

**City of Hearne, Texas**  
**Financial Statements with**  
**Report of Independent Auditors**  
**For the Fiscal Year Ended**  
**September 30, 2015**

City of Hearne, Texas  
For the Year Ended September 30, 2015

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# **FINANCIAL SECTION**



CERTIFIED PUBLIC ACCOUNTANTS/BUSINESS ADVISORS

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hearne, Texas, (the "City") as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hearne, Texas, as of September 30, 2015, and the respective changes in financial position, where applicable, cash flows thereof, and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Change in Accounting Principle

As discussed in Note 16 to the financial statements, in 2015 the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 9 and the schedule of changes in net pension liability and related ratios-Texas Municipal Retirement System, schedule of contributions-Texas Municipal Retirement System, schedule of the city's proportionate share of the net pension liability-Texas Emergency Services Retirement System, and schedule of contributions-Texas Emergency Services Retirement System on pages 47 through 50, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hearne, Texas' basic financial statements. The combining and individual non-major fund financial statements and budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 8, 2016, on our consideration of the City of Hearne, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

College Station, Texas  
February 21, 2017

Seidel Schroeder

## 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, 2015. Please read it in conjunction with the City's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

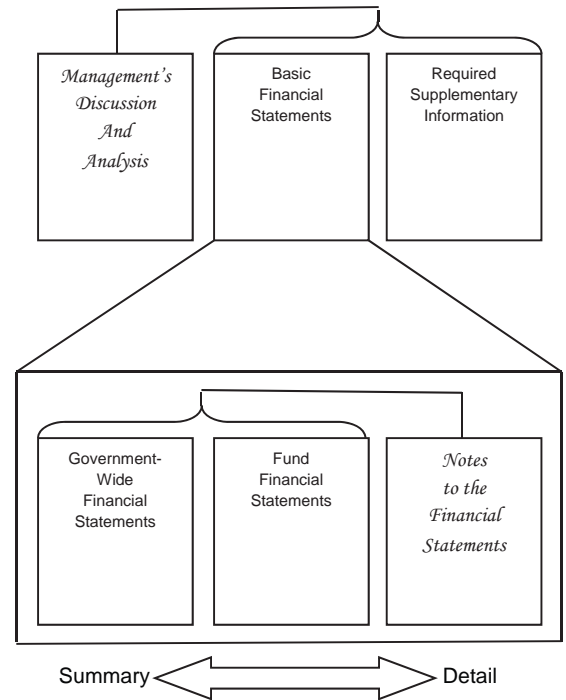
- The City's total combined Net Position was \$8,719,371 at September 30, 2015. This represents an increase of 6.0% in the Governmental Activities and 8.0% in Business Activities for an overall increase of 7.2%.
- During the year, the City's expenses were \$583,693 less than the \$12,248,332 generated in taxes, charges for service and other revenues for Governmental and Business Activities. Comparatively, last year, the City's expenses were \$817,748 less than revenues of \$12,340,857.
- In the City's Business-Type Activities, Revenues Increased by 2.19%, to \$9,433,849. Expenditures increased by 1.98% to \$8,371,000.
- The Fund Balance Surplus in the General Fund increased this year an amount of \$172,192 to \$1,063,780.

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

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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



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

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

Figure A-2

Type of Statements	Fund Statements			
	Government-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
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 businesses 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 Assests	*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 and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources 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 theyear or soon thereafter	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:

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



THE CITY AS A WHOLE

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

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Current Assets</b>						
Cash and Cash Equivalents	\$ 330	\$ 27	\$ 541	\$ 1,012	\$ 871	\$ 1,039
Receivables	433	488	1,824	1,411	2,258	1,899
Internal Balances	638	788	(638)	(788)	-	-
Inventories	-	-	131	154	131	154
Other Assets	21	64	26	36	47	100
Restricted Assets	358	173	616	586	974	759
<b>Total Current Assets:</b>	<b>1,781</b>	<b>1,540</b>	<b>2,500</b>	<b>2,411</b>	<b>4,280</b>	<b>3,951</b>
<b>Noncurrent Assets</b>						
Capital Assets	9,464	9,222	27,109	25,865	36,573	35,087
Less Accumulated Depreciation	(5,551)	(5,128)	(15,123)	(14,383)	(20,674)	(19,511)
<b>Total Noncurrent Assets</b>	<b>3,912</b>	<b>4,094</b>	<b>11,986</b>	<b>11,482</b>	<b>15,899</b>	<b>15,576</b>
<b>Total Assets</b>	<b>5,693</b>	<b>5,634</b>	<b>14,486</b>	<b>13,893</b>	<b>20,179</b>	<b>19,527</b>
<b>Deferred Outflows of Revenue</b>						
Deferred Loss on Bond Refunding	-	-	178	192	178	192
Deferred Amounts related to Pensions	200	-	94	-	294	-
<b>Total Deferred Outflows of Resources</b>	<b>200</b>	<b>-</b>	<b>272</b>	<b>192</b>	<b>472</b>	<b>192</b>
<b>Liabilities Due in Less Than One Year</b>						
Accounts Payable	228	300	1,069	729	1,297	1,029
Accrued Liabilities	20	21	39	41	60	62
Customer Deposits	2	1	356	344	358	345
Due to Component Unit	-	-	755	600	755	600
Current Compensated Absences	2	-	-	-	2	-
Current Capital Lease	33	-	164	-	197	-
Current Long-Term Debt	68	148	539	646	607	795
<b>Total Current Liabilities</b>	<b>354</b>	<b>470</b>	<b>2,922</b>	<b>2,360</b>	<b>3,276</b>	<b>2,831</b>
<b>Liabilities Due in More Than One Year</b>						
Compensated Absences	127	141	73	65	199	206
Bonds	-	-	4,480	-	4,480	-
Notes Payable	-	-	-	-	-	-
Capital Leases	381	414	1,384	1,548	1,765	1,962
Certificates of Obligation	-	-	-	4,780	-	4,780
Net Pension Liability-TMRS	1,400	-	690	-	2,090	-
Net Pension Liability-TEERS	60	-	-	-	60	-
<b>Total Long-Term Liabilities:</b>	<b>1,968</b>	<b>555</b>	<b>6,627</b>	<b>6,393</b>	<b>6,445</b>	<b>6,948</b>
<b>Total Liabilities</b>	<b>2,322</b>	<b>1,025</b>	<b>9,549</b>	<b>8,753</b>	<b>10,193</b>	<b>9,970</b>
<b>Deferred Inflows of Resources</b>						
Deferred Amounts related to Pensions	46	-	15	192	61	192
<b>Total Deferred Inflows of Resources</b>	<b>46</b>	<b>-</b>	<b>15</b>	<b>192</b>	<b>61</b>	<b>192</b>
<b>Net Position</b>						
Invested in Capital Assets	3,430	3,531	5,420	4,508	8,850	8,039
Restricted	346	3	-	-	346	3
Unrestricted	(251)	1,074	(226)	824	(477)	1,898
<b>Total Net Position</b>	<b>\$ 3,526</b>	<b>\$ 4,609</b>	<b>\$ 5,193</b>	<b>\$ 5,332</b>	<b>\$ 8,719</b>	<b>\$ 9,940</b>

The City's combined Net Position increased by \$583,693, or 7.2%, to \$8,719,371 at September 30, 2015. Comparatively, last year, the City's combined Net Position increased by \$817,748, or 9.0%. (See Table A-2)

The City's Net Position for Government Activities increased by 9.1% to \$3,525,873. 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 (\$250,557).

The City's Net Position for Business Activities increased by 8.0% from \$4,814,208 in the prior year to \$5,193,498.

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

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Program Revenues</b>						
Charges for Services	\$ 379	\$ 416	\$ 8,399	\$ 8,449	\$ 8,777	\$ 8,866
Operating grants	30	71	-	-	30	71
Capital grants	85	30	795	462	880	492
General Revenues						
Ad Valorem Taxes	1,459	1,621	-	-	1,459	1,621
Sales Tax	561	535	-	-	561	535
Franchise Taxes	94	94	-	-	94	94
Hotel /Motel Occupancy Tax	161	190	-	-	161	190
Rentals	-	-	7	3	7	3
Interest Income	0	0	2	1	2	1
Gain/(loss) on Sale of Assets	-	41	2	-	2	41
Other	46	34	229	316	275	350
<b>Total Revenues</b>	<b>2,814</b>	<b>3,032</b>	<b>9,434</b>	<b>9,232</b>	<b>12,248</b>	<b>12,263</b>
<b>Program Expenses:</b>						
General Government	759	717	-	-	759	717
Public Safety	1,404	1,241	-	-	1,404	1,241
Highways & Streets	424	431	-	-	424	431
Health & Welfare	74	73	-	-	74	73
Culture & Recreational	686	828	-	-	686	828
Interest on LT Debt	21	25	-	-	21	25
Enterprise Activities	-	-	8,371	8,209	8,371	8,209
<b>Total Expenses</b>	<b>3,369</b>	<b>3,314</b>	<b>8,371</b>	<b>8,209</b>	<b>11,740</b>	<b>11,523</b>
Increase (Decrease) in Net Position Before Transfers	(554)	(283)	1,063	1,023	509	740
Contributions Between Primary Government and Component Unit Transfers In (Out)	-	12	75	66	75	78
	754	353	(754)	(353)	-	-
Change in Net Position	200	82	383	736	584	818
Net Position - Beginning	4,609	4,527	5,332	4,596	9,940	9,123
Restatement of net position	(1,283)	-	(522)	-	(1,805)	-
Net Position - Beginning as restated	3,326	4,527	4,810	4,596	8,136	9,123
Net Position - Ending	\$ 3,526	\$ 4,609	\$ 5,193	\$ 5,332	\$ 8,719	\$ 9,940

Total Revenues for the City of Hearne were \$12,248,332, a decrease of 0.12%. The total cost of all programs and services increased by \$216,530, or 1.88% to \$11,739,639, over last year's total of \$11,523,109. Overall, Net Position increased by \$583,693 to \$8,719,371.

## Governmental Activities

Revenues for the City's Governmental Activities decreased by 7.16%, or \$217,131. The cost of all Governmental Activities increased by \$54,144 to \$3,368,639, up from last year's total of \$3,314,495.

## Business Activities

Revenues for the City's business activities increased by 2.19% this year (\$9,433,849 compared to \$9,231,495 for last year). Expenses increased by 1.98% this year (\$8,371,000 compared to \$8,208,614 last year).

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

## THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet) reported a Governmental Fund Balance of \$1,260,209 which increased from last year's total of \$1,005,171.

### 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 \$149,126, with expenditures coming in \$370,470 less than expectations. Other financing sources (uses) fell short of budget by \$347,404.

Sales tax revenues exceeded the original budget amount by \$129,575. Revenues from fines exceeded the original budget amount by \$29,165.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

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

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Capital Assets</b>						
Land	\$ 393	\$ 393	\$ 62	\$ 62	\$ 455	\$ 455
Construction in Progress	-	165	935	665	935	829
Buildings and Improvements	5,422	5,184	2,276	1,329	7,698	6,513
Improvements Other than Buildings	1,210	1,124	-	-	1,210	1,124
Equipment	928	887	201	201	1,129	1,088
Vehicles	1,425	1,389	352	364	1,777	1,753
Furniture and Office Equipment	86	80	315	309	401	389
Distribution and Collection Systems	-	-	22,968	22,936	22,968	22,936
<b>Totals at Historical Cost</b>	<b>9,464</b>	<b>9,222</b>	<b>27,109</b>	<b>25,865</b>	<b>36,573</b>	<b>35,087</b>
<b>Total Accumulated Depreciation</b>	<b>(5,551)</b>	<b>(5,128)</b>	<b>(15,123)</b>	<b>(14,383)</b>	<b>(20,674)</b>	<b>(19,511)</b>
<b>Net Capital Assets</b>	<b>\$ 3,912</b>	<b>\$ 4,094</b>	<b>\$ 11,986</b>	<b>\$ 11,482</b>	<b>\$ 15,899</b>	<b>\$ 15,576</b>

At the end of 2015, the City had invested \$36,573,072 in a broad range of capital assets, including land, buildings, park facilities, roads, bridges, equipment and vehicles, electric lines, water lines, sewer lines, and waste water treatment facilities. (See Table A-3) This amount represents an increase of \$1,486,013, a 4.24% increase from last year.

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

**Governmental**

Resurface Area Around Pool	City Budget	30.6
Education / Civic Center	City Budget	199.4
New Roadway from DPS to Airport	City Budget	85.8
Chevrolet 2500 HD	City Budget	24.1
GK IV Plus Green Mower	City Budget	23.9

**Business-Type Activities**

Airport Perimeter Fence	TXDOT Airport Development Grant & City Budget	455.5
DPS Building	Bank Loan, 4A, & 4B	492.0

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

	Governmental Activities		Business-type Activities		Total		Change 2014 - 2015
	2015	2014	2015	2014	2015	2014	
<b>Long Term-Debt</b>							
Bonds	\$ -	\$ -	\$ 4,780	\$ 5,070	\$ 4,780	\$ 5,070	\$ (290)
Notes Payable	68	117	239	209	307	326	(19)
Leases Payable	414	445	1,548	1,695	1,962	2,140	(178)
<b>Total Long-Term Debt</b>	<b>\$ 482</b>	<b>\$ 562</b>	<b>\$ 6,567</b>	<b>\$ 6,974</b>	<b>\$ 7,049</b>	<b>\$ 7,537</b>	<b>\$ (487)</b>

**Long-Term Debt**

At year end, the City had \$7,049,046 in Long Term Debt outstanding. This included \$4.78 million in bonds payable. This compares to \$5.07 million in bonds outstanding last year and is a 5.72% 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. 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 2015-2016 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.

Over the past six years, two hotels, an upscale restaurant, a large truck stop, and a new bank have been built. A new medical facility has been built and placed in operation. Two related truss manufacturing plants have purchased an existing, dormant facility and have completed three full year of operations. The two truss concerns have employed around 45-50 employees and is currently in the middle of expanding the facilities and their employee base in an effort to meet an already growing demand for their products and services. They have experienced approximately 40% growth.

In addition to the Humble Water System which was given to the City of Hearne in 2012, the City began operating the Bethany Water System during the years of 2013 – 2015. The city of Hearne is currently involved in getting approval from TCEQ to transfer ownership to the City. This adds a few new customers to our ETJ.

A new Nursing Home purchased land from the City during Fiscal Year 2013-2014, built and completed their facility in the City which will house an Assisted Living Unit as well as a Skilled Nursing Unit. They have been operating almost a full year and are employing approximately 70 people.

A molding and trim manufacturer purchased an abandoned Door Manufacturing Plant. They renovated it to transform the facility into a trim manufacturing plant and warehouse. The facility is open and operating at full capacity. The company is actively pursuing expansion

of the facility to better handle growth in the demand for their products and services. In the near future, company management plans to move at least part of their manufacturing operations to this facility in Hearne.

A national hardware store franchise opened a location in the downtown area of Hearne and has a constant flow of customers in and out of their building all the time.

A propane distributor has completed their new storage facility and has been operating for several months. This is the second propane company to place a facility here in 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.

Currently, the City has entered into agreements for a national farm supply chain store, a regional fried chicken restaurant, a new convenience store, a high-speed wireless internet provider coming to Hearne, along with the expansion of an existing local automotive business.

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, and a reason for people to move to Hearne and become citizens. All of this comes full circle and leads to more businesses coming to Hearne. Other businesses continue to show interest in relocating to Hearne. This same growth pattern is also reflected in small, locally owned businesses.

After taking all factors into consideration, the City adopted a \$12.3 million budget for Fiscal Year 2015-2016. Broken down, this is \$3.7 million for the General Fund and \$8.6 million for the Enterprise Fund. This compares to the final budget of \$4.1 million and \$9.0 million respectively for fiscal year 2014-2015. This new budget is a 9.25% decrease for the General Fund and 4.25% decrease for the Enterprise Fund. This provides an overall decrease of 5.81%.

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This 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.MDA

**City of Hearne, Texas**  
**Statement of Net Position**  
**September 30, 2015**

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Hearne Economic Development Corporation	Hearne Infrastructure/ Improvement Corporation
<b>Assets</b>					
Cash and equivalents	\$ 329,765	\$ 540,868	\$ 870,633	\$ -	\$ -
Receivables (net of allowance for uncollectibles):					
Taxes	417,524	-	417,524	50,444	50,444
Accounts	15,781	1,416,485	1,432,266	-	315
Grant	-	407,730	407,730	-	-
Internal balances	638,361	(638,361)	-	-	-
Due from primary government	-	-	-	392,337	362,654
Inventory	-	130,958	130,958	-	-
Other assets	21,234	25,713	46,947	-	-
Restricted assets:					
Cash and equivalents	358,222	616,138	974,360	251,598	321,890
Investments	-	-	-	142,294	-
Capital assets:					
Non-depreciable	393,082	996,614	1,389,696	-	-
Depreciable, net	3,519,402	10,989,841	14,509,243	-	-
<b>Total assets</b>	<b>5,693,371</b>	<b>14,485,986</b>	<b>20,179,357</b>	<b>836,673</b>	<b>735,303</b>
<b>Deferred outflows of resources</b>					
Loss on bond refunding	-	177,819	177,819	-	-
Deferred amounts related to pensions	200,123	94,190	294,313	-	-
<b>Total deferred outflows of resources</b>	<b>200,123</b>	<b>272,009</b>	<b>472,132</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>					
Accounts payable	166,684	1,010,206	1,176,890	20	500
Salaries payable	61,586	34,795	96,381	-	-
State tax payable	-	23,800	23,800	-	-
Other accrued liabilities	20,343	39,253	59,596	-	-
Due to component unit	-	754,991	754,991	-	-
Deposits	2,140	356,239	358,379	-	-
Long-term liabilities:					
Due within one year:					
Compensated absences	2,363	-	2,363	-	-
Capital lease payable	32,610	164,155	196,765	-	-
Notes payable	68,202	238,948	307,150	-	-
Bonds payable	-	300,000	300,000	-	-
Due in more than one year:					
Compensated absences	126,585	72,902	199,487	-	-
Capital lease payable	381,304	1,383,827	1,765,131	-	-
Bonds payable	-	4,480,000	4,480,000	-	-
Net pension liability - TMRS	1,400,077	690,380	2,090,457	-	-
Net pension liability - TESRS	60,148	-	60,148	-	-
<b>Total liabilities</b>	<b>2,322,042</b>	<b>9,549,496</b>	<b>11,871,538</b>	<b>20</b>	<b>500</b>
<b>Deferred inflows of resources</b>					
Deferred amounts related to pensions	45,579	15,001	60,580	-	-
<b>Total deferred inflows of resources</b>	<b>45,579</b>	<b>15,001</b>	<b>60,580</b>	<b>-</b>	<b>-</b>
<b>Net Position</b>					
Net investment in capital assets	3,430,368	5,419,525	8,849,893	-	-
Restricted for:					
Court security	92,459	-	92,459	-	-
Court technology	24,695	-	24,695	-	-
Child safety fund	32,479	-	32,479	-	-
Tourism	190,677	-	190,677	-	-
Police department	5,752	-	5,752	-	-
Economic development	-	-	-	836,653	734,803
Unrestricted	(250,557)	(226,027)	(476,584)	-	-
<b>Total net position</b>	<b>\$ 3,525,873</b>	<b>\$ 5,193,498</b>	<b>\$ 8,719,371</b>	<b>\$ 836,653</b>	<b>\$ 734,803</b>

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

**City of Hearne, Texas  
Statement of Activities  
For the Year Ended September 30, 2015**

Program Activities	Program Revenues				Net (Expenses) Revenues and Changes in Net Position					
	Fees, Fines and Charges for Services		Capital Grants and Contributions		Primary Government				Component Units	
	Expenses	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Hearne Economic Development Corporation	Hearne Infrastructure/Improvement Corporation		
<b>Primary government:</b>										
Governmental activities:										
General government	\$ 759,067	\$ 9,189	\$ -	\$ (738,552)	\$ -	\$ (738,552)	\$ -	\$ -		
Public safety	1,403,594	324,615	-	(1,068,687)	-	(1,068,687)	-	-		
Highways and streets	424,276	-	85,000	(339,276)	-	(339,276)	-	-		
Health and welfare	74,274	-	-	(72,274)	-	(72,274)	-	-		
Culture and recreation	686,246	44,737	-	(635,509)	-	(635,509)	-	-		
Interest on long-term debt	21,182	-	-	(21,182)	-	(21,182)	-	-		
<b>Total governmental activities</b>	<b>3,368,639</b>	<b>378,541</b>	<b>85,000</b>	<b>(2,875,480)</b>	<b>-</b>	<b>(2,875,480)</b>	<b>-</b>	<b>-</b>		
<b>Business-type activities:</b>										
Water	586,807	1,139,820	-	-	553,013	553,013	-	-		
Electric	6,165,915	5,863,379	-	-	(302,536)	(302,536)	-	-		
Sewer	766,517	686,048	-	-	714,750	714,750	-	-		
Sanitation	678,943	612,365	-	-	(66,578)	(66,578)	-	-		
Municipal airport	172,818	96,890	-	-	(75,928)	(75,928)	-	-		
<b>Total business-type activities</b>	<b>8,371,000</b>	<b>8,398,502</b>	<b>-</b>	<b>-</b>	<b>822,721</b>	<b>822,721</b>	<b>-</b>	<b>-</b>		
<b>Total primary government</b>	<b>11,739,639</b>	<b>8,777,043</b>	<b>880,219</b>	<b>(2,875,480)</b>	<b>822,721</b>	<b>(2,052,759)</b>	<b>-</b>	<b>-</b>		
<b>Component units:</b>										
Hearne Economic Development Corporation	194,855	-	-	-	-	-	(194,855)	-		
Hearne Infrastructure/Improvement Corporation	137,958	-	-	-	-	-	-	(137,958)		
<b>Total component units</b>	<b>\$ 332,813</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(194,855)</b>	<b>(137,958)</b>		
<b>General revenues:</b>										
<b>Taxes:</b>										
Property taxes				1,459,125	-	1,459,125	-	-		
Sales taxes				561,325	-	561,325	279,300	279,300		
Gross receipts				93,693	-	93,693	-	-		
Hotel/motel occupancy				160,917	-	160,917	-	-		
Rentals				-	6,804	6,804	-	-		
Investment earnings				350	1,917	2,267	1,162	801		
Gain (loss) on disposal of capital assets				-	2,269	2,269	-	-		
Miscellaneous				45,914	229,138	275,052	-	-		
Contributions between primary government and component unit				-	75,000	75,000	(37,500)	(37,500)		
Transfers				754,344	(754,344)	-	-	-		
<b>Total general revenues and transfers</b>				<b>3,075,668</b>	<b>(439,216)</b>	<b>2,636,452</b>	<b>242,962</b>	<b>242,601</b>		
Change in net position				200,188	383,505	583,693	48,107	104,643		
Net position at beginning of the year, as previously reported				4,608,633	5,331,722	9,940,355	898,442	724,216		
Restatement of net position, see Note 16				(1,282,948)	(521,729)	(1,804,677)	(109,896)	(94,056)		
Net position at beginning of the year, as restated				3,325,685	4,809,993	8,135,678	788,546	630,160		
Net position at end of year				\$ 3,525,873	\$ 5,193,498	\$ 8,719,371	\$ 836,653	\$ 734,803		

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

**City of Hearne, Texas**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2015**

	General	Total Nonmajor Funds	Total Governmental Funds
<b>Assets</b>			
Cash and equivalents	\$ 329,765	\$ -	\$ 329,765
Receivables:			
Taxes	404,814	12,710	417,524
Accounts	15,781	-	15,781
Due from other funds	638,696	-	638,696
Other assets	21,234	-	21,234
Restricted assets:			
Cash	119,991	238,231	358,222
<b>Total assets</b>	<b>\$ 1,530,281</b>	<b>\$ 250,941</b>	<b>\$ 1,781,222</b>
<b>Liabilities</b>			
Accounts payable	\$ 112,507	\$ 54,177	\$ 166,684
Salaries payable	61,586	-	61,586
Accrued liabilities	20,343	-	20,343
Deposits	2,140	-	2,140
Due to other funds	-	335	335
<b>Total liabilities</b>	<b>196,576</b>	<b>54,512</b>	<b>251,088</b>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue-property taxes	269,925	-	269,925
<b>Fund Balances</b>			
Nonspendable			
Prepaid expenses	21,235	-	21,235
Restricted for:			
Debt service	1,836	-	1,836
Court security	92,459	-	92,459
Court technology	24,695	-	24,695
Fire truck	1,001	-	1,001
Child safety fund	32,479	-	32,479
Police	-	5,752	5,752
Tourism	-	190,677	190,677
Unassigned reported in:			
General fund	890,075	-	890,075
<b>Total fund balances</b>	<b>1,063,780</b>	<b>196,429</b>	<b>1,260,209</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 1,530,281</b>	<b>\$ 250,941</b>	<b>\$ 1,781,222</b>

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



**City of Hearne, Texas**  
**Reconciliation of the Balance Sheet to the Statement of Net Position**  
**Governmental Funds**  
**September 30, 2015**

Fund balances - total governmental funds \$ 1,260,209

Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Governmental capital assets	9,463,782	
Less accumulated depreciation	<u>(5,551,298)</u>	3,912,484

Certain tax receivables are not available to pay for current period expenditures and therefore are reported as unavailable in the government funds 269,925

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	(128,948)	
Capital lease payable	(413,914)	
Notes payable	(68,202)	
Net pension liability - TMRS	(1,400,077)	
Net pension liability - TESRS	<u>(60,148)</u>	(2,071,289)

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

Deferred outflows related to pensions	200,123	
Deferred inflows related to pensions	<u>(45,579)</u>	154,544

Net position of governmental activities \$ 3,525,873

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

**City of Hearne, Texas**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended September 30, 2015**

	General	Total Nonmajor Funds	Total Governmental Funds
<b>Revenues:</b>			
Taxes:			
Property	\$ 1,458,059	\$ -	\$ 1,458,059
Sales	561,325	-	561,325
Gross receipts	93,693	-	93,693
Hotel/motel occupancy	-	160,917	160,917
Intergovernmental	91,000	4,630	95,630
Licenses and permits	9,189	-	9,189
Property rentals	44,737	-	44,737
Fines	324,615	-	324,615
Investment income	221	129	350
Private contributions	11,326	-	11,326
Miscellaneous	47,953	-	47,953
<b>Total revenues</b>	<b>2,642,118</b>	<b>165,676</b>	<b>2,807,794</b>
<b>Expenditures:</b>			
Current:			
General government	748,889	-	748,889
Public safety	1,211,718	-	1,211,718
Highways and streets	313,789	-	313,789
Health and welfare	75,077	-	75,077
Culture and recreation	529,289	82,830	612,119
Capital outlay	242,053	-	242,053
Debt service:			
Principal	82,273	-	82,273
Interest and fiscal charges	21,182	-	21,182
<b>Total expenditures</b>	<b>3,224,270</b>	<b>82,830</b>	<b>3,307,100</b>
Excess (deficiency) of revenues over (under) expenditures	(582,152)	82,846	(499,306)
<b>Other financing sources (uses):</b>			
Transfers in	1,260,816	-	1,260,816
Transfers out	(506,472)	-	(506,472)
<b>Total other financing sources (uses)</b>	<b>754,344</b>	<b>-</b>	<b>754,344</b>
Net change in fund balances	172,192	82,846	255,038
Fund balances at beginning of year, as previously reported	905,804	43,583	949,387
Restatement of fund balance, see Note 16	(14,216)	70,000	55,784
Fund balances at beginning of year, as restated	891,588	113,583	1,005,171
Fund balances at end of year	\$ 1,063,780	\$ 196,429	\$ 1,260,209

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

**City of Hearne, Texas**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended September 30, 2015**

Net change in fund balances - total governmental funds \$ 255,038

Amounts reported for governmental activities in the Statement of Activities are different because:

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

Expenditures for capital assets	\$	242,053	
Depreciation of capital assets		<u>(423,211)</u>	(181,158)

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. 1,066

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. 7,662

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items. 80,234

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not included as expenditures in governmental funds.

Compensated absences	\$	11,958	
Pension costs		<u>25,388</u>	<u>37,346</u>

Change in net position of governmental activities \$ 200,188

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

City of Hearne, Texas  
General Fund  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual  
For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Taxes:				
Property	\$ 1,505,042	\$ 1,505,042	\$ 1,458,059	\$ (46,983)
Sales	431,750	431,750	561,325	129,575
Gross receipts	82,000	82,000	93,693	11,693
Licenses and permits	18,000	18,000	9,189	(8,811)
Property rentals	35,000	35,000	44,737	9,737
Fines	295,450	295,450	324,615	29,165
Intergovernmental	-	-	91,000	91,000
Investment income	150	150	221	71
Private contributions	30,000	115,000	11,326	(103,674)
Miscellaneous	10,600	10,600	47,953	37,353
Total revenues	<u>2,407,992</u>	<u>2,492,992</u>	<u>2,642,118</u>	<u>149,126</u>
Expenditures:				
Current:				
General government:				
Legislative	57,272	87,844	84,268	(3,576)
Executive	231,337	271,724	271,266	(458)
Finance	276,953	320,912	273,301	(47,611)
Court	129,716	129,716	120,054	(9,662)
Total general government	<u>695,278</u>	<u>810,196</u>	<u>748,889</u>	<u>(61,307)</u>
Public safety:				
Police	1,096,372	1,129,367	1,115,361	(14,006)
Fire	97,782	102,781	96,357	(6,424)
Total public safety	<u>1,194,154</u>	<u>1,232,148</u>	<u>1,211,718</u>	<u>(20,430)</u>
Highways and streets	<u>373,493</u>	<u>410,615</u>	<u>313,789</u>	<u>(96,826)</u>
Health and welfare:				
Code enforcement	8,947	23,133	21,105	(2,028)
Animal control	59,114	59,990	53,972	(6,018)
Total health and welfare	<u>68,061</u>	<u>83,123</u>	<u>75,077</u>	<u>(8,046)</u>
Culture and recreation:				
Library	160,092	173,993	165,906	(8,087)
Parks and recreation	444,123	438,787	363,383	(75,404)
Total culture and recreation	<u>604,215</u>	<u>612,780</u>	<u>529,289</u>	<u>(83,491)</u>
Capital outlay	<u>353,000</u>	<u>342,108</u>	<u>242,053</u>	<u>(100,055)</u>
Debt service:				
Principal	63,998	82,585	82,273	(312)
Interest	19,766	21,185	21,182	(3)
Total debt service	<u>83,764</u>	<u>103,770</u>	<u>103,455</u>	<u>(315)</u>
Total expenditures	<u>3,371,965</u>	<u>3,594,740</u>	<u>3,224,270</u>	<u>(370,470)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(963,973)</u>	<u>(1,101,748)</u>	<u>(582,152)</u>	<u>519,596</u>
Other financing sources (uses):				
Proceeds from long term debt	200,000	347,405	-	(347,405)
Transfers in	1,260,816	1,260,816	1,260,816	-
Transfers out	(496,843)	(506,473)	(506,472)	1
Total other financing sources (uses)	<u>963,973</u>	<u>1,101,748</u>	<u>754,344</u>	<u>(347,404)</u>
Net change in fund balances	-	-	172,192	172,192
Fund balances at beginning of year, as previously reported	905,804	905,804	905,804	-
Restatement of fund balance, see Note 16	(14,216)	(14,216)	(14,216)	-
Fund balances at beginning of year, as restated	<u>891,588</u>	<u>891,588</u>	<u>891,588</u>	-
Fund balances at end of year	<u>\$ 891,588</u>	<u>\$ 891,588</u>	<u>\$ 1,063,780</u>	<u>\$ 172,192</u>

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

**City of Hearne, Texas**  
**Statement of Net Position**  
**Proprietary Funds**  
**September 30, 2015**

	Enterprise Fund	Nonmajor Fund	Total
		Municipal Airport Fund	
<b>Assets</b>			
Current assets:			
Cash and equivalents	\$ 540,868	\$ -	\$ 540,868
Accounts receivable (net of allowance for uncollectibles)	1,415,965	520	1,416,485
Grants receivable	407,730	-	407,730
Inventory	108,638	22,320	130,958
Due from other funds	325,493	29,691	355,184
Other assets	20,244	5,469	25,713
Restricted cash	616,138	-	616,138
Total current assets	<u>3,435,076</u>	<u>58,000</u>	<u>3,493,076</u>
Capital assets:			
Land	61,634	-	61,634
Buildings and other improvements	778,946	1,497,448	2,276,394
Distribution and collection systems	22,968,172	-	22,968,172
Equipment	834,834	33,276	868,110
Construction in progress	934,980	-	934,980
	<u>25,578,566</u>	<u>1,530,724</u>	<u>27,109,290</u>
Less: accumulated depreciation	<u>(14,660,592)</u>	<u>(462,243)</u>	<u>(15,122,835)</u>
Capital assets, net of accumulated depreciation	<u>10,917,974</u>	<u>1,068,481</u>	<u>11,986,455</u>
Total non-current assets	<u>10,917,974</u>	<u>1,068,481</u>	<u>11,986,455</u>
Total assets	<u>14,353,050</u>	<u>1,126,481</u>	<u>15,479,531</u>
<b>Deferred outflows of resources</b>			
Loss on bond refunding	177,819	-	177,819
Deferred amounts related to pensions	94,190	-	94,190
Total deferred outflows of resources	<u>272,009</u>	<u>-</u>	<u>272,009</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	996,233	13,973	1,010,206
Salaries payable	34,795	-	34,795
Sales tax payable	23,800	-	23,800
Other accrued liabilities	39,253	-	39,253
Due to other funds	993,545	-	993,545
Due to component units	754,991	-	754,991
Customer deposits payable	356,239	-	356,239
Long-term debt, current	703,103	-	703,103
Total current liabilities	<u>3,901,959</u>	<u>13,973</u>	<u>3,915,932</u>
Long-term liabilities:			
Liability for compensated absences, long-term	72,902	-	72,902
Long-term debt, net	5,863,827	-	5,863,827
Net pension liability	690,380	-	690,380
Total long-term liabilities	<u>6,627,109</u>	<u>-</u>	<u>6,627,109</u>
Total liabilities	<u>10,529,068</u>	<u>13,973</u>	<u>10,543,041</u>
<b>Deferred inflows of resources</b>			
Deferred amounts related to pensions	15,001	-	15,001
Total deferred inflows of resources	<u>15,001</u>	<u>-</u>	<u>15,001</u>
<b>Net Position</b>			
Net investment in capital assets	4,351,044	1,068,481	5,419,525
Unrestricted	<u>(270,054)</u>	<u>44,027</u>	<u>(226,027)</u>
Total net position	<u>\$ 4,080,990</u>	<u>\$ 1,112,508</u>	<u>\$ 5,193,498</u>

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

**City of Hearne, Texas**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended September 30, 2015**

	Enterprise Fund	Nonmajor Fund Municipal Airport Fund	Total
Operating revenues:			
Charges for sales and services:			
Water sales	\$ 1,139,820	\$ -	\$ 1,139,820
Electric sales	5,863,379	-	5,863,379
Sewer charges	685,048	-	685,048
Sanitation	612,365	-	612,365
Tap fees	1,000	-	1,000
Rental fees	6,804	30,510	37,314
Penalties	115,153	-	115,153
Miscellaneous revenue	113,985	66,380	180,365
Total operating revenues	<u>8,537,554</u>	<u>96,890</u>	<u>8,634,444</u>
Operating expenses:			
Wholesale utilities	5,104,581	-	5,104,581
Water department	397,157	-	397,157
Electric department	435,947	-	435,947
Sewer department	356,041	-	356,041
Sanitation department	51,776	-	51,776
Administrative and billing	831,725	-	831,725
Airport	-	96,879	96,879
Depreciation and amortization	690,255	75,939	766,194
Total operating expenses	<u>7,867,482</u>	<u>172,818</u>	<u>8,040,300</u>
Operating income (loss)	<u>670,072</u>	<u>(75,928)</u>	<u>594,144</u>
Nonoperating revenues (expense):			
Intergovernmental	795,219	-	795,219
Contributions from component unit	75,000	-	75,000
Investment income	1,917	-	1,917
Gain on disposal of capital assets	2,269	-	2,269
Interest expense	(330,700)	-	(330,700)
Total nonoperating revenues (expense)	<u>543,705</u>	<u>-</u>	<u>543,705</u>
Income (loss) before transfers	1,213,777	(75,928)	1,137,849
Transfers in	506,472	-	506,472
Transfers out	(1,260,816)	-	(1,260,816)
Total other financing sources (uses)	<u>(754,344)</u>	<u>-</u>	<u>(754,344)</u>
Change in net position	459,433	(75,928)	383,505
Net position, beginning of year, as previously reported	4,143,286	1,188,436	5,331,722
Restatement of net position, see Note 16	(521,729)	-	(521,729)
Net position, beginning of year, as restated	<u>3,621,557</u>	<u>1,188,436</u>	<u>4,809,993</u>
Net position, end of year	<u>\$ 4,080,990</u>	<u>\$ 1,112,508</u>	<u>\$ 5,193,498</u>

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

**City of Hearne, Texas**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2015**

	Enterprise Fund	Nonmajor Fund Municipal Airport Fund	Total
Cash flows from operating activities:			
Cash received from customers	\$ 8,498,483	\$ 96,370	\$ 8,594,853
Cash payments to suppliers for goods and services	(4,290,470)	(104,892)	(4,395,362)
Cash payments to employees for services	(2,325,760)	-	(2,325,760)
Net cash provided by (used in) operating activities	<u>1,882,253</u>	<u>(8,522)</u>	<u>1,873,731</u>
Cash flows from non-capital financing activities:			
Decrease in bank overdraft	(81,062)	-	(81,062)
Transfers in	506,472	-	506,472
Transfers out	(1,260,816)	-	(1,260,816)
Net cash provided by (used in) non-capital financing activities	<u>(835,406)</u>	<u>-</u>	<u>(835,406)</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(1,251,963)	(3,991)	(1,255,954)
Proceeds from disposal of capital assets	6,516	-	6,516
Capital grants	420,889	12,513	433,402
Interest paid	(332,679)	-	(332,679)
Principal payments	(555,944)	-	(555,944)
Proceeds of long term debt issuance	148,604	-	148,604
Net cash provided by (used in) capital and related financing activities	<u>(1,489,577)</u>	<u>8,522</u>	<u>(1,481,055)</u>
Cash flows from investing activities:			
Interest on cash and investments	<u>1,917</u>	<u>-</u>	<u>1,917</u>
Net increase (decrease) in cash and equivalents	(440,813)	-	(440,813)
Cash and equivalents, beginning of year	<u>1,597,819</u>	<u>-</u>	<u>1,597,819</u>
Cash and equivalents, end of year	<u>\$ 1,157,006</u>	<u>\$ -</u>	<u>\$ 1,157,006</u>
Reconciliation of cash and equivalents:			
Unrestricted cash and equivalents	\$ 540,868	\$ -	\$ 540,868
Restricted cash and investments	616,138	-	616,138
Total cash and equivalents	<u>\$ 1,157,006</u>	<u>\$ -</u>	<u>\$ 1,157,006</u>

(continued)

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

**City of Hearne, Texas**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2015**

	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)	\$ 670,072	\$ (75,928)	\$ 594,144
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	690,255	75,939	766,194
Bad debt expense	47,238	-	47,238
Increase (decrease) in cash resulting from changes in assets and liabilities:			
Accounts receivable	(98,488)	(520)	(99,008)
Inventory	15,043	4,045	19,088
Due from other funds	(230,758)	(23,234)	(253,992)
Other assets	10,104	-	10,104
Deferred outflows related to pensions	(27,812)	-	(27,812)
Accounts payable	417,571	11,176	428,747
Salaries payable	(6,990)	-	(6,990)
Sales tax payable	(549)	-	(549)
Accrued liabilities	162	-	162
Due to other funds	104,337	-	104,337
Due to component units	258,436	-	258,436
Customer deposits	12,179	-	12,179
Liability for compensated absences	7,966	-	7,966
Net pension liability	(1,514)	-	(1,514)
Deferred inflows related to pensions	15,001	-	15,001
Net cash provided by (used in) operating activities	<u>\$ 1,882,253</u>	<u>\$ (8,522)</u>	<u>\$ 1,873,731</u>

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



**City of Hearne, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2015**

**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

**City of Hearne, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2015**

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.

**City of Hearne, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2015**

**C. Measurement Focus and Basis of Accounting**

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

*Measurement Focus*

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

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

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

*Basis of Accounting*

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

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

**City of Hearne, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2015**

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 principle ongoing operations. Revenues and expenses that do not meet this definition are reported as non-operating revenues and expenses.

**D. Budgets**

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

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

**E. Cash and Investments**

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

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

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

**F. Short-term Interfund Receivables/Payables**

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

**City of Hearne, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2015**

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

**City of Hearne, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2015**

**J. Compensated Absences**

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

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

**K. Long-term Obligations**

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

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

**L. Fund Equity**

*Government-wide statements*

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

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

*Fund statements*

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

**City of Hearne, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2015**

*Classification of fund balances*

The *nonspendable* fund balance includes the portion of net resources that cannot be spent 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 spent first.

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

**M. Interfund Transfers**

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

**City of Hearne, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2015**

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 of 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 of any year to be effective the following January 1.

**Note 2. Legal Compliance – Budgets**

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

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



**City of Hearne, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2015**

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 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, 2015, the City had investments in TexSTAR with maturities less than 60 days with a fair value of \$501,356. Additionally, the Hearne Economic Development Corporation held a certificate of deposit totaling \$142,294.

Interest rate risk

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

Custodial credit risk

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

Credit risk

It is the government's policy to limit its investments to local government investment pools, TexSTAR, or certificates of deposit. As of September 30, 2015, 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, 2015.

**City of Hearne, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2015**

**Note 4. Restricted Assets**

At September 30, 2015, restrictions on cash and investments were as follows:

	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Hearne Economic Development Corporation</u>	<u>Hearne Infrastructure/ Improvement Corporation</u>
<u>Cash and Investments</u>				
Restricted for:				
Hotel/motel expenditures	\$ 232,144	\$ -	\$ -	\$ -
Police Special	6,087	-	-	-
Interest and sinking	1,836	615,476	-	-
Fire trucks	1,001	-	-	-
Court security	92,459	-	-	-
Court technology	24,695	-	-	-
Community Development				
Block Grant Program	-	510	-	-
Meter Sinking	-	152	-	-
Economic development	-	-	393,892	321,890
	<u>\$ 358,222</u>	<u>\$ 616,138</u>	<u>\$ 393,892</u>	<u>\$ 321,890</u>

**Note 5. Receivables**

Receivables at September 30, 2015, consist of the following:

	<u>Governmental Funds</u>	<u>Proprietary Funds</u>
Receivables:		
Taxes:		
Property	\$ 302,020	\$ -
Sales	102,794	-
Hotel/motel occupancy	12,710	-
Accounts	15,781	2,058,773
Grants	-	407,730
Less:		
Allowance for uncollectibles	-	(642,288)
Net total receivables	<u>\$ 433,305</u>	<u>\$ 1,824,215</u>

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

**City of Hearne, Texas**  
**Notes to Basic Financial Statements**  
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**Note 6. Capital Assets**

The following is a summary of capital asset activity during the year ended September 30, 2015:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
<u>Governmental activities</u>				
Capital assets not being depreciated				
Land	\$ 393,082	\$ -	\$ -	\$ 393,082
Construction in progress	164,662	34,746	199,408	-
Total capital assets not being depreciated	<u>557,744</u>	<u>34,746</u>	<u>199,408</u>	<u>393,082</u>
Capital assets being depreciated				
Buildings	5,184,061	237,905	-	5,421,966
Improvements other than buildings	1,124,281	85,815	-	1,210,096
Furniture and fixtures	79,961	5,700	-	85,661
Vehicles	1,388,716	36,114	-	1,424,830
Machinery and equipment	886,887	41,260	-	928,147
Total at historical cost	<u>8,663,906</u>	<u>406,794</u>	<u>-</u>	<u>9,070,700</u>
Less: accumulated depreciation for:				
Buildings	3,465,817	(103,435)	-	3,362,382
Improvements other than buildings	292,033	333,439	-	625,472
Furniture and fixtures	12,650	15,242	-	27,892
Vehicles	747,753	202,167	-	949,920
Machinery and equipment	609,835	(24,203)	-	585,632
Total accumulated depreciation	<u>5,128,088</u>	<u>423,210</u>	<u>-</u>	<u>5,551,298</u>
Total capital assets being depreciated, net	<u>3,535,818</u>	<u>(16,416)</u>	<u>-</u>	<u>3,519,402</u>
Governmental activities capital assets, net	<u>\$ 4,093,562</u>	<u>\$ 18,330</u>	<u>\$ 199,408</u>	<u>\$ 3,912,484</u>
<u>Business-type activities</u>				
Capital assets not being depreciated				
Land	\$ 61,634	\$ -	\$ -	\$ 61,634
Construction in progress	664,768	725,729	455,517	934,980
Total capital assets not being depreciated	<u>726,402</u>	<u>725,729</u>	<u>455,517</u>	<u>996,614</u>
Capital assets being depreciated				
Buildings and improvements	1,328,916	947,478	-	2,276,394
Furniture and fixtures	308,691	6,501	-	315,192
Vehicles	364,357	-	12,072	352,285
Distribution and collection systems	22,936,410	31,762	-	22,968,172
Machinery and equipment	200,633	-	-	200,633
Total at historical cost	<u>25,139,007</u>	<u>985,741</u>	<u>12,072</u>	<u>26,112,676</u>
Less: accumulated depreciation for:				
Buildings and improvements	577,884	94,871	-	672,755
Furniture and fixtures	264,133	14,605	-	278,738
Vehicles	172,223	31,921	12,072	192,072
Distribution and collection systems	13,228,477	601,215	-	13,829,692
Machinery and equipment	140,222	9,356	-	149,578
Total accumulated depreciation	<u>14,382,939</u>	<u>751,968</u>	<u>12,072</u>	<u>15,122,835</u>
Total capital assets being depreciated, net	<u>10,756,068</u>	<u>233,773</u>	<u>-</u>	<u>10,989,841</u>
Business-type activities capital assets, net	<u>\$ 11,482,470</u>	<u>\$ 959,502</u>	<u>\$ 455,517</u>	<u>\$ 11,986,455</u>

**City of Hearne, Texas**  
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Depreciation expense was charged as direct expense to programs of the primary government as follows:

General government	\$	26,955
Public safety		203,440
Highways and streets		113,534
Culture and recreation		79,281
Total depreciation expense - Governmental activities	\$	423,210

**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, 2015:

	Balance 9/30/14	Additions	Retirements	Balance 9/30/15	Due Within One Year	Long Term
<u>Governmental activities</u>						
Lease payable - Oshkosh	\$ 445,278	\$ -	\$ (31,364)	\$ 413,914	\$ 32,610	\$ 381,304
Subtotal of leases payable	445,278	-	(31,364)	413,914	32,610	381,304
SouthStar Bank - Equipment	116,990	-	(48,788)	68,202	68,202	-
Subtotal of notes payable	116,990	-	(48,788)	68,202	68,202	-
	\$ 562,268	\$ -	\$ (80,152)	\$ 482,116	\$ 100,812	\$ 381,304
<u>Business type activities</u>						
Lease payable - Southside	\$ 1,293,502	\$ -	\$ (103,822)	\$ 1,189,680	\$ 109,760	\$ 1,079,920
Lease payable - AEP	401,335	-	(43,033)	358,302	54,395	303,907
Subtotal of leases payable	1,694,837	-	(146,855)	1,547,982	164,155	1,383,827
2011 General obligation refunding	5,070,000	-	(290,000)	4,780,000	300,000	4,480,000
Subtotal of bonds payable	5,070,000	-	(290,000)	4,780,000	300,000	4,480,000
SouthStar Bank - Equipment	209,433	148,604	(119,089)	238,948	238,948	-
Subtotal of notes payable	209,433	148,604	(119,089)	238,948	238,948	-
	\$ 6,974,270	\$ 148,604	\$ (555,944)	\$ 6,566,930	\$ 703,103	\$ 5,863,827

**City of Hearne, Texas**  
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The annual aggregate maturities for each debt type for the years subsequent to September 30, 2015 are as follows:

Year ending September 30	Business-type Activities				Governmental Activities	
	Bonds Payable		Notes Payable		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 300,000	\$ 151,213	\$ 238,948	\$ 14,337	\$ 68,202	\$ 4,092
2017	305,000	145,310	-	-	-	-
2018	310,000	138,465	-	-	-	-
2019	325,000	130,598	-	-	-	-
2020	335,000	121,599	-	-	-	-
2021-2025	1,880,000	432,858	-	-	-	-
2026-2030	1,325,000	79,815	-	-	-	-
	<u>\$ 4,780,000</u>	<u>\$ 1,199,858</u>	<u>\$ 238,948</u>	<u>\$ 14,337</u>	<u>\$ 68,202</u>	<u>\$ 4,092</u>

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

During the year ended September 30, 2015, the following changes occurred in other long-term liabilities:

	Balance 9/30/14	Additions (Reductions)	Balance 9/30/15	Due Within One Year
<u>Governmental activities</u>				
Compensated absences	\$ 140,906	\$ (11,958)	\$ 128,948	\$ 2,363
<u>Business type activities</u>				
Compensated absences	\$ 64,936	\$ 7,966	\$ 72,902	\$ -

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

**Note 9. Leases**

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

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

<u>Asset Class</u>	<u>Governmental Activities</u>	<u>Business type Activities</u>
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	<u>\$ 406,389</u>	<u>\$ 1,557,521</u>

The total future minimum lease payments and the net present value of these minimum payments as of September 30, 2015 were as follows:

<u>Year ending September 30</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2016	\$ 48,000	\$ 307,069
2017	48,000	307,069
2018	48,000	438,378
2019	48,000	173,545
2020	48,000	173,545
2021-2025	240,000	633,940
2026-2030	24,000	-
Total minimum lease payments	504,000	2,033,546
Less: Amount representing interest	(90,086)	(485,564)
Present value of minimum payments	<u>\$ 413,914</u>	<u>\$ 1,547,982</u>

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

**Note 10. Interfund Receivables and Payables**

Interfund receivables and payables, all of which are considered short-term, at September 30, 2015, were as follows:

<u>Name of Fund</u>	<u>Due from other funds</u>	<u>Due to other funds</u>
Governmental:		
General	\$ 638,696	\$ -
Non-Major Governmental	-	335
Business-Type:		
Enterprise Fund	325,493	993,545
Non-Major Business-Type	29,691	-
	<u>\$ 993,880</u>	<u>\$ 993,880</u>

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

**City of Hearne, Texas**  
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**Note 11. Interfund Transfers**

Interfund transfers during the year ended September 30, 2015, were as follows:

	Transfers In		
	General Fund	Enterprise	Total
<u>Transfers out</u>			
General	\$ -	\$ 506,472	\$ 506,472
Enterprise	1,260,816	-	1,260,816
	\$ 1,260,816	\$ 506,472	\$ 1,767,288

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, 2015. After the expiration, the contract is renewable upon mutual agreement. The City paid \$4,579,021 to this company during the year ended September 30, 2015.

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, 2015. The City paid \$525,560 to this company during the year ended September 30, 2015.

**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](http://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.

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

Plan provisions for the City were as follows:

	Plan Year 2015	Plan Year 2014	Plan Year 2013
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, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	24
Inactive employees entitled to but not yet receiving benefits	31
Active employees	54

**C. Contributions**

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 14.19% and 15.37% in calendar years 2014 and 2015, respectively. The city's contributions to TMRS for the year ended September 30, 2015, were \$319,205, and were equal to the required contributions.

**D. Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Position Liability was determined by an actuarial valuation as of that date.



**City of Hearne, Texas**  
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***Actuarial assumptions:***

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, 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, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 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 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. 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:

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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	<u>100.0%</u>	

***Discount Rate***

The discount rate used to measure the total pension liability was 7.0%. 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.

<b><i>Changes in the Net Pension Liability</i></b>	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2013	\$ 7,001,976	\$ 4,906,933	\$ 2,095,043
Changes for the year:			
Service Cost	275,274	-	275,274
Interest	489,029	-	489,029
Change of benefit terms	-	-	-
Difference between expected and actual experience	(61,274)	-	(61,274)
Changes of assumptions	-	-	-
Contributions - employer	-	287,653	(287,653)
Contributions - employee	-	142,403	(142,403)
Net investment income	-	280,731	(280,731)
Benefit payments, including refunds of employee contributions	(306,966)	(306,966)	-
Administrative expense	-	(2,931)	2,931
Other charges	-	(241)	241
Net changes	<u>396,063</u>	<u>400,649</u>	<u>(4,586)</u>
Balance at December 31, 2014	<u>\$ 7,398,039</u>	<u>\$ 5,307,582</u>	<u>\$ 2,090,457</u>

***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 7.0%, as well as what the City's net position liability would be if it were calculated using a

**City of Hearne, Texas**  
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discount rate that is 1-percentage-point lower (6%) or 1-percentage-point higher (8%) than the current rate:

	1% Decrease in Discount Rate (6%)	Discount Rate (7%)	1% Increase in Discount Rate (8%)
City's net pension liability	\$ 3,237,341	\$ 2,090,457	\$ 1,164,858

***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](http://www.tmrs.com).

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

For the year ended September 30, 2015, the City recognized pension expense of \$275,825.

At September 30, 2015, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 45,422
Difference between projected and actual investment earnings	50,203	-
Contributions subsequent to the measurement date	235,003	-
Total	\$ 285,206	\$ 45,422

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

Year ended September 30:	
2015	\$ (3,301)
2016	(3,301)
2017	(1,167)
2018	12,550
Total	\$ 4,781

**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

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remuneration. At August 31, 2014, there were 198 contributing fire and/or 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, 2014, 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](http://www.tesrs.org). The separately issued actuarial valuations which may be of interest are also available at the same link.

**C. Benefits Provided**

Senate Bill, 65<sup>th</sup> Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79<sup>th</sup> 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.

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

**E. Contributions**

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

**F. Actuarial Assumptions**

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

Actuarial valuation date	8/31/2014
Actuarial cost method	Entry age
Amortization method	Level dollar, Open
Amortization period	30 years
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value

Actuarial assumptions:	
Investment rate of return*	7.75%
Projected salary increase	N/A
*includes inflation at	3.5%
Cost of living adjustments	None

**City of Hearne, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2015**

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

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

**G. Discount Rate**

The discount rate used to measure the total pension liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2014 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, alculated 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%) that the current rate:

**City of Hearne, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2015**

	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:	\$123,947	\$60,148	\$22,925

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

At August 31, 2014, the City reported a liability of \$60,148 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	\$ 60,148
State's proportionate share that is associated with the City*	20,325
Total	\$ 80,473

*\*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, 2014 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, 2014. The City used the assumption that any differences in the net pension liability measured as of August 31, 2014 versus September 30, 2014 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, 2013 through August 31, 2014.

At August 31, 2014 the employer's proportion of the collective net pension liability was .331%. TESRS did not provide prior year proportions measured as of August 31, 2013. 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, 2014, the City recognized pension expense of \$12,772. The City recognized on-behalf revenues of \$7,662 calculated by taking the State's total contributions to TESRS multiplied by the City's proportionate share.

**City of Hearne, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2015**

At August 31, 2014, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual investment earnings	\$ -	\$ 15,158
Contributions paid to TESRS subsequent to the measurement date	\$ 9,107	\$ -

\$9,107 reported as deferred outflows or resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. The net amount of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended September 30</u>	<u>Pension Expense</u>
2016	\$ 3,790
2017	3,790
2018	3,790
2019	3,788
Total	<u>\$ 15,158</u>

**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, 2015, were \$3,917, which equaled the required contributions for the year.



**City of Hearne, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2015**

**Note 15. Contingent Liabilities**

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

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

**Note 16. Restatement of Net Position and Fund Balance**

During the year ended September 30, 2015, the City adopted Governmental Accounting Standard Number 68, "Accounting and Financial Reporting for Pensions." The adoption of this standard required the City to report the net pension liability on the statement of net position. Therefore, an adjustment was made to the beginning net position for the recording of the beginning net pension liability and the beginning deferred outflow for contributions made after the measurement date. Net position of the proprietary fund and the business-type activities has been reduced by \$625,517 as of September 30, 2014. Net position of the governmental activities has been reduced by \$1,338,732 as of September 30, 2014.

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

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

## **REQUIRED SUPPLEMENTARY INFORMATION**

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

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

**City of Hearne, Texas**  
**Required Supplementary Information**  
**For the Year Ended September 30, 2015**

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

	<b>2014</b>
<b>Total Pension Liability</b>	
Service Cost	\$ 275,274
Interest (on the Total Pension Liability)	489,029
Change in benefit terms	-
Difference between expected and actual experience	(61,274)
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(306,966)
<b>Net Change in Total Pension Liability</b>	396,063
<b>Total Pension Liability - Beginning</b>	7,001,976
<b>Total Pension Liability - Ending (a)</b>	\$ 7,398,039
 <b>Plan Fiduciary Net Position</b>	
Contributions - Employer	\$ 287,653
Contributions - Employee	142,403
Net Investment Income	280,731
Benefit payments, including refunds of employee contributions	(306,966)
Administrative Expense	(2,931)
Other	(241)
<b>Net Change in Plan Fiduciary Net Position</b>	400,649
<b>Plan Fiduciary Net Position - Beginning</b>	4,906,933
<b>Plan Fiduciary Net Position - Ending (b)</b>	\$ 5,307,582
 <b>Net Pension Liability - Ending (a) - (b)</b>	\$ 2,090,457
 <b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	71.74%
 <b>Covered Employee Payroll</b>	\$ 2,027,841
 <b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	103.09%

**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, 2015**

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

	2015
Actuarially Determined Contribution	\$ 319,205
Contributions in relation to the actuarially determined contribution	319,205
Contribution deficiency (excess)	\$ -
Covered employee payroll	\$ 2,098,713
Contributions as a percentage of covered employee payroll	15.21%

**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	26 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.0%
Salary Increases	3.50% to 12.00%, including inflation
Investment Rate of Return	7.00%
Retirement Age	Experienced-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009  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 no 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, 2015**

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

	<b>8/31/2014</b>
City's proportion of the net pension liability	0.331%
City's proportionate share of the net pension liability	\$ 60,148
State's proportionate share of the net pension liability	20,325
Total	\$ 80,473
Number of Active Members*	21
City's Net Pension Liability per Active Member	\$ 2,864
Plan fiduciary net position as a percentage of the total pension liability	83.5%

\* 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, 2015**

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

	2015
Contractually required contribution	\$ 9,108
Contributions in relation to the contractually required contribution	9,108
Contribution deficiency (excess)	\$ -
Number of Active Members *	21
Contributions per active member	\$ 434

\* 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, 2015

	Special Revenue		Total Non-major Governmental Funds
	Hotel/Motel Tax	Police Special Fund	
<b>Assets</b>			
Taxes receivable	\$ 12,710	\$ -	\$ 12,710
Cash, restricted	232,144	6,087	238,231
Total assets	\$ 244,854	\$ 6,087	\$ 250,941
<b>Liabilities and fund balances</b>			
Liabilities:			
Accounts payable	\$ 54,177	\$ -	\$ 54,177
Due to other funds	-	335	335
Total liabilities	54,177	335	54,512
Fund balances:			
Restricted for police	-	5,752	5,752
Restricted for tourism	190,677	-	190,677
Total fund balances	190,677	5,752	196,429
Total liabilities and fund balances	\$ 244,854	\$ 6,087	\$ 250,941



City of Hearne, Texas  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Non-major Governmental Funds  
For the Year Ended September 30, 2015

	Special Revenue		Total Non-major Governmental Funds
	Hotel/Motel Tax	Police Special Fund	
Revenues:			
Hotel/motel occupancy taxes	\$ 160,917	\$ -	\$ 160,917
Investment income	129	-	129
Intergovernmental	2,000	2,630	4,630
Total revenues	163,046	2,630	165,676
Expenditures:			
Current:			
Culture and recreation	82,830	-	82,830
Total expenditures	82,830	-	82,830
Excess (deficiency) of revenues over (under) expenditures	80,216	2,630	82,846
Net change in fund balances	80,216	2,630	82,846
Fund balances at beginning of year, as previously reported	40,461	3,122	43,583
Restatement of fund balance, see Note 16	70,000	-	70,000
Fund balances at beginning of year, as restated	110,461	3,122	113,583
Fund balances at end of year	\$ 190,677	\$ 5,752	\$ 196,429

**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, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<b>Revenues:</b>				
Hotel/motel occupancy taxes	\$ 158,000	\$ 158,000	\$ 160,917	\$ 2,917
Investment income	75	75	129	54
Intergovernmental	-	-	2,000	2,000
Total revenues	<u>158,075</u>	<u>158,075</u>	<u>163,046</u>	<u>4,971</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Culture and recreation:				
Economic development	99,075	99,075	82,830	(16,245)
Capital outlay	59,000	59,000	-	(59,000)
Total expenditures	<u>158,075</u>	<u>158,075</u>	<u>82,830</u>	<u>(75,245)</u>
Net change in fund balance	-	-	80,216	80,216
Fund balances at beginning of year, as previously reported	40,461	40,461	40,461	-
Restatement of fund balance, see Note 16	70,000	70,000	70,000	-
Fund balances at beginning of year, as restated	<u>110,461</u>	<u>110,461</u>	<u>110,461</u>	<u>-</u>
Fund balance at end of year	<u>\$ 110,461</u>	<u>\$ 110,461</u>	<u>\$ 190,677</u>	<u>\$ 80,216</u>

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES**

**IN NET POSITION – BUDGET AND ACTUAL**

*Enterprise Funds*

City of Hearne, Texas  
Enterprise Fund  
Schedule of Revenues, Expenses, and Changes in Net Position  
Budget and Actual  
For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Operating revenues:				
Charges for sales and services:				
Water sales	\$ 1,028,000	\$ 1,028,000	\$ 1,139,820	\$ 111,820
Electric sales	6,109,800	6,109,800	5,863,379	(246,421)
Sewer charges	578,000	578,000	685,048	107,048
Sanitation	631,000	631,000	612,365	(18,635)
Tap fees	1,200	1,200	1,000	(200)
Rental fees	10,000	10,000	6,804	(3,196)
Penalties	112,000	112,000	115,153	3,153
Miscellaneous revenue	113,560	113,560	113,985	425
Total operating revenues	<u>8,583,560</u>	<u>8,583,560</u>	<u>8,537,554</u>	<u>(46,006)</u>
Operating expenses:				
Wholesale utilities	4,760,000	5,104,582	5,104,581	(1)
Water department	512,555	462,762	397,157	(65,605)
Electric department	435,038	472,431	435,947	(36,484)
Sewer department	427,185	427,185	356,041	(71,144)
Sanitation department	65,800	75,846	51,776	(24,070)
Administrative and billing	844,407	896,517	831,725	(64,792)
Depreciation and amortization	-	689,627	690,255	628
Capital outlay	103,000	92,954	-	(92,954)
Total operating expenses	<u>7,147,985</u>	<u>8,221,904</u>	<u>7,867,482</u>	<u>(354,422)</u>
Operating income	<u>1,435,575</u>	<u>361,656</u>	<u>670,072</u>	<u>308,416</u>
Nonoperating revenues (expenses):				
Intergovernmental	1,062,500	1,062,500	795,219	(267,281)
Contribution from component unit	-	-	75,000	75,000
Investment income	-	-	1,917	1,917
Gain on disposal of capital assets	-	-	2,269	2,269
Interest expense	(327,793)	(333,340)	(330,700)	2,640
Total nonoperating revenues (expenses)	<u>734,707</u>	<u>729,160</u>	<u>543,705</u>	<u>(185,455)</u>
Change in net position before transfers	<u>2,170,282</u>	<u>1,090,816</u>	<u>1,213,777</u>	<u>122,961</u>
Transfers in	622,388	622,388	506,472	(115,916)
Transfers out	(2,792,670)	(1,713,204)	(1,260,816)	452,388
Total other financing sources (uses)	<u>(2,170,282)</u>	<u>(1,090,816)</u>	<u>(754,344)</u>	<u>336,472</u>
Change in net position	-	-	459,433	459,433
Net position, beginning of year, as previously reported	4,143,286	4,143,286	4,143,286	-
Restatement of net position, see Note 16	(521,729)	(521,729)	(521,729)	-
Net position, beginning of year, as restated	<u>3,621,557</u>	<u>3,621,557</u>	<u>3,621,557</u>	<u>-</u>
Net position, end of the year	<u>\$ 3,621,557</u>	<u>\$ 3,621,557</u>	<u>\$ 4,080,990</u>	<u>\$ 459,433</u>

City of Hearne, Texas  
Non-major Municipal Airport Enterprise Fund  
Schedule of Revenues, Expenses, and Changes in Net Position  
Budget and Actual  
For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Operating revenues:				
Rental fees	\$ 29,300	\$ 30,510	\$ 30,510	\$ -
Miscellaneous revenue	75,000	75,000	66,380	(8,620)
Total operating revenues	<u>104,300</u>	<u>105,510</u>	<u>96,890</u>	<u>(8,620)</u>
Operating expenses:				
Airport	77,900	79,110	96,879	17,769
Depreciation	33,000	33,000	75,939	42,939
Total operating expenses	<u>110,900</u>	<u>112,110</u>	<u>172,818</u>	<u>60,708</u>
Operating income (loss)	<u>(6,600)</u>	<u>(6,600)</u>	<u>(75,928)</u>	<u>(69,328)</u>
Transfers in	<u>6,600</u>	<u>6,600</u>	<u>-</u>	<u>(6,600)</u>
Change in net position	-	-	(75,928)	(75,928)
Net position, beginning of the year	<u>1,188,436</u>	<u>1,188,436</u>	<u>1,188,436</u>	<u>-</u>
Net position, end of the year	<u><u>\$ 1,188,436</u></u>	<u><u>\$ 1,188,436</u></u>	<u><u>\$ 1,112,508</u></u>	<u><u>\$ (75,928)</u></u>

**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, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Sales taxes	\$ 215,000	\$ 215,000	\$ 279,300	\$ 64,300
Investment income	1,200	1,200	1,162	(38)
Total revenues	<u>216,200</u>	<u>216,200</u>	<u>280,462</u>	<u>64,262</u>
Expenditures:				
Current:				
Culture and recreation:				
Economic development	216,200	216,200	194,855	(21,345)
Total expenditures	<u>216,200</u>	<u>216,200</u>	<u>194,855</u>	<u>(21,345)</u>
Excess of revenues over expenditures	-	-	85,607	85,607
Other financing sources (uses):				
Contributions to primary government	-	-	(37,500)	(37,500)
Net change in fund balances	-	-	48,107	48,107
Fund balances at beginning of year, as previously reported	898,442	898,442	898,442	-
Restatement of fund balance, see Note 16	(109,896)	(109,896)	(109,896)	-
Fund balances at beginning of year, as restated	<u>788,546</u>	<u>788,546</u>	<u>788,546</u>	-
Fund balances at end of year	<u>\$ 788,546</u>	<u>\$ 788,546</u>	<u>\$ 836,653</u>	<u>\$ 48,107</u>



City of Hearne, Texas  
Hearne Infrastructure/Improvement Corporation  
Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual  
For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Sales taxes	\$ 215,000	\$ 215,000	\$ 279,300	\$ 64,300
Investment income	550	550	801	251
Total revenues	<u>215,550</u>	<u>215,550</u>	<u>280,101</u>	<u>64,551</u>
Expenditures:				
Current:				
Culture and recreation:				
Economic development	215,550	215,550	137,958	(77,592)
Total expenditures	<u>215,550</u>	<u>215,550</u>	<u>137,958</u>	<u>(77,592)</u>
Excess of revenues over expenditures	-	-	142,143	142,143
Other financing sources (uses):				
Contributions to primary government	-	-	(37,500)	(37,500)
Net change in fund balances	-	-	104,643	104,643
Fund balances at beginning of year, as previously reported	724,216	724,216	724,216	-
Restatement of fund balance, see Note 16	(94,056)	(94,056)	(94,056)	-
Fund balances at beginning of year, as restated	<u>630,160</u>	<u>630,160</u>	<u>630,160</u>	-
Fund balances at end of year	<u>\$ 630,160</u>	<u>\$ 630,160</u>	<u>\$ 734,803</u>	<u>\$ 104,643</u>

**SUPPLEMENTARY INDIVIDUAL  
FUND SCHEDULES**

*General Fund*

City of Hearne, Texas  
General Fund  
Schedule of General Government Expenditures - Budget and Actual  
For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Legislative:				
Personnel	\$ 45,522	\$ 61,858	\$ 58,913	\$ (2,945)
Maintenance	2,200	2,690	2,690	-
Supplies	1,250	4,678	4,627	(51)
Other	8,300	18,618	18,038	(580)
Total legislative	<u>57,272</u>	<u>87,844</u>	<u>84,268</u>	<u>(3,576)</u>
Executive:				
Personnel	222,987	259,740	260,443	703
Maintenance	1,800	2,725	2,725	-
Supplies	1,800	4,278	3,878	(400)
Other	4,750	4,981	4,220	(761)
Total executive	<u>231,337</u>	<u>271,724</u>	<u>271,266</u>	<u>(458)</u>
Finance:				
Personnel	37,250	33,558	33,041	(517)
Maintenance	89,700	105,105	113,342	8,237
Supplies	8,900	8,929	3,507	(5,422)
Contract services	44,000	83,256	41,610	(41,646)
Other	97,103	90,064	81,801	(8,263)
Total finance	<u>276,953</u>	<u>320,912</u>	<u>273,301</u>	<u>(47,611)</u>
Court:				
Personnel	65,468	67,780	61,698	(6,082)
Maintenance	4,800	6,103	6,102	(1)
Supplies	1,800	4,469	3,821	(648)
Contract services	54,048	47,132	45,862	(1,270)
Other	3,600	4,232	2,571	(1,661)
Total court	<u>129,716</u>	<u>129,716</u>	<u>120,054</u>	<u>(9,662)</u>
Total general government	<u>\$ 695,278</u>	<u>\$ 810,196</u>	<u>\$ 748,889</u>	<u>\$ (61,307)</u>

City of Hearne, Texas  
 General Fund  
 Schedule of Public Safety Expenditures - Budget and Actual  
 For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Police:				
Personnel	\$ 978,372	\$ 979,983	\$ 968,860	\$ (11,123)
Maintenance	42,800	60,607	69,235	8,628
Supplies	67,400	69,842	57,285	(12,557)
Other	7,800	18,935	19,981	1,046
Total police	<u>1,096,372</u>	<u>1,129,367</u>	<u>1,115,361</u>	<u>(14,006)</u>
Fire:				
Personnel	34,432	28,776	30,771	1,995
Maintenance	30,500	30,899	30,736	(163)
Supplies	28,100	35,448	28,633	(6,815)
Other	4,750	7,658	6,217	(1,441)
Total fire	<u>97,782</u>	<u>102,781</u>	<u>96,357</u>	<u>(6,424)</u>
Total public safety	<u>\$ 1,194,154</u>	<u>\$ 1,232,148</u>	<u>\$ 1,211,718</u>	<u>\$ (20,430)</u>

City of Hearne, Texas  
 General Fund  
 Schedule of Highways and Streets Expenditures - Budget and Actual  
 For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Streets:				
Personnel	\$ 250,543	\$ 265,843	\$ 220,962	\$ (44,881)
Maintenance	69,500	90,040	64,817	(25,223)
Supplies	52,650	53,349	27,204	(26,145)
Other	800	1,383	806	(577)
	<u>800</u>	<u>1,383</u>	<u>806</u>	<u>(577)</u>
Total highways and streets	<u>\$ 373,493</u>	<u>\$ 410,615</u>	<u>\$ 313,789</u>	<u>\$ (96,826)</u>

City of Hearne, Texas  
General Fund  
Schedule of Health and Welfare Expenditures - Budget and Actual  
For the Year Ended September 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Code enforcement:				
Personnel	\$ 5,297	\$ 14,937	\$ 15,119	\$ 182
Maintenance	450	2,004	1,704	(300)
Supplies	1,700	2,666	2,056	(610)
Other	1,500	3,526	2,226	(1,300)
Total code enforcement	<u>8,947</u>	<u>23,133</u>	<u>21,105</u>	<u>(2,028)</u>
Animal control:				
Personnel	43,914	44,447	43,624	(823)
Maintenance	8,900	8,900	5,119	(3,781)
Supplies	5,900	6,243	5,229	(1,014)
Other	400	400	-	(400)
Total animal control	<u>59,114</u>	<u>59,990</u>	<u>53,972</u>	<u>(6,018)</u>
Total health and welfare	<u>\$ 68,061</u>	<u>\$ 83,123</u>	<u>\$ 75,077</u>	<u>\$ (8,046)</u>

City of Hearne, Texas  
 General Fund  
 Schedule of Culture and Recreation Expenditures - Budget and Actual  
 For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Library:				
Personnel	\$ 129,092	\$ 130,092	\$ 127,323	\$ (2,769)
Maintenance	10,500	10,548	6,714	(3,834)
Supplies	17,100	29,953	29,031	(922)
Other	3,400	3,400	2,838	(562)
Total library	<u>160,092</u>	<u>173,993</u>	<u>165,906</u>	<u>(8,087)</u>
Parks and recreation:				
Personnel	293,698	286,137	248,229	(37,908)
Maintenance	117,625	119,850	94,709	(25,141)
Supplies	30,050	30,050	20,280	(9,770)
Other	2,750	2,750	165	(2,585)
Total parks and recreation	<u>444,123</u>	<u>438,787</u>	<u>363,383</u>	<u>(75,404)</u>
Total culture and recreation	<u>\$ 604,215</u>	<u>\$ 612,780</u>	<u>\$ 529,289</u>	<u>\$ (83,491)</u>

# **AUDIT SECTION**



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 discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hearne, Texas, (the "City") as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 21, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompany schedule of findings and responses at 2015-1 to be a material weakness.

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. We consider the deficiencies described in the accompany schedule of findings and responses at 2015-2 through 2015-7 to be significant deficiencies.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

We noted certain matters that we reported to management of the City, in a separate letter dated February 21, 2017.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

College Station, Texas  
February 21, 2017

Seidel Schroeder



CERTIFIED PUBLIC ACCOUNTANTS/BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Hearne, Texas's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Hearne's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the City of Hearne, Texas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

## **Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2015-8. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purposes.

Seidel Schroeder

February 21, 2017  
College Station, Texas

CITY OF HEARNE, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
SEPTEMBER 30, 2015

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses a qualified opinion on the financial statements of the City of Hearne, Texas (the "City").
2. One material weakness and six significant deficiencies relating to the audit of the financial statements were reported in the "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*."
3. No instances of noncompliance material to the financial statements of the City, which are required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. There were no deficiencies relating to the audit of the major federal award programs reported in the "Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance required by OMB Circular A-133."
5. The auditor's report on compliance for the major federal award programs for the City expresses an unqualified opinion on all major federal programs.
6. The program tested as a major program was: Department of Housing and Urban Development/Texas Department of Agriculture - CFDA No. 14.228.
7. The threshold for distinguishing Types A and B programs was \$300,000.
8. The City did not qualify as a low-risk auditee.

CITY OF HEARNE, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
SEPTEMBER 30, 2015

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

*Material weakness*

2015-1 HEDC and HIDC recordkeeping

*Condition and Criteria:* During the audit, it was discovered that certain sales tax revenues and expenses related to the Hearne Economic Development Corporation and the Hearne Infrastructure/Improvement Corporation had not been properly recorded. In researching amounts due to the two component units it was discovered that documentation for many prior year transactions could not be located. Transactions that were recorded incorrectly have been corrected in the financial statements, including a prior period adjustment of fund balance and net position for affected funds.

*Recommendation:* We recommend that transactions related to the two component units be made timely and documentation for transactions be retained.

*Response:* The City will record transactions related to the two component units and make necessary transfers on a monthly basis.

*Significant deficiencies*

2015-2 Segregation of duties for accounts payable

*Condition and Criteria:* Accounts payable invoices are received, coded, and posted by the Finance Assistant. The assistant is also responsible for processing and mailing payments. Exposure is limited as other persons review invoices for approval and the Finance Assistant does not have signature authority.

*Recommendation:* We recommend that the invoice coding continue to be reviewed by the Chief Financial Officer (CFO) to ensure accuracy.

*Response:* The coding of all Check Requests and Purchase Orders will continue to be reviewed by the CFO.

2015-3 Segregation of duties for general ledger

*Condition and Criteria:* The City does not maintain proper segregation of duties related to journal entry posting. The majority of preparation and approval is performed by the CFO. However, the City Manager reviews and signs off on all journal entries.

*Recommendation:* The City Manager should continue to review all journal entries.

*Response:* The City Manager will continue to review all journal entries.

#### 2015-4 Payroll

*Condition and Criteria:* The City Secretary processes all payroll transactions. The direct deposit ACH transmittal is prepared and submitted by the City Secretary and reviewed by the City Manager.

*Recommendation:* The City Manager should continue to review the direct deposit ACH transmittal.

*Response:* The direct deposit ACH transmittal will continue to be reviewed by the City Manager.

#### 2015-5 Inventory

*Condition and Criteria:* There is a lack of internal controls over the receiving and dispensing of inventory as there is no attendant at the warehouse to monitor inventory movement and ensure proper documentation is obtained for activity. To minimize the potential for theft, the City has installed secured gates and security cameras that are monitored by the Police Dispatchers.

*Recommendation:* The security cameras should be maintained and monitored. In addition, the level of purchases should be carefully scrutinized for large or unusual purchases.

*Response:* The City will continue to monitor the security cameras and scrutinize large or unusual inventory purchases.

#### 2015-6 Accounts Receivable

*Condition and Criteria:* Our review of the accounts receivable subledger as of year end identified significant balances over 90 days old. The City continues transitioning into formalized disconnect policies to prevent deterioration of the accounts receivable balance and avoid the significant write offs experienced in the past due to lenient collection practices.

*Recommendation:* The City needs to estimate a reasonable allowance for doubtful accounts and write-off accounts that are deemed to be uncollectible.

*Response:* The City continues to follow its policies that keep accounts over 90 days old to a minimum. The majority of balances over 90 days old are due to inactive accounts which will be written off during the next fiscal year.

#### 2015-7 Utility billing and receipts

*Condition and Criteria:* The utility billing clerk sorts the mail, processes billings, adjustments and receipts. The City has implemented a procedure to reconcile the system-generated adjustments report to the approved adjustments log. In addition, the City Manager reviews and signs the adjustment reports.

*Recommendation:* The City Manager should continue to review the adjustment reports.

*Response:* An independent review of the adjustments will continue to be made by a member of management.



CITY OF HEARNE, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
SEPTEMBER 30, 2015

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

*Noncompliance*

2015-8 Grant Disbursements

*Condition and Criteria:* The City received grant proceeds but did not disburse the funds to the vendor within five days of receipt.

*Recommendation:* As noted by the granting agency, the City should calculate the amount of interest and remit required amounts to the grantor.

*Response:* The City will calculate the interest and make the necessary remittance. In addition, care will be taken for future grants to remit funds timely.

City of Hearne, Texas  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended September 30, 2015

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures
<b>Department of Housing and Urban Development</b>		
Texas Department of Agriculture		
Texas Community Development Block (Contract No. 713112)	14.228	\$ 686,434
<b>Department of Housing and Urban Development</b>		
Texas Department of Agriculture		
Texas Community Development Block (Contract No. 713242)	14.228	108,787
<b>Department of Housing and Urban Development</b>		
Economic Development Initiative (Contract No. B-08-SP-TX-0107)	14.251	2,000
<b>Total Expenditures of Federal Awards</b>		<u><u>\$ 797,221</u></u>

Basis of Presentation:

The schedule of expenditures of federal awards includes the federal and state grant activity of the City and is presented on the modified accrual basis of accounting.