

City of Hearne, Texas
Financial Statements with
Report of Independent Auditors
For the Fiscal Year Ended
September 30, 2020

City of Hearne, Texas
For the Year Ended September 30, 2020

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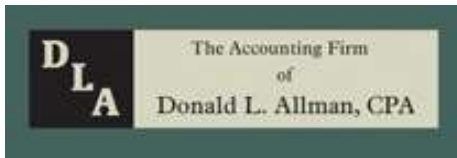
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FINANCIAL SECTION



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CERTIFIED PUBLIC ACCOUNTANT

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

Report on the Financial Statements

We have audited the accompanying 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 the City of Hearne, Texas as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Hearne, Texas' 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hearne, Texas, as of September 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-9 and 50-53 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 introductory section, combining and individual nonmajor fund financial statements and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards 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 nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2021, 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 grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Hearne, Texas 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 of Hearne, Texas' internal control over financial reporting and compliance.

Donald L. Allman, CPA, PC

Georgetown TX
March 17, 2021

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, 2020. 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 \$9,569,094 at September 30, 2020. This represents an increase of \$355,642 in the Governmental Activities and an increase of \$171,527 in Business-Type Activities for an overall increase of \$527,169.
- During the fiscal year ended September 30, 2020, the General Fund reported a net loss of \$(751,297) before transfers, and the Enterprise Fund reported net income of \$1,278,466, before transfers, for net income overall of \$527,169.
- The General Fund on a Governmental Funds basis of accounting had a net decrease of \$(555,172).

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.

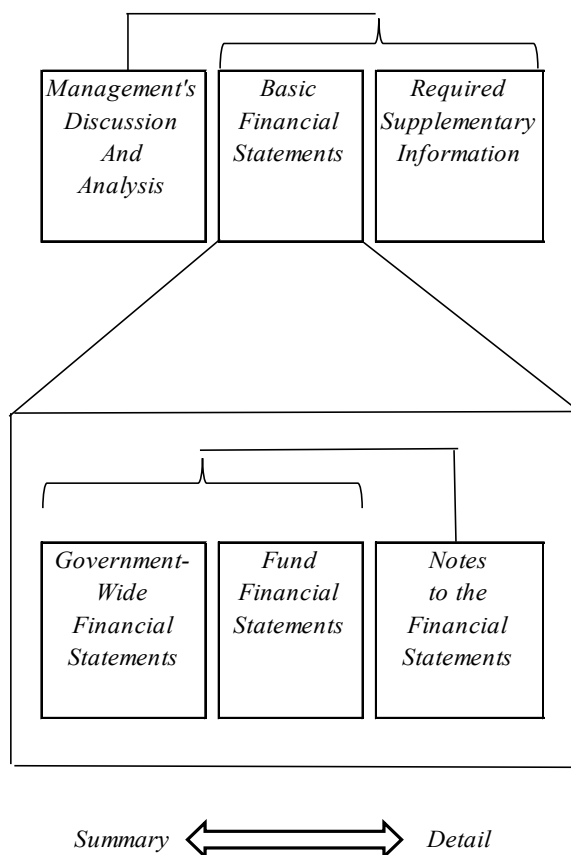


Figure A-2

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.

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

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current Assets						
Cash & Cash Equivalents	\$ 282	\$ 91	\$ 337	\$ 139	\$ 619	\$ 230
Receivables	564	253	977	1,225	1,541	1,478
Internal Balances	-	934	-	(934)	-	-
Inventories	-	-	120	391	120	391
Other Assets	16	14	2	2	18	16
Restricted Assets	5,181	609	328	329	5,509	938
Total Current Assets:	6,043	1,901	1,764	1,152	7,807	3,053
Noncurrent Assets						
Capital Assets	20,165	15,842	26,525	25,846	46,690	41,688
Less Accumulated Depreciation	(7,872)	(7,348)	(19,169)	(18,284)	(27,041)	(25,632)
Total Noncurrent Assets	12,293	8,494	7,356	7,562	19,649	16,056
Total Assets	18,336	10,395	9,120	8,714	27,456	19,109
Deferred Outflows of Revenue						
Deferred Loss on Bond Refunding	-	-	164	164	164	164
Deferred Amounts related to Pensions	266	223	114	95	380	318
Total Deferred Outflows of Resources	266	223	278	259	544	482
Liabilities Due in Less Than One Year						
Accounts Payable	219	423	553	133	772	556
Accrued Liabilities	156	170	110	122	266	292
Customer Deposits	-	-	402	400	402	400
Due to Component Unit	-	-	57	57	57	57
Current Compensated Absences	-	-	-	-	-	-
Current Capital Lease	40	141	145	137	185	278
Current Long-Term Debt	565	335	138	134	703	469
Total Current Liabilities	980	1,069	1,405	983	2,385	2,052
Liabilities Due in More Than One Year						
Compensated Absences	47	47	27	27	74	74
Bonds	10,690	3,205	-	-	10,690	3,205
Notes Payable	-	-	438	576	438	576
Capital Leases	198	238	429	574	627	812
Certificates of Obligation	-	-	-	-	-	-
Net Pension Liability - TMRS	1,171	1,568	578	774	1,749	2,342
Net OPEB Liability	125	103	61	51	186	154
Net Pension Liability - TESRS	107	124	-	-	107	124
Total Long-Term Liabilities:	12,338	5,285	1,533	2,002	13,871	7,287
Total Liabilities	13,318	6,354	2,938	2,985	16,256	9,339
Deferred Inflows of Resources						
Deferred Amounts related to Pensions	1,479	816	696	395	2,175	1,211
Total Deferred Inflows of Resources	1,479	816	696	395	2,175	1,211
Net Position						
Invested in Capital Assets	5,403	4,576	6,206	6,141	11,609	10,717
Restricted	1,158	788	328	329	1,486	1,117
Unrestricted	(2,756)	(1,916)	(770)	(877)	(3,526)	(2,793)
Total Net Position	\$ 3,805	\$ 3,448	\$ 5,764	\$ 5,593	\$ 9,569	\$ 9,041

The City's combined Net Position increased by \$527,169, or 6%, to \$9,569,094 at September 30, 2020. Comparatively, last year, the City's combined Net Position decreased by \$(539,850) or 5.6%. (See Table A-2)

The City's Net Position for Government Activities increased by 10.9% to \$3,805,189. 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 (2,736,789).

The city's Net Position for Business Activities increased by 3% from \$5,592,378 in the prior year to \$5,763,905.

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

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Program Revenues						
Charges for Services	\$ 195	\$ 110	\$ 8,570	\$ 8,962	\$ 8,765	\$ 9,072
Operating grants	207	192	-	-	207	192
Capital grants	239	-	-	-	239	-
General Revenues						-
Ad Valorem Taxes	1,747	1,457	-	-	1,747	1,457
Sales Tax	865	864	-	-	865	864
Franchise Taxes	134	32	-	-	134	32
Hotel / Motel Occupancy Tax	118	159	-	-	118	159
Rentals	-	66	-	-	-	66
Interest Income	10	37	-	-	10	37
Gain/(loss) on Sale of Assets	-	-	-	-	-	-
Other	270	144	5	15	275	159
Total Revenues	3,785	3,061	8,575	8,977	12,360	12,038
Program Expenses						
General Government	1,473	1,343	98	123	1,571	1,466
Public Safety	1,311	1,450	-	-	1,311	1,450
Highways & Streets	661	614	-	-	661	614
Health & Welfare	-	-	-	-	-	-
Culture & Recreational	723	626	-	-	723	626
Interest on LT Debt	369	130	58	26	427	156
Enterprise Activities	-	-	7,140	8,265	7,140	8,265
Total Expenses	4,537	4,163	7,296	8,414	11,833	12,577
Increase (Decrease) in Net Position Before Transfers	(752)	(1,102)	1,279	563	527	(539)
Contributions Between Primary Government & Component Unit	-	-	-	-	-	-
Transfers In (Out)	1,107	1,258	(1,107)	(1,258)	-	-
Change in Net Position	355	156	172	(695)	527	(539)
Net Position - Beginning	3,450	3,294	5,592	6,287	9,042	9,581
Restatement of net position	-	-	-	-	-	-
Net Position - Beginning as restated	3,450	3,294	5,592	6,287	9,042	9,581
Net Position - Ending	\$ 3,805	\$ 3,450	\$ 5,764	\$ 5,592	\$ 9,569	\$ 9,042

Total Revenues for the City of Hearne were \$12,358,550, an increase of 2.7%. The total cost of all programs and services decreased by \$745,728, or 6.1% to \$11,831,381 under last year's total of \$12,577,109. Overall, Net Position increased by \$527,169 to \$9,569,094.

Governmental Activities

Revenues for the City's Governmental Activities were \$3,784,891, an increase of 23.6%. The cost of all Governmental Activities was \$4,536,188, an increase of 8.5%. \$1,106,939 was transferred from the Enterprise Fund to the General Fund.

Business Activities

Revenues for the City's business activities were \$8,573,659, a decrease of 4.5%. Expenses were \$7,295,193, a decrease of 13.3%.

The City's management has been taking proactive steps to help with budgetary shortfalls. This is the 7th 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 \$ 6667,664 which decreased from last year's total of \$1,222,839.

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 more than the final budgeted amounts by \$508,357, with expenditures coming in \$50,467 less than expectations. This made the overall budget operations better than expected by \$558,824.

CAPITAL ASSETS AND DEBT ADMINISTRATION

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

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Capital Assets						
Land	\$ 393	\$ 393	\$ 62	\$ 62	\$ 455	\$ 455
Construction in Progress	3,981	581	-	-	3,981	581
Buildings and Improvements	5,446	5,432	3,666	3,666	9,112	9,098
Improvements Other than Buildings	6,856	6,252	-	-	6,856	6,252
Equipment	1,841	1,655	586	587	2,427	2,242
Vehicles	1,515	1,425	413	364	1,928	1,789
Furniture and Office Equipment	133	104	847	382	980	486
Distribution and Collection Systems	-	-	20,951	20,785	20,951	20,785
Totals at Historical Cost	20,165	15,842	26,525	25,846	46,690	41,688
Total Accumulated Depreciation	(7,872)	(7,348)	(19,169)	(18,284)	(27,041)	(25,632)
Net Capital Assets	\$ 12,293	\$ 8,494	\$ 7,356	\$ 7,562	\$ 19,649	\$ 16,056

At the end of 2020, the City had invested \$46,690,000 in a broad range of capital assets, including land, buildings, park facilities, roads, bridges, equipment and vehicles, electric lines, water lines, sewer lines and wastewater treatment facilities. (See Table A-3). This amount represents an increase of \$3,593,000, a 22.4% increase from last year.

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

Governmental

Street Improvements	604,332
building construction in progress	3,399,752

Business-Type Activities

Equipment Furniture & fixtures	464,802
Water & Wastewater System	165,822

Table A-4
City's Long-Term Debt
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Change 2020-2019
	2020	2019	2020	2019	2020	2019	
Long Term - Debt							
Bonds	\$ 11,255	\$ 3,540	\$ -	\$ -	\$ 11,255	\$ 3,540	7,715
Notes Payable	-	-	574	710	574	710	(136)
Leases Payable	238	379	576	711	814	1,090	(276)
Total Long-Term Debt	\$ 11,493	\$ 3,919	\$ 1,150	\$ 1,421	\$ 12,643	\$ 5,340	\$ 7,303

Long-Term Debt

At year end, the City had \$12,643,000 in Long Term Debt outstanding. This included \$11.255 million in bonds payable. This compares to \$3.540 million in bonds outstanding last year and is a 136.76% addition 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 2019-2020 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 2018-2019 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. 2. All of this comes full circle and leads to more businesses coming to Hearne. 3. 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 2017-2018. 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, 2020
Primary Government

	Governmental Activities	Business-Type Activities	Total	Component Units Hearne Economic Development Corporation	Component Units Hearne Infrastructure / Improvement Corporation
Assets					
Cash and equivalents	\$ 280,637	\$ 337,327	\$ 617,964	\$ -	\$ -
Receivables (net of allowance for uncollectibles):					
Taxes	564,184	-	564,184	-	-
Accounts	-	977,507	977,507	-	-
Internal balances	-	-	-	-	56,893
Inventory	-	119,621	119,621	-	-
Other assets	15,860	1,770	17,630	-	-
Restricted assets:					
Cash and equivalents	5,181,436	328,501	5,509,937	973,774	1,430,398
Investments	-	-	-	152,031	-
Capital assets:					
Non-depreciable	4,374,114	61,634	4,435,748	-	-
Depreciable, net	7,919,257	7,294,508	15,213,765	-	-
Total assets	18,335,488	9,120,868	27,456,356	1,125,805	1,487,291
Deferred outflows of resources					
Loss on bond refunding	-	163,593	163,593	-	-
Deferred amounts related to pensions	266,337	113,785	380,122	-	-
Total deferred outflows of resources	266,337	277,378	543,715	-	-
Liabilities					
Accounts payable	219,357	552,769	772,126	39,720	-
Salaries payable	33,783	-	33,783	-	-
State tax payable	-	44,045	44,045	-	-
Other accrued liabilities	122,537	65,906	188,443	-	-
Due to component unit	-	56,893	56,893	-	-
Deposits	-	401,563	401,563	-	-
Long-term liabilities:					
Due within one year:					
Capital lease payable	39,533	145,109	184,642	-	-
Notes payable	-	137,809	137,809	-	-
Bonds payable	565,000	-	565,000	-	-
Due in more than one year:					
Compensated absences	46,725	27,174	73,899	-	-
Capital lease payable	198,005	428,991	626,996	-	-
Bonds payable	10,690,000	-	10,690,000	-	-
Notes Payable	-	438,467	438,467	-	-
Net pension liability - TMRS	1,171,103	577,981	1,749,084	-	-
Net OPEB Liability	124,545	61,339	185,884	-	-
Net pension liability - TESRS	107,146	-	107,146	-	-
Total liabilities	13,317,734	2,938,046	16,255,780	39,720	-
Deferred inflows of resources					
Deferred amounts related to pensions	1,478,902	696,295	2,175,197	-	-
Total deferred inflows of resources	1,478,902	696,295	2,175,197	-	-
Net Position					
Net investment in capital assets	5,402,503	6,205,766	11,608,269	-	-
Restricted for:					
Court security	24,963	-	24,963	-	-
Court technology	5,540	-	5,540	-	-
Child safety fund	-	-	-	-	-
Debt Service	1,009,278	328,501	1,337,779	-	-
Tourism-Hotel Motel	106,076	-	106,076	-	-
Police department	13,174	-	13,174	-	-
Economic development	-	-	-	1,086,085	1,487,291
Unrestricted	(2,756,345)	(770,362)	(3,526,707)	-	-
Total net position	\$ 3,805,189	\$ 5,763,905	\$ 9,569,094	\$ 1,086,085	\$ 1,487,291

The accompanying notes are an integral part of this statement. 10

City of Hearne, Texas
Statement of Activities
For the Year Ended September 30, 2020

Program Activities	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position				
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-type Activities	Total	Hearne Economic Development Corporation	Hearne Infrastructure/ Improvement Corporation
Primary government:									
Governmental activities:									
General government	\$ 1,570,738	\$ 36,282	\$ -	\$ 238,648	\$(1,197,921)	\$ (97,887)	\$ (1,295,808)	\$ -	\$ -
Public safety & Court	1,311,193	158,540	207,081	-	(945,572)	-	(945,572)	-	-
Highways and streets	660,606	-	-	-	(660,606)	-	(660,606)	-	-
Culture and recreation	722,844	-	-	-	(722,844)	-	(722,844)	-	-
Interest on long-term debt	426,161	-	-	-	(368,694)	(57,467)	(426,161)	-	-
Total governmental activities	4,691,542	194,822	207,081	238,648	(3,895,637)	(155,354)	(4,050,991)	-	-
Business-type activities:									
Water	777,393	1,592,591	-	-	-	815,198	815,198	-	-
Electric	3,872,801	5,633,424	-	-	-	1,760,623	1,760,623	-	-
Sewer	690,752	618,993	-	-	-	(71,759)	(71,759)	-	-
Utility Billing	383,223					(383,223)			
Administration	659,333					(659,333)			
Sanitation	602,005	672,627	-	-	-	70,622	70,622	-	-
Municipal airport	154,332	51,353	-	-	-	(102,979)	(102,979)	-	-
Total business-type activities	7,139,839	8,568,988	-	-	-	1,429,149	1,429,149	-	-
Total primary government	11,831,381	8,763,810	207,081	238,648	(3,895,637)	1,273,795	(2,621,842)	-	-
Component units:									
Hearne Economic Development Corporation	502,800	-	-	-				(502,800)	-
Hearne Infrastructure Improvement Corporation	563,582	-	-	-				-	(563,582)
	\$ 1,066,382	\$ -	\$ -	\$ -				(502,800)	(563,582)
General revenues:									
Taxes									
Property taxes					1,747,111	-	1,747,111	-	-
Sales taxes					864,635	-	864,635	410,527	432,317
Franchise fees					134,266	-	134,266	-	-
Hotel/motel occupancy					117,874	-	117,874	-	-
Rentals					-	-	-	-	-
Investment earnings					10,420	-	10,420	8,452	11,547
Gain (loss) on disposal of capital assets					-	-	-	-	-
Miscellaneous					270,034	4,671	274,705	-	210,731
Transfers					1,106,939	(1,106,939)	-	(37,284)	144,356
Total general revenues and transfers					4,251,279	(1,102,268)	3,149,011	381,695	798,951
Change in net position					355,642	171,527	527,169	(121,105)	235,369
Net position at beginning of the year, as previously reported					3,449,547	5,592,378	9,041,925	1,207,190	1,251,922
Net position at end of year					\$ 3,805,189	\$ 5,763,905	\$ 9,569,094	\$ 1,086,085	\$ 1,487,291

The accompanying notes are an integral part of this financial statement.

City of Hearne, Texas
Balance Sheet
Governmental Funds
September 30, 2020

	General	Total Nonmajor Funds	Total Governmental Funds
Assets			
Cash and equivalents	\$ 280,637	\$ -	\$ 280,637
Receivables:			
Taxes	564,184	-	564,184
Accounts	-	-	-
Due from other funds	-	-	-
Other assets	15,860	-	15,860
Restricted assets:			
Cash and equivalents	428,778	150,988	579,766
Total assets	<u>\$ 1,289,459</u>	<u>\$ 150,988</u>	<u>\$ 1,440,447</u>
Liabilities			
Accounts payable	\$ 187,619	\$ 31,738	\$ 219,357
Salaries payable	33,783	-	33,783
Accrued liabilities	122,537	-	122,537
Deposits	-	-	-
Due to other funds	-	-	-
Total liabilities	<u>343,939</u>	<u>31,738</u>	<u>375,677</u>
Deferred Inflows of Resources			
Unavailable revenue-property taxes	<u>397,106</u>	<u>-</u>	<u>397,106</u>
Fund Balances			
Nonspendable			
Prepaid expenses	15,860	-	15,860
Restricted for:			
Debt service	1,009,278	-	1,009,278
Court security	24,963	-	24,963
Court technology	5,540	-	5,540
Fire truck	-	-	-
Child safety fund	-	-	-
Police	-	13,174	13,174
Hotel motel	-	106,076	106,076
Unassigned reported in:			
General fund	<u>(507,227)</u>	<u>-</u>	<u>(507,227)</u>
Total fund balances	<u>548,414</u>	<u>119,250</u>	<u>667,664</u>
Total liabilities, deferred inflows or resources and fund balances	<u>\$ 1,289,459</u>	<u>\$ 150,988</u>	<u>\$ 1,440,447</u>

The accompanying notes are an integral part of this financial statement

City of Hearne, Texas
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
September 30, 2020

Fund balances - total governmental funds	667,664
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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	20,165,595	
Less accumulated depreciation	(7,872,224)	12,293,371

Certain tax receivables are not available to pay for current period expenditures and are not reported in the governmental funds balance sheet.	397,106
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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.	-
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Compensated absences	(46,725)	
Capital lease & Note payable	(237,538)	
Net OPEB Liability	(124,545)	
Bonds Payable	(11,255,000)	
Net pension liability - TMRS	(1,171,103)	
Net pension liability - TESRS	(107,146)	(12,942,057)

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

Restricted Cash from debt	4,601,670	
Deferred outflows related to pensions	266,337	
Deferred inflows related to pensions	(1,478,902)	3,389,105

Net position of governmental activities	\$ 3,805,189
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The accompanying notes are an integral part of this financial statement.

City of Hearne, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2020

	General	Total Nonmajor Funds	Total Governmental Funds
Revenues:			
Taxes			
Property	\$ 1,435,458	\$ -	\$ 1,435,458
Sales	864,635	-	864,635
Franchise fees	134,266	-	134,266
Hotel/motel occupancy	-	117,874	117,874
Park revenues	-	-	-
Licenses and permits	36,282	-	36,282
Property rentals	-	-	-
Fines	158,540	-	158,540
Investment income	10,420	-	10,420
Grants and contributions	445,729	-	445,729
Miscellaneous	270,034	-	270,034
Total revenues	<u>3,355,364</u>	<u>117,874</u>	<u>3,473,238</u>
Expenditures			
Current:			
General government	1,096,898	186,267	1,283,165
Public safety	1,304,605	-	1,304,605
Highways and streets	476,839	-	476,839
Health and welfare	-	-	-
Culture and recreation	619,215	-	619,215
Capital outlay	4,322,761	-	4,322,761
Debt service:			
Principal	476,270	-	476,270
Interest and fiscal charges	368,694	-	368,694
Total expenditures	<u>8,665,282</u>	<u>186,267</u>	<u>8,851,549</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,309,918)</u>	<u>(68,393)</u>	<u>(5,378,311)</u>
Other financing sources (uses)			
Write off of internal balances	(934,048)		(934,048)
Debt Proceeds for Equipment & Restricted Cash	8,050,000		8,050,000
Debt proceeds used for Capital outlay	(3,399,752)		(3,399,752)
Transfers in	1,106,939	-	1,106,939
Transfers out	(8,837)	8,837	-
Total other financing sources (uses)	<u>4,814,302</u>	<u>8,837</u>	<u>4,823,139</u>
Net change in fund balances	(495,616)	(59,556)	(555,172)
Fund balances at beginning of year, as previously reported	1,044,030	178,806	1,222,836
	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances at end of year	<u>\$ 548,414</u>	<u>\$ 119,250</u>	<u>\$ 667,664</u>

The accompanying notes are an integral part of this financial 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, 2020

Net change in fund balances - total governmental funds	\$ (555,172)
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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	4,322,761	
Depreciation of capital assets	(524,416)	3,798,345

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.	311,653
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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.	(48,578)
	-

Net Pension expense, net OPEB expense, net increase or decrease in deferred outflows of resources, and increase or decrease in deferred inflows of resources are not recognized in governmental funds accounting.	(227,124)
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Bond, loan and lease principal payments aren't expenses for government wide financial statements	476,270
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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.

Loan proceeds used to purchase capital improvements	(3,399,752)
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Change in net position of governmental activities	\$ 355,642
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The accompanying notes are an integral part of this financial 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, 2020

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Taxes:				
Property	1,806,642	1,806,642	1,435,458	(371,184)
Sales	639,017	639,017	864,635	225,618
Franchise fees	60,000	60,000	134,266	74,266
Licenses and permits	25,000	25,000	36,282	11,282
Property rentals	9,600	9,600	-	(9,600)
Fines	255,248	255,248	158,540	(96,708)
Parks and recreation	8,500	8,500	-	(8,500)
Investment income	-	-	10,420	10,420
Grants & contributions	-	-	445,729	445,729
Miscellaneous	43,000	43,000	270,034	227,034
Total revenues	<u>2,847,007</u>	<u>2,847,007</u>	<u>3,355,364</u>	<u>508,357</u>
Expenditures:				
Current:				
General government				
Legislative	83,266	83,266	68,818	(14,448)
Executive	233,956	233,956	248,983	15,027
Finance	257,600	257,600	418,008	160,408
Court	170,680	170,680	177,299	6,619
Total general government	<u>745,502</u>	<u>745,502</u>	<u>913,108</u>	<u>167,606</u>
Public Safety				
Police	1,147,672	1,147,672	1,322,342	174,670
Fire	108,810	108,810	59,175	(49,635)
Total public safety	<u>1,256,482</u>	<u>1,256,482</u>	<u>1,381,517</u>	<u>125,035</u>
Highways	<u>654,884</u>	<u>654,884</u>	<u>409,872</u>	<u>(245,012)</u>
Health and welfare				
Code enforcement	69,733	69,733	47,149	(22,584)
Animal control	59,064	59,064	63,202	4,138
Total health and welfare	<u>128,797</u>	<u>128,797</u>	<u>110,351</u>	<u>(18,446)</u>
Culture and recreation:				
Library	172,986	172,986	178,589	5,603
Parks and recreation	468,883	468,883	484,564	15,681
Total culture and recreation	<u>641,869</u>	<u>641,869</u>	<u>663,153</u>	<u>21,284</u>
Capital outlay	-	-	4,322,761	4,322,761
Debt Service				
Principal	-	-	476,270	476,270
Interest	-	-	368,694	368,694
Total debt service	<u>-</u>	<u>-</u>	<u>844,964</u>	<u>844,964</u>
Total expenditures	<u>3,427,534</u>	<u>3,427,534</u>	<u>8,645,726</u>	<u>5,218,192</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(580,527)</u>	<u>(580,527)</u>	<u>(5,290,362)</u>	<u>(4,709,835)</u>
Other financing sources (uses):				
Proceeds from long term debt	-	-	8,050,000	8,050,000
Write off of internal balances			(934,048)	(934,048)
			(3,399,752)	
Transfers in	325,000	325,000	1,106,939	781,939
Transfers out	-	-	(8,837)	(8,837)
Total other financing sources (uses)	<u>325,000</u>	<u>325,000</u>	<u>4,814,302</u>	<u>4,489,302</u>
Net change in fund balances	<u>(255,527)</u>	<u>(255,527)</u>	<u>(476,060)</u>	<u>(220,533)</u>
Fund balances at beginning of year, as previously reported	1,044,030	1,044,030	1,044,030	-
Restatement of fund balance, see Note 16				
Fund balances at beginning of year, as restated	<u>1,044,030</u>	<u>1,044,030</u>	<u>1,044,030</u>	<u>-</u>
Fund balances at end of year	<u>\$ 788,503</u>	<u>\$ 788,503</u>	<u>\$ 567,970</u>	<u>\$ (220,533)</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, 2020**

	Enterprise Fund	Nonmajor Fund Municipal Airport Fund	Total
Assets			
Current assets			
Cash and equivalents	\$ 332,843	\$ 4,484	\$ 337,327
Accounts receivable (net of allowance for uncollectibles)	806,297	171,210	977,507
Inventory	49,488	70,133	119,621
Other assets	1,770	-	1,770
Restricted cash	328,501	-	328,501
Total current assets	1,518,899	245,827	1,764,726
Capital assets:			
Land	61,634	-	61,634
Buildings and other improvements	2,142,944	1,523,152	3,666,096
Distribution and collection systems	20,951,192	-	20,951,192
Equipment	1,813,082	33,276	1,846,358
	24,968,852	1,556,428	26,525,280
Less: accumulated depreciation	(18,193,189)	(975,949)	(19,169,138)
Capital assets, net of accumulated depreciation	6,775,663	580,479	7,356,142
Total assets	8,294,562	826,306	9,120,868
Deferred outflows of resources			
Less on bond refunding	163,593	-	163,593
Deferred amounts related to pensions	113,785	-	113,785
Total deferred outflows of resources	277,378	-	277,378
Liabilities			
Current liabilities:			
Accounts payable	552,769	-	552,769
Sales tax payable	44,045	-	44,045
Other accrued liabilities	65,906	-	65,906
Due to other funds	-	-	-
Due to component units	56,893	-	56,893
Customer deposits payable	400,038	1,525	401,563
Long-term debt, current	282,918	-	282,918
Total current liabilities	1,402,569	1,525	1,404,094
Long-term liabilities:			
Liability for compensated absences, long-term	27,174	-	27,174
Long-term debt, net	867,458	-	867,458
Net OPEB Liability	61,339	-	61,339
Net pension liability	577,981	-	577,981
Total long-term liabilities	1,533,952	-	1,533,952
Total liabilities	2,936,521	1,525	2,938,046
Deferred inflows of resources			
Deferred amounts related to pensions	696,295	-	696,295
Total deferred inflows of resources	696,295	-	696,295
Net Position			
Net investment in capital assets	5,380,985	824,781	6,205,766
Restricted for Debt Service	328,501	-	328,501
Unrestricted	(770,362)	-	(770,362)
Total net position	\$ 4,939,124	\$ 824,781	\$ 5,763,905

The accompanying notes are an integral part of this financial statement.

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City of Hearne, Texas
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended September 30, 2020

	Enterprise Fund	Nonmajor Fund Municipal Airport Fund	Total
Operating revenues:			
Charges for sales and services:			
Water sales	\$ 1,499,326	\$ -	\$ 1,499,326
Electric sales	5,633,424	-	5,633,424
Sewer charges	616,193	-	616,193
Sanitation	672,627	-	672,627
Tap fees	8,275	-	8,275
Rental fees	-	51,353	51,353
Penalties	87,790	-	87,790
Miscellaneous revenue	4,671	-	4,671
Total operating revenues	<u>8,522,306</u>	<u>51,353</u>	<u>8,573,659</u>
Operating expenses:			
Wholesale utilities	3,681,563	-	3,681,563
Water department	633,563	-	633,563
Electric department	-	-	-
Sewer department	383,741	-	383,741
Sanitation department	595,328	-	595,328
Administrative and billing	1,000,975	-	1,000,975
Airport	-	57,589	57,589
Depreciation and amortization	786,724	98,243	884,967
Total operating expenses	<u>7,081,894</u>	<u>155,832</u>	<u>7,237,726</u>
Operating income (loss)	<u>1,440,412</u>	<u>(104,479)</u>	<u>1,335,933</u>
Nonoperating revenues (expense):			
Investment income	-	-	-
Gain on disposal of capital assets	-	-	-
Interest expense	(57,467)	-	(57,467)
Total nonoperating revenues (expense)	<u>(57,467)</u>	<u>-</u>	<u>(163,159)</u>
Income (loss) before transfers	<u>1,382,945</u>	<u>(104,479)</u>	<u>1,278,466</u>
Transfers in	(142,606)	142,606	-
Transfers out	(1,106,939)	-	(1,106,939)
Total other financing sources (uses)	<u>(1,249,545)</u>	<u>142,606</u>	<u>(1,106,939)</u>
Change in net position	<u>133,400</u>	<u>38,127</u>	<u>171,527</u>
Net position, beginning of year, as previously reported	4,805,724	786,654	5,592,378
	-	-	-
Net position, beginning of year, as restated	<u>4,805,724</u>	<u>786,654</u>	<u>5,592,378</u>
Net position, end of year	<u>\$ 4,939,124</u>	<u>\$ 824,781</u>	<u>\$ 5,763,905</u>

The accompanying notes are an integral part of this financial statement.

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City of Hearne, Texas
Statement of Cash Flows
Proprietary Funds
For the Year ended September 30, 2020

	Enterprise Fund	Nonmajor Fund Municipal Airport Fund	Total
Cash flows from operating activities:			
Cash received from customers	8,905,951	152,122	9,058,073
Cash payments to suppliers for goods and services	(5,617,843)	(116,339)	(5,734,182)
Cash payments to employees for services	(809,777)	-	(809,777)
Net cash provided by (used in) operating activities	2,478,331	(168,729)	2,309,602
Cash flows from non-capital financing activities			
Loan Proceeds	-	-	-
Transfers in	(142,606)	142,606	-
Transfers out	(1,106,939)	-	(1,106,939)
Net cash provided by (used in) non-capital financing activities	(1,249,545)	142,606	(1,106,939)
Cash flows from capital and related financing activities			
Acquisition of capital assets	(679,013)	-	(679,013)
Proceeds from disposal of capital assets	-	-	-
Capital grants	-	-	-
Interest paid	(58,891)	-	(58,891)
Principal payments	(271,035)	-	(271,035)
Proceeds of long term debt issuance	-	-	-
Net cash provided by (used in) capital and related financing activities	(1,008,939)	-	(1,008,939)
Cash flows from investing activities:			
Interest on cash and investments	-	-	-
Net increase (decrease) in cash and equivalents	219,847	(26,123)	193,724
Cash and equivalents, beginning of year	437,013	30,607	467,620
Cash and equivalents, end of year	\$ 656,860	\$ 4,484	\$ 661,344
Reconciliation of cash and equivalents:			
Unrestricted cash and equivalents	\$ 332,843	\$ 4,484	\$ 337,327
Restricted cash and investments	328,501	-	328,501
Total cash and equivalents	\$ 661,344	\$ 4,484	\$ 665,828

The accompanying notes are an integral part of this financial statement

City of Hearne, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2020

	Enterprise	Nonmajor Fund Municipal Airport Fund	Total
	<u>Fund</u>	<u></u>	<u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 1,440,412	\$ (104,479)	\$ 1,335,933
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	786,724	98,243	884,967
Bad debt expense	-	-	-
Increase (decrease) in cash resulting from changes in assets and liabilities:			
Accounts receivable	383,645	(136,185)	247,460
Inventory	297,430	(26,308)	271,122
Due from other funds	-	-	-
Other assets	-	-	-
Deferred outflows related to pensions	-	-	-
Accounts payable	419,989	-	419,989
Salaries payable	-	-	-
Sales tax payable	(5,139)	-	(5,139)
Accrued liabilities	(7,034)	-	(7,034)
Due to other funds	(934,058)	-	(934,058)
Due to component units	-	-	-
Customer deposits	(1,525)	-	(1,525)
Liability for compensated absences	-	-	-
Net pension liability	-	-	-
Deferred inflows related to pensions	-	-	-
Net cash provided by (used in) operating activities	<u>\$ 2,380,444</u>	<u>\$ (168,729)</u>	<u>\$ 2,211,715</u>

The accompanying notes are an integral part of this financial statement.

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2020

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, 2020

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, 2020

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:

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.

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*. Measurement 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, 2020

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, 2020

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, 2020

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, 2020

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, 2020

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, 2020

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, 2020, the City had investments in TexStar with maturities less than 60 days with a fair value of \$1,211,895.

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, 2020, 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, 2020.

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2020

Note 4. Restricted Assets

At September 30, 2020, restrictions on cash and investments were as follows:

	Governmental Funds	Proprietary Funds	Hearne Economic Development Corporation	Hearne Infrastructure/ Improvement Corporation
Cash and Investments				
Restricted for:				
Hotel/motel expenditures	\$ 106,076	\$ -	\$ -	\$ -
Police Special	13,174	-	-	-
Interest and sinking	1,009,278	328,501	-	-
Child Safety	-	-	-	-
Court security	24,963	-	-	-
Court technology	5,540	-	-	-
Community Development				
Block Grant Program	-	-	-	-
Meter Sinking	-	-	-	-
Economic Development	-	-	1,086,085	1,487,291
	<u>\$ 1,159,031</u>	<u>\$ 328,501</u>	<u>\$ 1,086,085</u>	<u>\$ 1,487,291</u>

Note 5. Receivables

Receivables at September 30, 2020, consist of the following:

	Governmental Funds	Proprietary Funds
Receivables:		
Taxes		
Property	\$ 397,106	\$ -
Sales	119,067	-
Hotel/motel occupancy	-	-
Accounts	48,011	2,064,727
Grants	-	-
Less:		
Allowance for uncollectibles	-	(1,087,220)
Net total receivables	<u>\$ 564,184</u>	<u>\$ 977,507</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 2020 tax roll, the assessed valuation was \$208,769,318 and the net taxable value was \$196,917,309. The tax rate was \$0.71039 per \$100 valuation. This resulted in a total tax levy of \$1,611,329. Delinquent property taxes receivable at September 30, 2020 were \$244,950 and current property taxes receivable were \$152,156.

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2020

Note 6. Capital Assets

The following is a summary of capital asset activity during the year ended September 30, 2020:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 393,082	\$ -	\$ -	\$ 393,082
Construction in progress	581,280	3,399,752	-	3,981,032
Total capital assets not being depreciated	974,362	3,399,752	-	4,374,114
Capital assets being depreciated				
Buildings	5,431,966	13,804	-	5,445,770
Improvements other than buildings	6,252,163	604,332	-	6,856,495
Furniture and fixtures	104,272	28,547	-	132,819
Vehicles	1,424,830	90,127	-	1,514,957
Machinery and equipment	1,655,241	186,199	-	1,841,440
Total at historical cost	14,868,472	923,009	-	15,791,481
Less: accumulated depreciation for:				
Buildings	3,709,282	72,170	-	3,781,452
Improvements other than buildings	1,410,101	298,043	-	1,708,144
Furniture and fixtures	82,526	17,569	-	100,095
Vehicles	1,352,782	19,199	-	1,371,981
Machinery and equipment	793,117	117,435	-	910,552
Total accumulated depreciation	7,347,808	524,416	-	7,872,224
Total capital assets being depreciated, net	7,520,664	398,593	-	7,919,257
Governmental activities capital assets, net	\$ 8,495,026	\$3,798,345	\$ -	\$ 12,293,371
Business-type activities				
Capital assets not being depreciated				
Land	\$ 61,634	\$ -	\$ -	\$ 61,634
Construction in progress	-	-	-	-
Total capital assets not being depreciated	61,634	-	-	61,634
Capital assets being depreciated				
Buildings and improvements	3,666,096	-	-	3,666,096
Furniture and fixtures	586,643	-	-	586,643
Vehicles	364,357	48,389	-	412,746
Distribution and collection systems	20,785,370	165,822	-	20,951,192
Machinery and equipment	382,167	464,802	-	846,969
Total at historical cost	25,784,633	679,013	-	26,463,646
Less accumulated depreciation for:				
Buildings and improvements	1,063,278	123,998	-	1,187,276
Furniture and fixtures	365,230	38,162	-	403,392
Vehicles	312,608	24,462	-	337,070
Distribution and collection systems	16,362,637	645,476	-	17,008,113
Machinery and equipment	180,418	52,869	-	233,287
Total accumulated depreciation	18,284,171	884,967	-	19,169,138
Total capital assets being depreciated, net	7,500,462	(205,954)	-	7,294,508
Business-type activities capital assets, net	\$ 7,562,096	\$ (205,954)	\$ -	\$ 7,356,142

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2020

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

General government	\$ 29,530
Public safety	73,556
Highways and streets	250,735
Culture and recreation	170,595
Total depreciation expense - Governmental activities	<u>\$ 524,416</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, 2020:

	Balance 9/30/2019	Additions	Retirements	Balance 9/30/2020	Due Within One Year	Long Term
<u>Governmental activities</u>						
Lease payable - Oshkosh	\$ 275,578	\$ -	\$ (38,040)	\$ 237,538	\$ 39,533	\$ 198,005
Subtotal of leases payable	275,578	-	(38,040)	237,538	39,533	198,005
2011 General obligation refunding	3,540,000	-	(335,000)	3,205,000	345,000	2,860,000
2019 Bank Qualified GO Bonds	-	8,050,000	-	8,050,000	220,000	7,830,000
PNC - Equipment	103,230	-	(103,230)	-	-	-
	<u>\$ 3,918,808</u>	<u>\$ 8,050,000</u>	<u>\$ (476,270)</u>	<u>\$ 11,492,538</u>	<u>\$ 604,533</u>	<u>\$ 10,888,005</u>
<u>Business-type activities</u>						
Lease payable - Southside	\$ 711,332	\$ -	\$ (137,232)	\$ 574,100	\$ 145,109	\$ 428,991
Lease payable - AEP	-	-	-	-	-	-
Subtotal of leases payable	711,332	-	(137,232)	574,100	145,109	428,991
Government Capital Corporation	710,079	-	(133,803)	576,276	137,809	438,467
Subtotal of notes payable	710,079	-	(133,803)	576,276	137,809	438,467
	<u>\$ 1,421,411</u>	<u>\$ -</u>	<u>\$ (271,035)</u>	<u>\$ 1,150,376</u>	<u>\$ 282,918</u>	<u>\$ 867,458</u>

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2020

The annual aggregate maturities for each debt type for the years subsequent to September 30, 2020 are as follows:

Year ending September 30	Business-type Activities				Governmental Activities	
	Bonds Payable		Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2021			137,789	17,167	345,000	111,478
2022			141,893	13,063	360,000	100,190
2023			146,120	8,836	375,000	87,688
2024			150,473	4,483	390,000	74,105
2025					410,000	59,398
2024-2028					1,325,000	79,815
			-	-		
			<u>576,275</u>	<u>43,549</u>	<u>3,205,000</u>	<u>512,674</u>

On October 1 2019, the City issued \$8,050,000 of general obligation refunding bonds to provide resources to build a new City Hall and Police Station.

Governmental Activities-General Fund		
Year ending	Bonds Payable	
September 30	Principal	Interest
2021	220,000	284,800
2022	225,000	278,200
2023	230,000	271,450
2024	240,000	264,550
2025	245,000	257,350
2026-2044	6,890,000	2,667,000
	<u>8,050,000</u>	<u>4,023,350</u>

During the year ended September 30, 2020, the following changes occurred in other long-term liabilities:

	Balance 9/30/2019	Additions (Reductions)	Balance 9/30/2020	Due Within One Year
<u>Governmental activities</u>				
Compensated absences	<u>\$ 46,725</u>	<u>\$ -</u>	<u>\$ 46,725</u>	<u>\$ -</u>
<u>Business-type activities</u>				
Compensated absences	<u>\$ 27,174</u>	<u>\$ -</u>	<u>\$ 27,174</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
Notes to Basic Financial Statements
September 30, 2020

The assets acquired through the capital leases are as follows:

Governmental Activities-Proprietary Fund		
Year ending September 30	Bonds Payable	
	Principal	Interest
2021	145,109	28,436
2022	153,438	20,106
2023	162,247	11,298
2024	113,306	2,390
2025	-	-
2026-2044	-	-
		-
	<u>574,100</u>	<u>62,230</u>
Governmental Activities-General Fund		
Year ending September 30	Bonds Payable	
	Principal	Interest
2021	39,533	8,467
2022	41,085	6,915
2023	42,698	5,302
2024	44,374	3,626
2025	46,116	1,884
2026-2044	23,732	268
		-
	<u>237,538</u>	<u>26,462</u>

Note 10. Interfund Receivables and Payables

Interfund receivables and payables, all of which are considered short-term, at September 30, 2019, 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
Notes to Basic Financial Statements
September 30, 2020

Note 11. Interfund Transfers

Interfund transfers during the year ended September 30, 2020, were as follows:

	Transfers in		
	General Fund	Enterprise	Total
<u>Transfers out</u>			
General	\$ -	\$ (1,106,939)	\$ (1,106,939)
Enterprise	1,106,939	-	1,106,939
	<u>\$ 1,106,939</u>	<u>\$ (1,106,939)</u>	<u>\$ -</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 \$3,211,989 to this company during the year ended September 30, 2020.

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, 2021. The City paid \$595,328 to this company during the year ended September 30, 2020.

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
Notes to Basic Financial Statements
September 30, 2020

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:

Employees covered by benefit terms.

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms.

Retirees and beneficiaries currently receiving benefits	27
Terminated members entitled to benefits but not yet receiving them	39
Active participants (vested and non-vested)	<u>54</u>

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C. Contributions

The contribution rates for employees in the TMRS are either 4.75%, 5.75%, or 6.75% 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 6.75% of their annual gross earnings during the fiscal year. The contribution rates for the City were 14.19% and 15.37% in calendar years 2019 and 2018 respectively. The city's contributions to TMRS for the year ended September 30, 2020, were \$377,074, and were equal to the required contributions.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2019, 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, 2020

Actuarial assumptions:

The Total Pension Liability in the December 31, 2019 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, 2019, 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 2016 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, 2020

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, 2018	\$ 9,081,995	\$ 6,740,026	\$ 2,341,969
Changes for the year			
Service Cost	392,950	-	392,950
Interest	614,525	-	614,525
Change of benefit terms	-	-	-
Difference between expected & actual experience	(60,839)	-	(60,839)
Changes of assumptions	48,328	-	48,328
Contributions - employer	-	377,074	(377,074)
Contributions - employee	-	175,076	(175,076)
Net investment income	-	1,041,764	(1,041,764)
Benefit payments, including refunds of employee contributions	(348,803)	(348,803)	-
Administrative expense	-	(5,888)	5,888
Other charges	-	(177)	177
Net charges	\$ 646,161	\$ 1,239,046	\$ (592,885)
Balance at December 31, 2019	\$ 9,728,156	\$ 7,979,072	\$ 1,749,084

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
September 30, 2020

Sensitivity of the net pension liability to changes in the discount rate (continued)

percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate.

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 3,191,915	\$ 1,749,084	\$ 573,721

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.

CITY OF HEARNE
SCHEDULE OF PENSION EXPENSE
SEPTEMBER 30, 2020

1. Total Service Cost	\$ 392,950
2. Interest on the Total Pension Liability	614,525
3. Current Period Benefit Changes	-
4. Employee Contributions (Reduction of Expense)	(175,076)
5. Projected Earnings on Plan Investments (Reduction of Expense)	(454,952)
6. Administrative Expense	5,888
7. Other Changes in Fiduciary Net Position	177
8. Recognition of Current Year Outflow (Inflow) of Resources - Liabilities	(3,399)
9. Recognition of Current Year Outflow (Inflow) of Resources - Assets	(117,362)
10. Amortization of Prior Year Outflows (Inflows) of Resources - Liabilities	(104,354)
11. Amortization of Prior Year Outflows (Inflows) of Resources - Assets	122,110
12. Total Pension Expense	<u>\$ 280,507</u>

At September 30, 2020, the city reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2020

Texas Emergency Services Retirement System

	Deferred Outflows of Resources	Deferred Inflows or Resources
Differences between expected and actual economic experience	\$ -	\$ (44,307)
Difference between projected and actual investment earnings	-	(469,450)
Contributions subsequent to the measurement date	-	-
	<u>\$ -</u>	<u>\$ (513,757)</u>

Year ended September 30	
2020	(130,519)
2021	(87,286)
2022	13,509
2023	(117,364)
2024	
Thereafter	
Total	<u>\$ (321,660)</u>

\$(215,002) 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Deferred Outflows of Resources	Deferred Inflows or Resources
Difference in expected and actual experience	\$ -	\$ -
Change in assumptions (actuarial (gains) or losses)		35,195
Contributions subsequent to the measurement date	-	-
	<u>\$ -</u>	<u>\$ 35,195</u>

Year ended September 30	
2020	2,798
2021	2,798
2022	1,707
2023	2,357
2024	1,556
Thereafter	
Total	<u>\$ 11,216</u>

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2020

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, 2020, there were 198 contributing fire and/or

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, 2020, 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.

Funding Policy (continued)

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, 2020

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.

D. Actuarial Assumptions (continued)

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, 2019, 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, 2020 to the plan as a whole.

F. Actuarial Assumptions

Total pension liability in the August 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial valuation date	8/31/2020
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

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.

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2020

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%

F. 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, 2019 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:

	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:	\$ 221,071	\$ 185,884	\$ 158,155

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2020

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

At August 31, 2020, the City reported a liability of \$185,884 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:

**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, 2019 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, 2017. The City used the assumption that any differences in the net pension liability measured as of August 31, 2017 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, 2020.

At August 31, 2019 the employer's proportion of the collective net pension liability was .425%. TESRS did not provide prior year proportions measured as of August 31, 2020. 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, 2020, the City recognized pension expense of \$20,952. 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.

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2020

At	August	31,	2020
	Deferred outflows of Resources	Deferred Inflows of Resources	
Differences between projected and actual investment earnings	\$ -	\$ 5,468	
Contributions paid to TESRS subsequent to the measurement date	\$ 23,230	\$ -	
Differences between expected and actual experience	\$ 27	\$ 285	

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:

Year ended September 30	Pension Expense
2019	\$ 6,375
2020	(3,547)
2021	(5,220)
2022	(2,964)
Total	\$ (5,357)

\$20,952 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, 2020. 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:

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, 2020, were \$3,917, which equaled the required contributions for the year.

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2020

Note 14. Other post-employment benefits

Net Other Post Employment Benefits Liability.
Actuarial Assumptions

Actuarial assumptions were developed from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. These assumptions were adopted in 2015 and first used in the December 31, 2015 valuation.

All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.

The Mortality Experience Investigation Study covering 2009 through 2011 is used as the basis for the post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs). Mortality Rates for service employees uses the RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

Inflation	2.50% per year
Overall payroll growth	3.50 to 10.5% per year including inflation
Discount rate	2.75%

Changes in the Net Other Post Employment Benefits Liability

	Increase (Decrease) <u>Total OPEB Liability</u>
Balance at 12/31/18	\$153,468
Changes for the year	
Service Cost	7,557
Interest on Total OPEB liability	5,798
Changes of benefit terms	0
Differences between expected and actual experience	(6,642)
Changes in assumption or other inputs	27,653
Benefit payments	<u>(1,950)</u>
Net changes	32,416
Total OPEB Liability – end of year	\$185,884

Total OPEB Liability as a Percentage of Covered Payroll	7.63%
---	-------

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, calculated using the current discount rate of 3.31% as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.31%) or -1 percentage point higher (4.31%) than the current rate. Because the SDBF is considered an unfunded trust, the relevant discount rate to calculate the total OPEB liability is based on the Fidelity Index's 20 year Municipal GO AA Index.

	1% Decrease in Discount Rate (1.75%)	1% Increase in Discount Rate (2.75%)	Discount Rate (3.75%)
Total OPEB liability	\$221,071	\$185,884	\$158,155

City of Hearne, Texas
Notes to Basic Financial Statements
September 30, 2020

Note 14. Other post-employment benefits

CITY OF HEARNE
SCHEDULE OF OPEB EXPENSE
SEPTEMBER 30, 2020

1. Total Service Cost	\$ 7,557
2. Interest on the Total OPEB Liability	5,798
3. Changes in benefit terms	-
4. Employer administrative costs	-
5. Recognition of deferred outflows/inflows of resources	-
6. Differences between expected and actual experience	(2,580)
7. Changes in assumptions or other inputs	<u>5,378</u>
8. Total Pension Expense	<u>\$ 16,153</u>

	Deferred <u>Outflows of Resources</u>	Deferred <u>Inflows or Resources</u>
Difference in expected and actual experience	\$ -	\$ -
Change in assumptions (actuarial (gains) or losses)		35,195
Contributions subsequent to the measurement date	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 35,195</u>

Year ended September 30	
2020	2,798
2021	2,798
2022	1,707
2023	2,357
2024	1,556
Thereafter	
Total	<u>\$ 11,216</u>

Due to the SDBF being considered an unfunded OPEB plan, benefit payments are treated as being equal to the employer's yearly contributions for retirees. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits. In order to determine the retiree portion of the City's Supplemental Death Benefit Plan contributions (that which is considered OPEB), the City should perform the following calculation:
Total covered payroll * retiree Portion of SDB Contribution (Rate)

Note 15. Contingent Liabilities & Pending Litigation

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 – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

In the current fiscal year, the City implemented the following new standards:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (“ASB 68”), replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans administered as trusts or equivalent arrangements that meet certain criteria. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – and Amendment of GASB 68* (“GASB 71”), requires employer contributions made between the measurement date, which is the date used to determine an employer’s net pension liability (“NPL”), and the employer’s fiscal year end be reported as a deferred outflow of resources (“DOOR”).

GASB Statement No. 75, *Accounting and financial reporting for postemployment benefits other than pensions*. This new standard requires a net OPEB liability to be recorded, along with OPEB expense, deferred outflows of resources, and a prior period adjustment.

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, 2020**

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

	<u>2020</u>
Total Pension Liability	
Service Cost	\$ 392,950
Interest (on the Total Pension Liability)	614,525
Change in benefit terms	-
Difference between expected and actual experience	(60,839)
Change of assumptions	48,328
Benefit payments, including refunds of employee contributions	<u>(348,803)</u>
Net Change in Total Pension Liability	646,161
Total Pension Liability - Beginning	<u>9,081,995</u>
Total Pension Liability - Ending (a)	<u><u>\$ 9,728,156</u></u>
Plan Fiduciary Net Position	
Contributions - Employer	377,074
Contributions - Employee	175,076
Net Investment Income	1,041,764
Benefit payments, including refunds of employee contributions	(348,803)
Administrative Expense	(5,888)
Other	<u>(177)</u>
Net Change in Plan Fiduciary Net Position	1,239,046
Plan Fiduciary Net Position - Beginning	<u>6,740,026</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 7,979,072</u></u>
Net Pension Liability - Ending (a) - (b)	\$ 1,749,084
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	82.02%
Covered Employee Payroll	\$ 2,437,656
Net Pension Liability as a Percentage of Covered Employee Payroll	71.75%

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, 2020
Schedule of Contributions
Texas Municipal Retirement System (TMRS)
Last 10 Years (will ultimately be displayed)
2020

Actuarially Determined Contribution	\$ 377,074
Contributions in relation to the	<u>(377,074)</u>
Contribution deficiency (excess)	\$ -
Covered employee payroll	\$ 2,437,656
Contributions as a percentage of	15.47%

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	28 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, 2020

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>8/31/2020</u>
City's proportion of the net pension liability	0.425%
City's proportionate share of the net pension liability	107,146
State's proportionate share of the net pension liability	<u>26,787</u>
Total	<u><u>\$ 133,933</u></u>
Number of Active Members*	23
City's Net Pension Liability per Active Member	\$ 4,658
Plan fiduciary net position as a percentage of the total liability	21.2%
○ 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, 2020

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

- 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, 2020

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Over (Under)
Revenues:				
Hotel motel occupancy taxes	\$ 166,000	\$ 166,000	\$ 117,874	\$ (48,126)
Investment income	-	-	-	-
Intergovernmental	-	-	-	-
Total revenues	166,000	166,000	117,874	(48,126)
Expenditures:				
Current:				
Culture and recreation:				
Transfers	-	-	(8,837)	(8,837)
Economic development	107,920	107,920	186,267	78,347
Capital outlay	-	-	-	-
Total expenditures	107,920	107,920	177,430	69,510
Net change in fund balance	58,080	58,080	(59,556)	(117,636)
Fund balances at beginning of year, as previously reported	165,632	165,632	165,632	-
Restatement of fund balance, see Note 16				
Fund balances at beginning of year, as restated	165,632	165,632	165,632	-
Fund balance at end of year	\$ 223,712	\$ 223,712	\$ 106,076	\$ (117,636)

City of Hearne, Texas
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-major Governmental Funds
For the Year Ended September 30, 2020

	Special Revenue		Total
	Hotel/Motel	Police	Non-major
	Tax	Special	Governmental
		Fund	Funds
Revenues:			
Hotel/motel occupancy taxes	\$ 117,874	\$ -	\$ 117,874
Investment income	-	-	-
police fines	-	-	-
Total revenues	117,874	-	117,874
Expenditures:			
Current:			
Transfers	(8,837)		(8,837)
General Government	186,267	-	186,267
Total expenditures	177,430	-	177,430
Excess (deficiency) of revenues over (under) expenditures	(59,556)	-	(59,556)
Net change in fund balances	(59,556)	-	(59,556)
Fund balances at beginning of year, as previously reported	165,632	13,174	178,806
Restatement of fund balance see note 16			
Fund balances at end of year	\$ 106,076	\$ 13,174	\$ 119,250

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, 2020

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Hotel motel occupancy taxes	\$ 166,000	\$ 166,000	\$ 117,874	\$ (48,126)
Investment income	-	-	-	-
Intergovernmental	-	-	-	-
Total revenues	<u>166,000</u>	<u>166,000</u>	<u>117,874</u>	<u>(48,126)</u>
Expenditures:				
Current:				
Culture and recreation:				
Transfers	-	-	(8,837)	(8,837)
Economic development	107,920	107,920	186,267	78,347
Capital outlay	-	-	-	-
Total expenditures	<u>107,920</u>	<u>107,920</u>	<u>177,430</u>	<u>69,510</u>
Net change in fund balance	58,080	58,080	(59,556)	(117,636)
Fund balances at beginning of year, as previously reported	165,632	165,632	165,632	-
Restatement of fund balance, see Note 16				
Fund balances at beginning of year, as restated	<u>165,632</u>	<u>165,632</u>	<u>165,632</u>	<u>-</u>
Fund balance at end of year	<u>\$ 223,712</u>	<u>\$ 223,712</u>	<u>\$ 106,076</u>	<u>\$ (117,636)</u>

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, 2020**

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Operating revenues:				
Charges for sales and services:				
Water sales	\$ 1,350,000	\$ 1,350,000	\$ 1,499,326	\$ 149,326
Electric sales	5,668,251	5,668,251	5,633,424	(34,827)
Sewer charges	906,500	906,500	616,193	(290,307)
Sanitation	603,631	603,631	672,627	68,996
Tap fees	10,000	10,000	8,275	(1,725)
Rental fees	1,200	1,200	-	(1,200)
Penalties	85,000	85,000	87,790	2,790
Miscellaneous revenue	29,500	29,500	4,671	(24,829)
Total operating revenue	<u>8,654,082</u>	<u>8,654,082</u>	<u>8,522,306</u>	<u>(131,776)</u>
Operating expenses:				
Wholesale utilities	4,034,069	4,034,069	3,681,563	(352,506)
Water department	668,510	668,510	633,563	(34,947)
Electric department	-	-	-	-
Sewer department	548,664	548,664	383,741	(164,923)
Sanitation department	464,516	464,516	595,328	130,812
Administrative and billing	1,261,577	1,261,577	1,000,975	(260,602)
Depreciation and amortization	-	-	786,724	786,724
Capital outlay	-	-	-	-
Total operating expenses	<u>6,977,336</u>	<u>6,977,336</u>	<u>7,081,894</u>	<u>104,558</u>
Operating income	<u>1,676,746</u>	<u>1,676,746</u>	<u>1,440,412</u>	<u>(236,334)</u>
Nonoperating revenues (expenses):				
Intergovernmental	-	-	-	-
Contribution from component unit	-	-	-	-
Investment income	-	-	-	-
Gain on disposal of capital assets	-	-	-	-
Interest expense	-	-	(57,467)	(57,467)
Total nonoperating revenues (expenses)	<u>-</u>	<u>-</u>	<u>(57,467)</u>	<u>(57,467)</u>
Change in net position before transfers	<u>1,676,746</u>	<u>1,676,746</u>	<u>1,382,945</u>	<u>(293,801)</u>
Transfers in	-	-	(142,606)	(142,606)
Transfers out	-	-	(1,106,939)	(1,106,939)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(1,249,545)</u>	<u>(1,249,545)</u>
Change in net position	<u>1,676,746</u>	<u>1,676,746</u>	<u>133,400</u>	<u>(1,543,346)</u>
Net position, beginning of year, as previously reported	5,386,892	5,386,892	4,805,724	(581,168)
Restatement of net position, see Note 16			-	
Net position, beginning of year, as restated	<u>5,386,892</u>	<u>5,386,892</u>	<u>4,805,724</u>	<u>(581,168)</u>
Net position, end of the year.	<u>\$ 7,063,638</u>	<u>\$ 7,063,638</u>	<u>\$ 4,939,124</u>	<u>\$ (2,124,514)</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, 2020

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Operating revenues:				
Rental fees	\$ 42,346	\$ 42,346	\$ 51,353	\$ 9,007
Miscellaneous revenue	-	-	-	-
Total operating revenues	42,346	42,346	51,353	9,007
Operating expenses:				
Airport	43,744	43,744	57,589	13,845
Depreciation	-	-	98,243	98,243
Total operating expenses	43,744	43,744	155,832	112,088
Operating income (loss)	(1,398)	(1,398)	(104,479)	(103,081)
Transfers in/(out)	-	-	142,606	142,606
Change in net position	(1,398)	(1,398)	38,127	39,525
Net position, beginning of the year	786,654	786,654	786,654	-
Net position, end of the year	\$ 785,256	\$ 785,256	\$ 824,781	\$ 39,525

**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, 2020

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Over (Under)
Revenues:				
Sales taxes	\$ 410,527	\$ 410,527	\$ 410,527	\$ -
Investment income	8,452	8,452	8,452	-
Total revenues	<u>418,979</u>	<u>418,979</u>	<u>418,979</u>	<u>-</u>
Expenditures				
Current:				
Culture and recreation:				
Economic development	502,800	502,800	502,800	-
Total expenditures	<u>502,800</u>	<u>502,800</u>	<u>502,800</u>	<u>-</u>
Excess of revenues over expenditures	(83,821)	(83,821)	(83,821)	-
Other financing sources (uses):				
transfers in	<u>-</u>	<u>-</u>	<u>(37,284)</u>	<u>(37,284)</u>
Net change in fund balances	(83,821)	(83,821)	(121,105)	(37,284)
Fund balances at beginning of year, as previously reported	1,207,190	1,207,190	1,207,190	-
Fund balances at beginning of year, as restated	<u>1,207,190</u>	<u>1,207,190</u>	<u>1,207,190</u>	<u>-</u>
Fund balances at end of year	<u>\$ 1,123,369</u>	<u>\$ 1,123,369</u>	<u>\$1,086,085</u>	<u>\$ (37,284)</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, 2020

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Over (Under)
Revenues:				
Sales taxes	\$ 410,527	\$ 410,527	\$ 432,317	\$ 21,790
other income			210,731	
Investment income	8,452	8,452	11,547	3,095
Total revenues	418,979	418,979	654,595	235,616
Expenditures:				
Current				
Culture and recreation:				
Economic development	502,800	502,800	563,582	60,782
Total expenditures	502,800	502,800	563,582	60,782
Excess of revenues over expenditures	(83,821)	(83,821)	91,013	174,834
Other financing sources (uses):				
Contributions to primary government	-	-	144,356	144,356
Net change in fund balances	(83,821)	(83,821)	235,369	319,190
Fund balances at beginning of year, as previously reported	1,251,922	1,251,922	1,251,922	-
Fund balances at beginning of year, as restated	1,251,922	1,251,922	1,251,922	-
Fund balances at end of year	\$1,168,101	\$1,168,101	\$ 1,487,291	\$ 319,190

**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, 2020

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Legislative:				
Personnel	\$ 45,116	\$ 45,116	\$ 43,222	\$ (1,894)
Maintenance	2,500	2,500	-	(2,500)
Supplies	750	750	888	138
Other	34,900	34,900	44,264	9,364
Total legislative	83,266	83,266	88,374	5,108
Executive:				
Personnel	210,906	210,906	221,681	10,775
Maintenance	1,500	1,500	-	(1,500)
Supplies	1,250	1,250	1,250	-
Other	20,300	20,300	26,052	5,752
Total executive	233,956	233,956	248,983	15,027
Finance:				
Personnel	23,500	23,500	21,672	(1,828)
Maintenance	19,000	19,000	35,547	16,547
Supplies	6,750	6,750	2,439	(4,311)
Contract services	18,000	18,000	99,940	81,940
Other	748,845	748,845	258,410	(490,435)
Total finance	816,095	816,095	418,008	(398,087)
Court:				
Personnel	104,030	104,030	104,004	(26)
Maintenance	7,000	7,000	-	(7,000)
Supplies	1,750	1,750	2,253	503
Contract services	50,000	50,000	64,422	14,422
Other	7,900	7,900	6,620	(1,280)
Total court	170,680	170,680	177,299	6,619
Total general government	\$ 1,303,997	\$ 1,303,997	\$ 932,664	\$ (371,333)

City of Hearne, Texas
General Fund
Schedule of Public Safety Expenditures – Budget and Actual
For the Year Ended September 30, 2020

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Police:				
Personnel	\$ 1,010,822	\$ 1,010,822	\$ 969,372	\$ (41,450)
Maintenance	31,500	31,500	21,868	(9,632)
Supplies	9,500	9,500	19,133	9,633
Other	95,850	95,850	311,969	216,119
Total police	1,147,672	1,147,672	1,322,342	174,670
Fire:				
Personnel	19,410	19,410	19,998	588
Maintenance	13,400	13,400	5,207	(8,193)
Supplies	-	-	2,533	2,533
Other	76,000	76,000	31,437	(44,563)
Total fire	108,810	108,810	59,175	(49,635)
Total public safety	\$ 1,256,482	\$ 1,256,482	\$ 1,381,517	\$ 125,035

City of Hearne, Texas
General Fund
Schedule of Highways and Streets Expenditures – Budget and Actual
For the Year Ended September 30, 2020

	<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	\$281,084	\$281,084	\$272,302	\$ (8,782)
Maintenance	94,000	94,000	87,781	(6,219)
Supplies	5,500	5,500	5,464	(36)
Other	<u>274,300</u>	<u>274,300</u>	<u>44,325</u>	<u>(229,975)</u>
Total highways and streets	<u>\$654,884</u>	<u>\$654,884</u>	<u>\$409,872</u>	<u>\$ (245,012)</u>

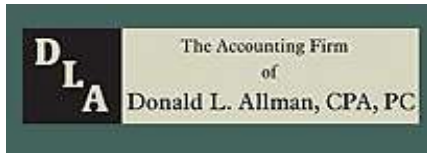
City of Hearne, Texas
General Fund
Schedule of Health and Welfare Expenditures – Budget and Actual
For the Year Ended September 30, 2020

	<u>Budgeted Amounts</u>			Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Code enforcement:				
Personnel	\$ 61,833	\$ 61,833	\$ 38,727	\$ (23,106)
Maintenance	750	750	687	(63)
Supplies	-	-	771	771
Other	<u>7,150</u>	<u>7,150</u>	<u>6,964</u>	<u>(186)</u>
Total code enforcement	<u>69,733</u>	<u>69,733</u>	<u>47,149</u>	<u>(22,584)</u>
Animal control:				
Personnel	52,764	52,764	46,447	(6,317)
Maintenance	750	750	580	(170)
Supplies	1,000	1,000	477	(523)
Other	<u>4,550</u>	<u>4,550</u>	<u>15,698</u>	<u>11,148</u>
Total animal control	<u>59,064</u>	<u>59,064</u>	<u>63,202</u>	<u>4,138</u>
Total health and welfare	<u>\$ 128,797</u>	<u>\$ 128,797</u>	<u>\$ 110,351</u>	<u>\$ (18,446)</u>

City of Hearne, Texas
General Fund
Schedule of Culture and Recreation Expenditures – Budget and Actual
For the Year Ended September 30, 2020

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
				<u>Over (Under)</u>
Library:				
Personnel	\$ 145,636	\$ 145,636	\$ 145,840	\$ 204
Maintenance	750	750	1,880	1,130
Supplies	3,000	3,000	3,162	162
Other	23,600	23,600	27,707	4,107
Total library	<u>172,986</u>	<u>172,986</u>	<u>178,589</u>	<u>5,603</u>
Parks and recreation:				
Personnel	285,183	285,183	239,636	(45,547)
Maintenance	81,100	81,100	89,606	8,506
Supplies	3,500	3,500	3,745	245
Other	99,100	99,100	40,673	(58,427)
Total parks and recreation	<u>468,883</u>	<u>468,883</u>	<u>373,660</u>	<u>(95,223)</u>
Total culture and recreation	<u>\$ 641,869</u>	<u>\$ 641,869</u>	<u>\$ 552,249</u>	<u>\$ (89,620)</u>

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 the City of Hearne, Texas, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Hearne, Texas' basic financial statements, and have issued our report thereon dated March 17, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the City of Hearne, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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.

Donald L. Allman, CPA, PC

Georgetown, TX
March 17, 2021

