City of Hearne, Texas

Financial Statements with

Report of Independent Auditors

For the Fiscal Year Ended

September 30, 2019

City of Hearne, Texas
For the Year Ended September 30, 2019

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CITY OF HEARNE

March 31, 2020

To the Honorable Mayor, Members of the City Council and Citizens of the City of Hearne: The Comprehensive Annual Financial Report (CAFR) of the City of Hearne, Texas, for the fiscal year ended September 30, 2019, including the independent auditor's report, is hereby submitted in accordance with the provisions of Section 10.3 of the City Charter. Also, state law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with the generally accepted accounting principles (GAAP), and audited in accordance with generally accepted audited standards by an independent firm of licensed public accountants.

This report is published to fulfill those requirements for the fiscal year ended September 30, 2019. This report is published to provide the Mayor and City Council, city staff, our Citizens, representatives of financial institutions, our bondholders and other interested parties with detailed information concerning the financial condition and activities of the City. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. Because the cost of internal controls should not outweigh their benefits, the City of Hearne's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute assurance, that the financial statements will be free from material misstatement.

The City of Hearne's financial statements have been audited by Donald L. Allman, CPA, PC a licensed certified public accountant. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2019, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor's report is presented as the first component of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis to accompany the basic ii financial statements. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

Profile of the Government

The City of Hearne, incorporated in 1876, is in southern Robertson County in the central region of the State of Texas. The city is strategically located approximately 88 miles northeast of Austin and 120 miles west of Houston. The city of Hearne is position right in the center of the three greatest metro areas; Houston, Dallas, Austin-San Antonio. This area is projected to have 21.6 million residents by 2030.

The City currently occupies a land area a little over four square miles and services approximately 4,500 residents. The City of Hearne is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statue to extend its corporate limits by annexation, which has not occurred in the last 10 years.

The City of Hearne is a home-rule city governed by an elected mayor and five-member council and operates under city-council form of entity. Policy-making and legislative authority are vested in the City Council. The City Council is responsible for, among other things, passing ordinances, adopting the budget, appointing committees and hiring the City Manager, City Attorney and Municipal Court Judge.

CITY OF HEARNE

The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the government and appointing the heads of the various departments. The Council is elected on a non-partisan basis. Council members serve two year staggered terms.

The City of Hearne provides a full range of services, including a police department consisting of full-time employees and police chief. The city also coordinates the operation of a fire department consisting of over fifteen volunteers; the construction and constant maintenance of streets and other infrastructure funded in part by the City's Economic Development Corporations; recreational activities and cultural events. Solid waste collection/disposal and water treatment are outsourced to Frontier waste collection company. Wastewater collection and treatment are provided by the City and handled by professional full-time staff.

The City of Hearne is also financially accountable for a legally separate economic development corporation, which is reported separately with the City of Hearne's financial statements. The City support two economic development corporations – each with its own specific function and independent boards. Additional information on this legally separate entity can be found in the Notes to the Financial Statements. The annual budget serves as the foundation for the City of Hearne's financial planning and control. All units and departments of the City of Hearne are required to submit requests for appropriations to the City Manager. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents a proposed budget to Council for review in June. The information and preparation of the yearly budget is compiled by the finance department.

The Council is required to hold public hearings on the proposed budget and to adopt the final budget no later than September 30th. During the year, the Council may also issue amendments. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). The preparation of the Manager's budget begins in early April. The City Manager may authorize transfers of appropriations within a department and between departments within a fund and within major line item categories. Increases or decreases of appropriations to a fund; however, require special approval of the City Council in the form of an Ordinance formally amending the adopted budget. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. This is performed at the end of every quarter. A comparison report is also useful in the preparation of the annual budget. For the General Fund, this comparison is presented as part of the basic financial statement for the governmental funds. For other governmental funds with appropriated annual budgets, this comparison is presented in the governmental fund subsection of the report.

Local Economy

The City of Hearne's economic outlook continues to look promising due to the overall improvement in the regional economy. This is evidenced by local economic indicators such as an increase in tax appraisal values and the increase in residential building permits, as well as the increasing sales activity of local markets. Our charges for sales and services in the Utility sector show a positive variance of over half a million dollars. Most of this favorable difference between budget and actuals is combined in electrical and sewer sales. Because of our remarkable increase in business, the City, and our EDC boards enjoyed unprecedented greater than expected sales tax; each board receiving $150,000 over the budgeted amount.

The Hearne Independent School District (HISD) is the third largest sector, employing over 250 professional educators and administrative staff. Servicing three campuses, the City's school district has a combined enrollment of 900 students. The school district is 95.5% economically disadvantage. The other 2 critical sectors are construction and retail, with construction being the highest paying industry in the area. Although the medium income is lower than the entire USA by almost ten thousand dollars, the city's growth in recent years yielded double-digit percent change in medium wages.

The City of Hearne's location is in Robertson County. Hearne is in the region with the highest median income. Robertson County's population is over sixteen thousand. There was negligent decline in number of employees, but the region's median household income continues to grow significantly. The County employs over seven thousand people. Like the City, Robertson County's largest industries are education and retail.

Long –Term Financial Planning

The City of Hearne utilizes long-term revenue and expenditure forecasts and a Capital Improvements Schedule to plan for projects and initiatives that promote the city's strategic vision. The comprehensive plan includes the following projects: The maintenance and upgrading of streets and alleys, an unwavering effort to improve the standard of living for our citizens by enhancing parks, recreational areas, and historical sites, a steady dedication to the promotion and maintenance of the City's recognized golf course, and our commitment bring the best and efficient services to our community.

This vision gains momentum and popularity because we have made progress already. The City, fortunately, has had the support of community leaders and well as the cooperative nature of our EDC boards who year after year work closely with the Council to fund numerous infrastructure and quality endeavors; namely, streets, parks, community development.

Among the most treasured projects, the Council and City manager, before end of Fiscal Year 2019, conceptualized a new Safety Building. Such structure will house Fire, Police and Courts departments. This construction will change the landscape of the City's downtown. The estimated cost of the project is 8.5 million dollars. Additionally, the City also plans to secure loans and other matching funds to replace lighting for the entire City. This is a major step in the beautification of the community. The estimated cost of this project is a little of 1.5 million dollars. The City also has a comprehensive plan to maintain and repair streets. With the funding assistance of EDC boards, the City estimates that more than 3 million dollars will be invested in this type of infrastructure within 4 years.

The administration has also improved the quality of events and celebrations; overall, the Council, and City manager, and EDC boards have taken an undoubtedly successful direction, and the community has enjoyed, and shared the new vision. Approximately $45,000 are invested every year into the chamber of commerce, and another over $17,000 donated to the Camp Hearne Museum.

The City also administrates the daily operations of the historical railroad museum. Finally, EDC boards and City Council have committed to enhancing the quality of life by investing in parks and golf course. The City plans to invest more than $200,000 in equipment and services for this.

Internal Control:

Management of the City is responsible for establishing and maintaining an internal control policy. This policy is designed to provide reasonable assurance – however, not absolute assurance. City Manager, Council, and Finance Director are aware that small cities have enormous challenges when developing internal controls. The City of Hearne has certain mechanisms that mitigate the risk associated with smaller cities as it relates to internal controls. Separation of duties is by far the most utilized mechanism and the city applies these rules as much as possible. The City has 2 and sometimes a 3-step verification process when dealing with wire transfers, issuance of payments, and ordering of merchandise.

CITY OF HEARNE

Over the past years, there has been an incremental trend in the number of incidents related to fraud committed by outside parties. The administration has learned of these trends and consequently has established procedures that limit any attempt to defraud the City.

Acknowledgements:

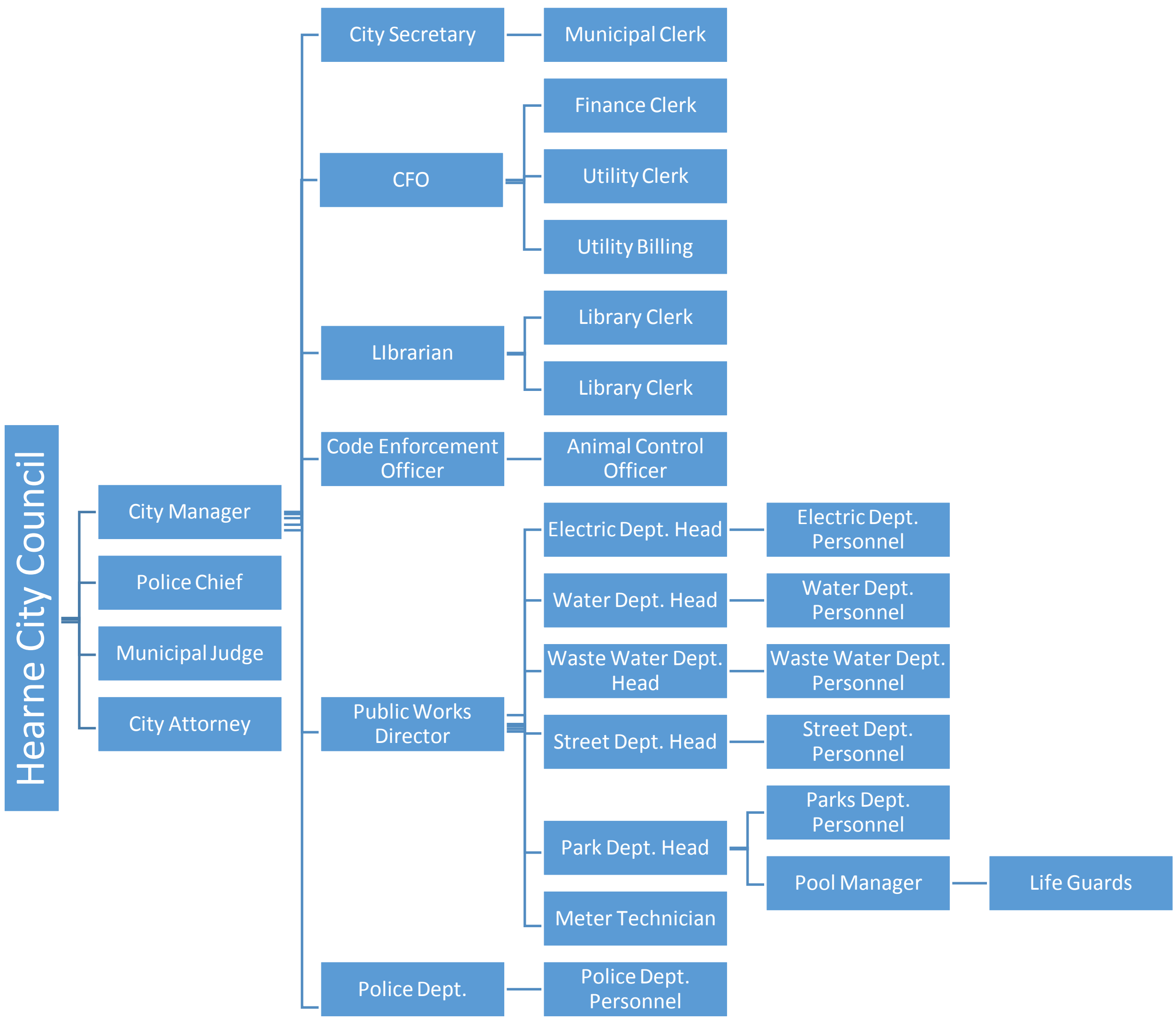
In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR meets the requirements of the Certificate of Achievement Program to submit to GFOA to determine its eligibility for certificate. The presentation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the finance department. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report.

We would also like to thank the Mayor and the City Council and City Manager for their continued interest and support for maintaining the highest standards of professionalism in the management of the City of Hearne financial operations. Furthermore, the work of the independent auditors from Donald L. Allman, CPA, PC, is greatly appreciated.

Respectfully submitted, V Alonzo Echavarria-Garza.

City of Hearne
Organizational Chart



FINANCIAL SECTION

The Accounting Firm of Donald L. Allman, CPA

Donald L. Allman, CPA, PC
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Email: dallman@donallmancpa.com

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, 2019, 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, 2019, 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 31, 2020, 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 31, 2020

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, 2019. 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 $ $9,041,925 at September 30, 2019. This represents an increase of 4.7% in the Governmental Activities and a decrease of 11% in Business Activities for an overall decrease of 5.6%.
- During the fiscal year ended September 30, 2019, the General Fund reported a net loss of $(1,103,675) and the Enterprise Fund reported net income of $563,825, for a net decrease overall of $(539,850).
- The General Fund on a Governmental Funds basis of accounting had a net decrease of $(840,454).

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

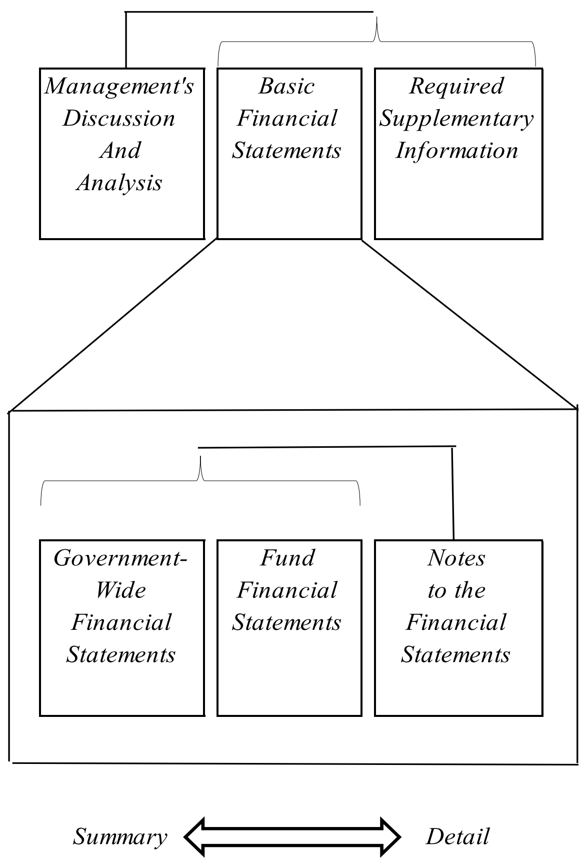
* The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.

* 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.

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



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

	Fund Statements			
Type of Statements	**Government-Wide**	**Governmental Funds**	**Proprietary Funds**	**Fiduciary Funds**
Scope	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.
Required Financial Statements	*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	
Accounting basis & measurement focus	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
Type of Asset / Liability Information	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
Type of Inflow / Outflow Information	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	
	2019	2018	2019	2018	2019	2018
Current Assets						
Cash & Cash Equivalents	$ 91	$ 398	$ 139	$ 164	$ 230	$ 562
Receivables	253	259	1,225	1,348	1,478	1,607
Internal Balances	934	934	(934)	(934)	-	-
Inventories	-		391	358	391	358
Other Assets	14	24	2	2	16	26
Restricted Assets	609	750	329	784	938	1,534
Total Current Assets:	1,901	2,365	1,152	1,722	3,053	4,087
Noncurrent Assets						
Capital Assets	15,842	14,618	25,846	25,228	41,688	39,846
Less Accumulated Depreciation	(7,348)	(6,877)	(18,284)	(17,438)	(25,632)	(24,315)
Total Noncurrent Assets	8,494	7,741	7,562	7,790	16,056	15,531
Total Assets	10,395	10,106	8,714	9,512	19,109	19,618
Deferred Outflows of Revenue						
Deferred Loss on Bond Refunding	-	-	164	164	164	164
Deferred Amounts related to Pensions	223	(134)	95	(81)	318	(215)
Total Deferred Outflows of Resources	223	(134)	259	83	482	(51)
Liabilities Due in Less Than One Year						
Accounts Payable	423	42	133	109	556	151
Accrued Liabilities	170	183	122	113	292	296
Customer Deposits	-	-	400	400	400	400
Due to Component Unit	-	-	57	57	57	57
Current Compensated Absences	-	-	-	-	-	-
Current Capital Lease	141	157	137	130	278	287
Current Long-Term Debt	335	325	134	130	469	455
Total Current Liabilities	1,069	707	983	939	2,052	1,646
Liabilities Due in More Than One Year						
Compensated Absences	47	47	27	27	74	74
Bonds	3,205	3,540	-	-	3,205	3,540
Notes Payable	-	-	576	710	576	710
Capital Leases	238	379	574	711	812	1,090
Certificates of Obligation	-	-	-	-	-	-
Net Pension Liability - TMRS	1,568	1,186	774	585	2,342	1,771
Net OPEB Liability	103	107	51	53	154	160
Net Pension Liability - TESRS	124	124	-	-	124	124
Total Long-Term Liabilities:	5,285	5,383	2,002	2,086	7,287	7,469
Total Liabilities	6,354	6,090	2,985	3,025	9,339	9,115
Deferred Inflows of Resources						
Deferred Amounts related to Pensions	816	588	395	283	1,211	871
Total Deferred Inflows of Resources	816	588	395	283	1,211	871
Net Position						
Invested in Capital Assets	4,576	3,340	6,141	6,109	10,717	9,449
Restricted	788	475	329	784	1,117	1,259
Unrestricted	(1,916)	(521)	(877)	(606)	(2,793)	(1,127)
Total Net Position	$ 3,448	$ 3,294	$ 5,593	$ 6,287	$ 9,041	$ 9,581

The City's combined Net Position decreased by $(539,850), or 5.6%, to $9,041,925 at September 30, 2019. Comparatively, last year, the City's combined Net Position increased by $409,443 or 2.9%. (See Table A-2)

The City's Net Position for Government Activities increased by 4.7% to $3,449,547. 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 (1,914,685).

The city's Net Position for Business Activities decreased by 11% from $6,287,517 in the prior year to $5,592,378.

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

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Program Revenues						
Charges for Services	$ 110	$ 208	$ 8,962	$ 8,991	$ 9,072	$ 9,199
Operating grants	192	17	-	-	192	17
Capital grants	-	-	-	-	-	-
General Revenues						-
Ad Valorem Taxes	1,457	1,379	-	-	1,457	1,379
Sales Tax	864	744	-	-	864	744
Franchise Taxes	32	85	-	-	32	85
Hotel / Motel Occupancy Tax	159	156	-	-	159	156
Rentals	66	89	-	17	66	106
Interest Income	37	3	-	1	37	4
Gain/(loss) on Sale of Assets	-	24	-	-	-	24
Other	144	64	15	322	159	386
Total Revenues	3,061	2,769	8,977	9,331	12,038	12,100
Program Expenses						
General Government	1,343	1,016	123	88	1,466	1,104
Public Safety	1,450	1,419	-	-	1,450	1,419
Highways & Streets	614	575	-	-	614	575
Health & Welfare	-	60	-	-	-	60
Culture & Recreational	626	703	-	-	626	703
Interest on LT Debt	130	151	26	26	156	177
Enterprise Activities	-	-	8,265	7,654	8,265	7,654
Total Expenses	4,163	3,924	8,414	7,768	12,577	11,692
Increase (Decrease) in Net Position Before Transfers	(1,102)	(1,155)	563	1,563	(539)	408
Contributions Between Primary Government & Component Unit	-	-	-	-	-	-
Transfers In (Out)	1,258	1,118	(1,258)	(1,118)	-	-
Change in Net Position	156	(37)	(695)	445	(539)	408
Net Position - Beginning	3,294	3,423	6,287	5,887	9,581	9,310
Restatement of net position	-	(92)	-	(45)	-	(137)
Net Position - Beginning as restated	3,294	3,331	6,287	5,842	9,581	9,173
Net Position - Ending	$ 3,450	$ 3,294	$ 5,592	$ 6,287	$ 9,042	$ 9,581

Total Revenues for the City of Hearne were $12,037,259, a decrease of 0.005%. The total cost of all programs and services increased by $885,000, or 7.5% to $12,577,000, over last year's total of $11,692,000. Overall, Net Position decreased by $(539,850) to $9,041,925.

Governmental Activities

Revenues for the City's Governmental Activities were $3,060,381, an increase of 10.5%. The cost of all Governmental Activities was $4,164,056, an increase of 6.1%. $1,258,964 was transferred from the Enterprise Fund to the General Fund.

Business Activities

Revenues for the City's business activities were $8,976,878, a decrease of 3.8%. Expenses were $8,413,053, an increase of 8.3%.

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 of dumpster) to strengthen the net position. They have also been collecting $0.47 per 1,000 gallons of water sold to defray the cost of the annual water storage tank maintenance and inspections.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet) reported a Governmental Fund Balance of $ 1,222,836 which decreased from last year's total of $2,063,290.

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 $331,954, with expenditures coming in $1,073,508 more than expectations. This made the overall budget operations worse than expected by $741,554.

CAPITAL ASSETS AND DEBT ADMINISTRATION

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

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Capital Assets						
Land	$ 393	$ 393	$ 62	$ 62	$ 455	$ 455
Construction in Progress	581	-	-	-	581	-
Buildings and Improvements	5,432	5,432	3,666	3,537	9,098	8,969
Improvements Other than Buildings	6,252	5,834	-	-	6,252	5,834
Equipment	1,655	1,430	587	587	2,242	2,017
Vehicles	1,425	1,425	364	364	1,789	1,789
Furniture and Office Equipment	104	104	382	321	486	425
Distribution and Collection Systems	-	-	20,785	20,358	20,785	20,358
Totals at Historical Cost	15,842	14,618	25,846	25,229	41,688	39,847
Total Accumulated Depreciation	(7,348)	(6,877)	(18,284)	(17,438)	(25,632)	(24,315)
Net Capital Assets	$ 8,494	$ 7,741	$ 7,562	$ 7,791	$ 16,056	$ 15,532

At the end of 2019, the City had invested $41,688,000 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 $1,841,000, a 4.6% increase from last year.

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

Governmental	
Street Improvements	391,974
buiding construction in progress	581,280

Business-Type Activities	
Equipment Furniture & fixtures	208,457
Water & Wastewater System	383,097

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

	Governmental Activities		Business-type Activities		Total		Change
	2019	2018	2019	2018	2019	2018	2019-2018
Long Term - Debt							
Bonds	$ 3,540	$ 3,865	$ -	$ -	$ 3,540	$ 3,865	(325)
Notes Payable	-	-	710	840	710	840	(130)
Leases Payable	379	536	711	841	1,090	1,377	(287)
Total Long-Term Debt	$ 3,919	$ 4,401	$ 1,421	$ 1,681	$ 5,340	$ 6,082	$ (742)

Long-Term Debt

At year end, the City had $5,340,000 in Long Term Debt outstanding. This included $3.540 million in bonds payable. This compares to $3.865 million in bonds outstanding last year and is a 12.1% reduction in these debt instruments. (See Table A-4)

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2018-209 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, 2019

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Hearne Economic Development Corporation	Hearne Infrastructure / Improvement Corporation
Assets					
Cash and equivalents	$ 91,480	$ 139,119	$ 230,599	$ -	$ -
Receivables (net of allowance for uncollectibles):					
Taxes	252,531	-	252,531	-	58,991
Accounts	380	1,224,967	1,225,347	-	-
Internal balances	934,048	(934,048)	-	-	56,893
Inventory	-	390,743	390,743	-	-
Other assets	13,767	1,770	15,537	-	-
Restricted assets:					
Cash and equivalents	609,165	328,501	937,666	1,073,106	1,136,038
Investments	-	-	-	148,834	-
Capital assets:					
Non-depreciable	974,362	61,634	1,035,996	-	-
Depreciable, net	7,520,664	7,500,462	15,021,126	-	-
Total assets	10,396,397	8,713,148	19,109,545	1,221,940	1,251,922
Deferred outflows of resources					
Loss on bond refunding	-	163,593	163,593	-	-
Deferred amounts related to pensions	222,608	95,133	317,741	-	-
Total deferred outflows of resources	222,608	258,726	481,334	-	-
Liabilities					
Accounts payable	423,154	132,780	555,934	14,750	-
Salaries payable	33,783	-	33,783	-	-
State tax payable	-	49,184	49,184	-	-
Other accrued liabilities	136,145	72,940	209,085	-	-
Due to component unit	-	56,893	56,893	-	-
Deposits	-	400,038	400,038	-	-
Long-term liabilities:					
Due within one year:					
Capital lease payable	38,040	137,231	175,271	-	-
Notes payable	103,230	133,803	237,033	-	-
Bonds payable	335,000	-	335,000	-	-
Due in more than one year:					
Compensated absences	46,725	27,174	73,899	-	-
Capital lease payable	237,538	574,101	811,639	-	-
Bonds payable	3,205,000	-	3,205,000	-	-
Notes Payable	-	576,276	576,276		
Net pension liability - TMRS	1,568,336	773,633	2,341,969	-	-
Net OPEB Liability	102,826	50,642	153,468		
Net pension liability - TESRS	123,587	-	123,587	-	-
Total liabilities	6,353,364	2,984,695	9,338,059	14,750	-
Deferred inflows of resources					
Deferred amounts related to pensions	816,094	394,801	1,210,895	-	-
Total deferred inflows of resources	816,094	394,801	1,210,895	-	-
Net Position					
Net investment in capital assets	4,576,218	6,140,685	10,716,903	-	-
Restricted for:					
Court security	33	-	33	-	-
Court technology	10	-	10	-	-
Child safety fund	-	-	-	-	-
Debt Service	609,165	328,501	937,666		
Tourism-Hotel Motel	165,632	-	165,632	-	-
Police department	13,174	-	13,174	-	-
Economic development	-	-	-	1,207,190	1,251,922
Unrestricted	(1,914,685)	(876,808)	(2,791,493)	-	-
Total net position	$ 3,449,547	$ 5,592,378	$ 9,041,925	$ 1,207,190	$ 1,251,922

The accompanying notes are an integral part of this statement.

City of Hearne, Texas
Statement of Activities
For the Year Ended September 30, 2019

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position				
					Primary Government			Component Units	
Program Activities	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Hearne Economic Development Corporation	Hearne Infrastructure/ Improvement Corporation
Primary government:									
Governmental activities:									
General government	$ 1,466,240	$ 6,108	$ 192,295	$ -	$ (1,145,313)	$ (122,524)	$ (1,267,837)	$ -	$ -
Public safety & Court	1,450,527	94,637	-	-	(1,355,890)	-	(1,355,890)	-	-
Highways and streets	613,550	-	-	-	(613,550)	-	(613,550)	-	-
Culture and recreation	625,665	9,201		-	(616,464)	-	(616,464)	-	-
Interest on long-term debt	156,447	-	-	-	(130,598)	(25,849)	(156,447)	-	-
Total governmental activities	4,312,429	109,946	192,295	-	(3,861,815)	(148,373)	(4,010,188)	-	-
Business-type activities:									
Water	1,727,548	1,322,846	-	-	-	(404,702)	(404,702)	-	-
Electric	4,964,153	5,959,150	-	-	-	994,997	994,997	-	-
Sewer	841,492	882,185	-	-	-	40,693	40,693	-	-
Sanitation	618,660	632,006	-	-	-	13,346	13,346	-	-
Municipal airport	112,827	165,935	-	-	-	53,108	53,108	-	-
Total business-type activities	8,264,680	8,962,122	-	-	-	697,442	697,442	-	-
Total primary government	12,577,109	9,072,068	192,295	-	(3,861,815)	549,069	(3,312,746)	-	-
Component units:									
Hearne Economic Development Corporation	200,796	-	-	-				(200,796)	-
Hearne Infrastructure Improvement Corporati	317,667	-	-	-				-	(317,667)
	$ 518,463	$ -	$ -	$ -				(200,796)	(317,667)
General revenues:									
Taxes									
Property taxes					1,456,986	-	1,456,986	-	-
Sales taxes					864,446	-	864,446	427,450	427,450
Franchise fees					31,558	-	31,558	-	-
Hotel/motel occupancy					158,541	-	158,541	-	-
Rentals					65,754	-	65,754	-	-
Investment earnings					36,860	173	37,033	13,272	13,118
Gain (loss) on disposal of capital assets					350	-	350	-	-
Miscellaneous					143,645	14,583	158,228	-	65,048
Transfers					1,258,964	(1,258,964)	-	89,336	(76,648)
Total general revenues and transfers					4,017,104	(1,244,208)	2,772,896	530,058	428,968
Change in net position					155,289	(695,139)	(539,850)	329,262	111,301
Net position at beginning of the year, as previously reported					3,294,258	6,287,517	9,581,775	877,928	1,140,621
Net position at end of year					$ 3,449,547	$ 5,592,378	$ 9,041,925	$ 1,207,190	$ 1,251,922

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

City of Hearne, Texas
Balance Sheet
Governmental Funds
September 30, 2019

	General	Total Nonmajor Funds	Total Governmental Funds
Assets			
Cash and equivalents	$ 91,480	$ -	$ 91,480
Receivables:			
Taxes	252,531	-	252,531
Accounts	380	-	380
Due from other funds	934,048	-	934,048
Other assets	13,767	-	13,767
Restricted assets:			-
Cash and equivalents	430,359	178,806	609,165
Total assets	$ 1,722,565	$ 178,806	$ 1,901,371
Liabilities			
Accounts payable	$ 423,154	$ -	$ 423,154
Salaries payable	33,783	-	33,783
Accrued liabilities	136,145	-	136,145
Deposits	-	-	-
Due to other funds	-		-
Total liabilities	593,082	-	593,082
Deferred Inflows of Resources			
Unavailable revenue-property taxes	85,453	-	85,453
Fund Balances			
Nonspendable			
Prepaid expenses	13,767	-	13,767
Restricted for:			
Debt service	609,165	-	609,165
Court security	33	-	33
Court technology	10	-	10
Fire truck	-	-	-
Child safety fund	-	-	-
Police	-	13,174	13,174
Hotel motel	-	165,632	165,632
Unassigned reported in:			
General fund	421,055	-	421,055
Total fund balances	1,044,030	178,806	1,222,836
Total liabilities, deferred inflows or resources and fund balances	$ 1,722,565	$ 178,806	$ 1,901,371

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, 2019

Fund balances - total governmental funds		1,222,836
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	15,842,834	
Less accumulated depreciation	(7,347,808)	8,495,026
Certain tax receivables are not available to pay for current period expenditures and are not reported in the governmental funds balance sheet.		85,453
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet.		
Compensated absences	(46,725)	
Capital lease & Note payable	(378,808)	
Net OPEB Liability	(102,826)	
Bonds Payable	(3,540,000)	
Net pension liability - TMRS	(1,568,336)	
Net pension liability - TESRS	(123,587)	(5,760,282)
Certain deferred inflows and outflows of resources are not reported in the governmental funds.		
Deferred outflows related to pensions	222,608	
Deferred inflows related to pensions	(816,094)	(593,486)
Net position of governmental activities		$ 3,449,547

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, 2019

	General	Total Nonmajor Funds	Total Governmental Funds
Revenues:			
Taxes			
Property	$ 1,456,986	$ -	$ 1,456,986
Sales	864,446	-	864,446
Franchise fees	31,558	-	31,558
Hotel/motel occupancy	-	158,541	158,541
Park revenues	9,201	-	9,201
Licenses and permits	6,108	-	6,108
Property rentals	65,754	-	65,754
Fines	93,303	1,334	94,637
Investment income	36,738	122	36,860
Grants and contributions	192,295	-	192,295
Miscellaneous	143,995	-	143,995
Total revenues	2,900,384	159,997	3,060,381
Expenditures			
Current:			
General government	913,606	121,176	1,034,782
Public safety	1,367,084	-	1,367,084
Highways and streets	401,686	-	401,686
Health and welfare	-	-	-
Culture and recreation	470,969		470,969
Capital outlay	1,224,639	-	1,224,639
Debt service:			
Principal	482,103	-	482,103
Interest and fiscal charges	130,598	-	130,598
Total expenditures	4,990,685	121,176	5,111,861
Excess (deficiency) of revenues over (under) expenditures	(2,090,301)	38,821	(2,051,480)
Other financing sources (uses)			
Debt Proceeds for Equipment	-		-
Transfers in	1,258,964	-	1,258,964
Transfers out	-	(47,938)	(47,938)
Total other financing sources (uses)	1,258,964	(47,938)	1,211,026
Net change in fund balances	(831,337)	(9,117)	(840,454)
Fund balances at beginning of year, as previously reported	1,875,367	187,923	2,063,290
			-
Fund balances at beginning of year, as restated	1,875,367	187,923	2,063,290
Fund balances at end of year	$ 1,044,030	$ 178,806	$ 1,222,836

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, 2019

Net change in fund balances - total governmental funds		$ (840,454)
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	1,224,639	
Depreciation of capital assets	(470,777)	753,862
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.		85,453
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(77,291)
		-
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.		(248,384)
Bond, loan and lease principal payments aren't expenses for government wide financial statements		482,103
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.		
		-
Change in net position of governmental activities		$ 155,289

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, 2019

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Over (Under)
Revenues:				
Taxes:				
Property	1,501,738	1,501,738	1,456,986	(44,752)
Sales	560,000	560,000	864,446	304,446
Franchise fees	80,000	80,000	31,558	(48,442)
Licenses and permits	15,000	15,000	6,108	(8,892)
Property rentals	50,000	50,000	65,754	15,754
Fines	175,000	175,000	93,303	(81,697)
Intergovernmental	-	-	9,201	9,201
Investment income	-	-	36,738	36,738
Private contributions	-	-	192,295	192,295
Miscellaneous	186,692	186,692	143,995	(42,697)
Total revenues	2,568,430	2,568,430	2,900,384	331,954
Expenditures:				
Current:				
General government				
Legislative	80,882	80,882	72,750	(8,132)
Executive	231,977	231,977	233,334	1,357
Finance	816,095	816,095	186,015	(630,080)
Court	182,968	182,968	152,611	(30,357)
Total general government	1,311,922	1,311,922	644,710	(667,212)
Public Safety				
Police	1,108,485	1,108,485	1,118,432	9,947
Fire	112,960	112,960	124,737	11,777
Total public safety	1,221,445	1,221,445	1,243,169	21,724
Highways	663,283	663,283	646,838	(16,445)
Health and welfare				
Code enforcement	66,621	66,621	67,059	438
Animal control	56,810	56,810	67,910	11,100
Total health and welfare	123,431	123,431	134,969	11,538
Culture and recreation:				
Library	197,339	197,339	204,991	7,652
Parks and recreation	399,757	399,757	278,668	(121,089)
Total culture and recreation	597,096	597,096	483,659	(113,437)
Capital outlay	-	-	1,224,639	1,224,639
Debt Service				
Principal	-	-	482,103	482,103
Interest	-	-	130,598	130,598
Total debt service	-	-	612,701	612,701
Total expenditures	3,917,177	3,917,177	4,990,685	1,073,508
Excess (deficiency) of revenues over (under) expenditur	(1,348,747)	(1,348,747)	(2,090,301)	(741,554)
Other financing sources (uses):				
Proceeds from long term debt	-	-	-	-
Transfers in	1,142,102	1,142,102	1,258,964	116,862
Transfers out	-	-	-	-
Total other financing sources (uses)	1,142,102	1,142,102	1,258,964	116,862
Net change in fund balances	(206,645)	(206,645)	(831,337)	(624,692)
Fund balances at beginning of year, as previously report	1,875,367	1,875,367	1,875,367	-
Restatement of fund balance, see Note 16				
Fund balances at beginning of year, as restated	1,875,367	1,875,367	1,875,367	-
Fund balances at end of year	$ 1,668,722	$ 1,668,722	$ 1,044,030	$ (624,692)

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, 2019

	Enterprise Fund	Nonmajor Fund Municipal Airport Fund	Total
Assets			
Current assets			
Cash and equivalents	$ 108,512	$ 30,607	$ 139,119
Accounts receivable (net of allowance for uncollectibles)	1,189,942	35,025	1,224,967
Inventory	346,918	43,825	390,743
Other assets	1,770	-	1,770
Restricted cash	328,501	-	328,501
Total current assets	1,975,643	109,457	2,085,100
Capital assets:			
Land	61,634	-	61,634
Buildings and other improvements	2,142,944	1,523,152	3,666,096
Distribution and collection systems	20,785,370	-	20,785,370
Equipment	1,299,891	33,276	1,333,167
	24,289,839	1,556,428	25,846,267
Less: accumulated depreciation	(17,406,465)	(877,706)	(18,284,171)
Capital assets, net of accumulated depreciation	6,883,374	678,722	7,562,096
Total assets	8,859,017	788,179	9,647,196
Deferred outflows of resources			
Less on bond refunding	163,593	-	163,593
Deferred amounts related to pensions	95,133	-	95,133
Total deferred outflows of resources	258,726	-	258,726
Liabilities			
Current liabilities:			
Accounts payable	132,780	-	132,780
Sales tax payable	49,184	-	49,184
Other accrued liabilities	72,940	-	72,940
Due to other funds	934,048	-	934,048
Due to component units	56,893	-	56,893
Customer deposits payable	398,513	1,525	400,038
Long-term debt, current	271,034	-	271,034
Total current liabilities	1,915,392	1,525	1,916,917
Long-term liabilities:			
Liability for compensated absences, long-term	27,174	-	27,174
Long-term debt, net	1,150,377	-	1,150,377
Net OPEB Liability	50,642		50,642
Net pension liability	773,633	-	773,633
Total long-term liabilities	2,001,826	-	2,001,826
Total liabilities	3,917,218	1,525	3,918,743
Deferred inflows of resources			
Deferred amounts related to pensions	394,801	-	394,801
Total deferred inflows of resources	394,801	-	394,801
Net Position			
Net investment in capital assets	5,354,031	786,654	6,140,685
Restricted for Debt Service	328,501		328,501
Unrestricted	(876,808)	-	(876,808)
Total net position	$ 4,805,724	$ 786,654	$ 5,592,378

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

City of Hearne, Texas
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended September 30, 2019

	Enterprise Fund	Nonmajor Fund Municipal Airport Fund	Total
Operating revenues:			
Charges for sales and services:			
Water sales	$ 1,273,952	$ -	$ 1,273,952
Electric sales	5,959,150	-	5,959,150
Sewer charges	879,435	-	879,435
Sanitation	632,006	-	632,006
Tap fees	10,050	-	10,050
Rental fees	-	165,937	165,937
Penalties	41,592	-	41,592
Miscellaneous revenue	14,583	-	14,583
Total operating revenues	8,810,768	165,937	8,976,705
Operating expenses:			
Wholesale utilities	3,616,833	-	3,616,833
Water department	1,364,442	-	1,364,442
Electric department	554,286	-	554,286
Sewer department	521,453	-	521,453
Sanitation department	618,660	-	618,660
Administrative and billing	683,678	-	683,678
Airport	-	106,665	106,665
Depreciation and amortization	747,944	98,243	846,187
Total operating expenses	8,107,296	204,908	8,312,204
Operating income (loss)	703,472	(38,971)	664,501
Nonoperating revenues (expense):			
Investment income	173	-	173
Gain on disposal of capital assets	-	-	-
Interest expense	(25,849)	-	(25,849)
Total nonoperating revenues (expense)	(25,676)	-	(163,159)
Income (loss) before transfers	677,796	(38,971)	638,825
Transfers in	-	-	-
Transfers out	(1,258,964)	(75,000)	(1,333,964)
Total other financing sources (uses)	(1,258,964)	(75,000)	(1,333,964)
Change in net position	(581,168)	(113,971)	(695,139)
Net position, beginning of year, as previously reported	5,386,892	900,625	6,287,517
	-	-	-
Net position, beginning of year, as restated	5,386,892	900,625	6,287,517
Net position, end of year	$ 4,805,724	$ 786,654	$ 5,592,378

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, 2019

	Enterprise Fund	Nonmajor Fund Municipal Airport Fund	Total
Cash flows from operating activities:			
Cash received from customers	8,366,954	152,122	8,519,076
Cash payments to suppliers for goods and services	(5,807,583)	(116,339)	(5,923,922)
Cash payments to employees for services	(842,962)	-	(842,962)
Net cash provided by (used in) operating activities	1,716,409	35,783	1,752,192
Cash flows from non-capital financing activities			
Loan Proceeds	-	-	-
Transfers in	75,000	-	75,000
Transfers out	(1,258,964)	(75,000)	(1,333,964)
Net cash provided by (used in) non-capital financing activities	(1,183,964)	(75,000)	(1,258,964)
Cash flows from capital and related financing activities			
Acquisition of capital assets	(618,092)	-	(618,092)
Proceeds from disposal of capital assets	-	-	-
Capital grants	-	-	-
Interest paid	(25,849)	-	(25,849)
Principal payments	(259,713)	-	(259,713)
Proceeds of long term debt issuance	-	-	-
Net cash provided by (used in) capital and related financing activities	(903,654)	-	(903,654)
Cash flows from investing activities:			
Interest on cash and investments	173	-	173
Net increase (decrease) in cash and equivalents	(371,036)	(39,217)	(410,253)
Cash and equivalents, beginning of year	808,049	69,824	877,873
Cash and equivalents, end of year	$ 437,013	$ 30,607	$ 467,620
Reconciliation of cash and equivalents:			
Unrestricted cash and equivalents	$ 108,512	$ 30,607	$ 139,119
Restricted cash and investments	328,501	-	328,501
Total cash and equivalents	$ 437,013	$ 30,607	$ 467,620

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, 2019

	Enterprise Fund	Nonmajor Fund Municipal Airport Fund	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	$ 703,472	$ (38,971)	$ 664,501
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	747,944	98,243	846,187
Bad debt expense	-	-	-
Increase (decrease) in cash resulting from changes in assets and liabilities:			
Accounts receivable	137,476	(13,815)	123,661
Inventory	(27,521)	(5,037)	(32,558)
Due from other funds	-	-	-
Other assets	-	-	-
Deferred outflows related to pensions	(175,983)	-	(175,983)
Accounts payable	30,140	(6,162)	23,978
Salaries payable	-	-	-
Sales tax payable	5,450	-	5,450
Accrued liabilities	3,625	-	3,625
Due to other funds	-	-	-
Due to cmponent units	-	-	-
Customer deposits	(1,525)	1,525	-
Liability for compensated absences	(7,314)	-	(7,314)
Net pension liability	188,348	-	188,348
Deferred inflows related to pensions	112,297	-	112,297
Net cash provided by (used in) operating activities	$ 1,716,409	$ 35,783	$ 1,752,192

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

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

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.

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.

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 there 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".

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

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 92) 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.

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.

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.

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, 2018, the City had investments in TexStar with maturities less than 60 days with a fair value of $880,052.

<u>Interest rate risk</u>

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

<u>Custodial credit risk</u>

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.

<u>Credit risk</u>

It is the government’s policy to limit its investments to local government investment pools, TesSTAR, or certificates of deposit. As of September 30, 2019, 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, 2019.

Note 4. Restricted Assets

At September 30, 2018, 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	$ 165,632	$ -	$ -	$ -
Police Special	13,174	-	-	-
Interest and sinking	609,165	328,501	-	-
Child Safety	-	-	-	-
Court security	33	-	-	-
Court technology	10	-	-	-
Community Development Block Grant Program	-	-	-	-
Meter Sinking	-	-	-	-
Economic Development	-	-	1,207,190	1,251,922
	$ 788,014	$ 328,501	$ 1,207,190	$ 1,251,922

Note 5. Receivables

Receivables at September 30, 2019, consist of the following:

	Governmental Funds	Proprietary Funds
Receivables:		
Taxes		
Property	$ 85,453	$ -
Sales	167,078	
Hotel/motel occupancy	-	
Accounts	380	2,312,187
Grants	-	-
Less:		
Allowance for uncollectibles	-	(1,087,220)
Net total receivables	$ 252,911	$ 1,224,967

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 2019 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 $1,398,881. Delinquent property taxes receivable at September 30, 2019 were $20,284 and current property taxes receivable were $65,169.

Note 6. Capital Assets Revised and Restated

The following is a summary of capital asset activity during the year ended September 30, 2018:

	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	-	581,280
Total capital assets not being depreciated	393,082	581,280	-	974,362
Capital assets being depreciated				
Buildings	5,431,966	-	-	5,431,966
Improvements other than buildings	5,833,663	418,500	-	6,252,163
Furniture and fixtures	104,272	-	-	104,272
Vehicles	1,424,830	-	-	1,424,830
Machinery and equipment	1,430,382	224,859	-	1,655,241
Total at historical cost	14,225,113	643,359	-	14,868,472
Less: accumulated depreciation for:				
Buildings	3,623,365	85,917	-	3,709,282
Improvements other than buildings	1,169,945	240,156	-	1,410,101
Furniture and fixtures	74,473	8,053	-	82,526
Vehicles	1,272,898	79,884	-	1,352,782
Machinery and equipment	736,350	56,767	-	793,117
Total accumulated depreciation	6,877,031	470,777	-	7,347,808
Total capital assets being depreciated, net	7,348,082	172,582	-	7,520,664
Governmental activities capital assets, net	$ 7,741,164	$ 753,862	$ -	$ 8,495,026
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	3,537,073	129,023	-	3,666,096
Furniture and fixtures	586,643	-	-	586,643
Vehicles	364,357	-	-	364,357
Distribution and collection systems	20,477,835	307,535	-	20,785,370
Machinery and equipment	200,633	181,534	-	382,167
Total at historical cost	25,166,541	618,092	-	25,784,633
Less accumulated depreciation for:				
Buildings and improvements	939,280	123,998	-	1,063,278
Furniture and fixtures	326,763	38,467	-	365,230
Vehicles	293,956	18,652	-	312,608
Distribution and collection systems	15,709,301	653,336	-	16,362,637
Machinery and equipment	168,684	11,734	-	180,418
Total accumulated depreciation	17,437,984	846,187	-	18,284,171
Total capital assets being depreciated, net	7,728,557	(228,095)	-	7,500,462
Business-type activities capital assets, net	$ 7,790,191	$ (228,095)	$ -	$ 7,562,096

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

General government	$ 20,774
Public safety	83,443
Highways and streets	211,864
Culture and recreation	154,696
Total depreciation expense - Governmental activities	$ 470,777

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, 2019:

	Balance 9/30/2018	Additions	Retirements	Balance 9/30/2019	Due Within One Year	Long Term
Governmental activities						
Lease payable - Oshkosh	$ 312,181	$ -	$ (36,603)	$ 275,578	$ 38,040	$ 237,538
Subtotal of leases payable	312,181	-	(36,603)	275,578	38,040	237,538
2011 General obligation refundin	3,865,000	-	(325,000)	3,540,000	335,000	3,205,000
PNC - Equipment	223,730	-	(120,500)	103,230	103,230	-
Subtotal of bonds & notes paya	223,730	-	(445,500)	3,643,230	438,230	3,205,000
	$ 535,911	$ -	$ (482,103)	$ 3,918,808	$ 476,270	$ 3,442,538
Business-type activities						
Lease payable - Southside	$ 841,113	$ -	$ (129,781)	$ 711,332	$ 137,231	$ 574,101
Lease payable - AEP	-	-	-	-	-	-
Subtotal of leases payable	841,113	-	(129,781)	711,332	137,231	574,101
2011 General obligation refundin	-	-	-	-	-	-
Subtotal of bonds payable	-	-	-	-	-	-
Government Capital Corporatior	840,011	-	(129,932)	710,079	133,803	576,276
Subtotal of notes payable	840,011	-	(129,932)	710,079	133,803	576,276
	$ 1,681,124	$ -	$ (259,713)	$ 1,421,411	$ 271,034	$ 1,150,377

The annual aggregate maturities for each debt type for the years subsequent to September 30, 2019 are as follows:

	Business-type Activities				Governmental Activities	
Year ending	Bonds Payable		Notes Payable		Bonds Payable	
September 30	Principal	Interest	Principal	Interest	Principal	Interest
2020			133,803	21,153	335,000	121,599
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
2024-2028					1,735,000	139,213
			-	-		
			710,078	64,702	3,540,000	634,273

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	
Year ending	Bonds Payable	
September 30	Principal	Interest
2020	-	235,751
2021	220,000	284,800
2022	225,000	278,200
2023	230,000	271,450
2024	240,000	264,550
2025-2044	7,135,000	2,924,350
	8,050,000	4,259,101

During the year ended September 30, 2019, the following changes occurred in other long-term liabilities:

Governmental activities	Balance 9/30/2018	Additions (Reductions)	Balance 9/30/2019	Due Within One Year
Compensated absences	$ 46,725	$ -	$ 46,725	$ -
Business-type activities				
Compensated absences	$ 27,174	$ -	$ 27,174	$ -

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.

The assets acquired through the capital leases are as follows:

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

The total future minimum lease payments and the net present value of these minimum payments as of September 30, 2019 were as follows:

Year ending September 30	Governmental Activities	Business-type Activities
2020	152,566	173,545
2021	48,000	173,545
2022	48,000	173,545
2023	48,000	173,545
2024	48,000	
2025-2028	72,000	115,696
	-	-
Total minimum lease payments	416,566	809,876
Less: Amount representing interest	(54,134)	(142,308)
Present value of minimum payments	$ 362,432	$ 667,568

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

Note 10. Interfund Receivables and Payables

Interfund receivables and payables, all of which are considered short-term, at September 30, 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	-	-
	$ 934,048	$ 934,048

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

Note 11. Interfund Transfers

Interfund transfers during the year ended September 30, 2019, were as follows:

	Transfers in		
	General Fund	Enterprise	Total
Transfers out			
General	$ -	$ (1,258,964)	$ (1,258,964)
Enterprise	1,258,964	-	1,258,964
	$ 1,258,964	$ (1,258,964)	$ -

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 $3,616,833 to this company during the year ended September 30, 2019.

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, 2018. The City paid $588,520 to this company during the year ended September 30, 2019.

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.

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

Plan provisions for the City were as follows:

	Plan Year 2018	Plan Year 2017	Plan Year 2016
Employee deposit rate	7%	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1	2 to 1
Years required for vesting	5	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5,0/20	60/5,0/20
Updated Service Credit	100% repeating, transfers	100% repeating, transfers	100% repeating, transfers
annuity Increase (to retirees)	70% of CPI repeating	70% of CPI repeating	70% of CPI repeating

Employees covered by benefit terms.

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms.

Inactive employees or beneficiaries currently receiving benefits	27
Inactive employees entitled to but not yet receiving benefits	37
Active employees	53

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 2018 and 2017, respectively. The city's contributions to TMRS for the year ended September 30, 2019, were $360,841, and were equal to the required contributions.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2018, and the Total Pension Liability (TPL) used to calculate the Net Position Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2018 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, 2017, 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:

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.

Changes in the Net Pension Liability	Increase (Decrease) Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at December 31, 2017	$ 8,606,086	$ 6,834,291	$ 1,771,795
Changes for the year			
Service Cost	362,742	-	362,742
Interest	579,296	-	579,296
Change of benefit terms	-	-	-
Difference between expected & actual experience	(55,545)	-	(55,545)
Changes of assumptions	-	-	-
Contributions - employer	-	360,841	(360,841)
Contributions - employee	-	164,255	(164,255)
Net investment income	-	(204,614)	204,614
Benefit payments, including refunds of employee contributions	(410,584)	(410,584)	-
Administrative expense	-	(3,957)	3,957
Other charges	-	(206)	206
Net charges	$ 475,909	$ (94,265)	$ 570,174
Balance at December 31, 2018	$ 9,081,995	$ 6,740,026	$ 2,341,969

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-

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	$ 3,682,965	$ 2,341,969	$ 1,248,717

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.tmrs.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, 2019

1.	Total Service Cost	$ 362,742
2.	Interest on the Total Pension Liability	579,296
3.	Current Period Benefit Changes	-
4.	Employee Contributions (Reduction of Expense)	(164,255)
5.	Projected Earnings on Plan Investments (Reduction of Expense)	(461,315)
6.	Administrative Expense	3,957
7.	Other Changes in Fiduciary Net Position	207
8.	Recognition of Current Year Outflow (Inflow) of Resources - Liabilities	(13,886)
9.	Recognition of Current Year Outflow (Inflow) of Resources - Assets	133,186
10.	Amortization of Prior Year Outflows (Inflows) of Resources - Liabilities	(82,484)
11.	Amortization of Prior Year Outflows (Inflows) of Resources - Assets	1,476
12.	Total Pension Expense	$ 358,924

At September 30, 2019, the city reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

Texas Emergency Services Retirement System

	Deferred Outflows of Resources	Deferred Inflows or Resources
Differences between expected and actual economic experience	$ -	$ (41,659)
Difference between projected and actual investment earnings	-	532,743
Contributions subsequent to the measurement date	-	-
	$ -	$ 491,084

$(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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30	
2019	17,756
2020	(9,758)
2021	33,475
2022	133,185
2023	
Thereafter	
Total	$ 174,658

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, 2018, 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, 2019, 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.

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, 2019 to the plan as a whole.

F. Actuarial Assumptions

Total pension liability in the August 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial valuation date	8/31/2019
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. 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:	$ 139,638	$ 123,679	$ 107,720

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

At August 31, 2019, the City reported a liability of $123,587 for its proportionate share of the plan's net pension liability. This liability reflects a reduction for State pension support provided to the City. The amount recognized by the City as a proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the City were as followed:

City's proportionate share of the collective net pension liability	$	98,943
State's proportionate share that is associated with the City*		24,736
Total	$	123,679

**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, 2019.

At August 31, 2019 the employer's proportion of the collective net pension liability was .475%. TESRS did not provide prior year proportions measured as of August 31, 2019. 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, 2019, 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.

At August 31, 2019, the City reported its proportionate share of the TESRS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows or Resources
Differencein expeced and actual experience	$ -	$ -
Change in assumptions (actuarial (gains) or losses)	-	9,424
Contributions subsequent to the measurement date	-	-
	$ -	$ 9,424

$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, 2019. The net amount of the employer's balances of deferred outflows and inflows or resources related to pensions will be recognized in pension expense as follows:

Year ended September 30	
2018	2,103
2019	2,103
2020	2,103
2021	2,103
2022	1,012
Thereafter	
Total	$ 9,424

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, 2019, were $3,917, which equaled the required contributions for the year.

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	3.31%

Changes in the Net Other Post Employment Benefits Liability

	Increase (Decrease) Total OPEB Liability
Balance at 12/31/17	$159,940
Changes for the year	
Service Cost	7,689
Interest on Total OPEB liability	5,388
Changes of benefit terms	0
Differences between expected and actual experience	(7,399)
Changes in assumption or other inputs	(10,115)
Benefit payments	(2,035)
Net changes	(6,742)
Total OPEB Liability – end of year	$153,468
Total OPEB Liability as a Percentage of Covered Payroll	6.79%

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		1% Increase in	
	Discount Rate (2.31%)	Discount Rate (3.31%)	Discount Rate (4.31%)
Total OPEB liability	$180,541	$153,468	$132,046

Note 14. Other post-employment benefits

CITY OF HEARNE
SCHEDULE OF OPEB EXPENSE
SEPTEMBER 30, 2019

1.	Total Service Cost	$ 7,689
2.	Interest on the Total OPEB Liability	5,388
3.	Changes in benefit terms	-
4.	Employer adminstrative costs	-
5.	Recognition of deferred outflows/inflows of resources	-
6.	Differences between expected and actual experience	(1,350)
7.	Changes in assumptions or other inputs	257
8	Total Pension Expense	$ 11,984

	Deferred Outflows of Resources	Deferred Inflows or Resources
Difference in expected and actual experience	$ -	$ (6,049)
Change in assumptions (actuarial (gains) or losses)	-	(948)
Contributions subsequent to the measurement date	-	-
	$ -	$ (6,997)

Year ended September 30	
2019	(1,093)
2020	(1,093)
2021	(1,093)
2022	(2,184)
2023	(1,534)
Thereafter	
Total	$ (6,997)

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 criterial. 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, 2019

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

	2018
Total Pension Liability	
Service Cost	$ 362,742
Interest (on the Total Pension Liability)	579,296
Change in benefit terms	-
Difference between expected and actual experience	(55,545)
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(410,584)
Net Change in Total Pension Liability	475,909
Total Pension Liability - Beginning	8,606,086
Total Pension Liability - Ending (a)	$ 9,081,995
Plan Fiduciary Net Position	
Contributions - Employer	360,841
Contributions - Employee	164,255
Net Investment Income	(204,614)
Benefit payments, including refunds of employee contributions	(410,584)
Administrative Expense	(3,957)
Other	(206)
Net Change in Plan Fiduciary Net Position	(94,265)
Plan Fiduciary Net Position - Beginning	6,834,291
Plan Fiduciary Net Position - Ending (b)	$ 6,740,026
Net Pension Liability - Ending (a) - (b)	$ 2,341,969
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	74.21%
Covered Employee Payroll	$ 2,261,483
Net Pension Liability as a Percentage of Covered Employee Payroll	103.56%

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, 2019
Schedule of Contributions
Texas Municipal Retirement System (TMRS)
Last 10 Years (will ultimately be displayed)

		2018
Actuarially Determined Contribution	$	330,267
Contributions in relation to the		(330,267)
Contribution deficiency (excess)	$	-
Covered employee payroll	$	2,114,965
Contributions as a percentage of		15.62%

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, 2019

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

		8/31/2018
City's proportion of the net pension liability		0.457%
City's proportionate share of the net pension liability		98,943
State's proportionate share of the net pension liability		24,736
Total	$	123,679
Number of Active Members*		23
City's Net Pension Liability per Active Member	$	4,302
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, 2019

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

	8/31/2019
City's proportion of the net pension liability	0.457%
City's proportionate share of the net pension liability	98,943
State's proportionate share of the net pension liability	24,736
Total	$ 123,679
Number of Active Members*	23
City's Net Pension Liability per Active Member	$ 4,302
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 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, 2019

	Special Revenue		
	Hotel/Motel Tax	Police Special Fund	Total Non-major Governmental Funds
Assets			
Taxes receivable	$ -		$ -
Cash, restricted	165,632	13,174	178,806
Total assets	$ 165,632	$ 13,174	$ 178,806
Liabilities and fund balances			
Liabilities:			
Accounts payable	$ -	$ -	$ -
Due to other funds	-	-	-
Total liabilities	-	-	-
Fund balances:			
Restricted for police	-	13,174	13,174
Restricted for tourism	165,632	-	165,632
Total fund balances	165,632	13,174	178,806
Total liabilities and fund balances	$ 165,632	$ 13,174	$ 178,806

City of Hearne, Texas
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-major Governmental Funds
For the Year Ended September 30, 2019

	Special Revenue		
	Hotel/Motel Tax	Police Special Fund	Total Non-major Governmental Funds
Revenues:			
Hotel/motel occupancy taxes	$ 158,541	$ -	$ 158,541
Investment income	122	-	122
police fines	-	1,334	1,334
Total revenues	158,663	1,334	159,997
Expenditures:			
Current:			
Transfers	47,938		47,938
General Government	121,176	-	121,176
Total expenditures	169,114	-	169,114
Excess (deficiency) of revenues over (under) expenditures	(10,451)	1,334	(9,117)
Net change in fund balances	(10,451)	1,334	(9,117)
Fund balances at beginning of year, as previously reported	176,083	11,840	187,923
Restatement of fund balance see note 16			
Fund balances at end of year	$ 165,632	$ 13,174	$ 178,806

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, 2018

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Over (Under)
Revenues:				
Hotel motel occupancy taxes	$ 166,000	$ 166,000	$ 158,663	$ (7,337)
Investment income	-	-	-	-
Intergovernmental	-	-	-	-
Total revenues	166,000	166,000	158,663	(7,337)
Expenditures:				
Current:				
Culture and recreation:				
Transfers	-	-	47,938	47,938
Economic development	107,920	107,920	121,176	13,256
Capital outlay	-	-	-	-
Total expenditures	107,920	107,920	169,114	61,194
Net change in fund balance	58,080	58,080	(10,451)	(68,531)
Fund balances at beginning of year, as previously reportec	176,083	176,083	176,083	-
Restatement of fund balance, see Note 16				
Fund balances at beginning of year, as restated	176,083	176,083	176,083	-
Fund balance at end of year	$ 234,163	$ 234,163	$ 165,632	$ (68,531)

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, 2018

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Over (Under)
Operating revenues:				
Charges for sales and services:				
Water sales	$ 1,371,000	$ 1,371,000	$ 1,273,952	$ (97,048)
Electric sales	5,804,959	5,804,959	5,959,150	154,191
Sewer charges	365,210	365,210	879,435	514,225
Sanitation	616,940	616,940	632,006	15,066
Tap fees	14,000	14,000	10,050	(3,950)
Rental fees	1,200	1,200	-	(1,200)
Penalties	84,230	84,230	41,592	(42,638)
Miscellaneous revenue	23,560	23,560	14,583	(8,977)
Total operating revenue	8,281,099	8,281,099	8,810,768	529,669
Operating expenses:				
Wholesale utilities	4,202,851	4,202,851	3,616,833	(586,018)
Water department	511,410	511,410	1,364,442	853,032
Electric department	875,547	875,547	554,286	(321,261)
Sewer department	469,373	469,373	521,453	52,080
Sanitation department	-	-	618,660	618,660
Administrative and billing	1,004,170	1,004,170	683,678	(320,492)
Depreciation and amortization	-		747,944	747,944
Capital outlay	-	-	-	-
Total operating expenses	7,063,351	7,063,351	8,107,296	1,043,945
Operating income	1,217,748	1,217,748	703,472	(514,276)
Nonoperating revenues (expenses):				
Intergovernmental	-	-	-	-
Contribution from component unit	-	-	-	-
Investment income	-	-	173	173
Gain on disposal of capital assets	-	-	-	-
Interest expense	-	-	(25,849)	(25,849)
Total nonoperating revenues (expenses)	-	-	(25,676)	(25,676)
Change in net position before transfers	1,217,748	1,217,748	677,796	(539,952)
Transfers in	-	-	-	-
Transfers out	-	-	(1,258,964)	(1,258,964)
Total other financing sources (uses)	-	-	(1,258,964)	(1,258,964)
Change in net position	1,217,748	1,217,748	(581,168)	(1,798,916)
Net position, beginning of year, as previously report	5,766,869	5,766,869	5,386,892	(379,977)
Restatement of net position, see Note 16			-	
Net position, beginning of year, as restated	5,766,869	5,766,869	5,386,892	(379,977)
Net position, end of the year.	$ 6,984,617	$ 6,984,617	$ 4,805,724	$ (2,178,893)

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, 2019

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Over (Under)
Operating revenues:				
Rental fees	$ 72,700	$ 72,700	$ 129,000	$ 56,300
Miscellaneous revenue	135,000	135,000	36,935	(98,065)
Total operating revenues	207,700	207,700	165,935	(41,765)
Operating expenses:				
Airport	207,700	207,700	181,665	(26,035)
Depreciation	-	-	98,243	98,243
Total operating expenses	207,700	207,700	279,908	72,208
Operating income (loss)	-	-	(113,973)	(113,973)
Transfers in/(out)	-	-	(18,995)	(18,995)
Change in net position	-	-	(132,968)	(132,968)
Net position, beginning of the year	900,625	900,625	900,625	-
Net position, end of the year	$ 900,625	$ 900,625	$ 767,657	$ (132,968)

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, 2019

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Over (Under)
Revenues:				
Sales taxes	$ 257,500	$ 257,500	$ 427,450	$ 169,950
Investment income	800	800	13,272	12,472
Total revenues	258,300	258,300	440,722	182,422
Expenditures				
Current:				
Culture and recreation:				
Economic development	726,300	726,300	386,300	(340,000)
Total expenditures	726,300	726,300	386,300	(340,000)
Excess of revenues over expenditures	(468,000)	(468,000)	54,422	522,422
Other financing sources (uses):				
transfers in	-	-	15,000	15,000
Net change in fund balances	(468,000)	(468,000)	69,422	537,422
Fund balances at beginning of year, as previously reported	877,928	877,928	877,928	-
Fund balances at beginning of year, as restated	877,928	877,928	877,928	-
Fund balances at end of year	$ 409,928	$ 409,928	$ 947,350	$ 537,422

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, 2019

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Over (Under)
Revenues:				
Sales taxes	$ 276,000	$ 276,000	$ 427,450	$ 151,450
other income			65,048	
Investment income	1,952	1,952	13,118	11,166
Total revenues	277,952	277,952	505,616	227,664
Expenditures:				
Current				
Culture and recreation:				
Economic development	754,400	754,400	318,617	(435,783)
Total expenditures	754,400	754,400	318,617	(435,783)
Excess of revenues over expenditures	(476,448)	(476,448)	186,999	663,447
Other financing sources (uses):				
Contributions to primary government	-	-	15,000	15,000
Net change in fund balances	(476,448)	(476,448)	201,999	678,447
Fund balances at beginning of year, as previously reported	1,140,621	1,140,621	1,140,621	-
Fund balances at beginning of year, as restated	1,140,621	1,140,621	1,140,621	-
Fund balances at end of year	$ 664,173	$ 664,173	$ 1,342,620	$ 678,447

SUPPLEMENTARY INDIVIDUAL

FUND SCHEDULES

General Fund

Schedule of General Government Expenditures – Budget and Actual
For the Year Ended September 30, 2019

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Over (Under)
Legislative:				
Personnel	$ 46,232	$ 46,232	$ 26,948	$ (19,284)
Maintenance	1,350	1,350	4,156	2,806
Supplies	750	750	409	(341)
Other	32,550	32,550	41,237	8,687
Total legislative	80,882	80,882	72,750	(8,132)
Executive:				
Personnel	208,827	208,827	208,748	(79)
Maintenance	1,500	1,500	76	(1,424)
Supplies	1,250	1,250	1,226	(24)
Other	20,400	20,400	23,284	2,884
Total executive	231,977	231,977	233,334	1,357
Finance:				
Personnel	23,500	23,500	12,014	(11,486)
Maintenance	19,000	19,000	44,658	25,658
Supplies	6,750	6,750	7,048	298
Contract services	18,000	18,000	90,695	72,695
Other	748,845	748,845	775,708	26,863
Total finance	816,095	816,095	930,123	114,028
Court:				
Personnel	103,618	103,618	100,833	(2,785)
Maintenance	-	-	3,875	3,875
Supplies	2,000	2,000	3,076	1,076
Contract services	60,000	60,000	34,718	(25,282)
Other	17,350	17,350	10,109	(7,241)
Total court	182,968	182,968	152,611	(30,357)
Total general government	$1,311,922	$1,311,922	$1,388,818	$ 76,896

City of Hearne, Texas
General Fund
Schedule of Public Safety Expenditures – Budget and Actual
For the Year Ended September 30, 2019

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Over (Under)
Police:				
Personnel	$ 966,785	$ 966,785	$ 1,000,645	$ 33,860
Maintenance	24,150	24,150	42,126	17,976
Supplies	19,000	19,000	21,606	2,606
Other	98,550	98,550	246,702	148,152
Total police	1,108,485	1,108,485	1,311,079	202,594
Fire:				
Personnel	19,410	19,410	19,969	559
Maintenance	12,900	12,900	8,746	(4,154)
Supplies	6,000	6,000	7,313	1,313
Other	74,650	74,650	88,709	14,059
Total fire	112,960	112,960	124,737	11,777
Total public safety	$ 1,221,445	$ 1,221,445	$ 1,435,816	$ 214,371

City of Hearne, Texas
General Fund
Schedule of Highways and Streets Expenditures – Budget and Actual
For the Year Ended September 30, 2019

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Over (Under)
Streets				
Personnel	$266,583	$266,583	$262,328	$ (4,255)
Maintenance	62,000	62,000	109,675	47,675
Supplies	20,000	20,000	25,949	5,949
Other	314,700	314,700	441,153	126,453
Total highways and streets	$663,283	$663,283	$839,105	$ 175,822

City of Hearne, Texas
General Fund
Schedule of Health and Welfare Expenditures – Budget and Actual
For the Year Ended September 30, 2019

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Over (Under)
Code enforcement:				
Personnel	$ 58,271	$ 58,271	$ 60,571	$ 2,300
Maintenance	2,200	2,200	2,541	341
Supplies	-	-	169	169
Other	6,150	6,150	3,778	(2,372)
Total code enforcement	66,621	66,621	67,059	438
Animal control:				
Personnel	48,540	48,540	55,304	6,764
Maintenance	500	500	275	(225)
Supplies	2,520	2,520	2,264	(256)
Other	5,250	5,250	10,067	4,817
Total animal control	56,810	56,810	67,910	11,100
Total health and welfare	$ 123,431	$ 123,431	$ 134,969	$ 11,538

City of Hearne, Texas
General Fund
Schedule of Culture and Recreation Expenditures – Budget and Actual
For the Year Ended September 30, 2019

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Over (Under)
Library:				
Personnel	$ 155,289	$ 155,289	$ 160,506	$ 5,217
Maintenance	20,750	20,750	15,657	(5,093)
Supplies	11,500	11,500	21,139	9,639
Other	9,800	9,800	7,689	(2,111)
Total library	197,339	197,339	204,991	7,652
Parks and recreation:				
Personnel	274,757	274,757	239,912	(34,845)
Maintenance	82,400	82,400	199,837	117,437
Supplies	4,000	4,000	4,997	997
Other	38,600	38,600	38,913	313
Total parks and recreation	399,757	399,757	483,659	83,902
Total culture and recreation	$ 597,096	$ 597,096	$ 688,650	$ 91,554

AUDIT SECTION

The Accounting Firm of Donald L. Allman, CPA, PC

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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, 2019, 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 31, 2020.

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 31, 2020