

**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, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Over (Under)
Operating revenues:				
Charges for sales and services:				
Water sales	\$ 995,000	\$ 1,221,296	\$ 1,220,094	\$ (1,202)
Electric sales	5,909,800	5,930,695	5,779,020	(151,675)
Sewer charges	558,000	734,063	734,061	(2)
Sanitation	577,500	614,505	611,752	(2,753)
Tap fees	1,050	1,800	1,800	-
Rental fees	15,800	15,800	3,233	(12,567)
Penalties	97,000	113,548	113,548	-
Miscellaneous revenue	100,910	204,431	202,105	(2,326)
Total operating revenues	8,255,060	8,836,138	8,665,613	(170,525)
Operating expenses:				
Wholesale utilities	4,620,600	4,957,187	4,957,186	(1)
Water department	507,332	558,984	555,442	(3,542)
Electric department	388,207	421,082	421,191	109
Sewer department	394,914	387,375	386,976	(399)
Sanitation department	65,700	52,060	52,057	(3)
Administrative and billing	681,539	684,413	665,383	(19,030)
Depreciation and amortization	-	678,487	673,780	(4,707)
Capital outlay	107,500	-	-	-
Total operating expenses	6,765,792	7,739,588	7,712,015	(27,573)
Operating income	1,489,268	1,096,550	953,598	(142,952)
Nonoperating revenues (expenses):				
Intergovernmental	750,000	89,363	89,362	(1)
Investment income	-	-	1,073	1,073
Gain on disposal of capital assets	1,350	1,370	20	(1,350)
Interest expense	(361,115)	(355,623)	(355,620)	3
Total nonoperating revenues (expenses)	390,235	(264,890)	(265,165)	(275)
Change in net position before transfers	1,879,503	831,660	688,433	(143,227)
Transfers in	627,163	1,262,270	963,224	(299,046)
Transfers out	(2,506,666)	(2,093,930)	(1,316,036)	777,894
Total other financing sources (uses)	(1,879,503)	(831,660)	(352,812)	478,848
Change in net position	-	-	335,621	335,621
Net position, beginning of year, as previously reported	3,875,900	3,875,900	3,875,900	-
Cumulative effect of change in accounting principle, Note 1P	(68,235)	(68,235)	(68,235)	-
Net position, end of the year	\$ 3,807,665	\$ 3,807,665	\$ 4,143,286	\$ 335,621

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, 2014

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Operating revenues:				
Rental fees	\$ 18,000	\$ 29,315	\$ 29,315	\$ -
Miscellaneous revenue	16,000	73,205	73,204	(1)
Total operating revenues	34,000	102,520	102,519	(1)
Operating expenses:				
Airport	34,000	537,048	91,446	(445,602)
Depreciation	-	49,533	49,533	-
Total operating expenses	34,000	586,581	140,979	(445,602)
Operating income (loss)	-	(484,061)	(38,460)	445,601
Nonoperating revenue:				
Intergovernmental	-	418,061	372,908	(45,153)
Contribution from component unit	-	66,000	66,000	-
Total non operating revenue	-	484,061	438,908	(45,153)
Change in net position	-	-	400,448	400,448
Net position, beginning of the year	787,988	787,988	787,988	-
Net position, end of the year	<u>\$ 787,988</u>	<u>\$ 787,988</u>	<u>\$ 1,188,436</u>	<u>\$ 400,448</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, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Over (Under)
Revenues:				
Sales taxes	\$ 175,000	\$ 265,940	\$ 265,940	\$ -
Investment income	2,500	2,500	1,118	(1,382)
Total revenues	177,500	268,440	267,058	(1,382)
Expenditures:				
Current:				
Culture and recreation:				
Economic development	177,500	209,671	112,901	(96,770)
Total expenditures	177,500	209,671	112,901	(96,770)
Excess of revenues over expenditures	-	58,769	154,157	95,388
Other financing sources:				
Contributions to primary government	-	(107,769)	(94,770)	12,999
Net change in fund balances	-	(49,000)	59,387	108,387
Fund balances at beginning of year	839,055	839,055	839,055	-
Fund balances at end of year	\$ 839,055	\$ 790,055	\$ 898,442	\$ 108,387

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, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Over (Under)
Revenues:				
Sales taxes	\$ 175,000	\$ 265,940	\$ 265,939	\$ (1)
Investment income	2,500	2,500	542	(1,958)
Total revenues	177,500	268,440	266,481	(1,959)
Expenditures:				
Current:				
Culture and recreation:				
Economic development	177,500	334,461	76,930	(257,531)
Total expenditures	177,500	334,461	76,930	(257,531)
Excess of revenues over expenditures	-	(66,021)	189,551	255,572
Other financing sources (uses):				
Contributions from primary government	-	61,590	61,590	-
Contributions to primary government	-	(44,569)	(44,567)	2
Total other financing sources (uses)	-	17,021	17,023	2
Net change in fund balances	-	(49,000)	206,574	255,574
Fund balances at beginning of year	517,642	517,642	517,642	-
Fund balances at end of year	\$ 517,642	\$ 468,642	\$ 724,216	\$ 255,574

**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, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Legislative:				
Personnel	\$ 38,429	\$ 41,251	\$ 41,248	\$ (3)
Maintenance	2,100	1,629	1,629	-
Supplies	550	1,211	1,211	-
Other	8,400	8,376	10,487	2,111
Total legislative	49,479	52,467	54,575	2,108
Executive:				
Personnel	213,276	212,144	213,564	1,420
Maintenance	3,200	1,629	1,629	-
Supplies	2,100	1,105	1,105	-
Other	2,900	4,893	6,018	1,125
Total executive	221,476	219,771	222,316	2,545
Finance:				
Personnel	36,673	28,046	27,983	(63)
Maintenance	81,900	95,306	95,303	(3)
Supplies	11,700	5,357	5,356	(1)
Contract services	41,900	30,821	24,260	(6,561)
Other	102,046	77,275	77,277	2
Total finance	274,219	236,805	230,179	(6,626)
Court:				
Personnel	92,801	83,409	83,340	(69)
Maintenance	6,300	5,963	5,962	(1)
Supplies	3,300	1,159	1,159	-
Contract services	52,464	52,464	52,464	-
Other	1,600	2,998	3,998	1,000
Total court	156,465	145,993	146,923	930
Total general government	\$ 701,639	\$ 655,036	\$ 653,993	\$ (1,043)



City of Hearne, Texas  
General Fund  
Schedule of Public Safety Expenditures - Budget and Actual  
For the Year Ended September 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Police:				
Personnel	\$ 930,817	\$ 880,965	\$ 880,162	\$ (803)
Maintenance	52,100	43,391	43,389	(2)
Supplies	57,100	67,182	76,373	9,191
Other	5,800	12,556	12,555	(1)
Total police	1,045,817	1,004,094	1,012,479	8,385
Fire:				
Personnel	34,082	34,209	34,206	(3)
Maintenance	28,500	36,842	36,693	(149)
Supplies	31,900	25,370	25,368	(2)
Other	5,050	4,663	4,662	(1)
Total fire	147,532	101,084	100,929	(155)
Total public safety	\$ 1,193,349	\$ 1,105,178	\$ 1,113,408	\$ 8,230

City of Hearne, Texas  
General Fund  
Schedule of Highways and Streets Expenditures - Budget and Actual  
For the Year Ended September 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Streets:				
Personnel	\$ 245,084	\$ 216,206	\$ 215,481	\$ (725)
Maintenance	54,500	57,889	57,887	(2)
Supplies	46,904	55,668	55,665	(3)
Other	400	198	198	-
Total highways and streets	<u>\$ 346,888</u>	<u>\$ 329,961</u>	<u>\$ 329,231</u>	<u>\$ (730)</u>

City of Hearne, Texas  
General Fund  
Schedule of Health and Welfare Expenditures - Budget and Actual  
For the Year Ended September 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Code enforcement:				
Personnel	\$ 21,773	\$ 20,091	\$ 19,684	\$ (407)
Maintenance	650	-	-	-
Supplies	1,950	364	364	-
Other	1,400	-	-	-
Total code enforcement	<u>25,773</u>	<u>20,455</u>	<u>20,048</u>	<u>(407)</u>
Animal control:				
Personnel	42,906	41,226	41,125	(101)
Maintenance	8,300	6,660	6,658	(2)
Supplies	6,176	5,148	5,146	(2)
Other	200	109	109	-
Total animal control	<u>57,582</u>	<u>53,143</u>	<u>53,038</u>	<u>(105)</u>
Total health and welfare	<u>\$ 83,355</u>	<u>\$ 73,598</u>	<u>\$ 73,086</u>	<u>\$ (512)</u>

City of Hearne, Texas  
General Fund  
Schedule of Culture and Recreation Expenditures - Budget and Actual  
For the Year Ended September 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Over (Under)
Library:				
Personnel	\$ 122,703	\$ 117,093	\$ 116,715	\$ (378)
Maintenance	10,000	6,692	6,691	(1)
Supplies	21,300	22,595	22,593	(2)
Other	4,300	2,244	2,243	(1)
Total library	158,303	148,624	148,242	(382)
Parks and recreation:				
Personnel	276,792	238,573	239,353	780
Maintenance	103,725	144,071	144,067	(4)
Supplies	30,250	29,804	29,783	(21)
Other	1,900	1,206	1,206	-
Total parks and recreation	412,667	413,654	414,409	755
Total culture and recreation	<u>\$ 570,970</u>	<u>\$ 562,278</u>	<u>\$ 562,651</u>	<u>\$ 373</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 the financial statements of the governmental activities, the business-type activities, 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, 2014, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 16, 2015. 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.

Internal Control Over Financial Reporting

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

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompany schedule of findings and responses that we consider to be significant deficiencies in internal

control over financial reporting. We consider the deficiencies described in the accompany schedule of findings and responses at 2014-1 through 2014-6 to be significant deficiencies. 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.

#### 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 16, 2015.

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 16, 2015

Seidel Schroeder

CITY OF HEARNE  
SCHEDULE OF FINDINGS AND RESPONSES  
SEPTEMBER 30, 2014

***Significant deficiencies***

2014-1 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.

2014-2 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.

2014-3 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.



#### 2014-4 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.

#### 2014-5 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 fiscal year ending September 30, 2015.

#### 2014-6 Utility billing and receipts

*Condition and Criteria:* The utility billing clerk 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**  
**Financial Statements with**  
**Report of Independent Auditors**  
**For the Fiscal Year Ended**  
**September 30, 2013**

## **FINANCIAL SECTION**

City of Hearne, Texas  
For the Year Ended September 30, 2013

TABLE OF CONTENTS

FINANCIAL SECTION	<u>Page No.</u>
Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position .....	10
Statement of Activities.....	11
Fund Financial Statements	
Governmental Funds:	
Balance Sheet.....	12
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position.....	13
Statement of Revenues, Expenditures and Changes in Fund Balances.....	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities.....	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund .....	16
Proprietary Funds:	
Statement of Net Position.....	17
Statement of Revenues, Expenses, and Changes in Fund Net Position .....	18
Statement of Cash Flows.....	19
Notes to Basic Financial Statements .....	21
Required Supplementary Information:	
Schedule of Funding Progress Texas Municipal Retirement System .....	42
Other Supplementary Information:	
Combining Financial Statements – Non-Major Governmental Funds	
Combining Balance Sheet .....	44
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	45
Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Special Revenue Funds:	
Hotel/Motel Occupancy Tax Fund.....	47
Schedules of Revenues, Expenditures and Changes in Net Position – Budget and Actual – Enterprise Funds:	
Enterprise Fund.....	49
Non-major Municipal Airport Enterprise Fund.....	50
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual – Discretely Presented Component Units:	
Hearne Economic Development Corporation .....	52
Hearne Infrastructure/Improvement Corporation.....	53

City of Hearne, Texas  
For the Year Ended September 30, 2013

TABLE OF CONTENTS

	<u>Page No.</u>
Supplementary Individual Fund Schedules – General Fund:	
Schedule of General Government Expenditures – Budget and Actual .....	55
Schedule of Public Safety Expenditures – Budget and Actual .....	56
Schedule of Highways and Streets Expenditures – Budget and Actual .....	57
Schedule of Health and Welfare Expenditures – Budget and Actual .....	58
Schedule of Culture and Recreation Expenditures – Budget and Actual .....	59
AUDIT SECTION	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i> <i>Auditing Standards</i> .....	61



**SEIDEL, SCHROEDER & COMPANY**  
CERTIFIED PUBLIC ACCOUNTANTS / BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2013, 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, 2013, and the respective changes in financial position, where applicable, cash flows thereof, and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 9 and the Texas Municipal Retirement System analysis of funding progress on page 42 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*

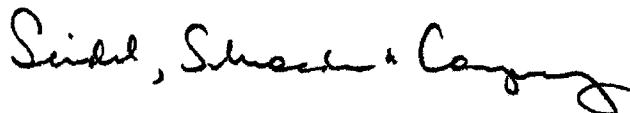
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining and individual non-major fund financial statements and budgetary comparison schedules are presented for purposes of additional analysis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

The combining and individual non-major 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 February 14, 2014, on our consideration of the City's 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.

Brenham, Texas  
February 14, 2014



## 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, 2013. Please read it in conjunction with the City's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

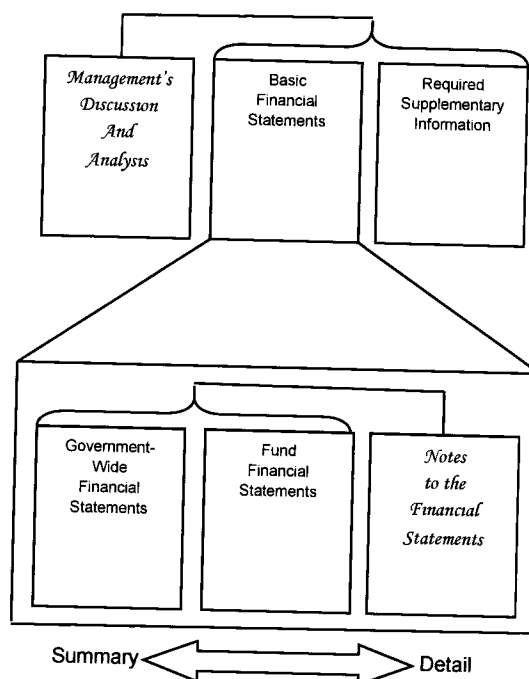
- The City's total combined Net Position was \$9,190,841 at September 30, 2013. This represents an increase of 22.7% in the Governmental Activities and 10.0% in Business Activities for an overall increase of 15.9%.
- During the year, the City's Expenditures were \$838,856 less than the \$11,858,279 generated in taxes, charges for service and other revenues for Governmental and Business Activities. Comparatively, last year, the City's expenses were \$318,265 less than revenues of \$11,048,922.
- In the City's Business Activities, Revenues Increased by 1.22%, to \$8,872,729 Expenditures also Increased by 8.68% to \$7,712,906.
- The Fund Balance Surplus in the General Fund remained static this year with an increase of \$1,917 to \$908,480.

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-1

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 Assets	*Statement of Fiduciary Net Position
	*Statement of activities	*Statement of Revenues, Expenditures & Changes in Fund Balance	*Statement of Revenues, Expenditures & Changes in Fund Balance	*Statement of Changes in Fiduciary Net Position
			*Statement of Cash Flows	
Accounting basis 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 the year 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

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

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
<b>Current Assets</b>						
Cash and Cash Equivalents	100.0	100.0	100.0	100.0	200.0	200.0
Receivables	100.0	100.0	1,000.0	1,000.0	1,100.0	1,100.0
Internal Balances	100.0	100.0	(100.0)	(100.0)	-	-
Inventories	-	-	100.0	100.0	100.0	100.0
Other Assets	100.0	100.0	100.0	100.0	200.0	200.0
Restricted Assets	100.0	100.0	100.0	100.0	200.0	200.0
<b>Total Current Assets</b>	<u>400.0</u>	<u>400.0</u>	<u>1,100.0</u>	<u>1,100.0</u>	<u>1,500.0</u>	<u>1,500.0</u>
<b>Noncurrent Assets</b>						
Unamortized Bond Issuance Cost	-	-	100.0	100.0	100.0	100.0
Capital Assets	1,000.0	1,000.0	1,000.0	1,000.0	2,000.0	2,000.0
Less Accumulated Depreciation	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)	(2,000.0)	(2,000.0)
<b>Total Noncurrent Assets</b>	<u>0.0</u>	<u>0.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
<b>Total Assets</b>	<u>400.0</u>	<u>400.0</u>	<u>1,200.0</u>	<u>1,200.0</u>	<u>1,600.0</u>	<u>1,600.0</u>
<b>Liabilities Due in Less Than One Year</b>						
Accounts Payable	100.0	100.0	100.0	100.0	200.0	200.0
Accrued Liabilities	100.0	100.0	100.0	100.0	200.0	200.0
Deferred revenues	-	100.0	-	-	-	100.0
Customer Deposits	100.0	100.0	100.0	100.0	200.0	200.0
Due to component unit	-	-	100.0	100.0	100.0	100.0
Current Long-Term Debt	100.0	100.0	100.0	100.0	200.0	200.0
<b>Total Current Liabilities</b>	<u>300.0</u>	<u>300.0</u>	<u>400.0</u>	<u>400.0</u>	<u>600.0</u>	<u>600.0</u>
<b>Liabilities Due in More Than One Year</b>						
Compensated Absences	100.0	100.0	100.0	100.0	200.0	200.0
Bonds	-	-	-	-	-	-
Notes Payable	-	100.0	-	-	-	100.0
Capital Leases	100.0	100.0	1,000.0	1,000.0	1,100.0	1,100.0
Certificates of Obligation	-	-	1,000.0	1,000.0	1,000.0	1,000.0
<b>Total Non-Current Liabilities</b>	<u>100.0</u>	<u>100.0</u>	<u>1,100.0</u>	<u>1,100.0</u>	<u>1,300.0</u>	<u>1,300.0</u>
<b>Total Liabilities</b>	<u>400.0</u>	<u>400.0</u>	<u>1,500.0</u>	<u>1,500.0</u>	<u>1,900.0</u>	<u>1,900.0</u>
<b>Net Position</b>						
Invested in Capital Assets	1,000.0	1,000.0	1,000.0	1,000.0	2,000.0	2,000.0
Restricted	100.0	100.0	-	-	100.0	100.0
Unrestricted	1,000.0	1,000.0	100.0	100.0	1,100.0	1,100.0
<b>Total Net Position</b>	<u>2,000.0</u>	<u>2,000.0</u>	<u>1,100.0</u>	<u>1,100.0</u>	<u>3,100.0</u>	<u>3,100.0</u>

The City's combined Net Position increased by 100,000,000, or 100.0%, to 3,100,000,000 at September 30, 2019. Comparatively, last year, the City's combined Net Position increased by 100,000,000, or 100.0%. (See Table A-1)

The City's Net Position for Government Activities increased by 100.0 million, up from 100.0 million. Unrestricted net position (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) decreased from 100,000,000 to 100,000,000 at September 30, 2019, down 100.0%.

The City's Net Position for Business Activities increased by 100.0 (up to 100.0 million from 100.0 million).

**Table 2-2**  
**Changes in City's Net Position**  
**in thousands of dollars**

	Governmental Activities		Business-type Activities		Total	
	2000	1999	2000	1999	2000	1999
<b>Program Revenues</b>						
Charges for Services	1,000	1,000	1,000	1,000	1,000	1,000
Operating Grants	100	100	-	100	100	100
Capital Grants	100	100	100	100	100	100
<b>General Revenues</b>	-	-	-	-	-	-
Ad Valorem Taxes	1,000	1,000	-	-	1,000	1,000
Sales Tax	100	100	-	-	100	100
Franchise Taxes	100	100	-	-	100	100
Hotel/Motel Occupancy Tax	100	100	-	-	100	100
Rentals	-	-	100	100	100	100
Interest Income	100	100	100	100	100	100
Gain(Loss) on Sale of Assets	100	100	(100)	-	100	100
Other	100	100	100	100	100	100
<b>Total Revenues</b>	2,400	2,400	2,400	2,400	2,400	2,400
<b>Program Expenses</b>						
General Government	1,000	1,000	-	-	1,000	1,000
Public Safety	1,000	1,000	-	-	1,000	1,000
Highways & Streets	100	100	-	-	100	100
Health & Welfare	100	100	-	-	100	100
Cultural & Recreational	100	100	-	-	100	100
Interest on Debt	100	100	-	-	100	100
Enterprise Activities	-	-	1,000	1,000	1,000	1,000
<b>Total Expenses</b>	2,400	2,400	2,400	2,400	2,400	2,400
<b>Increase (Decrease) in Net Position Before Transfers</b>	(100)	(100)	1,000	1,000	1,000	1,000
<b>Contributions between Primary Government and Component Unit Transfers In (Out)</b>	100	100	(100)	(100)	-	-
<b>Change in Net Position</b>	100	100	1,000	1,000	1,000	1,000
<b>Net Position - Beginning</b>	1,000	1,000	1,000	1,000	1,000	1,000
<b>Net Position - Ending</b>	1,100	1,100	2,000	2,000	2,000	2,000

The Total Revenues for the City of Pearne were 2,400,000, an increase of 1,000. Expenditures increased to 2,400,000, as the total cost of all programs and services increased by 2,400,000, or 1,000, over last year's total of 2,400,000.

#### Governmental Activities

Revenues for the City's Governmental Activities increased by 1,000, or 1,000,000. An increase in commercial Oil & Gas Inventory property tax valuation was the primary driving force behind this increase. The cost of all Governmental Activities increased this year by 1,000,000 to 1,000,000, up from last year's total of 1,000,000.

#### Business Activities

Revenues for the City's business activities increased by 1,000 this year (1,000,000 compared to 1,000,000 for last year). Expenses were static with a modest increase of 1,000 this year (1,000,000 compared to 1,000,000 last year).

The City's management has been taking proactive steps to help with budgetary shortfalls. For the last four years, they have been collecting \$1.00 per kilowatt on the electric sales, \$1.00 per water meter, and a sanitation administrative fee equal to approximately \$1.00 (the fee varies based upon the size of garbage cart or dumpster) to strengthen the net position. They have also been collecting \$1.00 per 1,000 gallons of water sold to defray the cost of the annual water storage tank maintenance and inspections.

#### Financial Statements

As the City completed the year, its governmental funds (as presented in the balance sheet within this audit report) reported a governmental Fund Balance of \$1,000,000 which decreased from last year's total of \$1,000,000.

#### General Fund Budgetary Operations

During the course of the year, the City revised its budget several times. These budget amendments fall into two categories. The first category includes amendments and supplemental appropriations which the Board and the Sales Tax Boards approved and agreed to pay for special projects. The second category includes amendments at the end of the year to cover any foreseeable budget overruns.

Actual revenues fell \$100,000 short of expectation, expenditures exceeded expectations by \$100,000, and other financing sources (uses) exceeded expectations by \$100,000, resulting in a total budget surplus of \$1,000.

Property tax revenues fell short of the adjusted budgeted amount by \$1,000. Sales tax revenues exceeded the original budget amount by \$1,000.

#### Financial Statements

Table A-1  
City's Capital Assets  
in thousands of dollars

	Governmental Activities		Business-type Activities		Total	
	2000	1999	2000	1999	2000	1999
<b>Capital Assets</b>						
Land	\$100.0	\$100.0	\$100.0	\$100.0	\$100.0	\$100.0
Construction in Progress	\$100.0	\$100.0	\$100.0	\$100.0	\$100.0	\$100.0
Buildings and Improvements	\$1,000.0	\$1,000.0	\$1,000.0	\$1,000.0	\$1,000.0	\$1,000.0
Improvements Other than Buildings	\$1,000.0	\$100.0	-	-	\$1,000.0	\$100.0
Equipment	\$100.0	\$100.0	\$100.0	\$100.0	\$1,000.0	\$1,000.0
Vehicles	\$1,000.0	\$100.0	\$100.0	\$100.0	\$1,000.0	\$1,000.0
Furniture and Office Equipment	\$10.0	\$10.0	\$100.0	\$100.0	\$100.0	\$100.0
Airport	-	-	-	-	-	-
Distribution and Collection Systems	-	-	\$1,000.0	\$1,000.0	\$1,000.0	\$1,000.0
<b>Totals at Historical Cost</b>	<u>\$1,000.0</u>	<u>\$1,000.0</u>	<u>\$1,000.0</u>	<u>\$1,000.0</u>	<u>\$1,000.0</u>	<u>\$1,000.0</u>
<b>Total Accumulated Depreciation</b>	<u>(\$1,000.0)</u>	<u>(\$1,000.0)</u>	<u>(\$1,000.0)</u>	<u>(\$1,000.0)</u>	<u>(\$1,000.0)</u>	<u>(\$1,000.0)</u>
<b>Net Capital Assets</b>	<u>\$1,000.0</u>	<u>\$1,000.0</u>	<u>\$1,000.0</u>	<u>\$1,000.0</u>	<u>\$1,000.0</u>	<u>\$1,000.0</u>

At the end of 2000, the City had invested \$1,000,000 in a broad range of capital assets, including land, buildings, park facilities, roads, bridges, equipment and vehicles, electric lines, water lines, sewer lines, and waste water treatment facilities. (See Table A-1) This amount represents an increase of \$1,000,000, a 100% increase from last year.

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

#### Governmental

Replaced Two Impalas with Two New Tahoes for Police Dept  
Replaced Drappler Unit on Drappler Truck  
Repaired Base Flood Hydraulics  
Street Improvements  
New Pumper Truck to Replace One Destroyed in Fire  
Rebuilt Fire Station Destroyed in Fire  
Purchased Two Flex Ring Shredders

Paid for 1998 Trade In and Equipment Loan  
Paid for 1998 Equipment Loan  
Paid for 1998 Equipment Loan  
Paid for 1998 Budget  
Paid for 1998 Equipment Lease  
Paid for 1998 Insurance Proceeds  
Paid for 1998 Equipment Loan

\$100.0  
\$100.0  
\$100.0  
\$100.0  
\$100.0  
\$100.0  
\$100.0

Purchased Two Zero Turn Mowers for Parks Department  
 Acquired Baseball Complex From Union Pacific  
 Built New Concession Stand at Baseball Complex  
 Replaced Lights at Baseball Complex  
 Purchased Canopies for Bleachers at Baseball Complex  
 Installed Fence at East Side Softball Fence  
 Built New 10th Hole Clubhouse at Golf Course  
 Purchased Land for Future Civic Center  
 Razed Existing Structure for Future Civic Center  
 Built Fence On New Civic Center Property  
 Purchased Two Buildings Downtown for Education/Civic Center  
 Replaced Scrolling Marquee Damaged by Lightning  
 Overlaid Depot Parking Lot  
 Guard tower and landscaping at Camp Earne

Paid for 10th Equipment Loan 000  
 Acquired in Exchange For Closing a Railroad Crossing 000  
 Paid for 10th Funds Approved by EB 000  
 Paid for 10th Budget 000  
 Paid for 10th Grant From Union Pacific 000  
 Paid for 10th Funds Approved by EB 000  
 Paid for 10th Insurance & EB Approved Funds 000  
 Paid for 10th Funds Approved by A & B 000  
 Paid for 10th Funds Approved by EB 000  
 Paid for 10th Funds Approved by EB & Motel/Motel Tax 000  
 Paid for 10th Budget 000  
 Paid for 10th Insurance Proceeds 000  
 Paid for 10th Funds Approved by EB 000  
 Paid for 10th Grant Funds 000

#### Business Activities

Completed Replacement of Fuel Tank & Pump at Airport  
 Replaced 3 Three Phase Meters with Radio Read Meters  
 Acquired Two New Chevrolet 1 Ton Pickups  
 Replaced 1994 Ford Bucket Truck with Two Used Bucket Trucks  
 Replaced Fire Hydrants  
 Replaced 1000 ater line with 1000 ater line  
 Rewired Moss Avenue Bell  
 Purchased a New Server Dedicated to Document Imaging  
 Installed a Bar Screen at 10 TP

Paid for 10th T 10OT Grant 000  
 Paid for 10th Equipment Loan 000  
 Paid for 10th Equipment Loan 000  
 Paid for 10th Trade In and Equipment Loan 000  
 Paid for 10th Equipment Loan 000  
 Paid for 10th T Capital Funds Grant 000  
 Paid for 10th Equipment Loan 000  
 Paid for 10th Equipment Loan 000  
 Paid for 10th Equipment Loan 000

#### Table 1 City's Long-Term Debt in thousands of dollars

	Governmental Activities		Business-type Activities		Total		Change
	2000	1999	2000	1999	2000	1999	2000 - 1999
<b>Long-Term Debt</b>							
Bonds	-	-	4,000	4,000	4,000	4,000	(000)
Deferred Bond Charges	-	-	(000)	(000)	(000)	(000)	000
Notes Payable	000	000	000	000	000	000	000
Leases Payable	000	000	4,000	4,000	4,000	4,000	000
<b>Total Long-Term Debt</b>	<b>000</b>	<b>000</b>	<b>4,000</b>	<b>4,000</b>	<b>4,000</b>	<b>4,000</b>	<b>000</b>

#### Long-Term Debt

At year end, the City had 4,000,000 in Long Term debt outstanding. This included 100% under 100 million in bonds payable. This compares to 4,000 million in bonds outstanding last year and is a 100% reduction in these debt instruments (See Table A-1)

Standard & Poor's upgraded the City's bond rating of bbb- to A- on March 10, 2000 and again upgraded the rating again from A- to A on November 1, 2000. These actions were taken due to significant improvement in the City's financial condition. This is quite 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 2000 with a total savings of approximately 400,000 and present value savings of approximately 400,000.

#### Financial Statement Notes

The City's elected and appointed officials considered many factors when setting the fiscal-year 2000-2001 budget, tax rates, and fees that will be charged for the business-type activities. One of those factors is the economy. The City of Earne has experienced notable commercial growth for a city with a population of less than 1,000.

Over the past four 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 a full year of operations. The two truss concerns have employed around 100 employees.

In addition to the Dumble Water System which was given to the City of Pearne in 2000, the City began operating the Bethany Water System during 2000 and is in the process of transferring ownership. This adds a few new customers to our ET.

Since the close of this Fiscal Year, a new Nursing Home has purchased land from the City and will begin construction on a new facility in the City which will house an Assisted Living Unit as well as a Skilled Nursing Unit. The Nursing Home expects to employ between 20 and 30 people.

A molding and trim manufacturer has purchased an abandoned Orr Manufacturing Plant and have begun renovations to transform the facility into a trim manufacturing facility and warehouse. Their plans are to utilize the warehouse for receiving and shipping as they continue to move at least part of their manufacturing operations here in the near future.

A propane distributor has recently purchased land to build a storage facility here in Pearne.

Finally, the Texas Department of Public Safety is currently in negotiations to bring a Commercial Driver License Testing Facility to Pearne.

These new businesses broaden not only the tax base for property taxes, but also provide many new jobs for the citizens, but also provide a reason for people to move to Pearne and become citizens. Other businesses continue to show interest in relocating to Pearne. This growth is also evident with small, locally owned businesses as well.

In 2000, the City of Pearne was awarded a \$1,000,000 T-RA 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 has also applied for another Texas Capital Funds Grant in the amount of \$1,000,000 to assist in upgrading the infrastructure for the molding and trim warehouse.

After taking all factors into consideration, the City adopted an \$11.5 million budget for Fiscal Year 2000-2001. Broken down, this is \$8.5 million for the General Fund and \$3.0 million for the Enterprise Fund. This compares to the final budget of \$10.5 million and \$2.5 million respectively for fiscal year 1999-2000. This new budget is a \$1.0 increase for the General Fund and \$0.5 increase for the Enterprise Fund.

2000-2001 G 11.5 S F 10.5 G 2.5

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 questions about this report or need additional financial information, contact the City's Finance Department.

**City of Hearne, Texas**  
**Statement of Net Position**  
**September 30, 2013**

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Hearne Economic Development Corporation	Hearne Infrastructure/Improvement Corporation
<b>Assets</b>					
Cash and equivalents	\$ 41,346	\$ 798,451	\$ 839,797	\$ -	\$ -
Receivables (net of allowance for uncollectibles)					
Taxes	423,035	-	423,035	44,531	44,532
Accounts	12,778	1,373,999	1,386,777	-	-
Grant	41,446	102,545	143,991	-	-
Internal balances	709,279	(709,279)	-	-	-
Due from primary government	-	-	-	264,547	239,966
Inventory	-	124,892	124,892	-	-
Other assets	17,490	16,254	33,744	-	-
Unamortized bond issue costs	-	68,235	68,235	-	-
Restricted assets					
Cash	251,221	375,612	626,833	390,695	309,597
Investments	-	-	-	141,302	-
Capital assets					
Non-depreciable	523,308	107,352	630,660	-	-
Depreciable, net	3,618,604	11,250,228	14,868,832	-	-
Total assets	5,638,507	13,508,289	19,146,796	841,075	594,095
<b>Liabilities</b>					
Accounts payable	267,056	680,783	947,839	2,020	76,453
Salaries payable	75,076	31,421	106,497	-	-
State tax payable	-	23,710	23,710	-	-
Due to component unit	-	504,513	504,513	-	-
Accrued liabilities	18,938	26,112	45,050	-	-
Deposits	1,150	323,905	325,055	-	-
Liability for compensated absences					
Due in more than one year	103,109	42,893	146,002	-	-
Non-current liabilities					
Due within one year	200,823	638,253	839,076	-	-
Due in more than one year	445,402	6,572,811	7,018,213	-	-
Total liabilities	1,111,554	8,844,401	9,955,955	2,020	76,453
<b>Net Position</b>					
Net investment in capital assets	3,495,687	4,146,516	7,642,203	-	-
Restricted for					
Police department	3,379	-	3,379	-	-
Economic development	-	-	-	839,055	517,642
Unrestricted	1,027,887	517,372	1,545,259	-	-
Total net position	\$ 4,526,953	\$ 4,663,888	\$ 9,190,841	\$ 839,055	\$ 517,642

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, 2013**

Program Activities	Program Revenues				Net (Expenses) Revenues and Changes in Net Position			
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Units	
					Governmental Activities	Business-type Activities	Hearne Economic Development Corporation	Hearne Infrastructure/Improvement Corporation
<b>Primary government</b>								
General government								
Public safety	\$ 714,960	\$ 6,933	\$ 61,737	\$ -	\$ (646,290)	\$ -	\$ -	\$ -
Highways and streets	1,331,650	255,551	1,105	-	(1,074,994)	-	-	-
Health and welfare	448,596	-	-	-	(448,596)	-	-	-
Culture and recreation	64,591	-	-	33,287	(31,304)	-	-	-
Interest on long-term debt	735,674	45,294	-	-	(690,380)	-	-	-
Total governmental activities	11,045	-	-	-	(11,045)	-	-	-
Total primary government	3,306,516	307,778	62,842	33,287	(2,902,609)	-	-	-
<b>Business-type activities</b>								
Water	632,087	1,170,919	-	-	-	538,832	-	-
Electric	5,629,557	5,849,526	-	-	-	219,969	-	-
Sewer	739,033	597,649	-	117,318	-	(24,066)	-	-
Sanitation	641,684	601,136	-	-	-	(40,548)	-	-
Municipal airport	70,546	35,899	-	200,160	-	165,513	-	-
Total business-type activities	7,712,906	8,255,129	-	317,478	-	859,701	-	-
Total primary government	11,019,422	8,562,907	62,842	350,765	(2,902,609)	859,701	-	-
<b>Component units</b>								
Hearne Economic Development Corporation	210,161	-	-	-	-	-	(210,161)	-
Hearne Infrastructure/Improvement Corporation	474,965	-	-	-	-	-	-	(474,965)
Total component units	685,126	-	-	-	-	-	(210,161)	(474,965)
<b>General revenues</b>								
Taxes								
Property taxes					1,601,462	-	-	-
Sales taxes					431,886	-	214,865	214,904
Gross receipts					88,615	-	-	-
Hotel/motel occupancy					162,824	-	-	-
Rentals					-	13,310	-	-
Investment earnings					538	1,623	-	-
Gain (loss) on disposal of capital assets					203,041	(16,690)	2,873	2,453
Miscellaneous					93,276	301,879	-	-
Contributions between primary government and component unit					353,433	69,267	(73,210)	(349,490)
Transfers					804,587	(804,587)	-	-
Total general revenues and transfers					3,739,662	(435,198)	144,528	(132,133)
Change in net position					837,053	424,503	(65,633)	(607,098)
Net position at beginning of the year					3,689,900	4,239,385	904,688	1,124,740
Net position at end of year					\$ 4,526,953	\$ 4,663,888	\$ 839,055	\$ 517,642

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



**City of Hearne, Texas**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2013**

	General	Total Nonmajor Funds	Total Governmental Funds
<b>Assets</b>			
Cash	\$ 41,346	\$ -	\$ 41,346
Receivables:			
Taxes	404,818	18,217	423,035
Accounts	12,778	-	12,778
Grant	-	41,446	41,446
Due from other funds	800,719	-	800,719
Other assets	14,876	2,614	17,490
Restricted assets:			
Cash	231,439	19,782	251,221
<b>Total assets</b>	<u>\$ 1,505,976</u>	<u>\$ 82,059</u>	<u>\$ 1,588,035</u>
<b>Liabilities</b>			
Accounts payable	\$ 222,858	\$ 44,198	\$ 267,056
Salaries payable	75,076	-	75,076
Accrued liabilities	18,938	-	18,938
Deposits	1,150	-	1,150
Deferred revenues	279,474	-	279,474
Due to other funds	-	91,440	91,440
<b>Total liabilities</b>	<u>597,496</u>	<u>135,638</u>	<u>733,134</u>
<b>Fund Balances</b>			
Nonspendable			
Prepaid expenses	14,876	-	14,876
Restricted for:			
Debt service	68,470	-	68,470
Court security	72,984	-	72,984
Court technology	57,310	-	57,310
Fire truck	21,089	-	21,089
Child safety fund	11,586	-	11,586
Police	-	3,379	3,379
Unassigned (deficit) reported in:			
General fund	662,165	-	662,165
Hotel/Motel Tax Fund	-	(56,958)	(56,958)
<b>Total fund balances</b>	<u>908,480</u>	<u>(53,579)</u>	<u>854,901</u>
<b>Total liabilities and fund balances</b>	<u>\$ 1,505,976</u>	<u>\$ 82,059</u>	<u>\$ 1,588,035</u>

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

**City of Hearne, Texas**  
**Reconciliation of the Balance Sheet to the Statement of Net Position**  
**Governmental Funds**  
**September 30, 2013**

Fund balances - total governmental funds \$ 854,901

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	9,140,306	
Less accumulated depreciation	<u>(4,998,394)</u>	4,141,912

Deferred tax revenues reported in the governmental funds are recognized  
as revenues for the governmental activities. 279,474

Long-term liabilities are not due and payable in the current year and  
therefore are not reported in the governmental funds. (749,334)

Net position of governmental activities \$ 4,526,953

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, 2013**

	General	Total Nonmajor Funds	Total Governmental Funds
<b>Revenues</b>			
Taxes			
Property	\$ 1,583,353	\$ -	\$ 1,583,353
Sales	431,886	-	431,886
Gross receipts	88,615	-	88,615
Hotel/motel occupancy	-	162,824	162,824
Intergovernmental	-	34,392	34,392
Licenses and permits	6,933	-	6,933
Property rentals	45,294	-	45,294
Fines	255,551	-	255,551
Investment income	487	52	539
Private contributions	61,737	-	61,737
Miscellaneous	246,222	-	246,222
<b>Total revenues</b>	<b>2,720,078</b>	<b>197,268</b>	<b>2,917,346</b>
<b>Expenditures</b>			
Current			
General government	696,247	-	696,247
Public safety	1,243,840	10,176	1,254,016
Highways and streets	360,306	-	360,306
Health and welfare	64,591	-	64,591
Culture and recreation	497,980	97,654	595,634
Capital outlay	1,545,411	33,287	1,578,698
Debt service			
Principal	163,454	56,113	219,567
Interest and fiscal charges	9,520	1,525	11,045
<b>Total expenditures</b>	<b>4,581,349</b>	<b>198,755</b>	<b>4,780,104</b>
Excess (deficiency) of revenues over (under) expenditures	(1,861,271)	(1,487)	(1,862,758)
<b>Other financing sources (uses)</b>			
Proceeds from sale of capital assets	76,400	-	76,400
Proceeds from long term debt	584,708	-	584,708
Contributions from component unit	438,589	-	438,589
Contributions to component unit	(85,156)	-	(85,156)
Transfers in	1,463,854	6,744	1,470,598
Transfers out	(615,207)	(50,804)	(666,011)
<b>Total other financing sources (uses)</b>	<b>1,863,188</b>	<b>(44,060)</b>	<b>1,819,128</b>
<b>Net change in fund balances</b>	<b>1,917</b>	<b>(45,547)</b>	<b>(43,630)</b>
<b>Fund balances at beginning of year</b>	<b>906,563</b>	<b>(8,032)</b>	<b>898,531</b>
<b>Fund balances at end of year</b>	<b>\$ 908,480</b>	<b>\$ (53,579)</b>	<b>\$ 854,901</b>

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, 2013**

Net changes in fund balances - total governmental funds \$ (43,630)

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. This is the amount by which capital outlays exceeded depreciation in the current period:

Expenditures for capital assets	\$ 1,578,698	
Depreciation of capital assets	<u>(319,519)</u>	1,259,179

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position. (25,859)

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 deferred tax revenue. 18,109

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. (365,587)

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. (5,159)

Change in net position of governmental activities	<u><u>\$ 837,053</u></u>
---	--------------------------

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, 2013

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues				
Taxes				
Property	\$ 1,574,030	\$ 1,592,336	\$ 1,583,353	\$ (8,983)
Sales	377,000	431,887	431,886	(1)
Gross receipts	68,400	88,616	88,615	(1)
Licenses and permits	7,200	7,200	6,933	(267)
Property rentals	45,000	45,294	45,294	-
Fines	286,800	287,242	255,551	(31,691)
Investment income	750	750	487	(263)
Private contributions	3,000	61,737	61,737	-
Miscellaneous	14,900	249,441	246,222	(3,219)
Total revenues	<u>2,377,080</u>	<u>2,764,503</u>	<u>2,720,078</u>	<u>(44,425)</u>
Expenditures				
Current				
General government				
Legislative	44,103	39,671	39,665	(6)
Executive	209,144	208,116	209,688	1,572
Finance	282,323	274,339	282,782	8,443
Court	151,205	148,810	164,112	15,302
Total general government	<u>686,775</u>	<u>670,936</u>	<u>696,247</u>	<u>25,311</u>
Public safety				
Police	1,026,345	981,687	983,918	2,231
Fire	145,451	255,567	259,922	4,355
Total public safety	<u>1,171,796</u>	<u>1,237,254</u>	<u>1,243,840</u>	<u>6,586</u>
Highways and streets	<u>339,556</u>	<u>344,867</u>	<u>360,306</u>	<u>15,439</u>
Health and welfare				
Code enforcement	25,966	8,746	8,742	(4)
Animal control	54,602	55,578	55,849	271
Total health and welfare	<u>80,568</u>	<u>64,324</u>	<u>64,591</u>	<u>267</u>
Culture and recreation				
Library	141,299	129,033	129,811	778
Parks and recreation	373,964	374,476	368,169	(6,307)
Total culture and recreation	<u>515,263</u>	<u>503,509</u>	<u>497,980</u>	<u>(5,529)</u>
Capital outlay	<u>207,650</u>	<u>1,049,542</u>	<u>1,545,411</u>	<u>495,869</u>
Debt service				
Principal	152,934	163,456	163,454	(2)
Interest	7,370	9,522	9,520	(2)
Total debt service	<u>160,304</u>	<u>172,978</u>	<u>172,974</u>	<u>(4)</u>
Total expenditures	<u>3,161,912</u>	<u>4,043,410</u>	<u>4,581,349</u>	<u>537,939</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(784,832)</u>	<u>(1,278,907)</u>	<u>(1,861,271)</u>	<u>(582,364)</u>
Other financing sources (uses)				
Proceeds from sale of capital assets	-	76,400	76,400	-
Proceeds from long term debt	69,000	109,238	584,708	475,470
Contributions from component unit	-	-	438,589	438,589
Contributions to component unit	-	-	(85,156)	(85,156)
Transfers in	1,385,813	1,958,476	1,463,854	(494,622)
Transfers out	(669,981)	(865,207)	(615,207)	250,000
Total other financing sources (uses)	<u>784,832</u>	<u>1,278,907</u>	<u>1,863,188</u>	<u>584,281</u>
Net change in fund balances	-	-	1,917	1,917
Fund balances at beginning of year	<u>906,563</u>	<u>906,563</u>	<u>906,563</u>	-
Fund balances at end of year	<u>\$ 906,563</u>	<u>\$ 906,563</u>	<u>\$ 908,480</u>	<u>\$ 1,917</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, 2013**

	Enterprise Fund	Nonmajor Fund Municipal Airport Fund	Total
<b>Assets</b>			
Current assets			
Cash and equivalents	\$ 798,451	\$ -	\$ 798,451
Accounts receivable (net of allowance for uncollectibles)	1,373,999	-	1,373,999
Grants receivable	98,175	4,370	102,545
Inventory	117,061	7,831	124,892
Due from other funds	37,535	29,019	66,554
Other assets	15,539	715	16,254
Restricted cash	375,612	-	375,612
Total current assets	2,816,372	41,935	2,858,307
Unamortized bond issuance cost	68,235	-	68,235
Capital assets:			
Land	61,634	-	61,634
Buildings and other improvements	286,985	1,031,001	1,317,986
Distribution and collection systems	22,793,679	-	22,793,679
Equipment	801,708	10,706	812,414
Construction in progress	2,475	43,243	45,718
	23,946,481	1,084,950	25,031,431
Less: accumulated depreciation	(13,337,080)	(336,771)	(13,673,851)
Capital assets, net of accumulated depreciation	10,609,401	748,179	11,357,580
Total non-current assets	10,677,636	748,179	11,425,815
Total assets	\$ 13,494,008	790,114	\$ 14,284,122
<b>Liabilities</b>			
Current liabilities			
Accounts payable	\$ 678,657	\$ 2,126	\$ 680,783
Salaries payable	31,421	-	31,421
Sales tax payable	23,710	-	23,710
Accrued liabilities	26,112	-	26,112
Due to other funds	775,833	-	775,833
Due to component units	504,513	-	504,513
Customer deposits payable	323,905	-	323,905
Long-term debt, current	638,253	-	638,253
Total current liabilities	3,002,404	2,126	3,004,530
Long-term liabilities:			
Long-term debt, net	6,572,811	-	6,572,811
Liability for compensated absences	42,893	-	42,893
Total long-term liabilities	6,615,704	-	6,615,704
Total liabilities	9,618,108	2,126	9,620,234
<b>Net Position</b>			
Net investment in capital assets	3,398,337	748,179	4,146,516
Unrestricted	477,563	39,809	517,372
Total net position	\$ 3,875,900	\$ 787,988	\$ 4,663,888

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, 2013**

	Enterprise Fund	Nonmajor Fund Municipal Airport Fund	Total
Operating revenues			
Charges for sales and services:			
Water sales	\$ 1,170,919	\$ -	\$ 1,170,919
Electric sales	5,849,526	-	5,849,526
Sewer charges	596,537	-	596,537
Sanitation	601,136	-	601,136
Tap fees	1,112	-	1,112
Rental fees	13,310	20,490	33,800
Penalties	111,867	-	111,867
Miscellaneous revenue	190,012	15,409	205,421
Total operating revenues	<u>8,534,419</u>	<u>35,899</u>	<u>8,570,318</u>
Operating expenses			
Wholesale utilities	4,835,239	-	4,835,239
Water department	490,588	-	490,588
Electric department	320,475	-	320,475
Sewer department	355,336	-	355,336
Sanitation department	47,514	-	47,514
Administrative and billing	558,827	-	558,827
Airport	-	37,524	37,524
Depreciation and amortization	664,748	33,022	697,770
Total operating expenses	<u>7,272,727</u>	<u>70,546</u>	<u>7,343,273</u>
Operating income (loss)	<u>1,261,692</u>	<u>(34,647)</u>	<u>1,227,045</u>
Nonoperating revenues (expense):			
Intergovernmental	117,318	200,160	317,478
Contributions from component unit	54,000	15,267	69,267
Investment income	1,623	-	1,623
Gain (loss) on disposal of capital assets	(16,690)	-	(16,690)
Interest expense	(369,633)	-	(369,633)
Total nonoperating revenues (expense)	<u>(213,382)</u>	<u>215,427</u>	<u>2,045</u>
Income before transfers	1,048,310	180,780	1,229,090
Transfers in	608,463	-	608,463
Transfers out	(1,413,050)	-	(1,413,050)
Total other financing sources (uses)	<u>(804,587)</u>	<u>-</u>	<u>(804,587)</u>
Change in net position	243,723	180,780	424,503
Net position, beginning of the year	<u>3,632,177</u>	<u>607,208</u>	<u>4,239,385</u>
Net position, end of the year	<u>\$ 3,875,900</u>	<u>\$ 787,988</u>	<u>\$ 4,663,888</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, 2013**

	Enterprise Fund	Nonmajor Fund Municipal Airport Fund	Total
Cash flows from operating activities:			
Cash received from customers	\$ 8,452,562	\$ 38,716	\$ 8,491,278
Cash payments to suppliers for goods and services	(4,295,287)	(51,473)	(4,346,760)
Cash payments to employees for services	(1,958,162)	-	(1,958,162)
Net cash provided by (used in) operating activities	2,199,113	(12,757)	2,186,356
Cash flows from non-capital financing activities:			
Contributions from component unit	54,000	15,267	69,267
Transfers in	608,463	-	608,463
Transfers out	(1,413,050)	-	(1,413,050)
Net cash provided by (used in) non-capital financing activities	(750,587)	15,267	(735,320)
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(532,714)	(198,300)	(731,014)
Proceeds from sale of assets	40,000	-	40,000
Capital grants	19,143	195,790	214,933
Interest paid	(374,741)	-	(374,741)
Principal payments	(453,938)	-	(453,938)
Proceeds of long term debt issuance	246,135	-	246,135
Net cash provided by (used in) capital and related financing activities	(1,056,115)	(2,510)	(1,058,625)
Cash flows from investing activities			
Interest on cash and investments	1,623	-	1,623
Net increase in cash and equivalents	394,034	-	394,034
Cash and equivalents, beginning of year	780,029	-	780,029
Cash and equivalents, end of year	\$ 1,174,063	\$ -	\$ 1,174,063
Reconciliation of cash and equivalents:			
Unrestricted cash and equivalents	\$ 798,451	\$ -	\$ 798,451
Restricted cash and investments	375,612	-	375,612
Total cash and equivalents	\$ 1,174,063	\$ -	\$ 1,174,063

(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, 2013**

	Enterprise Fund	Nonmajor Fund Municipal Airport Fund	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 1,261,692	\$ (34,647)	\$ 1,227,045
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	664,748	33,022	697,770
Bad debt expense	52,843	-	52,843
Increase (decrease) in cash resulting from changes in assets and liabilities			
Accounts receivable	(154,937)	2,817	(152,120)
Inventory	(7,405)	(7,831)	(15,236)
Due from other funds	30,498	(5,547)	24,951
Other assets	(5,034)	(715)	(5,749)
Accounts payable	96,358	144	96,502
Salaries payable	8,521	-	8,521
Sales tax payable	1,718	-	1,718
Accrued liabilities	104	-	104
Due to other funds	(286,376)	-	(286,376)
Due to component units	504,513	-	504,513
Customer deposits	20,237	-	20,237
Liability for compensated absences	11,633	-	11,633
Net cash provided by (used in) operating activities	<u>\$ 2,199,113</u>	<u>\$ (12,757)</u>	<u>\$ 2,186,356</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, 2013**

**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.

**City of Hearne, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2013**

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (General Government, Public Safety, etc.) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; grants and contributions that are restricted to meeting the operational requirements of a particular function or segment; and grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

*Fund financial statements*

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

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

The funds of the financial reporting entity are described below:

**Governmental Funds**

*General Fund*

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

*Other Governmental Funds*

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

**Proprietary Funds**

*Enterprise Fund*

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

**City of Hearne, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2013**

*Municipal Airport Enterprise Fund*

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

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

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

*Measurement Focus*

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

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

- 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

**City of Hearne, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2013**

recorded when received in cash, as these revenues are not measurable and available until cash is received. Investment income is recorded as earned since it is measurable and available. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Operating revenues and expenses for proprietary funds include activities related to providing services and producing and delivering goods in connection with a proprietary fund's 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.

Cash consists of cash on hand and amounts in demand deposit accounts, interest-bearing checking accounts and certificates of deposit.

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.

The City invests its idle funds 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

**City of Hearne, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2013**

Act. The fair value of the investment pools approximates cost. The fair value of the City's position in the external investment pool is the same as the value of the pool shares.

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

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

**G. Inventories**

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

**H. Restricted Assets**

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

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

**I. Capital Assets**

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

The City defines capital assets as assets with an estimated useful life greater than one year and an initial individual cost of \$5,000 or more for land, machinery or equipment, buildings or improvements other than buildings. All capital assets are valued at historical cost 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.

**City of Hearne, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2013**

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	50 years
Infrastructure	30 years
Improvements other than buildings	20 years
Machinery and equipment	2-15 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.

**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.

**City of Hearne, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2013**

**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.”

Amounts restricted on the Statement of Net Position for Police Department and economic development are restricted by enabling legislation.

*Fund statements*

Proprietary fund equity is classified the same as in the government-wide statements.

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, and/or unassigned.

*Classification of fund balances*

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



**City of Hearne, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2013**

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.

*Deficit fund balance or net position balances*

The Hotel/Motel Tax Fund had a deficit fund balance of \$56,958 at September 30, 2013.

**M. Bond Issuance Costs**

In the fund financial statements of governmental fund types, bond issuance costs are recognized in the current period. Bond issuance costs in the government-wide financial statements and fund financial statements of proprietary fund types are deferred and amortized over the term of the bonds using the straight-line method.

**N. Interfund Transfers**

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

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

**City of Hearne, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2013**

**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.

**P. New Accounting Pronouncements Adopted**

*GASB Statement Number 61- The Financial Reporting Entity: Omnibus*

As a result of adopting GASB No. 61, two component units, the Hearne Economic Development Corporation and the Hearne Infrastructure/Improvement Corporation, which were previously reported as blended entities are now presented discretely in the City's financial statements. Adoption of this standard had the following effect on the total governmental activities net position as of the beginning of the year:

Beginning of the year, as previously reported	\$ 5,719,328
Less: net position of Hearne Economic Development Corporation	(904,688)
Less: net position of Hearne Infrastructure/Improvement Corporation	<u>(1,124,740)</u>
	<u>\$ 3,689,900</u>

*GASB Statement Number 63- Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Adoption of this standard has changed the City's financial statement presentation.

**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.