fund balance represents 32 percent of that same amount.

The fund balance of Hill County, Texas's general fund decreased by \$298,366 during the current fiscal year. Key factors in this decrease are as follows:

- . The general fund had a loss of \$494,018 in the prior year. Income increased by \$52,119 while expenditures decreased by \$29,079. The respective increase and decrease in the revenues and expenditures were ratable. The county had a capital lease of \$167,200.

At the end of the current fiscal year, restricted fund balance of the road and bridge fund was \$2,353,534, while total fund balance reached \$2,353,534. As a measure of the road and bridge fund's liquidity, it may be useful to compare restricted fund balance to total fund expenditures. Restricted fund balance represents 66 percent of total road and bridge fund expenditures, while total fund balance represents 66 percent of that same amount.

The fund balance of Hill County, Texas's road and bridge fund increased by \$314,727 during the current fiscal year. Key factors in this increase are as follows:

- . The primary reason for the increase is the County received a capital lease of \$137,700 and had proceeds from the sale of assets of \$218,604.

At the end of the current fiscal year, unrestricted fund balance of the indigent health care fund was \$159,528, while total fund balance reached \$159,528. As a measure of the indigent health care fund's liquidity, it may be useful to compare both unrestricted fund balance and total fund balance to total fund expenditures. Unrestricted fund balance represents 17 percent of total indigent health care fund expenditures, while total fund balance represents 17 percent of that same amount.

The fund balance of Hill County, Texas's indigent health care fund decreased by \$123,363 during the current fiscal year. Key factors in this decrease are as follows:

- The health care expenditures increased by \$103,139. More indigent clients were enrolled in the County program resulting in greater expense.

Fund Budgetary Highlights

Differences between the original budget and the final amended budget for the general fund were an increase of \$250,413. The increase in the budget was due to the certifications of revenues and expenditures due to funds that were neither unanticipated nor budgeted for in the original budget. The increase was mostly ratable amongst the expenditures with the exception of non-departmental which increased by \$86,364 for grant expenditures. The increase in the budgeted expenditures was financed by an increase in budgeted revenues and beginning of the year fund balance. Overall, the actual expenditures were under budget by \$378,157.

Differences between the original budget and the final amended budget for the road and bridge fund were an increase of \$321,029. The increase in the budget was due to an unexpected increase in road maintenance expenditures. The increase in the budgeted expenditures was financed by an increase in budgeted revenues and beginning of the year fund balance. Overall, the actual expenditures were under budget by \$1,649,574.

Differences between the original budget and the final amended budget for the indigent health care fund were an increase of \$19,422. The increase in the budgeted expenditures was financed by an increase in budgeted revenues and beginning of the year fund balance. Due to greater indigent health expenditures than expected, the total indigent health fund expenditures exceeded the budgeted Expenditures by \$222,169.

Capital Asset and Debt Administration

Capital assets:

Hill County, Texas's investment in capital assets for its governmental activities as of September 30, 2011, amounts to \$24,486,040 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, and infrastructure items such as roads, highways, and bridges. The total increase in Hill County, Texas's investment in capital assets for the current fiscal year was \$2,552,123 or 12 percent.

The County had no major construction in the 2010-2011 year.

**HILL COUNTY, TEXAS
CAPITAL ASSETS (Net of Depreciation)**

	Governmental Activities		Total	
	2011	2010	2011	2010
Land	\$53,031	\$18,198	\$53,031	\$18,198
Building and Improvements	15,177,092	15,408,631	15,177,092	15,408,631
Machinery and Equipment	3,356,616	3,463,476	3,356,616	3,463,476
Infrastructure	5,899,301	3,043,612	5,899,301	3,043,612
Total	\$24,486,040	\$21,933,917	\$24,486,040	\$21,933,917

Additional information on Hill County, Texas’s capital assets can be found in note IV C on page 34 of this report.

Long-term debt:

At the end of the current fiscal year, Hill County, Texas had total bonded debt outstanding of \$6,715,000. All of which comprises debt backed by the full faith and credit of Hill County, Texas.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>	<u>Due After One Year</u>
<u>Governmental Activities:</u>						
Certificates of Obligation	\$7,090,000		\$375,000	\$6,715,000	\$410,000	\$6,305,000
Grand Total	<u>\$7,090,000</u>	<u>\$0</u>	<u>\$375,000</u>	<u>\$6,715,000</u>	<u>\$410,000</u>	<u>\$6,305,000</u>

Hill County, Texas’s total bonded debt decreased by \$375,000 (05 percent) during the current fiscal year. The key factor in this decrease was the payment of certificates of obligation bonds of \$375,000.

Additional information on Hill County, Texas’s long term debt can be found in note IV F on pages 36 thru 37 of this report.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

- Exploration in the Barnett Shale has slowed considerably during 2011.
- While the state is facing deep expenditure cuts, Hill County will focus on maintaining its current reserve for 2012 and 2013. State unfunded mandates are likely.

Estimated revenue for fiscal year 2012 is \$10,519,799, including incoming transfer of \$1,381,422 for the General Fund and estimated expenditures are \$10,670,709.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County’s finances and to demonstrate the County’s accountability for the funds it receives. If questions are encountered regarding this report; contact the Hill County Auditor’s Office, P. O. Box 783, Hillsboro, TX 76645; Phone: 254-582-4060, Fax: 254-582-4033, or Email: auditor@co.hill.tx.us.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

HILL COUNTY, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	Primary Government	
	Governmental Activities	Total
ASSETS		
Cash and Cash Equivalents	\$8,059,379	\$8,059,379
Receivables (net of allowance for uncollectibles)	2,516,930	2,516,930
Bond Issuance Costs	143,538	143,538
Inventory	81,893	81,893
Prepaid Items	148,254	148,254
Capital assets not being depreciated:		
Land	53,031	53,031
Total Capital assets being depreciated, net		
Building and Improvements	15,177,092	15,177,092
Machinery and Equipment	3,356,616	3,356,616
Infrastructure	5,899,301	5,899,301
Total Assets	\$35,436,034	\$35,436,034
LIABILITIES		
Accounts Payable	\$806,780	\$806,780
Accrued Wages Payable	30,095	30,095
Accrued Interest Payable	59,415	59,415
Noncurrent Liabilities:		
Due within one year	636,780	636,780
Due in more than one year	7,032,045	7,032,045
Total Liabilities	8,565,115	8,565,115
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	17,328,889	17,328,889
Restricted	4,662,219	4,662,219
Unrestricted	4,879,811	4,879,811
Total Net Assets	\$26,870,919	\$26,870,919

The accompanying notes are an integral part of this statement.

HILL COUNTY, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense)	Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and	Revenue and
					Changes in Net Assets	Changes in Net Assets
				Governmental Activities	Total	
Primary Government						
Government Activities:						
General Administration	\$1,996,623	\$325,953	\$56,475	\$0	(\$1,614,195)	(\$1,614,195)
Legal	371,978	62,340	62,500		(247,138)	(247,138)
Judicial	3,352,430	2,984,706	165,700		(202,024)	(202,024)
Financial Administration	721,383	473,015			(248,368)	(248,368)
Public Facilities	675,167				(675,167)	(675,167)
Public Safety	6,337,504	747,193	1,002,567		(4,587,744)	(4,587,744)
Public Transportation	3,461,988	822,990	155,680	3,139,046	655,728	655,728
Health and Welfare	1,164,990		23,158		(1,141,832)	(1,141,832)
Conservation - Agriculture	104,688				(104,688)	(104,688)
Interest and Fiscal Charges	219,139				(219,139)	(219,139)
Total Government Activities	18,405,890	5,416,197	1,466,080	3,139,046	(8,384,567)	(8,384,567)
Total Primary Government	\$18,405,890	\$5,416,197	\$1,466,080	\$3,139,046	(8,384,567)	(8,384,567)
General Revenues						
Property Taxes, Levies for General Purposes					9,271,081	9,271,081
Sales Taxes					1,460,061	1,460,061
Other Taxes					107,906	107,906
Unrestricted Investment Earnings					159,162	159,162
Miscellaneous					474,843	474,843
Total General Revenues and Transfers					11,473,053	11,473,053
Change in Net Assets					3,088,486	3,088,486
Net Assets - Beginning					23,782,433	23,782,433
Net Assets - Ending					\$26,870,919	\$26,870,919

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

HILL COUNTY, TEXAS
 BALANCE SHEET - GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2011

	General Fund	Road and Bridge	Indigent Health Care	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$3,139,180	\$2,407,556	\$171,668	\$2,347,096	\$8,065,500
Receivables (net of allowance for uncollectibles)	945,949	223,397	105,136	82,521	1,357,003
Due from Others	5,367				5,367
Due from Other Funds	186			5,710	5,896
Total Assets	\$4,090,682	\$2,630,953	\$276,804	\$2,435,327	\$9,433,766
LIABILITIES AND FUND BALANCES:					
Liabilities					
Accounts Payable	\$402,533	\$81,807	\$62,763	\$259,605	\$806,708
Due to Others	71				71
Due to Other Funds				5,896	5,896
Bank Overdraft				6,122	6,122
Accrued Wages Payable	24,182	5,913		0	30,095
Deferred Revenues	558,758	189,699	54,513	44,749	847,719
Total Liabilities	985,544	277,419	117,276	316,372	1,696,611
Fund Balances:					
Restricted					
Administration - County Clerk				127,875	127,875
Archives				16,935	16,935
Construction				581,575	581,575
Debt Service				100,428	100,428
Elections				31,682	31,682
Health and Welfare			159,528		159,528
Judicial				1,118,576	1,118,576
Legal				12,727	12,727
Public Safety				159,359	159,359
Public Transportation		2,353,534			2,353,534
Unassigned	3,105,138			(30,202)	3,074,936
Total Fund Balance	3,105,138	2,353,534	159,528	2,118,955	7,737,155
Total Liabilities and Fund Balances	\$4,090,682	\$2,630,953	\$276,804	\$2,435,327	\$9,433,766

The accompanying notes are an integral part of this statement.

HILL COUNTY, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2011

Total Fund Balances - governmental funds balance sheet	\$7,737,155
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	24,486,040
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	1,154,560
Bond Issuance Costs are expenditures in the funds but are recorded as assets in the governmental activities.	143,538
Prepaid Items are expenditures in the funds but are recorded as assets in the governmental activities.	148,254
Inventory Costs are expenditures in the funds but are recorded as assets in the governmental activities.	81,893
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles).	847,719
Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	(7,728,240)
Net assets of governmental activities - statement of net assets	<u>\$26,870,919</u>

The accompanying notes are an integral part of this statement.

HILL COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2011

	General Fund	Road and Bridge	Indigent Health Care	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes					
Property	\$6,022,273	\$2,054,085	\$579,904	\$550,508	\$9,206,770
Sales	1,197,250	146,006	116,805		1,460,061
Other	107,906				107,906
Intergovernmental	492,272	155,680		1,031,957	1,679,909
Licenses and Permits		778,595			778,595
Charges for Services	1,217,686	44,395		1,783,323	3,045,404
Fines and Forfeitures	74,765	227,039		1,207,979	1,509,783
Interest	97,684	36,312		25,166	159,162
Miscellaneous	33,833	73,575	94,264	71,619	273,291
Total Revenues	9,243,669	3,515,687	790,973	4,670,552	18,220,881
EXPENDITURES					
Current:					
General Administration	1,681,825			72,830	1,754,655
Legal	355,230			16,442	371,672
Judicial	1,220,343			2,106,443	3,326,786
Financial Administration	717,318				717,318
Public Facilities	387,257				387,257
Public Safety	4,883,876			1,567,329	6,451,205
Public Transportation		3,448,348			3,448,348
Health and Welfare	244,720		914,336	3,153	1,162,209
Conservation - Agriculture	103,785				103,785
Debt Service					
Principal Retirement	44,400	104,174		375,000	523,574
Interest and Fiscal Charges	354	4,742		230,861	235,957
Total Expenditures	9,639,108	3,557,264	914,336	4,372,058	18,482,766
Excess (Deficiency) of Revenues Over (Under)					
Expenditures	(395,439)	(41,577)	(123,363)	298,494	(261,885)
OTHER FINANCING SOURCES (USES):					
Sale of Capital assets	2,033	218,604			220,637
Other Financing Sources - Capital Lease	167,200	137,700			304,900
Operating Transfers In	179,840			1,180,123	1,359,963
Operating Transfers Out	(252,000)			(1,107,963)	(1,359,963)
Total Other Financing Sources (Uses)	97,073	356,304	0	72,160	525,537
Net Changes in Fund Balances	(298,366)	314,727	(123,363)	370,654	263,652
Fund Balances - Beginning	3,403,504	2,038,807	282,891	1,748,301	7,473,503
Fund Balances - Ending	\$3,105,138	\$2,353,534	\$159,528	\$2,118,955	\$7,737,155

The accompanying notes are an integral part of this statement.

HILL COUNTY, TEXAS
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 SEPTEMBER 30, 2011

Net Changes in Fund Balances - total governmental funds	\$263,652
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
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.	2,552,123
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. This is the change in these amounts this year.	82,415
(Increase) decrease in Compensated Absences from beginning of period to end of period.	59,383
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	64,311
Increase (decrease) in Bond Issuance Costs from beginning of period to end of period.	(11,962)
Increase (decrease) in Inventory from beginning of period to end of period.	28,205
Increase (decrease) in Prepaid Items from beginning of period to end of period.	(16,495)
(Increase) decrease in Accrued Interest Payable from beginning of period to end of period.	14,933
(Increase) decrease in Bond Refunding from beginning of period to end of period.	(166,154)
Repayment of loan principal is an expenditure in the funds but not an expense in the SOA.	523,575
Increase in loan principal are receipts in the funds but not revenue in the SOA.	(305,500)
Change in net assets of governmental activities - statement of activities	<u>\$3,088,486</u>

The accompanying notes are an integral part of this statement.

HILL COUNTY, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES				
Taxes				
Property	\$6,125,946	\$6,125,946	\$6,022,273	(\$103,673)
Sales	1,195,037	1,195,037	1,197,250	2,213
Other	118,000	118,000	107,906	(10,094)
Intergovernmental	305,687	392,051	492,272	100,221
Charges for Services	1,142,184	1,142,184	1,217,686	75,502
Fines and Forfeitures	83,400	83,400	74,765	(8,635)
Interest	110,000	110,000	97,684	(12,316)
Miscellaneous	7,500	7,500	33,833	26,333
Total Revenues	9,087,754	9,174,118	9,243,669	69,551
EXPENDITURES				
Current:				
General Administration				
Computer	522,359	522,359	473,954	48,405
County Clerk	303,838	303,838	274,114	29,724
County Judge	138,490	138,490	134,469	4,021
Elections Administration	157,950	157,950	147,545	10,405
Non-Departmental	810,200	896,564	562,064	334,500
Tourism Director	75,000	75,000	65,977	9,023
Veterans Service	25,151	25,151	23,702	1,449
Legal				
County Attorney	353,918	353,917	341,411	12,506
County Attorney Excess	18,890	18,890	13,819	5,071
Judicial				
County Court at Law	217,265	217,265	213,697	3,568
District Attorney	184,286	184,286	181,098	3,188
District Clerk	351,422	351,422	321,463	29,959
District Judge	111,456	111,456	104,968	6,488
Justices of the Peace	408,643	408,643	399,117	9,526
Financial Administration				
County Auditor	167,492	167,492	158,278	9,214
County Treasurer	164,340	164,340	162,497	1,843
Tax Assessor-Collector	403,913	403,913	396,543	7,370
Public Facilities				
Courthouse	367,264	367,264	387,257	(19,993)
Public Safety				
911 Dispatch	370,290	375,128	375,043	85
Constables	264,976	354,745	350,475	4,270
Courthouse Security	162,804	162,804	146,394	16,410
Emergency Management	79,142	101,076	106,063	(4,987)
Jail	2,418,912	2,418,912	2,371,479	47,433
Sheriff	1,511,039	1,511,039	1,534,422	(23,383)

(continued)

(continued)

Health and Welfare				
Employee Hospitalization	174,197	174,197	1,310	172,887
Public Assistance	55,469	58,224	186,210	(127,986)
Health and Safety			57,200	(57,200)
Conservation - Agriculture				
Agriculture Extension Service	121,033	121,033	103,785	17,248
Debt Service				
Principal Retirement		44,400	44,400	0
Interest Retirement		354	354	0
Total Expenditures	<u>9,939,739</u>	<u>10,190,152</u>	<u>9,639,108</u>	<u>551,044</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(851,985)</u>	<u>(1,016,034)</u>	<u>(395,439)</u>	<u>620,595</u>
OTHER FINANCING SOURCES (USES):				
Sale of Capital assets	0	0	2,033	2,033
Other Financing Sources - Capital Lease	0	156,457	167,200	10,743
Operating Transfers In	916,700	916,700	179,840	(736,860)
Operating Transfers Out	(139,000)	(139,000)	(252,000)	(113,000)
Total Other Financing Sources (Uses)	<u>777,700</u>	<u>934,157</u>	<u>97,073</u>	<u>(837,084)</u>
Net Changes In Fund Balances	<u>(74,285)</u>	<u>(81,877)</u>	<u>(298,366)</u>	<u>(216,489)</u>
Fund Balances - Beginning	3,403,504	3,403,504	3,403,504	0
Fund Balances - Ending	<u>\$3,329,219</u>	<u>\$3,321,627</u>	<u>\$3,105,138</u>	<u>(\$216,489)</u>

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

HILL COUNTY, TEXAS
ROAD AND BRIDGE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES				
Taxes				
Property	\$2,074,344	\$2,074,344	\$2,054,086	(\$20,258)
Sales	145,737	145,737	146,006	269
Intergovernmental	257,717	257,720	155,681	(102,039)
Licenses and Permits	747,000	747,000	778,595	31,595
Charges for Services	45,000	45,000	44,395	(605)
Fines and Forfeitures	251,400	251,400	227,039	(24,361)
Interest	38,063	38,063	36,310	(1,753)
Miscellaneous			73,575	73,575
Total Revenues	<u>3,559,261</u>	<u>3,559,264</u>	<u>3,515,687</u>	<u>(43,577)</u>
EXPENDITURES				
Current				
Public Transportation	4,824,857	5,097,922	3,448,348	1,649,574
Debt Service				
Principal Retirement	56,210	104,174	104,174	0
Interest Retirement	4,742	4,742	4,742	0
Total Expenditures	<u>4,885,809</u>	<u>5,206,838</u>	<u>3,557,264</u>	<u>1,649,574</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,326,548)</u>	<u>(1,647,574)</u>	<u>(41,577)</u>	<u>1,605,997</u>
OTHER FINANCING SOURCES (USES):				
Sale of Capital assets		190,922	218,604	27,682
Other Financing Sources - Capital Lease		137,700	137,700	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>328,622</u>	<u>356,304</u>	<u>27,682</u>
Net Changes in Fund Balances	<u>(1,326,548)</u>	<u>(1,318,952)</u>	<u>314,727</u>	<u>1,633,679</u>
Fund Balances - Beginning	2,038,807	2,038,807	2,038,807	0
Fund Balances - Ending	<u>\$712,259</u>	<u>\$719,855</u>	<u>\$2,353,534</u>	<u>\$1,633,679</u>

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

HILL COUNTY, TEXAS
INDIGENT HEALTH CARE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final		Positive (Negative)
REVENUES				
Taxes				
Property	\$603,901	\$603,901	\$579,904	(\$23,997)
Sales	116,589	116,589	116,805	216
Interest				0
Miscellaneous		19,421	94,263	74,842
Total Revenues	720,490	739,911	790,972	51,061
EXPENDITURES				
Current:				
Health and Welfare	672,745	692,167	914,336	(222,169)
Total Expenditures	672,745	692,167	914,336	(222,169)
Excess (Deficiency) of Revenues Over (Under) Expenditures	47,745	47,744	(123,363)	(171,107)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In				0
Operating Transfers Out	(120,000)	(120,000)		120,000
Total Other Financing Sources (Uses)	(120,000)	(120,000)	0	120,000
Net Changes In Fund Balances	(72,255)	(72,256)	(123,363)	(51,107)
Fund Balances - Beginning	282,891	282,891	282,891	
Fund Balances - Ending	\$210,636	\$210,635	\$159,528	(\$51,107)

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

HILL COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Agency Funds
ASSETS	
Cash and Cash Equivalents	\$1,891,371
Receivables (net of allowance for uncollectibles)	0
Total Assets	<u>\$1,891,371</u>
LIABILITIES	
Accounts Payable	\$0
Due to Others	1,891,371
Total Liabilities	<u>\$1,891,371</u>

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

HILL COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

I. Summary of Significant Accounting Policies

A. Reporting entity

Hill County operates under a County Judge – Commissioner’s Court type of government and provides the following services throughout the County: public safety (dispatch, jail, and law enforcement), public transportation (roads), health, conservation (agriculture), public facilities, judicial and legal, election functions, and general and financial administrative services.

B. Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 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 revenues are reported instead as general revenues.

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

C. 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The road and bridge fund accounts for the activities of the government's road and bridge operations.

The indigent health care fund accounts for the monies used to provide medical assistance to the poor citizens of Hill County.

C. 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 the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The County uses an agency fund to account for assets held for, and due to, employee benefits, payroll withholdings, deposits, and other. This fund is custodial in nature and does not involve measurement of results of operations. Accordingly, it presents only a statement of fiduciary net assets and does not present a statement of changes in fiduciary net assets. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. Fiduciary funds are presented on an economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements.

D. Assets, Liabilities, and Net Assets or Equity

1. 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 Government and the District to invest in obligations of the U.S. Treasury. Investments for the Government are reported at fair value.

2. 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 non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

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

2. Receivables and Payables (continued)

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to a total of 1 percent of the current outstanding property taxes at September 30, 2011 and 10 percent of the delinquent outstanding property taxes at September 30, 2011.

Property is appraised and a lien on such property becomes enforceable as of January 1, subject to certain procedures for rendition, appraisal, appraisal review and judicial review. Traditionally, property taxes are levied October 1, of the year in which assessed or as soon thereafter as practicable. Taxes are due and payable when levied since that is when the County bills the taxpayers. The County begins to collect the taxes as soon as the taxpayers are billed.

3. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method in the government-wide financial statements.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The prepaid items at September 30, 2011 are reflected in the accompanying financial statements.

4. Restricted Assets

There were no restricted assets at September 30, 2011.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. 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. Infrastructure items such as roads and highways are not included. Bridges are capitalized. Road expenditures are usually expensed.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. The County had no major construction in the 2010-2011 year.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	20 - 50
Building Improvements	20 - 50
System Infrastructure	35 - 50
Vehicles	5 - 20
Office Equipment	5 - 20
Computer Equipment	5 - 20

6. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in government-wide financial statements.

7. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs and loss on refunding, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs and loss on refunding are reported as deferred charges and amortized over the term of the related debt.

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.