

City of Hearne, Texas
Financial Statements with
Report of Independent Auditors
For the Fiscal Year Ended
September 30, 2016

City of Hearne, Texas
For the Year Ended September 30, 2016

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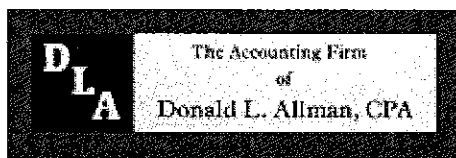
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FINANCIAL SECTION



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CERTIFIED PUBLIC ACCOUNTANT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hearne, Texas, (the "City") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the city's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hearne, Texas, as of September 30, 2016, and the respective changes in financial position, where applicable, cash flows thereof, and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-9 and the schedule of changes in net pension liability and related ratios-Texas Municipal Retirement system, schedule of contributions-Texas Municipal Retirement System, schedule of the city's proportionate share of the net pension liability-Texas Emergency Services Retirement System, and schedule of contributions-Texas Emergency Services Retirement system on pages 47 through 50, 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.

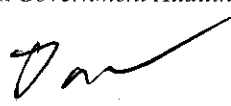
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hearne, Texas' basic financial statements. The combining and individual non-major fund financial statements and budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and budgetary comparison schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated October 6, 2017, on our consideration of the City of Hearne, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Georgetown, Texas
October 6, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City of Hearne Texas' annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2016. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

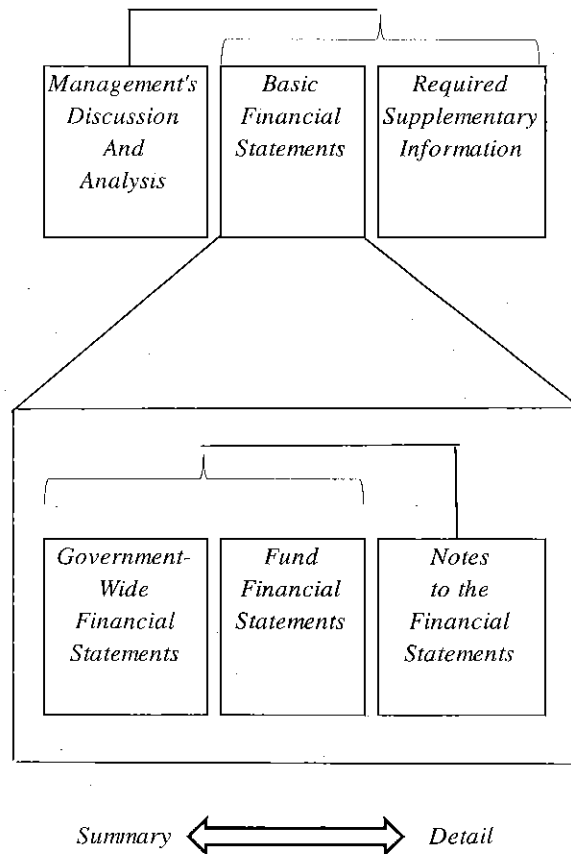
- The city's total combined Net Position was \$ \$9,182,277 at September 30, 2016. This represents an increase of 5.8% in the Governmental Activities and 5.0% in Business Activities for an overall increase of 5.3%.
- During the year, the City's expenses were \$ 462,906 less than the \$11,467,896 generated in taxes, charges for service and other revenues for Governmental and Business-Type Activities. Comparatively, last year, the City's expenses were \$508,000 less than revenues of \$12,248,000.
- In the City's Business-Type Activities, Revenues decreased by 7% to \$8,780,000 due to less grant money received. Expenditures decreased by 10% to \$ 7,510,000 .
- The Fund Balance Surplus in the General Fund increased this year an amount of \$ 471,871 to \$ 1,605,651 .

Figure A-1, Required Components of the City of Hearne's Annual Financial Report

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report contains the three required components of an annual financial statement-management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- * The first two statements are government-wide financial statements that provide both *long-term* and *short-term* information about the City's overall financial status
- * The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- * The *governmental funds* statements tell how general government services were financed in the *short term* as well as what remains for future spending.
- * *Proprietary fund* statements offer *short* and *long-term* financial information about the activities the government operates *like* businesses.
- * *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one other.

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2

Type of Statements	Fund Statements			
	Government-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the city that are not proprietary or fiduciary	Activities the city operates similar to private business self insurance	Instances in which the city is the trustee or agent for someone else's resources.
<i>Required Financial Statements</i>	*Statement of Net Position	*Balance Sheet	*Statement of Net Assets	*Statement of Fiduciary Net Position
	*Statement of activities	*Statement of Revenues, Expenditures & Changes in Fund Balance	*Statement of Revenues, Expenditures & Changes in Fund Balance	*Statement of Changes in Fiduciary Net Position
			*Statement of Cash Flows	
<i>Accounting basis & measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources to focus	Accrual accounting and economic resources focus
<i>Type of Asset / Liability Information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities both short-term and long-term, the Agency's funds do not currently contain capital assets, although, they can
<i>Type of Inflow / Outflow Information</i>	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the City's net position and how they have changed. Net position, (the difference between the City's assets and liabilities), is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide statements of the City include the Governmental activities. Most of the City's basic services are included here, such as general administration, public safety, streets and bridges, buildings and grounds, and financial and professional. Property, sales and franchise taxes finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following types of funds:

- *Government funds* – most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship or differences between them.
- *Proprietary funds* – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

THE CITY AS A WHOLE

Table A-1
City's Net Position
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current Assets						
Cash & Cash Equivalents	\$ 356	\$ 330	\$ 255	\$ 541	\$ 611	\$ 871
Receivables	599	433	1,527	1,824	2,126	2,257
Internal Balances	934	638	(934)	(638)	-	-
Inventories	-	-	148	131	148	131
Other Assets	18	21	13	26	31	47
Restricted Assets	363	358	757	616	1,120	974
Total Current Assets:	2,270	1,780	1,766	2,500	4,036	4,280
Noncurrent Assets						
Capital Assets	9,832	9,464	27,427	27,109	37,259	36,573
Less Accumulated Depreciation	(5,992)	(5,551)	(15,817)	(15,123)	(21,809)	(20,674)
Total Noncurrent Assets	3,840	3,913	11,610	11,986	15,450	15,899
Total Assets	6,110	5,693	13,376	14,486	19,486	20,179
Deferred Outflows of Revenue						
Deferred Loss on Bond Refunding	-	-	164	178	164	178
Deferred Amounts related to Pensions	207	199	97	94	304	293
Total Deferred Outflows of Resources	207	199	261	272	468	471
Liabilities Due in Less Than One Year						
Accounts Payable	132	228	526	1,069	658	1,297
Accrued Liabilities	92	20	97	39	189	59
Customer Deposits	-	2	379	356	379	358
Due to Component Unit	-	-	403	755	403	755
Current Compensated Absences	-	2	-	-	-	2
Current Capital Lease	65	33	307	164	372	197
Current Long-Term Debt	-	68	305	539	305	607
Total Current Liabilities	289	353	2,017	2,922	2,306	3,275
Liabilities Due in More Than One Year						
Compensated Absences	127	127	74	73	199	200
Bonds	-	-	4,175	4,480	4,175	4,480
Notes Payable	-	-	-	-	-	-
Capital Leases	347	381	1,077	1,384	1,424	1,765
Certificates of Obligation	-	-	-	-	-	-
Net Pension Liability - TMRS	1,669	1,400	823	690	2,492	2,090
Net Pension Liability - TESRS	104	60	-	-	104	60
Total Long-Term Liabilities:	2,247	1,968	6,149	6,627	8,394	8,595
Total Liabilities	2,536	2,321	8,166	9,549	10,700	11,870
Deferred Inflows of Resources						
Deferred Amounts related to Pensions	51	46	18	15	69	61
Total Deferred Inflows of Resources	51	46	18	15	69	61
Net Position						
Invested in Capital Assets	3,427	3,430	5,746	5,420	9,173	8,850
Restricted	363	346	757	-	1,120	346
Unrestricted	(60)	(251)	(1,050)	(226)	(1,110)	(477)
Total Net Position	\$ 3,730	\$ 3,525	\$ 5,453	\$ 5,194	\$ 9,183	\$ 8,719

The City's combined Net Position increased by \$462,906 , or 5.3%, to \$9,182,277 at September 30, 2016. Comparatively, last year, the City's combined Net Position increased by \$583,693, or 7.2%. (See Table A-2)

The City's Net Position for Government Activities increased by 5.8% to \$3,729,095 . Unrestricted net position of governmental activities (the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements) was (60,417).

The city's Net Position for Business Activities increased by 5.0% from \$5,453,182 in the prior year to \$5,193,498 .

Table A-2
Changes in City's Net Position
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program Revenues						
Charges for Services	\$ 295	\$ 379	\$ 8,220	\$ 8,399	\$ 8,515	\$ 8,778
Operating grants	6	30	10	-	16	30
Capital grants	41	85	312	795	353	880
General Revenues						
Ad Valorem Taxes	1,489	1,459	-	-	1,489	1,459
Sales Tax	565	561	-	-	565	561
Franchise Taxes	94	94	-	-	94	94
Hotel / Motel Occupancy Tax	114	161	-	-	114	161
Rentals	46	-	9	7	55	7
Interest Income	1	-	3	2	4	2
Gain/(loss) on Sale of Assets	1	-	-	2	1	2
Other	36	45	226	229	262	274
Total Revenues	<u>2,688</u>	<u>2,814</u>	<u>8,780</u>	<u>9,434</u>	<u>11,468</u>	<u>12,248</u>
Program Expenses						
General Government	1,006	759	-	-	1,006	759
Public Safety	1,409	1,404	-	-	1,409	1,404
Highways & Streets	433	424	-	-	433	424
Health & Welfare	66	74	-	-	66	74
Culture & Recreational	561	686	-	-	561	686
Interest on LT Debt	19	21	165	-	184	21
Enterprise Activities	-	-	7,345	8,372	7,345	8,372
Total Expenses	<u>3,494</u>	<u>3,368</u>	<u>7,510</u>	<u>8,372</u>	<u>11,004</u>	<u>11,740</u>
 Increase (Decrease) in Net Position Before Transfers	 (806)	 (554)	 1,270	 1,062	 464	 508
 Contributions Between Primary Government & Component Unit Transfers In (Out)	 - <u>1,010</u>	 - <u>754</u>	 - <u>(1,010)</u>	 75 <u>(754)</u>	 - <u>-</u>	 75 <u>-</u>
 Change in Net Position	 <u>204</u>	 <u>200</u>	 <u>260</u>	 <u>383</u>	 <u>584</u>	 <u>583</u>
 Net Position - Beginning	 3,526	 4,609	 5,193	 5,332	 9,940	 9,941
Restatement of net position	-	(1,283)	-	(522)	-	(1,805)
Net Position - Beginning as restated	<u>3,526</u>	<u>3,326</u>	<u>5,193</u>	<u>4,810</u>	<u>8,719</u>	<u>8,136</u>
Net Position - Ending	<u>\$ 3,730</u>	<u>\$ 3,526</u>	<u>\$ 5,453</u>	<u>\$ 5,193</u>	<u>\$ 9,183</u>	<u>\$ 9,940</u>

Total Revenues for the City of Hearne were \$11,468,000, a decrease of 6.4%. The total cost of all programs and services decreased by \$736,000, or 6.2% to \$ 11,004,000 , over last year's total of \$11,740,000. Overall, Net Position increased by \$462,906 to \$9,182,277 .

Governmental Activities

Revenues for the City's Governmental Activities decreased by 4.4%, or \$126,000. The cost of all Governmental Activities increased by \$126,000 to \$3,494,000, up from last year's total of \$3,368,000.

Business Activities

Revenues for the City's business activities decreased by 6.9% this year (\$8,780,000 compared to \$9,434,000 for last year). Expenses decreased by 10% this year (\$7,510,000 compared to \$8,372,000 last year).

The City's management has been taking proactive steps to help with budgetary shortfalls. This is the 6th year that they have collected \$0.003 per kilowatt on electric sales, \$2.00 per water meter, and a sanitation administrative fee equal to approximately 16.9% (the fee varies based upon the size of garbage cart or dumpster) to strengthen the net position. They have also been collecting \$0.47 per 1,000 gallons of water sold to defray the cost of the annual water storage tank maintenance and inspections.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet) reported a Governmental Fund Balance of \$1,730,604 which increased from last year's total of \$1,260,209.

General Fund Budgetary Highlights

During the course of the year, the City revised its budget several times. These budget amendments fall into three categories. The first category includes amendments and supplemental appropriations which the 4A and the 4B Sales Tax Boards approved and agreed to pay for special projects. The second category involves unexpected revenue such as asset sales that management decided to use to cover a specific project, or insurance proceeds that was used to repair the damages covered by the insurance proceeds. The third type includes amendments at the end of the year to cover any unforeseeable budget overruns.

Actual revenues were less than the final budgeted amounts by \$182,310, with expenditures coming in \$195,058 more than expectations. This made the overall budget operations fall short of budget by \$377,368.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Table A-3
City's Capital Assets
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Capital Assets						
Land	\$ 393	\$ 393	\$ 62	\$ 62	\$ 455	\$ 455
Construction in Progress	-	-	1,235	935	1,235	935
Buildings and Improvements	5,422	5,422	2,276	2,276	7,698	7,698
Improvements Other than Buildings	1,472	1,210	-	-	1,472	1,210
Equipment	1,034	928	201	201	1,235	1,129
Vehicles	1,425	1,425	364	352	1,789	1,777
Furniture and Office Equipment	86	86	321	315	407	401
Distribution and Collection Systems	-	-	22,968	22,968	22,968	22,968
Totals at Historical Cost	9,832	9,464	27,427	27,109	37,259	36,573
Total Accumulated Depreciation	(5,992)	(5,551)	(15,817)	(15,123)	(21,809)	(20,674)
Net Capital Assets	\$ 3,840	\$ 3,913	\$ 11,610	\$ 11,986	\$ 15,450	\$ 15,899

At the end of 2016, the City had invested \$37,573,000 in a broad range of capital assets, including land, buildings, park facilities, roads, bridges, equipment and vehicles, electric lines, water lines, sewer lines and waste water treatment facilities. (See Table A-3). This amount represents an increase of \$686,000, a 1.8% increase from last year.

This year's major additions included (in thousands):

Governmental

Capitalized Improvements	City Budget	262.0
Machinery & Equipment	City Budget	106.0

Business-Type Activities

Improvements	TXDOT Airport Development Grant & City Budget	300.0
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Table A-4
City's Long-Term Debt
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Change 2015-2016
	2016	2015	2016	2015	2016	2015	
Long Term - Debt							
Bonds	\$ -	\$ -	\$ 4,480	\$ 4,780	\$ 4,480	\$ 4,780	(300)
Notes Payable	-	68	-	238	-	306	(306)
Leases Payable	412	414	1,384	1,548	1,796	1,962	(166)
Total Long-Term Debt	\$ 412	\$ 482	\$ 5,864	\$ 6,566	\$ 6,276	\$ 7,048	\$ (772)

Long-Term Debt

At year end, the City had \$6,276,000 in Long Term Debt outstanding. This included \$4.48 million in bonds payable. This compares to \$4.78 million in bonds outstanding last year and is a 6.2% reduction in these debt instruments. (See Table A-4)

Standard & Poor's upgraded the City's bond rating of bbb- to A- on March 12, 2010 and again upgraded the rating again from A- to A on November 5, 2010. These actions were taken due to significant improvement in the City's financial condition. It is unusual for a bond rating to be raised twice in such a short time. The City is proud of this accomplishment. The bond rating of A was raised to A+ on 06/26/2014. There has been no change in the bond rating since this recent upgrade. The Bonds were reissued in March 2011 with a total savings of approximately \$355,000 and present value savings of approximately \$275,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2016-2017 budget, tax rates, and fees that will be charged for the business-type activities. One of those factors is the economy. The City of Hearne has experienced notable commercial growth for a city with a population of less than 5,000.

Economic factors influencing the 2016-2017 Budget include the opening of a Chicken Express restaurant, a Tractor Supply hardware store, Fema and the associated rental of City property projected to bring in an extra \$200,000 in income per year, the Magellan East Houston to Hearne Pipeline which is projected to be a \$30 million capital investment in 2018, the Valero Hearne to Hutto pipeline projected to be a \$20 million capital investment in 2019, and Union Pacific is building the 2nd biggest railyard in the United States in Hearne.

The Chicken Express restaurant will increase sales tax revenues for the City of Hearne from citizens and travelers passing thru and also provide jobs.

The Tractor Supply store will also increase sales tax revenues for the City of Hearne and also provide jobs.

The Fema and associated rental of City property is projected to increase revenues by \$200,000 per year.

The Magellan East Houston to Hearne pipeline is projected to be a \$30 million capital investment in 2018 and should bring jobs and increase revenues for the City of Hearne.

The Valero Hearne to Hutto pipeline is projected to be a \$20 million capital investment in 2019 and should bring jobs and increase revenues for the City of Hearne.

The Union Pacific Railyard being built should bring jobs and increase revenues for the City of Hearne.

The Texas Department of Public Safety entered into an agreement with the City of Hearne to build and lease a Commercial Driver License Testing Facility to the DPS in Hearne. This facility opened in March of 2015 and has had a steady and consistent flow of people seeking a Texas Commercial Driver License.

In 2013, the City of Hearne was awarded a \$750,000 TDRA "Capital Funds" Grant to upgrade the infrastructure, i.e., water lines, electric lines, sewer, city streets, and drainage to accommodate the new Nursing Home and Assisted Living Facility. The City also was awarded another Texas Capital Funds Grant in the amount of \$325,000 to assist in upgrading the infrastructure for the molding and trim warehouse. The work on both of these grants is expected to be completed by the end of the first quarter of 2016.

The City of Hearne has received multiple grants from TX-DOT-Aviation Division in order to improve the Hearne Municipal Airport. One of these grants was approximately \$165,000 to install a new Aviation Fuel Facility. The second grant was approximately \$575,000 to build a game-proof perimeter fence around the airport. The work on the first project was completed and placed in operation in May, 2013. The Airport has a steady flow of Av-Gas customers that fly in from a radius of 100 miles, just to buy fuel. The fence was completed early in the 2014-2015 Fiscal Year. Both improvements to the airport have been appreciated and complimented by pilots.

The City of Hearne added a new restaurant, a new hardware store, Fema rental income and 2 pipelines and a Railyard are coming.

These new businesses provide numerous economic benefits to the City of Hearne. Among these benefits are 1. A broadened property tax base, an increase local sales tax, an increase in new jobs for the citizens, increased hotel & motel taxes from temporary workers, and a reason for people to move to Hearne and become citizens. All of this comes full circle and leads to more businesses coming to Hearne. Other businesses continue to show interest in relocating to Hearne. This same growth pattern is also reflected in small, locally owned businesses.

After taking all factors into consideration, the City adopted a \$10.8 million budget for Fiscal Year 2016-2017. Broken down, this is \$3.7 million for the General Fund and \$7.1 million for the Enterprise Fund. This compares to the final budget of \$3.3 million and \$7.9 million respectively for fiscal year 2015-2016. This new budget is a 12.12% increase for the General Fund and 10.12% decrease for the Enterprise Fund. This provides an overall decrease of 3.57%

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City's Finance Department.

City of Hearne, Texas
Statement of Net Position
September 30, 2016
Primary Government

	Governmental Activities	Business-Type Activities	Total	Component Units Hearne Economic Development Corporation	Hearne Infrastructure / Improvement Corporation
Assets					
Cash and equivalents	\$ 356,521	\$ 255,155	\$ 611,676	\$ -	\$ -
Receivables (net of allowance for uncollectibles):					
Taxes	419,117	-	419,117	53,569	53,569
Accounts	179,542	1,435,607	1,615,149	-	-
Grant	-	91,115	91,115	-	-
Internal balances	934,048	(934,048)	-	193,485	209,518
Due from primary government	-	-	-	-	-
Inventory	-	148,347	148,347	-	-
Other assets	18,516	13,063	31,579	-	-
Restricted assets:					
Cash and equivalents	362,592	757,379	1,119,971	475,950	603,966
Investments	-	-	-	143,224	-
Capital assets:					
Non-depreciable	393,082	1,296,609	1,689,691	-	-
Depreciable, net	3,446,154	10,313,164	13,759,318	-	-
Total assets	6,109,572	13,376,391	19,485,963	866,228	867,053
Deferred outflows of resources					
Loss on bond refunding	-	163,593	163,593	-	-
Deferred amounts related to pensions	207,361	97,759	305,120	-	-
Total deferred outflows of resources	207,361	261,352	468,713	-	-
Liabilities					
Accounts payable	132,472	526,088	658,560	43	8,500
Salaries payable	76,506	42,523	119,029	-	-
State tax payable	-	23,883	23,883	-	-
Other accrued liabilities	15,290	30,977	46,267	-	-
Due to component unit	-	403,003	403,003	-	-
Deposits	-	379,494	379,494	-	-
Deferred Revenue	-	-	-	-	-
Long-term liabilities:					
Due within one year:					
Compensated absences	-	-	-	-	-
Capital lease payable	64,916	307,069	371,985	-	-
Notes payable	-	-	-	-	-
Bonds payable	-	305,000	305,000	-	-
Due in more than one year:					
Compensated absences	127,067	73,899	200,966	-	-
Capital lease payable	347,400	1,076,758	1,424,158	-	-
Bonds payable	-	4,175,000	4,175,000	-	-
Net pension liability - TMRS	1,669,211	823,091	2,492,302	-	-
Net pension liability - TESRS	103,769	-	103,769	-	-
Total liabilities	2,536,631	8,166,785	10,703,416	43	8,500
Deferred inflows of resources					
Deferred amounts related to pensions	51,207	17,776	68,983	-	-
Total deferred inflows of resources	51,207	17,776	68,983	-	-
Net Position					
Net investment in capital assets	3,426,920	5,745,946	9,172,866	-	-
Restricted for:					
Court security	98,412	-	98,412	-	-
Court technology	32,428	-	32,428	-	-
Child safety fund	38,646	-	38,646	-	-
Debt Service	64,916	757,379	822,295	-	-
Tourism	121,100	-	121,100	-	-
Police department	7,090	-	7,090	-	-
Economic development	-	-	-	866,185	858,553
Unrestricted	(60,417)	(1,050,143)	(1,110,560)	-	-
Total net position	\$ 3,729,095	\$ 5,453,182	\$ 9,182,277	\$ 866,185	\$ 858,553

The notes to the financial statements are an integral part of this statement. 10

City of Hearne, Texas
Statement of Activities
For the Year Ended September 30, 2016

Program Activities	Program Revenues			Net (Expenses) Revenues and Changes in Net Position				
	Primary Government			Component Units				
	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Economic Development Corporation	Infrastructure/Improvement Corporation
Primary government:								
Governmental activities:								
General government	\$ 1,006,072	\$ 20,778	\$ -	\$ (985,294)	\$ -	\$ (985,294)	\$ -	\$ -
Public safety & Court	1,408,565	270,031	-	(1,132,274)	-	(1,132,274)	-	-
Highways and streets	433,044	-	41,066	(391,978)	-	(391,978)	-	-
Health and welfare	66,412	-	-	(66,412)	-	(66,412)	-	-
Culture and recreation	560,807	4,311	-	(556,496)	-	(556,496)	-	-
Interest on long-term debt	185,032	-	-	(19,482)	(165,550)	(185,032)	-	-
Total governmental activities	3,659,932	295,120	41,066	(3,151,936)	(165,550)	(3,317,486)	-	-
Business-type activities:								
Water	921,617	1,156,413	-	-	234,796	234,796	-	-
Electric	4,853,402	5,801,021	-	-	947,619	947,619	-	-
Sewer	876,579	582,401	312,353	-	28,175	28,175	-	-
Sanitation	539,205	621,897	-	-	82,692	82,692	-	-
Municipal airport	154,255	58,631	-	-	(95,624)	(95,624)	-	-
Total business-type activities	7,345,058	8,220,363	312,353	-	1,197,658	1,197,658	-	-
Total primary government	11,004,990	8,515,483	353,419	(3,151,936)	1,032,108	(2,119,828)	-	-
Component units:								
Hearne Economic Development Corporation	129,382	-	-	-	-	(129,382)	-	(71,815)
Hearne Infrastructure/Improvement Corporation	71,815	-	-	-	-	-	-	(71,815)
	\$ 201,197	\$ -	\$ -	\$ -	-	(129,382)	-	(71,815)
General revenues:								
Taxes								
Property taxes				1,488,499	-	1,488,499	-	-
Sales taxes				564,669	-	564,669	284,401	284,401
Franchise fees				93,619	-	93,619	-	-
Hotel/motel occupancy				113,701	-	113,701	-	-
Rentals				46,069	8,800	54,869	-	-
Investment earnings				1,132	3,388	4,520	2,364	1,464
Gain (loss) on disposal of capital assets				1,290	-	1,290	-	-
Miscellaneous				35,428	226,139	261,567	-	-
Contributions between primary government and component unit				-	-	-	(127,851)	(90,300)
Transfers				1,010,751	(1,010,751)	-	-	-
Total general revenues and transfers				3,355,158	(772,424)	2,582,734	158,914	195,565
Change in net position				203,222	259,684	462,906	29,532	123,750
Net position at beginning of the year, as previously reported				3,525,873	5,193,498	8,719,371	836,653	734,803
Restatement of net position, see Note 16				-	-	-	-	-
Net position at beginning of the year, as restated				3,525,873	5,193,498	8,719,371	836,653	734,803
Net position at end of year				\$ 3,729,095	\$ 5,453,182	\$ 9,182,277	\$ 866,185	\$ 858,553

The notes to the financial statements are an integral part of this statement. 11

City of Hearne, Texas
Balance Sheet
Governmental Funds
September 30, 2016

	General	Total Nonmajor Funds	Total Governmental Funds
Assets			
Cash and equivalents	\$ 356,521	\$ -	\$ 356,521
Receivables:			
Taxes	407,204	11,913	419,117
Accounts	179,542	-	179,542
Due from other funds	934,048	-	934,048
Other assets	18,516	-	18,516
Restricted assets:			
Cash and equivalents	234,402	128,190	362,592
	<u>\$ 2,130,233</u>	<u>\$ 140,103</u>	<u>\$ 2,270,336</u>
Total assets			
Liabilities			
Accounts payable	\$ 117,322	\$ 15,150	\$ 132,472
Salaries payable	76,506	-	76,506
Accrued liabilities	15,290	-	15,290
Deposits	-	-	-
Due to other funds	-	-	-
	<u>209,118</u>	<u>15,150</u>	<u>224,268</u>
Total liabilities			
Deferred Inflows of Resources			
Unavailable revenue-property taxes	<u>315,464</u>	<u>-</u>	<u>315,464</u>
Fund Balances			
Nonspendable			
Prepaid expenses	15,290	-	15,290
Restricted for:			
Debt service	64,916	-	64,916
Court security	98,412	-	98,412
Court technology	32,428	-	32,428
Fire truck	-	-	-
Child safety fund	38,646	-	38,646
Police	-	7,090	7,090
Tourism	-	117,863	117,863
Unassigned reported in:			
General fund	<u>1,355,959</u>	<u>-</u>	<u>1,355,959</u>
Total fund balances	<u>1,605,651</u>	<u>124,953</u>	<u>1,730,604</u>
Total liabilities, deferred inflows or resources and fund balances	<u>\$ 2,130,233</u>	<u>\$ 140,103</u>	<u>\$ 2,270,336</u>

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

City of Hearne, Texas
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
September 30, 2016

Fund balances - total governmental funds	1,730,604
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Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Governmental capital assets	9,831,791	
Less accumulated depreciation	(5,992,495)	3,839,296

Certain tax receivables are not available to pay for current period expenditures and are not reported in the governmental funds balance sheet.	315,464
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet.

Compensated absences	(127,067)	
Capital lease payable	(412,316)	
Notes payable	-	
Net pension liability - TMRS	(1,669,211)	
Net pension liability - TESRS	<u>(103,769)</u>	(2,312,363)

Certain deferred inflows and outflows of resources are not reported in the governmental funds.

Deferred outflows related to pensions	207,301	
Deferred inflows related to pensions	<u>(51,207)</u>	156,094

Net position of governmental activities	<u>\$ 3,729,095</u>
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The notes to the financial statements are an integral part of this statement.

City of Hearne, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2016

	General	Total Nonmajor Funds	Total Governmental Funds
Revenues:			
Taxes			
Property	\$ 1,442,960	\$ -	\$ 1,442,960
Sales	564,669	-	564,669
Franchise fees	93,619	-	93,619
Hotel/motel occupancy	-	113,701	113,701
Intergovernmental	41,066	12,339	53,405
Licenses and permits	17,940	-	17,940
Property rentals	46,069	-	46,069
Fines	270,031	-	270,031
Investment income	829	303	1,132
Private contributions	6,260	-	6,260
Miscellaneous	45,157	-	45,157
Total revenues	<u>2,528,600</u>	<u>126,343</u>	<u>2,654,943</u>
Expenditures			
Current:			
General government	611,374	-	611,374
Public safety	1,208,149	-	1,208,149
Highways and streets	315,642	-	315,642
Health and welfare	66,412	-	66,412
Culture and recreation	446,129	59,290	505,419
Capital outlay	368,009	-	368,009
Debt service:			
Principal	100,812	-	100,812
Interest and fiscal charges	19,482	-	19,482
Total expenditures	<u>3,136,009</u>	<u>59,290</u>	<u>3,195,299</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(607,409)</u>	<u>67,053</u>	<u>(540,356)</u>
Other financing sources (uses)			
Transfers in	1,079,280	-	1,079,280
Transfers out	-	(68,529)	(68,529)
Total other financing sources (uses)	<u>1,079,280</u>	<u>(68,529)</u>	<u>1,010,751</u>
Net change in fund balances	471,871	(1,476)	470,395
Fund balances at beginning of year, as previously reported	1,063,780	196,429	1,260,209
Restatement of fund balance, see Note 16	70,000	(70,000)	-
Fund balances at beginning of year, as restated	<u>1,133,780</u>	<u>126,429</u>	<u>1,260,209</u>
Fund balances at end of year	<u>\$ 1,605,651</u>	<u>\$ 124,953</u>	<u>\$ 1,730,604</u>

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

City of Hearne, Texas
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2016

Net change in fund balances - total governmental funds \$ 470,395

because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense:

Expenditures for capital assets	368,009	
Depreciation of capital assets	(441,197)	(73,188)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds and are instead deferred. This amount represents the net change in unavailable tax revenue.	(45,539)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(10,527)
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Restatement of prior period fund balance	(70,000)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(100,812)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not included as expenditures in governmental funds.

Compensated absences	\$ 1,881	
Capital lease payable	<u>31,012</u>	<u>32,893</u>

Change in net position of governmental activities	<u><u>\$ 203,222</u></u>
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The notes to the financial statements are an integral part of this statement.

City of Hearne, Texas
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Year Ended September 30, 2016

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Over (Under)
Revenues:				
Taxes:				
Property	1,589,410	1,589,410	1,442,960	(146,450)
Sales	475,000	475,000	564,669	89,669
Franchise fees	83,500	83,500	93,619	10,119
Licenses and permits	6,400	6,400	17,940	11,540
Property rentals	59,400	59,400	46,069	(13,331)
Fines	337,000	337,000	270,031	(66,969)
Intergovernmental	39,300	39,300	41,066	1,766
Investment income	100	100	829	729
Private contributions	15,000	15,000	6,260	(8,740)
Miscellaneous	105,800	105,800	45,157	(60,643)
Total revenues	2,710,910	2,710,910	2,528,600	(182,310)
Expenditures:				
Current:				
General government				
Legislative	63,184	63,184	72,831	9,647
Executive	217,644	217,644	311,426	93,782
Finance	348,468	348,468	310,503	(37,965)
Court	165,732	165,732	166,442	710
Total general government	795,028	795,028	861,202	66,174
Public Safety				
Police	1,119,437	1,119,437	1,150,011	30,574
Fire	147,033	147,033	75,087	(71,946)
Total public safety	1,266,470	1,266,470	1,225,098	(41,372)
Highways	515,981	515,981	315,642	(200,339)
Health and welfare				
Code enforcement	46,623	46,623	16,137	(30,486)
Animal control	56,869	56,869	50,275	(6,594)
Total health and welfare	103,492	103,492	66,412	(37,080)
Culture and recreation:				
Library	160,092	160,092	155,443	(4,649)
Parks and recreation	417,455	417,455	349,976	(67,479)
Total culture and recreation	577,547	577,547	505,419	(72,128)
Capital outlay	8,500	8,500	368,009	359,509
Debt Service				
Principal	-	-	100,812	100,812
Interest	-	-	19,482	19,482
Total debt service	-	-	120,294	120,294
Total expenditures	3,267,018	3,267,018	3,462,076	195,058
Excess (deficiency) of revenues over (under) expenditures	(556,108)	(556,108)	(933,476)	(377,368)
Other financing sources (uses):				
Proceeds from long term debt	-	-	326,067	326,067
Transfers in	1,010,751	1,010,751	1,079,280	68,529
Transfers out	(451,213)	(451,213)	-	451,213
Total other financing sources (uses)	559,538	559,538	1,405,347	845,809
Net change in fund balances	3,430	3,430	471,871	468,441
Fund balances at beginning of year, as previously reported	1,063,780	1,063,780	1,063,780	-
Restatement of fund balance, see Note 16	70,000	70,000	70,000	-
Fund balances at beginning of year, as restated	1,133,780	1,133,780	1,133,780	-
Fund balances at end of year	<u>\$ 1,137,210</u>	<u>\$ 1,137,210</u>	<u>\$ 1,605,651</u>	<u>\$ 468,441</u>

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

City of Hearne, Texas
Statement of Net Position
Proprietary Funds
September 30, 2016

	Enterprise Fund	Nonmajor Fund Municipal Airport Fund	Total
Assets			
Current assets			
Cash and equivalents	\$ 227,794	\$ 27,361	\$ 255,155
Accounts receivable (net of allowance for uncollectibles)	1,433,910	1,697	1,435,607
Grants receivable	91,115	-	91,115
Inventory	128,464	19,883	148,347
Due from other funds	-	-	-
Other assets	13,063	-	13,063
Restricted cash	757,379	-	757,379
Total current assets	2,651,725	48,941	2,700,666
Capital assets:			
Land	61,634	-	61,634
Buildings and other improvements	778,842	1,497,552	2,276,394
Distribution and collection systems	22,968,172	-	22,968,172
Equipment	852,581	33,276	885,857
Construction in progress	1,234,975	-	1,234,975
	25,896,204	1,530,828	27,427,032
Less: accumulated depreciation	(15,256,301)	(560,958)	(15,817,259)
Capital assets, net of accumulated depreciation	10,639,903	969,870	11,609,773
Total non-current assets	10,639,903	969,870	11,609,773
Total assets	13,291,628	1,018,811	14,310,439
Deferred outflows of resources			
Less on bond refunding	163,593	-	163,593
Deferred amounts related to pensions	97,759	-	97,759
Total deferred outflows of resources	261,352	-	261,352
Liabilities			
Current liabilities:			
Accounts payable	524,162	1,926	526,088
Salaries payable	42,523	-	42,523
Sales tax payable	23,883	-	23,883
Other accrued liabilities	30,977	-	30,977
Due to other funds	934,048	-	934,048
Due to component units	403,003	-	403,003
Customer deposits payable	379,494	-	379,494
Long-term debt, current	612,069	-	612,069
Total current liabilities	2,950,159	1,926	2,952,085
Long-term liabilities:			
Liability for compensated absences, long-term	73,899	-	73,899
Long-term debt, net	5,251,758	-	5,251,758
Net pension liability	823,091	-	823,091
Total long-term liabilities	6,148,748	-	6,148,748
Total liabilities	9,098,907	1,926	9,100,833
Deferred inflows of resources			
Deferred amounts related to pensions	17,776	-	17,776
Total deferred inflows of resources	17,776	-	17,776
Net Position			
Net investment in capital assets	4,776,076	969,870	5,745,946
Restricted for Debt Service	757,379	-	757,379
Unrestricted	(1,097,158)	47,015	(1,050,143)
Total net position	\$ 4,436,297	\$ 1,016,885	\$ 5,453,182

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

City of Hearne, Texas
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended September 30, 2016

	Enterprise Fund	Nonmajor Fund Municipal Airport Fund	Total
Operating revenues:			
Charges for sales and services:			
Water sales	\$ 1,156,413	\$ -	\$ 1,156,413
Electric sales	5,801,021	-	5,801,021
Sewer charges	582,401	-	582,401
Sanitation	621,897	-	621,897
Tap fees	1,000	-	1,000
Rental fees	8,800	22,340	31,140
Penalties	115,153	-	115,153
Miscellaneous revenue	167,508	36,291	203,799
Total operating revenues	<u>8,454,193</u>	<u>58,631</u>	<u>8,512,824</u>
Operating expenses:			
Wholesale utilities	3,901,665	-	3,901,665
Water department	415,677	-	415,677
Electric department	445,797	-	445,797
Sewer department	370,639	-	370,639
Sanitation department	539,205	-	539,205
Administrative and billing	913,176	-	913,176
Airport	-	55,540	55,540
Depreciation and amortization	583,638	98,714	682,352
Total operating expenses	<u>7,169,797</u>	<u>154,254</u>	<u>7,324,051</u>
Operating income (loss)	<u>1,284,396</u>	<u>(95,623)</u>	<u>1,188,773</u>
Nonoperating revenues (expense):			
Intergovernmental	312,353	-	312,353
Contributions from component unit	-	-	-
Investment income	3,388	-	3,388
Gain on disposal of capital assets	-	-	-
Interest expense	(165,550)	-	(165,550)
Total nonoperating revenues (expense)	<u>150,191</u>	<u>-</u>	<u>150,191</u>
Income (loss) before transfers	1,434,587	(95,623)	1,338,964
Transfers in	-	-	-
Transfers out	(1,079,280)	-	(1,079,280)
Total other financing sources (uses)	<u>(1,079,280)</u>	<u>-</u>	<u>(1,079,280)</u>
Change in net position	355,307	(95,623)	259,684
Net position, beginning of year, as previously reported	4,080,990	1,112,508	5,193,498
Restatement of net position, see Note 16	-	-	-
Net position, beginning of year, as restated	<u>4,080,990</u>	<u>1,112,508</u>	<u>5,193,498</u>
Net position, end of year	<u>\$ 4,436,297</u>	<u>\$ 1,016,885</u>	<u>\$ 5,453,182</u>

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

City of Hearne, Texas
Statement of Cash Flows
Proprietary Funds
For the Year ended September 30, 2016

	Enterprise Fund	Nonmajor Fund Municipal Airport Fund	Total
Cash flows from operating activities:			
Cash received from customers	8,494,879	94,948	8,589,827
Cash payments to suppliers for goods and services	(6,000,306)	(67,587)	(6,067,893)
Cash payments to employees for services	(722,086)	-	(722,086)
Net cash provided by (used in) operating activities	<u>1,772,487</u>	<u>27,361</u>	<u>1,799,848</u>
Cash flows from non-capital financing activities			
Decrease in bank overdraft	-	-	-
Transfers in	621,149	-	621,149
Transfers out	(1,079,280)	-	(1,079,280)
Net cash provided by (used in) non-capital financing activities	<u>(458,131)</u>	<u>-</u>	<u>(458,131)</u>
Cash flows from capital and related financing activities			
Acquisition of capital assets	(305,670)	-	(305,670)
Proceeds from disposal of capital assets	-	-	-
Capital grants	312,353	-	312,353
Interest paid	(165,550)	-	(165,550)
Principal payments	(703,103)	-	(703,103)
Proceeds of long term debt issuance	-	-	-
Net cash provided by (used in) capital and related financing activities	<u>(1,489,577)</u>	<u>-</u>	<u>(1,489,577)</u>
Cash flows from investing activities:			
Interest on cash and investments	<u>3,388</u>	<u>-</u>	<u>3,388</u>
Net increase (decrease) in cash and equivalents	(171,833)	27,361	(144,472)
Cash and equivalents, beginning of year	<u>1,157,006</u>	<u>-</u>	<u>1,157,006</u>
Cash and equivalents, end of year	<u>\$ 985,173</u>	<u>\$ 27,361</u>	<u>\$ 1,012,534</u>
Reconciliation of cash and equivalents:			
Unrestricted cash and equivalents	\$ 227,794	\$ 27,361	\$ 255,155
Restricted cash and investments	757,379	-	757,379
Total cash and equivalents	<u>\$ 985,173</u>	<u>\$ 27,361</u>	<u>\$ 1,012,534</u>

(continued)

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

City of Hearne, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2016

	Enterprise Fund	Nonmajor Fund Municipal Airport Fund	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 1,284,396	\$ (95,624)	\$ 1,188,772
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	583,638	98,714	682,352
Bad debt expense	-	-	-
Increase (decrease) in cash resulting from changes in assets and liabilities:			
Accounts receivable	298,670	(1,177)	297,493
Inventory	(13,265)	2,437	(10,828)
Due from other funds	325,493	29,691	355,184
Other assets	7,181	5,469	12,650
Deferred outflows related to pensions	10,657	(102)	10,555
Accounts payable	(472,071)	(12,047)	(484,118)
Salaries payable	7,728	-	7,728
Sales tax payable	83	-	83
Accrued liabilities	(8,276)	-	(8,276)
Due to other funds	(59,497)	-	(59,497)
Due to component units	(351,988)	-	(351,988)
Customer deposits	23,255	-	23,255
Liability for compensated absences	997	-	997
Net pension liability	132,711	-	132,711
Deferred inflows related to pensions	2,775	-	2,775
Net cash provided by (used in) operating activities	<u>\$ 1,772,487</u>	<u>\$ 27,361</u>	<u>\$ 1,799,848</u>

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

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2016

Note 1. Summary of Significant Accounting Policies

The financial statements of the City of Hearne, Texas (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

A. Reporting Entity

The City is a home-rule city governed by an elected mayor and a five-member council. The City operates under a Council-Manager form of government, established by City charter. As required by generally accepted accounting principles, these financial statements present the City (the primary government) and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Discretely Presented Component Units

The Hearne Economic Development Corporation is a non-profit corporation created under Section 4A of the Development Corporation Act of 1979. The Corporation receives one-half of one percent of local sales tax collected, which is used to promote economic development within the City. The Corporation is governed by a Board of Directors that is appointed by the City Council.

The Hearne Infrastructure/Improvement Corporation is a non-profit corporation created under Section 4B of the Development Corporation Act of 1979. The Corporation receives one-half of one percent of local sales tax collected, which is used to promote economic development within the City. The Corporation is governed by a Board of Directors that is appointed by the City Council.

B. Basis of Presentation

Government-wide financial statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The effect of interfund activity, other than interfund services provided and used within the governmental and business-type activities, has been removed from these statements. The statements distinguish between governmental and business-type activities. Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (General Government, Public Safety, etc.) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2016

Directly benefit from goods, services, or privileges provided by a given function or segment; grants and contributions that are restricted to meeting the operational requirements of a particular function or segment; and grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Fund financial statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories; governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the city and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Other Governmental Funds

Other Governmental Funds is a summation of all of the non-major governmental funds.

Proprietary Funds

Enterprise Fund

This fund is used to account for the operations of the City's utility systems, which include water, electric, sewer, and sanitation services.

Municipal Airport Enterprise Fund

This fund is a non-major enterprise fund, used to account for the operations of the City's municipal airport.

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2016

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b below.

In the fund financial statements, the *current financial resources* measurement focus or the *economic resources* measurement focus is used as appropriate:

- a. All governmental funds utilize a *current financial resources* measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary funds utilize an *economic resources* measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when *measurable and available*. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property, sales, and gross receipt tax revenues of governmental funds are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines, contributions and miscellaneous revenues are recorded when received in cash, as these revenues are not measurable and available until cash is received. Investment income is recorded as earned since it is measurable and available. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2016

The proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Operating revenues and expenses for proprietary funds include activities related to providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses that do not meet this definition are reported as non-operating revenues and expenses.

D. Budgets

Annual appropriated budgets are adopted for the general fund, special revenue funds, except Police Special fund, and proprietary funds. The budgets for all funds are prepared and adopted on a basis consistent with generally accepted accounting principles, which is the same basis of accounting used for financial reporting in these financial statements. Budgets are adopted by passage of a budget ordinance. All annual budget appropriations lapse at fiscal year-end.

Encumbrance accounting is a system under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation. Encumbrances are reported as reservations of fund balances since they do not constitute expenditures or liabilities. The City does not employ encumbrance accounting as it feels its current system is adequate to assure effective budgetary control and accountability and to facilitate effective cash planning and control.

E. Cash and Investments

For the purpose of the Statement of Net Position and the Statement of Cash Flows, "Cash and cash equivalents" consists of cash on hand, amounts in demand deposit accounts and interest-bearing checking accounts, as well as certificates of deposits and investments with maturities of three months or less.

State statutes authorize the City to invest in time deposits of its designated depositories, U.S. Government Securities, and local government investment pools. Investments are carried at fair value. Interest income and changes in fair value are reported as investment income.

Cash equivalents include investments in the local government investment pool, TexSTAR. TexStar is privately managed, was organized in conformity with the Interlocal Cooperation Act and is managed in compliance with the Texas Public Funds Investment Act. The fair value of the investment pools approximates cost. The fair value of the City's position in the external investment pool is the same as the value of the pool shares.

F. Short-term Interfund Receivables/Payables

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

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2016

G. Inventories

Inventories of enterprise funds are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

H. Restricted Assets

Amounts in governmental funds which are legally identified for specific purposes either by City ordinance or contractual obligation are reflected as restricted assets. When both restricted and unrestricted resources are available for use, it is the government's policy to use the restricted resources first, then unrestricted resources as they are needed.

Amounts in proprietary funds restricted for Community Development Block Grant Program are also included as restricted assets.

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds.

The City defines capital assets as assets with an estimated useful life greater than one year and an initial individual cost of \$5,000 or more for land, machinery or equipment, buildings or improvements other than buildings. All capital assets are valued at historical cost of estimated historical cost if the actual historical cost is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. Interest incurred during construction is not capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Infrastructure assets (such as roads, bridges, curbs, and gutters, streets and sidewalks, and drainage systems) purchased before October 1, 2003 have not been capitalized and are excluded from capital assets of governmental activities.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation over the following estimated useful lives:

Buildings	10-50 years
Infrastructure	10-40 years
Improvements other than buildings	10-50 years
Machinery and equipment	5-15 years

In the fund financial statements, capital assets used in governmental operations are accounted for capital outlay expenditures of the governmental fund at the time of acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2016

J. Compensated Absences

Compensated absences are those absences for which employees will be paid, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the City and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the City and its employees are accounted for in the period in which such services are rendered or in which such events take place.

In the governmental fund financial statements, compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure and fund liability in the fund that will pay for the compensated absences. Therefore, a liability for these amounts is recognized only if they have matured, for example, as a result of employee resignations and retirements. In the government-wide and proprietary fund financial statements compensated absences are accrued as incurred.

K. Long-term Obligations

The accounting treatment for long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the governmental activities column of the government-wide Statement of Net Position. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

L. Fund Equity

Government-wide statements

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – all other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund statements

Proprietary fund equity is classified the same as in the government-wide statements. Governmental fund equity is classified as fund balance. Fund balance is further classified as Nonspendable; restricted, committed, assigned, and/or unassigned.

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2016

Classification of fund balances

The *Nonspendable* fund balance includes the portion of net resources that cannot be spend because of their form or because they must be maintained intact. Resources not in spendable form include supplies inventories and prepaid items, long-term advances to other funds net of deferred interest revenue, long-term receivable net of deferred interest revenue, nonfinancial assets held for resale, and unrealized change in the fair value of investments.

Some resources are spendable but are legally or contractually required to be maintained intact. Such resources include the principal of an endowment.

The *restricted* fund balance includes net resources that can be spent only for the specific purposes stipulated by constitution, external resource providers (creditors, grantors, contributors), laws and regulations of other governments, or through enabling legislation. The enabling legislation authorizes the City to assess, levy, charge or otherwise mandate payment of resources from external resource providers; those resources can be used only for the specific purposes stipulated in the legislation. The City's revenue generated through enabling legislation includes municipal court fees.

The *committed* fund balance includes spendable net resources that can only be used for specific purposes pursuant to constraints imposed by formal Council actions, no later than the close of the fiscal year. Those constraints remain binding unless removed or changed in the same manner employed to previously commit those resources.

The *assigned* fund balance includes amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Such intent should be expressed by the City Council or its designated officials to assign amounts to be used for specific purposes, but are neither restricted nor committed. Constraints imposed on the use of assigned amounts can be removed with no formal Council actions. The assigned fund balance is only reported in the General fund.

The *unassigned* fund balance represents spendable net resources that have not been restricted, committed, or assigned to specific purposes.

Spending prioritization in Using Available Resources

When both restricted resources and other resources (i.e., committed, assigned, and unassigned) can be used for the same purpose, the City budget considers restricted resources to be spend first.

When committed, assigned, and unassigned resources can be used for the same purpose, the flow assumption in the City budget is to spend in the sequence of committed resources first, assigned second, and unassigned last.

M. Interfund Transfers

Interfund services provided and used are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions in expenditures/expenses in the fund that is reimbursed.

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2016

All other interfund transactions, except interfund services provided and used and reimbursements, are reported as transfers.

N. Pensions

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

O. Post-employment Benefits

The City participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 or any year to be effective the following January 1.

Note 2. Legal Compliance – Budgets

In June of each year, all departments of the City submit requests for appropriations to the City Manager so that a budget may be prepared. The City Manager has ultimate responsibility for the budget and formulates the budget goals for the City under the direction of the City Council. The budget is prepared by fund, function, activity, and object, and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

In compliance with the state's uniform budget law, the City Manager files the proposed budget with the City Secretary and City Council before the 30th day prior to the date the City adopts its tax levy for the fiscal year. Once filed, the proposed budget is available for inspection by the public. The City is required to hold a public hearing on the proposed budget not less than 15 days after the budget is filed with the City Secretary and prior to the date the Council makes the tax levy. The City publishes notice of the public hearing in the official newspaper not more than 30 days nor less than 10 days before the hearing. Once the hearing is concluded and before adopting the proposed budget, the Council may make any changes it considers warranted by law or in the best interest of the taxpayers. The annual operating budget is then adopted through passage of an annual budget ordinance. Upon approval by the Council, the annual budget document becomes a matter of public record which is available for use and inspection by all interested persons and organizations. It is filed with the City Secretary.

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2016

The legal level of budgetary control is the department. Therefore, expenditures may not legally exceed budget appropriations at the department level. Each department head, with the approval of the City Manager, can reclassify items within the department without approval of the Council. However, to amend the total of a department a budget amendment enacted by City ordinance is required.

Note 3. Deposits and Investments

The City maintains a cash pool that is available for use by the general, special revenue, and enterprise funds. At year end, several of the funds had overdrawn their share of the funds in the pool. The amounts overdrawn are presented on the combined balance sheet as payables to other funds. The city conducts all its banking transactions with its depository bank, SouthStar Bank.

As of September 30, 2016, the City had investments in TexStar with maturities less than 60 days with a fair value of \$628,504.

Interest rate risk

The investment policies of the City limit interest rate risk exposure by limiting investments primarily to certificates of deposits and local government investments pools.

Custodial credit risk

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the government's deposits may not be returned to it. The City has a depository policy for custodial risk incorporated into its depository contract. Deposits of the City are insured or collateralized with securities held by the City, its agent, or by the pledging financial institution's trust department or agent in the name of the City.

Credit risk

It is the government's policy to limit its investments to local government investment pools, TesSTAR, or certificates of deposit. As of September 30, 2016, the City had investments in local government investment pools and certificates of deposit. TexSTAR was rated AAAM by Standard & Poor's as of September 30, 2016.

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2016

Note 4. Restricted Assets

At September 30, 2016, restrictions on cash and investments were as follows:

	Governmental Funds	Proprietary Funds	Hearne Economic Development Corporation	Hearne Infrastructure/ Improvement Corporation
<u>Cash and Investments</u>				
Restricted for:				
Hotel/motel expenditures	\$ 121,100	\$ -	\$ -	\$ -
Police Special	7,090	-	-	-
Interest and sinking	64,916	757,379	-	-
Child Safety	38,646	-	-	-
Court security	98,412	-	-	-
Court technology	32,428	-	-	-
Community Development				
Block Grant Program	-	-	-	-
Meter Sinking	-	-	-	-
Economic Development	-	-	866,185	858,553
	<u>\$ 362,592</u>	<u>\$ 757,379</u>	<u>\$ 866,185</u>	<u>\$ 858,553</u>

Note 5. Receivables

Receivables at September 30, 2016, consist of the following:

	Governmental Funds	Proprietary Funds
Receivables:		
Taxes		
Property	\$ 315,464	\$ -
Sales	103,652	
Hotel/motel occupancy	11,913	
Accounts	179,542	3,013,364
Grants	-	91,115
Less:		
Allowance for uncollectibles	11,912	(1,577,757)
Net total receivables	<u>\$ 622,483</u>	<u>\$ 1,526,722</u>

Property taxes attach as an enforceable lien on property as of February 1. Taxes are levied on October 1 and are payable by January 31. After which time they become delinquent, and penalties and interest may be assessed by the City.

Property taxes are collected and remitted to the city by the Robertson County Tax Assessor-Collector. The Robertson County Appraisal District appraises property values for the City. Property taxes are levied by October 1, in conformity with Subtitle E, Texas Property Code. Current taxes become delinquent on February 1 following the tax year. On January 1 of each year a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed. For the 2016 tax roll, the assessed valuation was \$209,173,622 and the net taxable value was \$202,066,941. The tax rate was \$0.71039 per \$100 valuation. This resulted in a total tax levy of \$1,407,091. Delinquent property taxes receivable at September 30, 2016 were \$209,215 and current property taxes receivable were \$78,657.

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2016

Note 6. Capital Assets

The following is a summary of capital asset activity during the year ended September 30, 2016:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 393,082	\$ -	\$ -	\$ 393,082
Construction in progress	-	-	-	-
Total capital assets not being depreciated	393,082	-	-	393,082
Capital assets being depreciated				
Buildings	5,421,966	-	-	5,421,966
Improvements other than buildings	1,210,096	262,021	-	1,472,117
Furniture and fixtures	85,661	-	-	85,661
Vehicles	1,424,830	-	-	1,424,830
Machinery and equipment	928,147	105,988	-	1,034,135
Total at historical cost	9,070,700	368,009	-	9,438,709
Less: accumulated depreciation for:				
Buildings	3,362,382	86,661	-	3,449,043
Improvements other than buildings	625,472	161,076	-	786,548
Furniture and fixtures	27,892	15,527	-	43,419
Vehicles	949,920	121,842	-	1,071,762
Machinery and equipment	585,632	56,091	-	641,723
Total accumulated depreciation	5,551,298	441,197	-	5,992,495
Total capital assets being depreciated, net	3,519,402	(73,188)	-	3,446,214
Governmental activities capital assets, net	\$ 3,912,484	\$ (73,188)	\$ -	\$ 3,839,296
Business-type activities				
Capital assets not being depreciated				
Land	\$ 61,634	\$ -	\$ -	\$ 61,634
Construction in progress	934,980	299,995	-	1,234,975
Total capital assets not being depreciated	996,614	299,995	-	1,296,609
Capital assets being depreciated				
Buildings and improvements	2,276,394	-	-	2,276,394
Furniture and fixtures	315,192	5,675	-	320,867
Vehicles	364,357	-	-	364,357
Distribution and collection systems	22,968,172	-	-	22,968,172
Machinery and equipment	200,633	-	-	200,633
Total at historical cost	26,124,748	5,675	-	26,130,423
Less accumulated depreciation for:				
Buildings and improvements	672,755	24,351	-	697,106
Furniture and fixtures	278,738	12,724	-	291,462
Vehicles	204,144	31,421	-	235,565
Distribution and collection systems	13,829,692	610,777	-	14,440,469
Machinery and equipment	149,578	3,079	-	152,657
Total accumulated depreciation	15,134,907	682,352	-	15,817,259
Total capital assets being depreciated, net	10,989,841	(676,677)	-	10,313,164
Business-type activities capital assets, net	\$ 11,986,455	\$ (376,682)	\$ -	\$ 11,609,773

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2016

Depreciation expense was charged as direct expense to programs of the primary government as follows:

General government	\$ 89,211
Public safety	179,196
Highways and streets	117,402
Culture and recreation	55,388
Total depreciation expense - Governmental activities	<u>\$ 441,197</u>

Note 7. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in the Texas Municipal League Intergovernmental Risk Pool for its insurance and pays a quarterly premium to the Pool. The Pool is intended to be self-sustaining through member premiums and reinsures through commercial companies for excessive claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8. Long-term Debt

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2016:

	Balance 9/30/2015	Additions	Retirements	Balance 9/30/2016	Due Within One Year	Long Term
<u>Governmental activities</u>						
Lease payable - Oshkosh	\$ 413,914	\$ 31,012	\$ (32,610)	\$ 412,316	\$ 64,916	\$ 347,400
Subtotal of leases payable	413,914	31,012	(32,610)	412,316	64,916	347,400
SouthStar Bank - Equipment	68,202	-	(68,202)	-	-	-
Subtotal of notes payable	68,202	-	(68,202)	-	-	-
	<u>\$ 482,116</u>	<u>\$ 31,012</u>	<u>\$ (100,812)</u>	<u>\$ 412,316</u>	<u>\$ 64,916</u>	<u>\$ 347,400</u>
<u>Business-type activities</u>						
Lease payable - Southside	\$ 1,189,680	\$ -	\$ (109,760)	\$ 1,079,920	\$ 205,318	\$ 874,602
Lease payable - AEP	358,302	-	(54,395)	303,907	101,751	202,156
Subtotal of leases payable	1,547,982	-	(164,155)	1,383,827	307,069	1,076,758
2011 General obligation refunding	4,780,000	-	(300,000)	4,480,000	305,000	4,175,000
Subtotal of bonds payable	4,780,000	-	(300,000)	4,480,000	305,000	4,175,000
SouthStar Bank - Equipment	238,948	-	(238,948)	-	-	-
Subtotal of notes payable	238,948	-	(238,948)	-	-	-
	<u>\$ 6,566,930</u>	<u>\$ -</u>	<u>\$ (703,103)</u>	<u>\$ 5,863,827</u>	<u>\$ 612,069</u>	<u>\$ 5,251,758</u>

City of Hearne, Texas
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The annual aggregate maturities for each debt type for the years subsequent to September 30, 2106 are as follows:

Year ending September 30	Business-type Activities				Governmental Activities	
	Bonds Payable		Notes Payable		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	305,000	145,310				
2018	310,000	138,465	-	-	-	-
2019	325,000	130,598	-	-	-	-
2020	335,000	121,599	-	-	-	-
2021	376,000	86,572	-	-	-	-
2022-2025	1,504,000	346,286	-	-	-	-
2026-2030	1,325,000	79,815	-	-	-	-
	<u>4,480,000</u>	<u>1,048,645</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

On March 1, 2011, the City issued \$5,905,000 of general obligation refunding bonds to provide resources to refund its Combination Tax and Waterworks and Sewer System Surplus Revenue Certificates of obligation, Series, 2004, in advance of their maturities. As a result, the refunded bonds are considered defeased and the liability has been removed from the business-type activities columns of the Statement of Net Position.

During the year ended September 30, 2016, the following changes occurred in other long-term liabilities:

	Balance 9/30/2015	Additions (Reductions)	Balance 9/30/2016	Due Within One Year
<u>Governmental activities</u>				
Compensated absences	<u>\$ 128,948</u>	<u>\$ (1,881)</u>	<u>\$ 127,067</u>	<u>\$ -</u>
<u>Business-type activities</u>				
Compensated absences	<u>\$ 72,902</u>	<u>\$ 997</u>	<u>\$ 73,899</u>	<u>\$ -</u>

The general fund has typically been used to liquidate the liability for compensated absences for governmental activities, while the enterprise fund has been used to liquidate the liability for business-type activities.

Note 9. Leases

The City has entered into several lease agreements to finance the acquisition of vehicles and equipment and a lease agreement to finance the acquisition of an electric substation. These lease commitments qualify as capital leases for accounting purposes, and therefore have been recorded at the present value of their future minimum lease payments as of inception date.

City of Hearne, Texas
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The assets acquired through the capital leases are as follows:

Asset Class	Governmental Activities	Business-type Activities
Vehicles	\$ 507,985	\$ -
Distribution and collection system	-	2,453,435
Cost basis	<u>507,985</u>	<u>2,453,435</u>
Less: Accumulated depreciation	(101,596)	(895,914)
Total net asset	<u>\$ 406,389</u>	<u>\$ 1,557,521</u>

The total future minimum lease payments and the net present value of these minimum payments as of September 30, 2016 were as follows:

Year ending September 30	Governmental Activities	Business-type Activities
2017	48,000	307,069
2018	48,000	438,378
2019	48,000	173,545
2020	48,000	173,545
2021	48,000	126,788
2022-2025	192,000	507,152
2026-2030	24,000	-
Total minimum lease payments	<u>456,000</u>	<u>1,726,477</u>
Less: Amount representing interest	(98,086)	(485,564)
Present value of minimum payments	<u>\$ 357,914</u>	<u>\$ 1,240,913</u>

Amortization expense is included in depreciation expense of the Enterprise fund.

Note 10. Interfund Receivables and Payables

Interfund receivables and payables, all of which are considered short-term, at September 30, 2016, were as follows:

Name of Fund	Due from other funds	Due to other funds
Governmental:		
General	\$ 934,048	\$ -
Non-Major Governmental	-	-
Business-Type:		
Enterprise Fund	-	934,048
Non-Major Business-Type	-	-
	<u>\$ 934,048</u>	<u>\$ 934,048</u>

The interfund balances primarily result from the overdraft positions in the City's pooled cash account. Generally, amounts are cleared within the following year.

City of Hearne, Texas
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Note 11. Interfund Transfers

Interfund transfers during the year ended September 30, 2016, were as follows:

	Transfers in		
	General Fund	Enterprise	Total
<u>Transfers out</u>			
General	\$ -	\$ 68,529	\$ 68,529
Enterprise	1,079,280	-	1,079,280
	<u>\$ 1,079,280</u>	<u>\$ 68,529</u>	<u>\$ 1,147,809</u>

Transfers are made between the governmental funds and the enterprise funds in lieu of franchise fees, overhead allocations, and for debt service payments.

Note 12. Commitments

The City entered into an amended contract with AEP Energy Partners, Inc., to provide wholesale electricity. The contract will expire December 31, 2022. After the expiration, the contract is renewable upon mutual agreement. The City paid \$3,901,665 to this company during the year ended September 30, 2016.

The City entered into a contract with a company to collect commercial and residential garbage within the City. The contract will expire on December 1, 2016. The City paid \$539,205 to this company during the year ended September 30, 2016.

Note 13. Pension Plans

Texas Municipal Retirement System

A. Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

B. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

City of Hearne, Texas
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At retirement the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Plan provisions for the City were as follows:

	Plan Year 2016	Plan Year 2015	Plan Year 2014
Employee deposit rate	7%	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1	2 to 1
Years required for vesting	5	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% repeating, transfers	100% repeating, transfers	100% repeating, transfers
annuity Increase (to retirees)	70% of CPI repeating	70% of CPI repeating	70% of CPI repeating

Employees covered by benefit terms.

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms.

Inactive employees or beneficiaries currently receiving benefits	25
Inactive employees entitled to but not yet receiving benefits	36
Active employees	54

C. Contributions

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 14.19% and 15.37% in calendar years 2015 and 2016, respectively. The city's contributions to TMRS for the year ended September 30, 2016, were \$317,483, and were equal to the required contributions.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Position Liability was determined by an actuarial valuation as of that date.

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2016

Actuarial assumptions:

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by a factor of 100.0%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2010 through December 31, 2014, first used in the December 31, 2015 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2015 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2016

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core-Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

Discount Rate

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

<i>Changes in the Net Pension Liability</i>	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at December 31, 2014	\$ 7,398,039	\$ 5,307,582	\$ 2,090,457
Changes for the year			
Service Cost	314,396	-	314,396
Interest	518,420	-	518,420
Change of benefit terms	-	-	-
Difference between expected & actual experience	14,664	-	14,664
Changes of assumptions	19,367	-	19,367
Contributions - employer	-	317,483	(317,483)
Contributions - employee	-	144,692	(144,692)
Net investment income	-	7,833	(7,833)
Benefit payments, including refunds of employee contributions	(298,473)	(298,473)	-
Administrative expense	-	(4,770)	4,770
Other charges	-	(236)	236
Net charges	\$ 568,374	\$ 166,529	\$ 401,845
Balance at December 31, 2015	\$ 7,966,413	\$ 5,474,111	\$ 2,492,302

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net position liability would be if it were calculated using a discount rate that is 1-

City of Hearne, Texas
Notes to Basic Financial Statements
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Sensitivity of the net pension liability to changes in the discount rate (continued)

percentage-point lower (6%) or 1-percentage-point higher (8%) than the current rate.

	1% Decrease in Discount Rate (6%)	Discount Rate (7%)	1% Increase in Discount Rate (8%)
City's net pension liability	\$ 3,706,450	\$ 2,492,302	\$ 1,507,940

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2016, the City recognized pension expense of \$399,441.

At September 30, 2016, the city reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows or Resources
Differences between expected and actual economic experience	\$ 11,043	\$ 45,422
Difference between projected and actual investment earnings	50,203	-
Contributions subsequent to the measurement date	235,003	-
	<u>\$ 296,249</u>	<u>\$ 45,422</u>

\$ 235,003 reported as deferred outflows or resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30	
2016	77,842
2017	79,976
2018	93,693
2019	73,157
2020	
Thereafter	
Total	<u>\$ 324,668</u>

Texas Emergency Services Retirement System

A. Plan Description

The City participates in a cost-sharing multiple employer pension plan that has a special funding situation. The plan is administered by the Texas Emergency Services Retirement System (TESRS) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At August 31, 2015, there were 198 contributing fire and/or

City of Hearne, Texas
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September 30, 2016

Texas Emergency Services Retirement System

A. Plan Description (continued)

emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

On August 31, 2015, the pension system membership consisted of:

Retirees and beneficiaries currently receiving benefits	3,073
Terminated members entitled to benefits but not yet receiving them	2,161
Active participants (vested and non-vested)	4,036

B. Pension Plan Fiduciary Net Position

Detailed information about the TESRS's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. TESRS issues a publicly available Annual Financial Report, which includes financial statements, notes, and required supplementary information, which can be obtained at www.tesrs.org. The separately issued actuarial valuations which may be of interest are also available at the same link.

C. Benefits Provided

Senate Bill, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas and eligibility requirements by Board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for year of the next five years of service so that a member becomes 100% vested with 15 years of service. Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified services. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount or continuing monthly payments to a member's surviving spouse and dependent children.

D. Funding Policy

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities. The State is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2016

D. Funding Policy (continued)

The Board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the State are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted near the end of each even-numbered calendar year based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2014, the Part Two contribution rate was 0%, since the first actuarial valuation report after adoption of the rules showed the System to have an adequate contribution arrangement without any Part Two contributions. Additional contributions may be made by governing bodies within two years of joining the System, to rant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System. A small subset of participating departments has a different contribution arrangement which is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into the System. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by the System.

E. Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2014, total contributions (due, prior service, and interest on prior financing) of \$15,012 were paid by the City. The State appropriated \$1,530,343 for the fiscal year ending August 31, 2014 to the plan as a whole.

F. Actuarial Assumptions

Total pension liability in the August 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial valuation date	8/31/2014
Actuarial cost method	Entry age
Amortization method	Level dollar, Open
Amortization period	30 years
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value.
Actuarial assumptions:	
Investment rate of return*	7.75%
Projected salary increase	N/A
*includes inflation at	3.5%
Cost of living adjustments	None

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2016

F. Actuarial Assumptions (continued)

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2018 by scale AA. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (3.5%). In addition, the final 7.75% assumption reflected a reduction of 0.20% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Net Real Rate of Return
Equities		
Large Cap Domestic	32.00%	5.20%
Small Cap Domestic	10.00%	5.80%
Developed International	21.00%	5.50%
Emerging Markets	6.00%	5.40%
Master Limited Partnership	5.00%	7.10%
Fixed Income		
Domestic	21.00%	1.40%
International	5.00%	1.60%

G. Discount Rate

The discount rate used to measure the total pension liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2015 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. That UAAL was based on an actuarial value of assets that was \$7.9 million less than the plan fiduciary net position as of August 31, 2014. Because of the 30-year amortization period with the conservative amortization method and with a lower value of assets, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Sensitivity of the Net Pension Liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 7.75%, as well as the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75%) or 1 percentage point higher (8.75%) than the current rate:

City of Hearne, Texas
Notes to Basic Financial Statements
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H. Sensitivity of the Net Pension Liability to changes in the discount rate (continued)

	1% Decrease in Discount Rate (6.75%)	Discount Rate (7.75%)	1% Increase in Discount Rate (8.75%)
City's proportionate share of the net pension liability:	\$ 168,354	\$ 103,769	\$ 38,646

I. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2016, the City reported a liability of \$103,769 for its proportionate share of the plan's net pension liability. This liability reflects a reduction for State pension support provided to the City. The amount recognized by the City as a proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the City were as followed:

City's proportionate share of the collective net pension liability	\$ 103,769
State's proportionate share that is associated with the City*	34,590
Total	\$ 138,359

**Calculated using the City's proportionate share of contributions multiplied by the State's share of the collective net pension liability.*

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. GASB Statement No. 68 requires the net pension liability to be measured as of a date no earlier than the end of the employer's prior fiscal year. TESRS did not roll forward the net pension liability nor did they provide the necessary information for the participants to roll forward themselves. While the City acknowledges that the measurement date does not fall within this 12 month period, the City elected to honor the conservatism principle and report a net pension liability measured as of August 31, 2016. The City used the assumption that any differences in the net pension liability measured as of August 31, 2016 versus September 30, 2016 would be immaterial. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2015 through August 31, 2016.

At August 31, 2016 the employer's proportion of the collective net pension liability was .475%. TESRS did not provide prior year proportions measured as of August 31, 2016. The City is using the assumption that the change in proportion would have been immaterial and therefore disregarded this year.

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

For the year ended August 31, 2016, the City recognized pension expense of \$12,772. The City recognized on-behalf revenues of \$ 7,662 calculated by taking the State's total contributions to TESRS multiplied by the City's proportionate share.

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At August 31, 2016, the City reported its proportionate share of the TESRS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	\$ -	\$ 6,306
Contributions paid to TESRS subsequent to the measurement date	\$ 21,753	\$ -

\$21,753 reported as deferred outflows or resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. The net amount of the employer's balances of deferred outflows and inflows or resources related to pensions will be recognized in pension expense as follows:

Year ended September 30	Pension Expense
2017	\$ 7,680
2018	7,680
2019	12,156
2020	185
Total	\$ 27,701

Note 14. Other post-employment benefits

Supplementary Death Benefit

The city also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement system (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The city elected, by ordinance to provide group-term life insurance coverage to both current and retired employees. The city may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

The city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employee's entire careers.

The city's contribution to the TMRS SDBF for the year ended September 30, 2016, were \$3,917, which equaled the required contributions for the year.

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2016

Note 15. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is a party to various claims and legal proceedings which normally occur in governmental operations. It is not possible to estimate the ultimate outcome or liability. These contingencies are not likely to have a material adverse impact on the City.

Note 16. Restatement of Net Position and Fund Balance

During the year ended September 30, 2016, the City adopted Governmental Accounting Standard Number 68, "Accounting and Financial Reporting for Pensions." The adoption of this standard required the City to report the net pension liability on the statement of net position. Therefore, an adjustment was made to the beginning net position for the recording of the beginning net pension liability and the beginning deferred outflow for contributions made after the measurement date. Net position of the proprietary fund and the business-type activities has been reduced by \$625,517 as of September 30, 2014. Net position of the governmental activities has been reduced by \$1,338,732 as of September 30, 2014.

Also, during the year ended September 30, 2015, the City became aware that tax assessor collector fees from prior periods dating back to 2008 had not been paid. Therefore, an adjustment was made to the beginning fund balance and net position for the recording of this liability. Fund balance of the general fund and net position of the governmental activities as of September 30, 2014 has been reduced by \$44,381.

Subsequent to September 30, 2015, the City became aware that certain sales tax revenues from April 2008 to March 2009 and expenses from August 2006 to October 2014 related to the Hearne Economic Development Corporation and the Hearne Infrastructure/Improvement Corporation had not been properly recorded. Therefore, an adjustment was made to the beginning fund balance and net position for these adjustments. Fund balance of the general fund and the Hotel/Motel Occupancy Tax special revenue fund has been increased by \$30,165 and \$ 70,000 , respectively, and net position of the governmental activities has been increased by \$100,165 as of September 30, 2014. Net position of the proprietary fund and the business-type activities has been increased by \$103,788 as of September 30, 2014. Net position as of September 30, 2014 of the Hearne Economic Development Corporation and the Hearne Infrastructure/Improvement Corporation has been reduced by \$ 109,896 and \$ 94,056 , respectively.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and Disclosures that are required by the GASB but are not considered a part of The basic financial statements. Required supplementary information Includes:

- Schedule of changes in Net Pension Liability and Related Ratios – TMRS
- Schedule of Contributions – TMRS
- Schedule of Changes in Net Pension Liability and Related Ratios – TESRS
- Schedule of Contributions - TESRS

City of Hearne, Texas
Required Supplementary Information
For the Year Ended September 30, 2016

Schedule of Changes in Net Pension Liability and Related Ratios
Texas Municipal Retirement System (TMRS)
Last 10 Years (will ultimately be displayed)

	<u>2015</u>
Total Pension Liability	
Service Cost	\$ 314,396
Interest (on the Total Pension Liability)	518,420
Change in benefit terms	-
Difference between expected and actual experience	14,664
Change of assumptions	19,367
Benefit payments, including refunds of employee contributions	<u>(298,473)</u>
Net Change in Total Pension Liability	568,374
Total Pension Liability - Beginning	<u>7,398,039</u>
Total Pension Liability - Ending (a)	<u><u>\$ 7,966,413</u></u>
Plan Fiduciary Net Position	
Contributions - Employer	317,483
Contributions - Employee	144,692
Net Investment Income	7,833
Benefit payments, including refunds of employee contributions	(298,473)
Administrative Expense	(4,770)
Other	<u>(236)</u>
Net Change in Plan Fiduciary Net Position	166,529
Plan Fiduciary Net Position - Beginning	<u>5,307,582</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 5,474,111</u></u>
Net Pension Liability - Ending (a) - (b)	\$ 2,492,302
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	68.71%
Covered Employee Payroll	\$ 2,067,033
Net Pension Liability as a Percentage of Covered Employee Payroll	120.57%

Notes to Schedule:

GASB 68 requires 10 fiscal years of data to be provided in this schedule. As GASB 68 has been initially adopted for the 2014 plan year, historical data is not presented.

City of Hearne, Texas
Required Supplementary Information
For the Year Ended September 30, 2016

Schedule of Contributions
Texas Municipal Retirement System (TMRS)
Last 10 Years (will ultimately be displayed)

	<u>2016</u>
Actuarially Determined Contribution	\$ 317,483
Contributions in relation to the	<u>(317,483)</u>
Contribution deficiency (excess)	\$ -
Covered employee payroll	\$ 2,067,033
Contributions as a percentage of	15.36%

Notes to Schedule of Contributions

Valuation Date:

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

Methods and Assumptions Used to Determine contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of Payroll, Closed
Remaining Amortization Period	30 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50%, including inflation
Investment Rate of Return	6.75%
Retirement Age	Experienced-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014 RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information

Notes There were not benefit changes during the year.

GASB 68 requires 10 fiscal years of data to be provided in this schedule. As GASB 68 has been initially adopted for the 2015 fiscal year, historical data is not presented.

**City of Hearne, Texas
Required Supplementary Information
For the Year Ended September 30, 2016**

**Schedule of City's Proportionate Share of the Net Pension Liability
Texas Emergency Services Retirement System (TESRS)
Last 10 Years (will ultimately be displayed)**

	<u>8/31/2016</u>
City's proportion of the net pension liability	0.475%
City's proportionate share of the net pension liability	103,769
State's proportionate share of the net pension liability	<u>34,590</u>
Total	<u><u>\$ 138,359</u></u>
Number of Active Members*	23
City's Net Pension Liability per Active Member	\$ 4,512
Plan fiduciary net position as a percentage of the total liability	21.2%
o There is no compensation for active members. Number of active members is used instead.	

Notes to Schedule:

GASB 68 requires 10 fiscal years of data to be provided in this schedule. As GASB 68 has been initially adopted for the 2014 plan year, historical data is not presented.

Changes in benefit terms – There were no changes in benefit terms that affect the measurement of the total pension liability.

Changes in assumptions – There were no changes in assumptions or other inputs that affected the measurement of the total pension liability during the measurement period.

City of Hearne, Texas
Required Supplementary Information
For the Year Ended September 30, 2016

Schedule of Contributions
Texas Emergency Services Retirement System (TESRS)
Last 10 Years (will ultimately be displayed)

	<u>2016</u>
Contractually required contribution	\$ 21,753
Contributions in relation to the contractually required contribution	<u>21,753</u>
Contribution deficiency (excess)	<u><u>-</u></u>
Number of Active Members*	23
Contributions per active member	\$ 946

- There is no compensation for active members. Number of active members is used instead.

Notes to Schedule: GASB 68 requires 10 fiscal years of data to be provided in this schedule. As GASB 68 has been initially adopted for the 2015 fiscal year, historical data is not presented.

Combining Financial Statements

Non-Major Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Hotel/Motel Occupancy Tax Fund - This fund is used to account for the tax collected from local hotels and motels, which is used to promote tourism.

Police Special Fund – This fund is used to account for restricted grant funds from the State for officer training and crime victims benefits.

City of Hearne, Texas
Combining Balance Sheet
Non-major Governmental Funds
September 30, 2016

	Special Revenue		Total
	Hotel/Motel	Police	Non-major
	Tax	Special	Governmental
		Fund	Funds
Assets			
Taxes receivable	\$ 11,913		\$ 11,913
Cash, restricted	121,100	7,090	128,190
Total assets	<u>\$ 133,013</u>	<u>\$ 7,090</u>	<u>\$ 140,103</u>
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 15,150	\$ -	\$ 15,150
Due to other funds	-	-	-
Total liabilities	<u>15,150</u>	<u>-</u>	<u>15,150</u>
Fund balances:			
Restricted for police	-	7,090	7,090
Restricted for tourism	117,863	-	117,863
Total fund balances	<u>117,863</u>	<u>7,090</u>	<u>124,953</u>
Total liabilities and fund balances	<u>\$ 133,013</u>	<u>\$ 7,090</u>	<u>\$ 140,103</u>

City of Hearne, Texas
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-major Governmental Funds
For the Year Ended September 30, 2016

	Special Revenue		Total
	Hotel/Motel	Police	Non-major
	Tax	Special	Governmental
		Fund	Funds
Revenues:			
Hotel/motel occupancy taxes	\$ 113,701	\$ -	\$ 113,701
Investment income	303	-	303
Intergovernmental	11,001	1,338	12,339
Total revenues	125,005	1,338	126,343
Expenditures:			
Current:			
Transfers	68,529		68,529
Culture and recreation	59,290	-	59,290
Total expenditures	127,819	-	127,819
Excess (deficiency) of revenues over (under) expenditures	(2,814)	1,338	(1,476)
Net change in fund balances	(2,814)	1,338	(1,476)
Fund balances at beginning of year, as previously reported	190,677	5,752	196,429
Restatement of fund balance see note 16	(70,000)		(70,000)
Fund balances at end of year	\$ 117,863	\$ 7,090	\$ 124,953

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES

IN FUND BALANCE – BUDGET AND ACTUAL

Special Revenue Funds

City of Hearne, Texas
Hotel/Motel Occupancy Tax Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Year Ended September 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Hotel motel occupancy taxes	\$ 170,600	\$ 170,600	\$ 113,701	\$ (56,899)
Investment income	-	-	303	303
Intergovernmental	2,700	2,700	11,001	8,301
Total revenues	173,300	173,300	125,005	(48,295)
Expenditures:				
Current:				
Culture and recreation:				
Transfers	84,800	84,800	68,529	(16,271)
Economic development	85,800	85,800	59,290	(26,510)
Capital outlay	2,700	2,700	-	(2,700)
Total expenditures	173,300	173,300	127,819	(45,481)
Net change in fund balance	-	-	(2,814)	(2,814)
Fund balances at beginning of year, as previously reported	190,677	190,677	190,677	-
Restatement of fund balance, see Note 16	(70,000)	(70,000)	(70,000)	-
Fund balances at beginning of year, as restated	120,677	120,677	120,677	-
Fund balance at end of year	\$ 120,677	\$ 120,677	\$ 117,863	\$ (2,814)

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION – BUDGET AND ACTUAL**

Enterprise Funds

City of Hearne, Texas
Enterprise Fund
Schedule of Revenues, Expenses, and Changes in Net Position
Budget and Actual
For the Year Ended September 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Operating revenues:				
Charges for sales and services:				
Water sales	\$ 1,190,200	\$ 1,190,200	\$ 1,156,413	\$ (33,787)
Electric sales	5,075,900	5,075,900	5,801,021	725,121
Sewer charges	499,800	499,800	582,401	82,601
Sanitation	665,900	665,900	621,897	(44,003)
Tap fees	5,000	5,000	1,000	(4,000)
Rental fees	9,600	9,600	8,800	(800)
Penalties	135,000	135,000	115,153	(19,847)
Miscellaneous revenue	367,498	367,498	167,508	(199,990)
Total operating revenue	<u>7,948,898</u>	<u>7,948,898</u>	<u>8,454,193</u>	<u>505,295</u>
Operating expenses:				
Wholesale utilities	5,278,697	5,278,697	3,901,665	(1,377,032)
Water department	432,842	432,842	415,677	(17,165)
Electric department	474,888	474,888	445,797	(29,091)
Sewer department	431,312	431,312	370,639	(60,673)
Sanitation department	66,300	66,300	539,205	472,905
Administrative and billing	838,158	838,158	913,176	75,018
Depreciation and amortization	-	-	583,638	583,638
Capital outlay	624,150	624,150	-	(624,150)
Total operating expenses	<u>8,146,347</u>	<u>8,146,347</u>	<u>7,169,797</u>	<u>(976,550)</u>
Operating income	<u>(197,449)</u>	<u>(197,449)</u>	<u>1,284,396</u>	<u>1,481,845</u>
Nonoperating revenues (expenses):				
Intergovernmental	1,062,500	1,062,500	312,353	(750,147)
Contribution from component unit	-	-	-	-
Investment income	-	-	3,388	3,388
Gain on disposal of capital assets	-	-	-	-
Interest expense	(327,793)	(327,793)	(165,550)	162,243
Total nonoperating revenues (expenses)	<u>734,707</u>	<u>734,707</u>	<u>150,191</u>	<u>(584,516)</u>
Change in net position before transfers	<u>537,258</u>	<u>537,258</u>	<u>1,434,587</u>	<u>897,329</u>
Transfers in	624,800	624,800	-	(624,800)
Transfers out	(1,162,058)	(1,162,058)	(1,079,280)	82,778
Total other financing sources (uses)	<u>(537,258)</u>	<u>(537,258)</u>	<u>(1,079,280)</u>	<u>(542,022)</u>
Change in net position	-	-	355,307	355,307
Net position, beginning of year, as previously reported	4,080,990	4,080,990	4,080,990	-
Restatement of net position, see Note 16				
Net position, beginning of year, as restated	<u>4,080,990</u>	<u>4,080,990</u>	<u>4,080,990</u>	<u>-</u>
Net position, end of the year.	<u>\$ 4,080,990</u>	<u>\$ 4,080,990</u>	<u>\$ 4,436,297</u>	<u>\$ 355,307</u>

City of Hearne, Texas
Non-major Municipal Airport Enterprise Fund
Schedule of Revenues, and Changes in Net Position
Budget and Actual
For the Year Ended September 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Operating revenues:				
Rental fees	\$ 30,400	\$ 30,400	\$ 22,340	\$ (8,060)
Miscellaneous revenue	95,700	95,700	36,291	(59,409)
Total operating revenues	126,100	126,100	58,631	(67,469)
Operating expenses:				
Airport	104,900	104,900	55,540	(49,360)
Depreciation	33,000	33,000	98,714	65,714
Total operating expenses	137,900	137,900	154,254	16,354
Operating income (loss)	(11,800)	(11,800)	(95,623)	(83,823)
Transfers in	11,800	11,800	-	(11,800)
Change in net position	-	-	(95,623)	(95,623)
Net position, beginning of the year	1,112,508	1,112,508	1,112,508	-
Net position, end of the year	\$ 1,112,508	\$ 1,112,508	\$ 1,016,885	\$ (95,623)

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

Discretely Presented Component Units

City of Hearne, Texas
Hearne Economic Development Corporation
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Year Ended September 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Sales taxes	\$ 215,000	\$ 215,000	\$ 284,401	\$ 69,401
Investment income	1,200	1,200	2,364	1,164
Total revenues	<u>216,200</u>	<u>216,200</u>	<u>286,765</u>	<u>70,565</u>
Expenditures				
Current:				
Culture and recreation:				
Economic development	216,200	216,200	129,382	(86,818)
Total expenditures	<u>216,200</u>	<u>216,200</u>	<u>129,382</u>	<u>(86,818)</u>
Excess of revenues over expenditures	-	-	157,383	157,383
Other financing sources (uses):				
Contributions to primary government	-	-	(127,851)	(127,851)
Net change in fund balances	-	-	29,532	29,532
Fund balances at beginning of year, as previously reported	836,653	836,653	836,653	-
Fund balances at beginning of year, as restated	<u>836,653</u>	<u>836,653</u>	<u>836,653</u>	<u>-</u>
Fund balances at end of year	<u>\$ 836,653</u>	<u>\$ 836,653</u>	<u>\$ 866,185</u>	<u>\$ 29,532</u>

City of Hearne, Texas
Hearne Infrastructure/Improvement Corporation
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Year Ended September 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Sales taxes	\$ 215,000	\$ 215,000	\$ 284,401	\$ 69,401
Investment income	550	550	1,464	914
Total revenues	215,550	215,550	285,865	70,315
Expenditures:				
Current				
Culture and recreation:				
Economic development	215,550	215,550	71,815	(143,735)
Total expenditures	215,550	215,550	71,815	(143,735)
Excess of revenues over expenditures	-	-	214,050	214,050
Other financing sources (uses):				
Contributions to primary government	-	-	(127,851)	(127,851)
Net change in fund balances	-	-	86,199	86,199
Fund balances at beginning of year, as previously reported	734,803	734,803	734,803	-
Fund balances at beginning of year, as restated	734,803	734,803	734,803	-
Fund balances at end of year	\$ 734,803	\$ 734,803	\$ 821,002	\$ 86,199

**SUPPLEMENTARY INDIVIDUAL
FUND SCHEDULES**

General Fund

City of Hearne, Texas
General Fund
Schedule of General Government Expenditures – Budget and Actual
For the Year Ended September 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Legislative:				
Personnel	\$ 53,984	\$ 53,984	\$ 58,913	\$ 4,929
Maintenance	1,500	1,500	2,690	1,190
Supplies	300	300	4,627	4,327
Other	7,400	7,400	18,038	10,638
Total legislative	63,184	63,184	84,268	21,084
Executive:				
Personnel	210,394	210,394	260,443	50,049
Maintenance	1,800	1,800	2,725	925
Supplies	1,200	1,200	3,878	2,678
Other	4,250	4,250	4,220	(30)
Total executive	217,644	217,644	271,266	53,622
Finance:				
Personnel	37,300	37,300	33,041	(4,259)
Maintenance	26,400	26,400	113,342	86,942
Supplies	8,500	8,500	3,507	(4,993)
Contract services	44,763	44,763	41,610	(3,153)
Other	691,218	691,218	81,801	(609,417)
Total finance	808,181	808,181	273,301	(534,880)
Court:				
Personnel	104,232	104,232	61,698	(42,534)
Maintenance	-	-	6,102	6,102
Supplies	1,000	1,000	3,821	2,821
Contract services	54,000	54,000	45,862	(8,138)
Other	6,500	6,500	2,571	(3,929)
Total court	165,732	165,732	120,054	(45,678)
Total general government	\$1,254,741	\$1,254,741	\$ 748,889	\$ (505,852)

City of Hearne, Texas
General Fund
Schedule of Public Safety Expenditures – Budget and Actual
For the Year Ended September 30, 2016

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Police:				
Personnel	\$ 985,746	\$ 985,746	\$ 968,860	\$ (16,886)
Maintenance	27,600	27,600	69,235	41,635
Supplies	92,891	92,891	57,285	(35,606)
Other	13,200	13,200	19,981	6,781
Total police	1,119,437	1,119,437	1,115,361	(4,076)
Fire:				
Personnel	19,132	19,132	30,771	11,639
Maintenance	27,500	27,500	30,736	3,236
Supplies	93,901	93,901	28,633	(65,268)
Other	6,500	6,500	6,217	(283)
Total fire	147,033	147,033	96,357	(50,676)
Total public safety	\$ 1,266,470	\$ 1,266,470	\$ 1,211,718	\$ (54,752)

City of Hearne, Texas
General Fund
Schedule of Highways and Streets Expenditures – Budget and Actual
For the Year Ended September 30, 2016

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
				<u>Over (Under)</u>
Streets				
Personnel	\$221,856	\$ 221,856	\$ 220,962	\$ (894)
Maintenance	48,000	48,000	64,817	16,817
Supplies	40,196	40,196	27,204	(12,992)
Other	205,929	205,929	806	(205,123)
Total highways and streets	<u>\$515,981</u>	<u>\$ 515,981</u>	<u>\$ 313,789</u>	<u>\$ (202,192)</u>

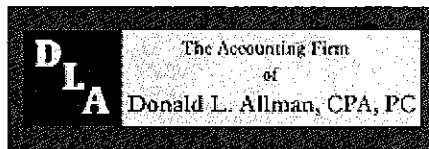
City of Hearne, Texas
General Fund
Schedule of Health and Welfare Expenditures – Budget and Actual
For the Year Ended September 30, 2016

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Code enforcement:				
Personnel	\$ 39,773	\$ 39,773	\$ 15,119	\$ (24,654)
Maintenance	1,100	1,100	1,704	604
Supplies	5,550	5,550	2,056	(3,494)
Other	200	200	2,226	2,026
	<u>46,623</u>	<u>46,623</u>	<u>21,105</u>	<u>(25,518)</u>
Total code enforcement				
Animal control:				
Personnel	45,569	45,569	43,624	(1,945)
Maintenance	800	800	5,119	4,319
Supplies	10,500	10,500	5,229	(5,271)
Other	-	-	-	-
	<u>56,869</u>	<u>56,869</u>	<u>53,972</u>	<u>(2,897)</u>
Total animal control				
Total health and welfare	<u>\$ 103,492</u>	<u>\$ 103,492</u>	<u>\$ 75,077</u>	<u>\$ (28,415)</u>

City of Hearne, Texas
General Fund
Schedule of Culture and Recreation Expenditures – Budget and Actual
For the Year Ended September 30, 2016

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Over (Under)
Library:				
Personnel	\$ 134,772	\$ 134,772	\$ 127,323	\$ (7,449)
Maintenance	2,200	2,200	6,714	4,514
Supplies	26,250	26,250	29,031	2,781
Other	200	200	2,838	2,638
Total library	163,422	163,422	165,906	2,484
Parks and recreation:				
Personnel	287,210	287,210	248,229	(38,981)
Maintenance	51,200	51,200	94,709	43,509
Supplies	60,045	60,045	20,280	(39,765)
Other	19,000	19,000	165	(18,835)
Total parks and recreation	417,455	417,455	363,383	(54,072)
Total culture and recreation	\$ 580,877	\$ 580,877	\$ 529,289	\$ (51,588)

AUDIT SECTION



Donald L. Allman, CPA, PC
205 East University Ave., Ste. 165
Georgetown, Texas 78626

CERTIFIED PUBLIC ACCOUNTANT

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

To the Honorable Mayor and
Members of the City Council
City of Hearne, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Hearne, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise City of Hearne, Texas' basic financial statements, and have issued our report thereon dated October 6, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Hearne, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Hearne, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of City of Hearne, Texas' internal control. A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hearne, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Georgetown, Texas
October 6, 2017

