

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

Once the hearing is concluded and before adopting the proposed budget, the Council may make any changes it considers warranted by law or in the best interest of the taxpayers. The annual operating budget is then adopted through passage of an annual budget ordinance. Upon approval by the Council, the annual budget document becomes a matter of public record which is available for use and inspection by all interested persons and organizations. It is filed with the City Secretary.

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

*Expenditures/Expenses in Excess of Appropriations*

Expenditures/expenses exceeded appropriations at the legal level of budgetary control by \$1,572 for the Executive department, \$8,443 for the Finance department, \$15,302 for Court, \$2,231 for Police, \$4,355 for Fire, \$15,439 for Highways and Streets, \$271 for Animal Control, and \$778 for Library, totaling \$48,391 for the General Fund. Additionally, expenditure/expenses exceeded appropriations at the legal level of budgetary control by \$1,126 for Water, and \$4,163 for Sewer, totaling \$5,289 for the Enterprise Fund.

### **Note 3. Deposits and Investments**

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

As of September 30, 2013, the City had investments in TexSTAR with maturities less than 60 days with a fair value of \$792,955. Additionally, the Hearne Economic Development Corporation held a certificate of deposit totaling \$141,302.

Interest rate risk

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

Custodial credit risk

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

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**Credit risk**

It is the government's policy to limit its investments to local government investment pools, TexSTAR, or certificates of deposit. As of September 30, 2013, the City had investments in local government investment pools and certificates of deposit. TexSTAR was rated AAAM by Standard & Poor's as of September 30, 2013.

**Note 4. Restricted Assets**

At September 30, 2013, restrictions on cash and investments were as follows:

	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Hearne Economic Development Corporation</u>	<u>Hearne Infrastructure/ Improvement Corporation</u>
<u>Cash and Investments</u>				
Restricted for:				
Hotel/motel expenditures	\$ 19,017	\$ -	\$ -	\$ -
Police Special	765	-	-	-
Interest and sinking	68,470	346,072	-	-
Fire trucks	21,089	-	-	-
Court security	72,984	-	-	-
Court technology	57,310	-	-	-
Child Safety Fund	11,586	-	-	-
Community Development				
Block Grant Program	-	510	-	-
Meter Sinking	-	29,030	-	-
Economic development	-	-	531,997	309,597
	<u>\$ 251,221</u>	<u>\$ 375,612</u>	<u>\$ 531,997</u>	<u>\$ 309,597</u>

**Note 5. Receivables**

Receivables at September 30, 2013, consist of the following:

	<u>Governmental Funds</u>	<u>Proprietary Funds</u>
Receivables:		
Taxes:		
Property	\$ 315,119	\$ -
Sales	89,699	-
Hotel/motel occupancy	18,217	-
Accounts	12,778	1,890,046
Grants	41,446	102,545
Less:		
Allowance for uncollectibles	-	(516,047)
Net total receivables	<u>\$ 477,259</u>	<u>\$ 1,476,544</u>

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

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**Note 6. Capital Assets**

The following is a summary of capital asset activity during the year ended September 30, 2013:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
<b><u>Governmental activities</u></b>				
Capital assets not being depreciated				
Land	\$ 142,319	\$ 221,127	\$ -	\$ 363,446
Construction in progress	15,048	159,861	15,047	159,862
Total capital assets not being depreciated	<u>157,367</u>	<u>380,988</u>	<u>15,047</u>	<u>523,308</u>
Capital assets being depreciated				
Buildings	4,986,336	315,558	-	5,301,894
Improvements other than buildings	785,908	254,148	-	1,040,056
Furniture and fixtures	5,171	-	-	5,171
Vehicles	887,692	590,377	86,344	1,391,725
Machinery and equipment	825,494	52,658	-	878,152
Total at historical cost	<u>7,490,601</u>	<u>1,212,741</u>	<u>86,344</u>	<u>8,616,998</u>
Less: accumulated depreciation for:				
Buildings	3,474,117	110,624	-	3,584,741
Improvements other than buildings	117,519	80,904	-	198,423
Furniture and fixtures	4,826	345	-	5,171
Vehicles	648,395	72,558	60,499	660,454
Machinery and equipment	494,518	55,087	-	549,605
Total accumulated depreciation	<u>4,739,375</u>	<u>319,518</u>	<u>60,499</u>	<u>4,998,394</u>
Total capital assets being depreciated, net	<u>2,751,226</u>	<u>893,223</u>	<u>25,845</u>	<u>3,618,604</u>
Governmental activities capital assets, net	<u>\$ 2,908,593</u>	<u>\$ 1,274,211</u>	<u>\$ 40,892</u>	<u>\$ 4,141,912</u>
<b><u>Business-type activities</u></b>				
Capital assets not being depreciated				
Land	\$ 61,634	\$ -	\$ -	\$ 61,634
Construction in progress	135,084	45,718	135,084	45,718
Total capital assets not being depreciated	<u>196,718</u>	<u>45,718</u>	<u>135,084</u>	<u>107,352</u>
Capital assets being depreciated				
Buildings and improvements	1,075,023	242,963	-	1,317,986
Furniture and fixtures	300,380	8,311	-	308,691
Vehicles	232,600	192,328	99,269	325,659
Distribution and collection systems	22,415,837	377,842	-	22,793,679
Machinery and equipment	178,064	-	-	178,064
Total at historical cost	<u>24,201,904</u>	<u>821,444</u>	<u>99,269</u>	<u>24,924,079</u>
Less: accumulated depreciation for:				
Buildings and improvements	472,629	44,372	-	517,001
Furniture and fixtures	233,982	14,955	-	248,937
Vehicles	146,783	37,277	41,578	142,482
Distribution and collection systems	12,058,836	574,304	-	12,633,140
Machinery and equipment	124,362	7,929	-	132,291
Total accumulated depreciation	<u>13,036,592</u>	<u>678,837</u>	<u>41,578</u>	<u>13,673,851</u>
Total capital assets being depreciated, net	<u>11,165,312</u>	<u>142,607</u>	<u>57,691</u>	<u>11,250,228</u>
Business-type activities capital assets, net	<u>\$ 11,362,030</u>	<u>\$ 188,325</u>	<u>\$ 192,775</u>	<u>\$ 11,357,580</u>

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

General government	\$ 17,961
Public safety	73,228
Highways and streets	88,290
Culture and recreation	140,039
Total depreciation expense - Governmental activities	<u>\$ 319,518</u>

**Note 7. Risk Management**

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

**Note 8. Long-term Debt**

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2013:

	Balance 9/30/12	Additions	Retirements	Balance 9/30/13	Due Within One Year	Long Term
<u>Governmental activities</u>						
Lease payable - National City	\$ 9,500	\$ -	\$ (9,500)	\$ -	\$ -	\$ -
Lease payable - TYMCO	65,410	-	(32,174)	33,236	33,236	-
Lease payable - Oshkosh	-	475,595	-	475,595	30,193	445,402
Subtotal of leases payable	74,910	475,595	(41,674)	508,831	63,429	445,402
First Victoria Bank - Library	19,415	-	(19,415)	-	-	-
First Star Bank - Depot	56,058	-	(56,058)	-	-	-
First Star Bank - Equipment	130,255	109,237	(102,098)	137,394	137,394	-
Subtotal of other debt	205,728	109,237	(177,571)	137,394	137,394	-
	<u>\$ 280,638</u>	<u>\$ 584,832</u>	<u>\$ (219,245)</u>	<u>\$ 646,225</u>	<u>\$ 200,823</u>	<u>\$ 445,402</u>
<u>Business type activities</u>						
Lease payable - National City	\$ 7,473	\$ -	\$ (7,473)	\$ -	\$ -	\$ -
Lease payable - Southside	1,484,458	-	(92,781)	1,391,677	98,156	1,293,521
Lease payable - AEP	462,311	-	(29,475)	432,836	31,501	401,335
Lease payable - Western	5,048	-	(3,998)	1,050	1,050	-
Subtotal of leases payable	1,959,290	-	(133,727)	1,825,563	130,707	1,694,856
2011 General obligation refunding	5,635,000	-	(280,000)	5,355,000	285,000	5,070,000
Subtotal of bonds payable	5,635,000	-	(280,000)	5,355,000	285,000	5,070,000
First Star Bank - Equipment	30,784	246,135	(40,147)	236,772	236,772	-
Subtotal of other debt	30,784	246,135	(40,147)	236,772	236,772	-
Deferred charges on bonds	(220,497)	-	14,226	(206,271)	(14,226)	(192,045)
	<u>\$ 7,404,577</u>	<u>\$ 246,135</u>	<u>\$ (439,648)</u>	<u>\$ 7,211,064</u>	<u>\$ 638,253</u>	<u>\$ 6,572,811</u>

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The annual aggregate maturities for each debt type for the years subsequent to September 30, 2013 are as follows:

Year ending September 30	Business-type Activities				Governmental Activities	
	Bonds Payable		Notes Payable		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 285,000	\$ 168,618	\$ 236,772	\$ 14,206	\$ 137,394	\$ 8,244
2015	290,000	158,843	-	-	-	-
2016	300,000	151,213	-	-	-	-
2017	305,000	145,310	-	-	-	-
2018	310,000	138,465	-	-	-	-
2019-2023	1,740,000	551,551	-	-	-	-
2024-2026	2,125,000	213,318	-	-	-	-
	<u>\$ 5,355,000</u>	<u>\$ 1,527,318</u>	<u>\$ 236,772</u>	<u>\$ 14,206</u>	<u>\$ 137,394</u>	<u>\$ 8,244</u>

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

During the year ended September 30, 2013, the following changes occurred in other long-term liabilities:

	Balance 9/30/12	Additions (Reductions)	Balance 9/30/13	Due Within One Year
<u>Governmental activities</u>				
Compensated absences	<u>\$ 112,452</u>	<u>\$ (9,343)</u>	<u>\$ 103,109</u>	<u>\$ -</u>
<u>Business type activities</u>				
Compensated absences	<u>\$ 31,260</u>	<u>\$ 11,633</u>	<u>\$ 42,893</u>	<u>\$ -</u>

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

## Note 9. Leases

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

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The assets acquired through the capital leases are as follows:

<u>Asset Class</u>	<u>Governmental Activities</u>	<u>Business type Activities</u>
Vehicles	\$ 507,985	\$ -
Machinery and equipment	156,320	15,235
Distribution and collection system	-	2,453,435
Cost basis	<u>664,305</u>	<u>2,468,670</u>
Less: Accumulated depreciation	(54,712)	(757,266)
Total net asset	<u><u>\$ 609,593</u></u>	<u><u>\$ 1,711,404</u></u>

The total future minimum lease payments and the net present value of these minimum payments as of September 30, 2013 were as follows:

<u>Year ending September 30</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2014	\$ 81,949	\$ 297,004
2015	48,000	307,069
2016	48,000	307,069
2017	48,000	307,069
2018	48,000	438,378
2019-2023	240,000	867,723
2024-2028	120,000	115,696
Total minimum lease payments	<u>633,949</u>	<u>2,640,008</u>
Less: Amount representing interest	(125,118)	(814,445)
Present value of minimum payments	<u><u>\$ 508,831</u></u>	<u><u>\$ 1,825,563</u></u>

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

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**Note 10. Interfund Receivables and Payables**

Interfund receivables and payables, all of which are considered short-term, at September 30, 2013, were as follows:

Name of Fund	Due from other funds	Due to other funds
Governmental:		
General	\$ 800,719	\$ -
Non-Major Governmental	-	91,440
Business-Type:		
Enterprise Fund	37,535	775,833
Non-Major Business-Type	29,019	-
	<u>\$ 867,273</u>	<u>\$ 867,273</u>

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

**Note 11. Interfund Transfers**

Interfund transfers during the year ended September 30, 2013, were as follows:

	Transfers In		
<u>Transfers out</u>	General Fund	Non-Major Governmental	Enterprise
General	\$ -	\$ 6,744	\$ 608,463
Non-Major Governmental	50,804	-	-
Enterprise	1,413,050	-	-
	<u>\$1,463,854</u>	<u>\$ 6,744</u>	<u>\$ 608,463</u>
			<u>\$2,079,061</u>

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

**Note 12. Commitments**

The City entered into an amended contract with AEP Energy Partners, Inc., to provide wholesale electricity. The contract will expire December 31, 2015. After the expiration, the contract is renewable upon mutual agreement. The City paid \$4,326,036 to this company during the year ended September 30, 2013.

The City entered into a contract with a company to collect commercial and residential garbage within the City. The contract will expire on December 1, 2014. The City paid \$509,203 to this company during the year ended September 30, 2013.

**City of Hearne, Texas**  
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**September 30, 2013**

**Note 13. Pension Plans**

*Plan Description.* The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information (RSI) for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677. In addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

The plan provisions are adopted by the governing body of the City, within the options available in the governing state statutes of TMRS. Plan provisions for the City were as follows:

	For Plan Year ended December 31,		
	2010	2011	2012
Employee deposit rate	7%	7%	7%
Matching ratio (city to employee)	1.5 to 1	2 to 1	2 to 1
Years required for vesting	5	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating	70% of CPI Repeating

*Contributions.* Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial method. This rate consists of the normal cost contribution rate and the prior service contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employee and the City make contributions monthly. Since the City needs to know its



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contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

	For the year ended December 31,			
	2010			
	Prior to restructuring	Restructured	2011	2012
Actuarial value of assets	\$ 2,624,466	\$ 3,573,552	\$ 3,920,275	\$ 4,224,521
Actuarial accrued liability	4,448,247	5,377,066	5,637,863	5,936,288
Percentage funded ratio	59.0%	66.5%	69.5%	71.2%
Unfunded (over-funded) actuarial accrued liability (UAAL)	1,823,781	1,803,514	1,717,588	1,711,767
Annual covered payroll	1,830,685	1,830,685	1,910,745	1,812,173
UAAL as a percentage of covered payroll	99.6%	98.5%	89.9%	94.5%
Net pension obligation (NPO), beginning of period	-	-	-	-
Annual pension cost:				
Annual required contribution (ARC)	142,793	142,793	205,022	222,716
Interest on NPO	-	-	-	-
Adjustment to ARC	-	-	-	-
Contributions made	142,793	142,793	205,022	222,716
Increase in NPO	142,793	142,793	205,022	222,716
NPO at end of the period	\$ -	\$ -	\$ -	\$ -

**City of Hearne, Texas**  
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The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Valuation Date	For the year ended December 31,			
	2010 Prior to restructuring	2010 Restructured	2011	2012
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 equivalent single amortization period	27.6 Years; closed period	27.7 Years; closed period	26.8 Years; closed period	25.7 Years; closed period
Amortization period for new gain/loss	30 Years	30 Years	30 Years	30 Years
Asset valuation method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial assumptions:				
Investment rate of return *	7.5%	7.0%	7.0%	7.0%
Projected salary increase *	Varies by age and service	Varies by age and service	Varies by age and service	Varies by age and service
* Includes inflation at	3.00%	3.00%	3.00%	3.00%
Cost-of-living adjustments	2.10%	2.10%	2.10%	2.10%

In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

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The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiple-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

**Note 14. Contingent Liabilities**

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

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

### **REQUIRED SUPPLEMENTARY INFORMATION**

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

- Schedule of Funding Progress Texas Municipal Retirement System

**City of Hearne, Texas**  
**Schedule of Funding Progress**  
**Texas Municipal Retirement System**  
**For the Year Ended September 30, 2013**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2010 <sup>(1)</sup>	\$ 2,624,466	\$ 4,448,247	59.0%	\$ 1,823,781	\$ 1,830,685	99.6%
12/31/2010 <sup>(2)</sup>	3,573,552	5,377,066	66.5%	1,803,514	1,830,685	98.5%
12/31/2011	3,920,275	5,637,863	69.5%	1,717,588	1,910,745	89.9%
12/31/2012	4,224,521	5,936,288	71.2%	1,711,767	1,812,173	94.5%

<sup>(1)</sup> Actuarial valuation performed under the original fund structure.

<sup>(2)</sup> Actuarial valuation performed under the new fund structure.

## **Combining Financial Statements**

### **Non-Major Governmental Funds**

#### **Special Revenue Funds**

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

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

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

City of Hearne, Texas  
Combining Balance Sheet  
Non-major Governmental Funds  
September 30, 2013

	Special Revenue		Total
	Hotel/Motel	Police	Non-major
	Tax	Special	Governmental
		Fund	Funds
<b>Assets</b>			
Taxes receivable	\$ 18,217	\$ -	\$ 18,217
Grant receivable	41,446	-	41,446
Other assets	-	2,614	2,614
Cash, restricted	19,017	765	19,782
Total assets	<u>\$ 78,680</u>	<u>\$ 3,379</u>	<u>\$ 82,059</u>
<b>Liabilities and fund balances</b>			
Liabilities:			
Accounts payable	\$ 44,198	\$ -	44,198
Due to other funds	91,440	-	91,440
Total liabilities	<u>135,638</u>	<u>-</u>	<u>135,638</u>
Fund balances:			
Restricted for police	-	3,379	3,379
Unassigned (deficit)	<u>(56,958)</u>	<u>-</u>	<u>(56,958)</u>
Total fund balances (deficit)	<u>(56,958)</u>	<u>3,379</u>	<u>(53,579)</u>
Total liabilities and fund balances	<u>\$ 78,680</u>	<u>\$ 3,379</u>	<u>\$ 82,059</u>

City of Hearne, Texas  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Non-major Governmental Funds  
For the Year Ended September 30, 2013

	Special Revenue		Total
	Hotel/Motel	Police	Non-major
	Tax	Special	Governmental
		Fund	Funds
Revenues:			
Hotel/motel occupancy taxes	\$ 162,824	\$ -	\$ 162,824
Investment income	52	-	52
Intergovernmental	33,287	1,105	34,392
Total revenues	196,163	1,105	197,268
Expenditures:			
Current:			
Public safety	-	10,176	10,176
Culture and recreation	97,654	-	97,654
Capital outlay	33,287	-	33,287
Debt service:			
Principal	56,113	-	56,113
Interest	1,525	-	1,525
Total expenditures	188,579	10,176	198,755
Excess (deficiency) of revenues over (under) expenditures	7,584	(9,071)	(1,487)
Other financing sources:			
Transfers in	3,769	2,975	6,744
Transfers out	(50,804)	-	(50,804)
Total other financing sources	(47,035)	2,975	(44,060)
Net change in fund balances	(39,451)	(6,096)	(45,547)
Fund balances (deficit) at beginning of year	(17,507)	9,475	(8,032)
Fund balances (deficit) at end of year	\$ (56,958)	\$ 3,379	\$ (53,579)



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

*Special Revenue Funds*

City of Hearne, Texas  
Hotel/Motel Occupancy Tax Special Revenue Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual  
For the Year Ended September 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Hotel/motel occupancy taxes	\$ 126,000	\$ 162,824	\$ 162,824	\$ -
Investment income	75	75	52	(23)
Intergovernmental	-	-	33,287	33,287
Total revenues	<u>126,075</u>	<u>162,899</u>	<u>196,163</u>	<u>33,264</u>
Expenditures:				
Current:				
Culture and recreation:				
Economic development	69,826	75,742	97,654	21,912
Capital outlay	-	33,288	33,287	(1)
Debt service:				
Principal	54,510	56,113	56,113	-
Interest	1,739	1,525	1,525	-
Total expenditures	<u>126,075</u>	<u>166,668</u>	<u>188,579</u>	<u>21,911</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(3,769)</u>	<u>7,584</u>	<u>11,353</u>
Other financing sources:				
Transfers in	-	3,769	3,769	-
Transfers out	-	-	(50,804)	(50,804)
Total other financing sources	<u>-</u>	<u>3,769</u>	<u>(47,035)</u>	<u>(50,804)</u>
Net change in fund balance	-	-	(39,451)	(39,451)
Fund balance (deficit) at beginning of year	<u>(17,507)</u>	<u>(17,507)</u>	<u>(17,507)</u>	<u>-</u>
Fund balance (deficit) at end of year	<u>\$ (17,507)</u>	<u>\$ (17,507)</u>	<u>\$ (56,958)</u>	<u>\$ (39,451)</u>

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES**

**IN NET POSITION – BUDGET AND ACTUAL**

*Enterprise Funds*

City of Hearne, Texas  
Enterprise Fund  
Schedule of Revenues, Expenses, and Changes in Net Position  
Budget and Actual  
For the Year Ended September 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Operating revenues:				
Charges for sales and services:				
Water sales	\$ 1,076,900	\$ 1,217,010	\$ 1,170,919	\$ (46,091)
Electric sales	6,119,800	6,127,714	5,849,526	(278,188)
Sewer charges	620,500	627,321	596,537	(30,784)
Sanitation	633,700	633,926	601,136	(32,790)
Tap fees	500	1,112	1,112	-
Rental fees	-	13,311	13,310	(1)
Penalties	62,400	111,868	111,867	(1)
Miscellaneous revenue	116,500	208,287	190,012	(18,275)
Total operating revenues	<u>8,630,300</u>	<u>8,940,549</u>	<u>8,534,419</u>	<u>(406,130)</u>
Operating expenses:				
Wholesale utilities	4,760,600	4,835,240	4,835,239	(1)
Water department	482,329	489,462	490,588	1,126
Electric department	354,861	318,925	320,475	1,550
Sewer department	390,222	351,173	355,336	4,163
Sanitation department	80,750	47,516	47,514	(2)
Administrative and billing	627,726	561,294	558,827	(2,467)
Depreciation and amortization	-	195,929	664,748	468,819
Capital outlay	86,500	40,000	-	(40,000)
Total operating expenses	<u>6,782,988</u>	<u>6,839,539</u>	<u>7,272,727</u>	<u>433,188</u>
Operating income	<u>1,847,312</u>	<u>2,101,010</u>	<u>1,261,692</u>	<u>(839,318)</u>
Nonoperating revenues (expenses):				
Intergovernmental	-	150,000	117,318	(32,682)
Contribution from component unit	-	-	54,000	54,000
Investment income	200	200	1,623	1,423
Gain (loss) on disposal of capital assets	-	41,000	(16,690)	(57,690)
Interest expense	(370,782)	(369,635)	(369,633)	2
Total nonoperating revenues (expenses)	<u>(370,582)</u>	<u>(178,435)</u>	<u>(213,382)</u>	<u>(57,688)</u>
Change in net position before transfers	<u>1,476,730</u>	<u>1,922,575</u>	<u>1,048,310</u>	<u>(897,006)</u>
Transfers in	685,768	997,369	608,463	(388,906)
Transfers out	<u>(2,162,498)</u>	<u>(2,020,629)</u>	<u>(1,413,050)</u>	<u>607,579</u>
Total other financing sources (uses)	<u>(1,476,730)</u>	<u>(1,023,260)</u>	<u>(804,587)</u>	<u>218,673</u>
Change in net position	-	899,315	243,723	(678,333)
Net position, beginning of the year	<u>3,632,177</u>	<u>3,632,177</u>	<u>3,632,177</u>	<u>-</u>
Net position, end of the year	<u>\$ 3,632,177</u>	<u>\$ 4,531,492</u>	<u>\$ 3,875,900</u>	<u>\$ (678,333)</u>

City of Hearne, Texas  
Non-major Municipal Airport Enterprise Fund  
Schedule of Revenues, Expenses, and Changes in Net Position  
Budget and Actual  
For the Year Ended September 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Operating revenues:				
Rental fees	\$ 18,000	\$ 18,000	\$ 20,490	\$ 2,490
Miscellaneous revenue	-	-	15,409	15,409
Total operating revenues	18,000	18,000	35,899	17,899
Operating expenses:				
Airport	30,000	51,876	37,524	(14,352)
Capital outlay	1,294,000	1,254,369	-	(1,254,369)
Depreciation	-	33,022	33,022	-
Total operating expenses	1,324,000	1,339,267	70,546	(1,268,721)
Operating income (loss)	(1,306,000)	(1,321,267)	(34,647)	1,286,620
Nonoperating revenue:				
Intergovernmental	1,164,600	1,164,600	200,160	(964,440)
Contribution from component unit	-	-	15,267	15,267
Total non operating revenue	1,164,600	1,164,600	215,427	(949,173)
Change in net position before transfers	(141,400)	(156,667)	180,780	337,447
Transfers in	141,400	156,667	-	(156,667)
Change in net position	-	-	180,780	180,780
Net position, beginning of the year	607,208	607,208	607,208	-
Net position, end of the year	\$ 607,208	\$ 607,208	\$ 787,988	\$ 180,780

**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, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Sales taxes	\$ 187,500	\$ 187,500	\$ 214,865	\$ 27,365
Investment income	2,500	2,500	2,873	373
Total revenues	190,000	190,000	217,738	27,738
Expenditures:				
Current:				
Culture and recreation:				
Economic development	158,441	210,161	210,161	-
Capital outlay	-	-	-	-
Total expenditures	158,441	210,161	210,161	-
Excess of revenues over expenditures	31,559	(20,161)	7,577	27,738
Other financing sources:				
Contributions to primary government	(162,333)	(356,130)	(73,210)	282,920
Net change in fund balances	(130,774)	(376,291)	(65,633)	310,658
Fund balances at beginning of year	904,688	904,688	904,688	-
Fund balances at end of year	\$ 773,914	\$ 528,397	\$ 839,055	\$ 310,658

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, 2013

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Over (Under)
Revenues:				
Sales taxes	\$ 187,500	\$ 214,904	\$ 214,904	\$ -
Investment income	2,500	2,500	2,453	(47)
Total revenues	190,000	217,404	217,357	(47)
Expenditures:				
Current:				
Culture and recreation:				
Economic development	130,000	474,966	474,965	(1)
Capital outlay	6,000	-	-	-
Total expenditures	136,000	474,966	474,965	(1)
Excess of revenues over expenditures	54,000	(257,562)	(257,608)	(46)
Other financing sources (uses):				
Contributions from primary government	-	85,157	85,156	(1)
Contributions to primary government	(54,000)	(434,646)	(434,646)	-
Total other financing sources (uses)	(54,000)	(349,489)	(349,490)	(1)
Net change in fund balances	-	(607,051)	(607,098)	(47)
Fund balances at beginning of year	1,124,740	1,124,740	1,124,740	-
Fund balances at end of year	\$ 1,124,740	\$ 517,689	\$ 517,642	\$ (47)



**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, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Legislative:				
Personnel	\$ 31,303	\$ 30,752	\$ 30,750	\$ (2)
Maintenance	2,300	2,211	2,210	(1)
Supplies	1,900	831	830	(1)
Other	8,600	5,877	5,875	(2)
Total City Council	44,103	39,671	39,665	(6)
Executive:				
Personnel	200,994	202,655	204,230	1,575
Maintenance	3,700	2,827	2,826	(1)
Supplies	1,050	985	984	(1)
Other	3,400	1,649	1,648	(1)
Total executive	209,144	208,116	209,688	1,572
Finance:				
Personnel	90,523	77,819	77,814	(5)
Maintenance	79,900	96,001	104,108	8,107
Supplies	14,900	4,476	4,605	129
Contract services	32,800	30,353	24,949	(5,404)
Other	64,200	65,690	71,306	5,616
Total finance	282,323	274,339	282,782	8,443
Court:				
Personnel	89,165	88,357	89,005	648
Maintenance	6,212	6,866	6,865	(1)
Supplies	3,800	2,156	2,155	(1)
Contract services	50,928	50,992	50,992	-
Other	1,100	439	15,095	14,656
Total 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>

City of Hearne, Texas  
General Fund  
Schedule of Public Safety Expenditures - Budget and Actual  
For the Year Ended September 30, 2013

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Over (Under)
Police:				
Personnel	\$ 912,245	\$ 869,556	\$ 875,419	\$ 5,863
Maintenance	48,800	50,856	47,112	(3,744)
Supplies	57,600	58,991	59,105	114
Other	7,700	2,284	2,282	(2)
Total police	1,026,345	981,687	983,918	2,231
Fire:				
Personnel	34,501	27,498	27,496	(2)
Maintenance	27,500	13,913	20,298	6,385
Supplies	31,900	32,751	30,725	(2,026)
Volunteer Fire Department	48,000	177,671	177,671	-
Other	3,550	3,734	3,732	(2)
Total 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>

City of Hearne, Texas  
General Fund  
Schedule of Highways and Streets Expenditures - Budget and Actual  
For the Year Ended September 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Streets:				
Personnel	\$ 229,384	\$ 223,503	\$ 224,898	\$ 1,395
Maintenance	51,500	74,341	88,338	13,997
Supplies	57,072	46,740	46,787	47
Other	1,600	283	283	-
Total highways and streets	<u>\$ 339,556</u>	<u>\$ 344,867</u>	<u>\$ 360,306</u>	<u>\$ 15,439</u>

City of Hearne, Texas  
General Fund  
Schedule of Health and Welfare Expenditures - Budget and Actual  
For the Year Ended September 30, 2013

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Over (Under)
Code enforcement:				
Personnel	\$ 22,066	\$ 8,025	\$ 8,022	\$ (3)
Maintenance	500	102	101	(1)
Supplies	1,950	619	619	-
Other	1,450	-	-	-
Total code enforcement	25,966	8,746	8,742	(4)
Animal control:				
Personnel	41,342	41,409	41,682	273
Maintenance	8,300	8,054	8,053	(1)
Supplies	4,760	6,004	6,003	(1)
Other	200	111	111	-
Total 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>

City of Hearne, Texas  
General Fund  
Schedule of Culture and Recreation Expenditures - Budget and Actual  
For the Year Ended September 30, 2013

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Over (Under)
Library:				
Personnel	\$ 113,018	\$ 95,021	\$ 95,774	\$ 753
Maintenance	10,081	7,642	7,641	(1)
Supplies	17,400	23,943	23,971	28
Other	800	2,427	2,425	(2)
Total library	141,299	129,033	129,811	778
Parks and recreation:				
Personnel	235,704	225,358	226,564	1,206
Maintenance	99,600	119,778	112,267	(7,511)
Supplies	36,160	28,110	28,108	(2)
Other	2,500	1,230	1,230	-
Total 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>

## **AUDIT SECTION**



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

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, 2013, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 14, 2014. 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 11-1 through 11-6 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

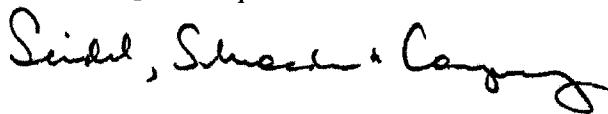
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect 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 14, 2014.

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.

Brenham, Texas  
February 14, 2014



CITY OF HEARNE  
SCHEDULE OF FINDINGS AND RESPONSES  
SEPTEMBER 30, 2013

*Significant deficiencies*

11-1 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. In addition, during the period of August 13, 2013 until the year end, this position was vacant and the CFO was also performing these duties. Exposure is limited as other persons review invoices for approval and the CFO and Finance Assistant do 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.

11-2 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.

11-3 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.

#### 11-4 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.

#### 11-5 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, 2014.

#### 11-6 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.

*Recommendation:* Internal controls have been put in place to require review of adjustments posted by the utility billing clerk. This review should be documented and retained as evidence.

*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, 2012**

City of Hearne, Texas  
For the Fiscal Year Ended September 30, 2012

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For the Fiscal Year Ended September 30, 2012

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## **FINANCIAL SECTION**



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

**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, each major fund, and the aggregate remaining fund information of the City of Hearne, Texas, as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 27, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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* and should be considered in assessing the results of our audit.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 8, the Texas Municipal Retirement System analysis of funding progress on page 41, the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – for the 4A and 4B Sales Tax Special Revenue Funds on pages 42 and 43 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.

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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

March 27, 2013

*Seidel, Schaefer & Company*

## 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, 2012. Please read it in conjunction with the City's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

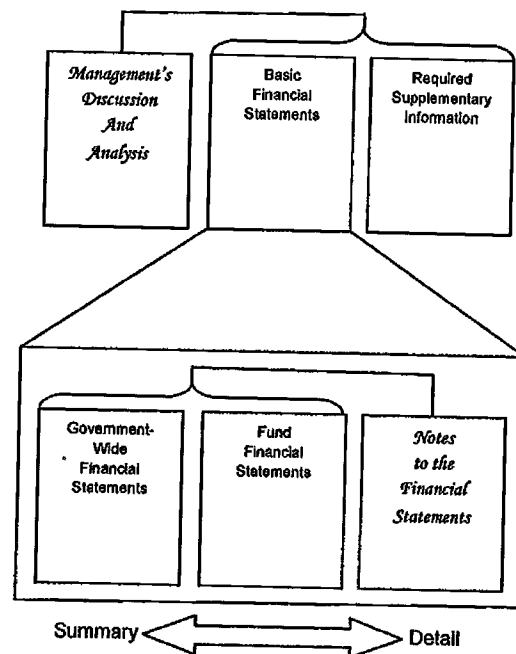
- The City's total combined net assets were \$9,958,713 at September 30, 2012. This represents an increase of 4.25% in the Governmental Activities and 10.17% in Business Activities for an overall increase of 6.89%.
- During the year, the City's expenses were \$624,601 less than the \$11,442,475 generated in taxes, charges for service and other revenues for governmental and business-type activities. Comparatively, last year, the City's expenses were \$314,856 less than revenues of \$11,813,837.
- In the City's Business Activities, revenues decreased by 6.8%, to \$8,764,257 with expenditures showing a corresponding decrease of 7.23% to \$7,688,266.
- The Fund Balance surplus in the General Fund decreased this year by \$102,750 to \$906,563.

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

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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



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

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

Figure A-2

Type of Statements	Fund Statements			
	Government-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the city that are not proprietary or fiduciary	Activities the city operates similar to private businesses self insurance	Instances in which the city is the trustee or agent for someone else's resources.
Required Financial Statements	*Statement of Net Assets	*Balance Sheet	*Statement of Net Assets	*Statement of Fiduciary Net Assets
	*Statement of activities	*Statement of Revenues, Expenditures & Changes in Fund Balance	*Statement of Revenues, Expenditures & Changes in Fund Balance *Statement of Cash Flows	*Statement of Changes in Fiduciary Net Assets
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 assets 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 assets and how they have changed. Net assets, (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 assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

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

#### Fund Financial Statements

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

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

The City has the following types of funds:

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

THE CITY AS A WHOLE

Table A-1  
City's Net Assets  
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Current Assets</b>						
Cash and Cash Equivalents	5.6	7.7	541.0	610.7	546.6	618.4
Inventories	-	-	109.7	143.1	109.7	143.1
Internal Balances	970.7	1,067.7	(970.7)	(1,067.7)	-	-
Receivables	481.5	485.3	1,274.7	1,687.2	1,756.2	2,172.5
Prepaid Items	108.7	9.8	10.5	9.6	119.2	19.4
Restricted Assets	1,821.9	1,814.9	239.1	0.5	2,061.0	1,815.4
<b>Total Current Assets:</b>	<b>3,388.4</b>	<b>3,385.4</b>	<b>1,204.3</b>	<b>1,383.4</b>	<b>4,592.7</b>	<b>4,768.8</b>
<b>Noncurrent Assets</b>						
Unamortized Bond Issuance Cost	-	-	72.9	77.6	72.9	77.6
Capital Assets	7,848.0	7,544.3	24,398.6	23,827.1	32,046.6	31,371.4
Less Accumulated Depreciation	(4,739.4)	(4,596.0)	(13,036.6)	(12,402.8)	(17,776.0)	(16,998.8)
<b>Total Noncurrent Assets</b>	<b>2,908.6</b>	<b>2,948.3</b>	<b>11,434.9</b>	<b>11,501.9</b>	<b>14,343.5</b>	<b>14,450.2</b>
<b>Total Assets</b>	<b>6,297.0</b>	<b>6,333.7</b>	<b>12,639.2</b>	<b>12,885.3</b>	<b>18,936.2</b>	<b>19,219.0</b>
<b>Current Liabilities</b>						
Accounts Payable	172.2	226.1	629.2	870.8	801.4	1,096.9
Accrued Expenses	2.7	0.2	31.1	31.1	33.8	31.3
Deferred Revenues	9.4	-	-	-	9.4	-
Customer Deposits	0.3	0.6	303.7	271.1	304.0	271.7
Compensated Absences	-	5.7	-	9.0	-	14.7
Current Long-Term Debt	239.6	406.4	427.7	448.6	667.3	855.0
<b>Total Current Liabilities</b>	<b>424.2</b>	<b>639.0</b>	<b>1,391.7</b>	<b>1,630.6</b>	<b>1,815.9</b>	<b>2,269.6</b>
<b>Long-Term Liabilities:</b>						
Compensated Absences	112.5	104.0	31.3	33.0	143.8	137.0
Bonds	-	-	-	-	-	-
Notes Payable	7.8	29.6	-	-	7.8	29.6
Capital Leases	33.2	74.9	1,828.1	1,959.4	1,861.3	2,034.3
Certificates of Obligation	-	-	5,148.7	5,414.5	5,148.7	5,414.5
<b>Total Long-Term Liabilities</b>	<b>153.5</b>	<b>208.5</b>	<b>7,008.1</b>	<b>7,406.9</b>	<b>7,161.6</b>	<b>7,615.4</b>
<b>Total Liabilities</b>	<b>577.7</b>	<b>847.5</b>	<b>8,399.8</b>	<b>9,037.5</b>	<b>8,977.5</b>	<b>9,885.0</b>
<b>Net Assets</b>						
Invested in Capital Assets	2,628.0	2,437.4	3,957.5	3,601.9	6,585.5	6,039.3
Restricted	2,038.8	1,936.3	-	-	2,038.8	1,936.3
Unrestricted	1,052.5	1,112.5	281.9	246.0	1,334.4	1,358.5
<b>Total Net Assets</b>	<b>5,719.3</b>	<b>5,486.2</b>	<b>4,239.4</b>	<b>3,847.9</b>	<b>9,958.7</b>	<b>9,334.1</b>

The City's combined net assets increased by \$624,601, or 6.69%, to \$9,958,714 at September 30, 2012. Comparatively, last year, the City's combined net assets increased by \$314,856, or 3.49%. (See Table A-1)

The City's governmental activities net assets increased by 4.2% (\$5.7 million compared to \$5.5 million). Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements) decreased from \$1,112,474 to \$1,052,470 at September 30, 2012, down 5.4%.

The City's business-type activities net assets increased by 10.2% (up to \$4.2 million from \$3.9 million).

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

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	2012	2011	2012	2011	2012	2011
<b>Program Revenues</b>						
Charges for Services	347.3	289.8	8,275.5	8,788.1	8,622.8	9,077.9
Operating Grants	34.9	22.4	48.5	2.1	83.4	24.5
Capital Grants	48.2	92.8	245.9	242.7	294.1	335.5
<b>General Revenues</b>						
Ad Valorem Taxes	1,129.1	1,002.4	-	-	1,129.1	1,002.4
Sales Tax	775.4	747.4	-	-	775.4	747.4
Franchise Taxes	81.3	83.8	-	-	81.3	83.8
Other Taxes	141.0	121.4	-	-	141.0	121.4
Rentals	-	-	2.6	148.3	2.6	148.3
Interest Income	7.7	9.9	1.3	1.2	9.0	11.1
Gain/(Loss) on Sale of Assets	100.0	16.5	-	2.0	100.0	18.5
Other	13.3	23.3	190.4	219.8	203.7	243.1
<b>Total Revenues</b>	<u>2,678.2</u>	<u>2,409.7</u>	<u>8,764.2</u>	<u>9,404.2</u>	<u>11,442.4</u>	<u>11,813.9</u>
<b>Program Expenses:</b>						
General Government	665.2	699.6	-	-	665.2	699.6
Public Safety	1,223.6	1,229.4	-	-	1,223.6	1,229.4
Highways & Streets	400.9	359.6	-	-	400.9	359.6
Health & Welfare	53.3	61.4	-	-	53.3	61.4
Cultural & Recreational	765.0	838.9	-	-	765.0	838.9
Interest on Long-Term Debt	21.6	22.4	-	-	21.6	22.4
Enterprise Activities	-	-	7,688.3	8,287.7	7,688.3	8,287.7
<b>Total Expenses</b>	<u>3,129.6</u>	<u>3,211.3</u>	<u>7,688.3</u>	<u>8,287.7</u>	<u>10,817.9</u>	<u>11,499.0</u>
<b>Increase (Decrease) in Net Assets</b>	<u>(451.4)</u>	<u>(801.6)</u>	<u>1,075.9</u>	<u>1,116.5</u>	<u>624.5</u>	<u>314.9</u>
<b>Transfers In (Out)</b>	<u>684.5</u>	<u>1,492.7</u>	<u>(684.5)</u>	<u>(1,492.7)</u>	<u>-</u>	<u>-</u>
<b>Change in Net Assets</b>	<u>233.1</u>	<u>691.1</u>	<u>391.4</u>	<u>(376.2)</u>	<u>624.5</u>	<u>314.9</u>
<b>Net Assets - Beginning</b>	<u>5,486.2</u>	<u>4,795.1</u>	<u>3,847.9</u>	<u>4,224.1</u>	<u>9,334.1</u>	<u>9,019.2</u>
<b>Net Assets - Ending</b>	<u>5,719.3</u>	<u>5,486.2</u>	<u>4,239.3</u>	<u>3,847.9</u>	<u>9,958.6</u>	<u>9,334.1</u>

The total revenues for the City of Hearne were \$11,442,475, an decrease of 3.14%. Total expenses were \$10,817,874. This resulted in an increase of net assets of \$624,601 (See Table A-2). The total cost of all programs and services, decreased by \$681,107, or 5.9%, from last year.

#### **Governmental Activities**

Revenues for the City's governmental activities increased by 11.14%, or \$268,520. Expenditures remained stable, with a slight decrease of 2.5%, or \$81,683. The cost of all governmental activities this year was \$3,129,608 compared to \$3,211,291 last year.

#### **Business-Type Activities**

Revenues for the City's business-type activities decreased by 7.3% this year (\$8,764,257 compared to \$9,404,139 last year). Expenses showed a corresponding decrease of 7.8% this year (\$7,688,266 compared to \$8,287,690 last year).

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

## THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet within this audit report) reported a Governmental Fund Balance of \$2,927,959, which is up from last year's total of \$2,920,373.

### General Fund Budgetary Highlights

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 4A and the 4B 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 \$146,145 short of expectations and expenditures exceeded expectations by \$79,516, resulting in a total budget deficit of \$225,661.

Property tax revenues fell short of the budgeted amount by \$108,287. Sales tax revenues exceeded the original budget amount by \$46,813.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Capital Assets</b>						
Land	142.3	142.3	61.6	61.6	203.9	203.9
Construction in Progress	15.0	-	135.1	277.8	150.1	277.8
Buildings and Improvements	4,986.4	4,921.2	1,075.0	888.0	6,061.4	5,809.2
Improvements Other than Buildings	785.9	678.4	-	-	785.9	678.4
Equipment	825.5	908.2	178.1	49.8	1,003.6	958.0
Vehicles	887.7	889.0	232.6	218.3	1,120.3	1,107.3
Furniture and Office Equipment	5.2	5.2	300.4	281.9	305.6	287.1
Airport	-	-	-	-	-	-
Distribution and Collection Systems	-	-	-	-	-	-
<b>Totals at Historical Cost</b>	<b>7,648.0</b>	<b>7,544.3</b>	<b>22,415.8</b>	<b>22,049.8</b>	<b>22,415.8</b>	<b>22,049.8</b>
			<b>24,398.6</b>	<b>23,827.2</b>	<b>32,046.6</b>	<b>31,371.5</b>
<b>Total Accumulated Depreciation</b>	<b>(4,739.4)</b>	<b>(4,596.0)</b>	<b>(13,036.6)</b>	<b>(12,402.8)</b>	<b>(17,776.0)</b>	<b>(16,998.8)</b>
<b>Net Capital Assets</b>	<b>2,908.6</b>	<b>2,948.3</b>	<b>11,362.0</b>	<b>11,424.4</b>	<b>14,270.6</b>	<b>14,372.7</b>

At the end of 2012, the City had invested \$32,046,590 in a broad range of capital assets, including land, buildings, park facilities, roads, bridges, equipment and vehicles, water lines, sewer lines, waste water treatment facilities, and electric lines. (See Table A-3) This amount represents an increase of \$675,088, or 2.15%, over last year.

### Governmental

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

Replaced Wrecked Police Car with New Tahoe	Paid for With Insurance and Re-Prioritizing Budget	27.6
Acquired Used Leeboy Motor Grader	Paid for With Trade and Within Budget	45.0
Street Improvements	Paid for With Motor Grader Trade & Within Budget	35.3

### Business-Type Activities

During the year, there was water system improvements that were completed totaling \$366,805 that was partly funded with a grant received from the Texas Department of Rural Affairs.

## Long-Term Debt

At year end, the City had \$7,685,215 in Long Term Debt outstanding. This included just over \$5.6 million in Bonds and Certificates of Obligation. This compares to \$5.9 million in Bonds and Certificates last year and is a 4.6% reduction in these debt instruments. (See Table A-4)

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

	Governmental Activities		Business-type Activities		Total		Change 2011 - 2012
	2012	2011	2012	2011	2012	2011	
<b>Long Term-Debt</b>							
Bonds	-	-	-	-	-	-	-
Certificates of Obligation	-	-	5,635.0	5,905.0	5,635.0	5,905.0	(270.0)
Deferred Bond Charges	-	-	(220.5)	(234.7)	(220.5)	(234.7)	14.2
Notes Payable	205.7	367.9	30.8	51.0	236.5	418.9	(182.4)
Leases Payable	74.9	143.0	1,959.3	2,101.2	2,034.2	2,244.2	(210.0)
<b>Total Long-Term Debt</b>	<b>280.6</b>	<b>510.9</b>	<b>7,404.6</b>	<b>7,822.5</b>	<b>7,685.2</b>	<b>8,333.4</b>	<b>(648.2)</b>

Standard & Poor's upgraded the City's bond rating of bbb- to A- on March 12, 2010 and again upgraded the rating again from A- to A on November 5, 2010. These actions were taken due to significant improvement in the City's financial condition. 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 2011 with a total savings of approximately \$355,000 and present value savings of approximately \$275,000.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2012-2013 budget, tax rates, and fees that will be charged for the business-type activities. One of those factors is the economy. The City of Hearne has experienced notable commercial growth for a city with a population of less than 5,000. Over the past 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.

Since the close of this Fiscal Year, a new Nursing home is about to close on purchasing land from the City to construct a new Nursing Home and Assisted Living Facility. A truss manufacturing plant has purchased a dormant existing facility and has begun the interview process. Another related truss manufacturing company, has reached an agreement with this first truss company to lease part of their space and is preparing to move to Hearne. The two truss concerns expect to hire around 45-50 employees. The nursing home and ALF expect to employ between 60-80 employees.

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

In 2012, the City of Hearne was awarded a \$150,000 TDRA "Capital Funds" Grant to replace 2300 linear feet of a 6" Water Line with a 12" Water Line leading from the City Yards towards Hwy 485. Construction under this grant is expected to begin soon.

After taking all factors into consideration, the City adopted an \$12.0 million budget for Fiscal Year 2012-2013. Broken down, this is \$3.8 million for the General Fund and \$8.1 million for the Enterprise Fund. This compares to the final budget of \$3.5 million and \$8.4 million respectively for fiscal year 2011-2012. This new budget is a 7.8% increase for the General Fund and 3.0% decrease for the Enterprise Fund.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

**City of Hearne, Texas**  
**Statement of Net Assets**  
**September 30, 2012**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and equivalents	\$ 5,614	\$ 540,972	\$ 546,586
Receivables (net of allowance for uncollectibles):			
Taxes	462,781	-	462,781
Accounts	18,740	1,274,722	1,293,462
Internal balances	970,704	(970,704)	-
Inventory	-	109,656	109,656
Other assets	108,681	10,505	119,186
Unamortized bond issue costs	-	72,941	72,941
Temporarily restricted assets:			
Cash	1,681,992	239,057	1,921,049
Investments	139,898	-	139,898
Capital assets:			
Non-depreciable	157,367	196,718	354,085
Depreciable, net	2,751,226	11,165,312	13,916,538
<b>Total assets</b>	<b>6,297,003</b>	<b>12,639,179</b>	<b>18,936,182</b>
<b>Liabilities</b>			
Accounts payable	\$ 110,042	584,281	694,323
Salaries payable	62,158	22,900	85,058
State tax payable	-	21,992	21,992
Deferred revenues	9,440	-	9,440
Accrued liabilities	2,695	31,116	33,811
Deposits	250	303,668	303,918
Liability for compensated absences:			
Due within one year	-	-	-
Due in more than one year	112,452	31,260	143,712
Non-current liabilities:			
Due within one year	239,614	427,723	667,337
Due in more than one year	41,024	6,976,854	7,017,878
<b>Total liabilities</b>	<b>577,675</b>	<b>8,399,794</b>	<b>8,977,469</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	2,627,955	3,957,453	6,585,408
Restricted for:			
Police department	9,475	-	9,475
Economic development	2,029,428	-	2,029,428
Unrestricted	1,052,470	281,932	1,334,402
<b>Total net assets</b>	<b>\$ 5,719,328</b>	<b>\$ 4,239,385</b>	<b>\$ 9,958,713</b>

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



**City of Hearn, Texas**  
**Statement of Activities**  
**For the Year Ended September 30, 2012**

Program Activities	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services		Capital Grants and Contributions	Primary Government		
		Operating Grants and Contributions	Operating Grants and Contributions		Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 665,221	\$ 6,590	\$ 33,076	\$ -	\$ (625,555)	\$ -	\$ (625,555)
Public safety	1,223,620	288,343	1,862	40,004	(893,411)	-	(893,411)
Highways and streets	400,877	-	-	-	(400,877)	-	(400,877)
Health and welfare	53,287	-	-	8,159	(45,128)	-	(45,128)
Culture and recreation	764,979	52,354	-	-	(712,625)	-	(712,625)
Interest on long-term debt	21,624	-	-	-	(21,624)	-	(21,624)
Total governmental activities	3,129,608	347,287	34,938	48,163	(2,699,220)	-	(2,699,220)
<b>Business-type activities:</b>							
Water	577,715	1,251,516	-	-	-	673,801	673,801
Electric	5,723,471	5,777,137	-	-	-	53,666	53,666
Sewer	704,528	609,411	-	245,880	-	150,763	150,763
Sanitation	628,649	617,351	-	-	-	(11,298)	(11,298)
Municipal airport	53,903	20,090	48,536	-	-	14,723	14,723
Total business-type activities	7,688,266	8,275,505	48,536	245,880	-	881,655	881,655
<b>Total primary government</b>	<b>\$ 10,817,874</b>	<b>\$ 8,622,792</b>	<b>\$ 83,474</b>	<b>\$ 294,043</b>	<b>(2,699,220)</b>	<b>881,655</b>	<b>(1,817,565)</b>
<b>General revenues:</b>							
<b>Taxes:</b>							
Property taxes					1,129,140	-	1,129,140
Sales taxes					775,345	-	775,345
Gross receipts					81,243	-	81,243
Hotel/motel occupancy					141,042	-	141,042
Rentals					-	2,569	2,569
Investment earnings					7,730	1,329	9,059
Gain on sale of assets					100,001	-	100,001
Miscellaneous					13,329	-	13,329
Transfers					684,494	(684,494)	-
Total general revenues and transfers					2,932,324	(490,158)	2,442,166
Change in net assets					233,104	391,497	624,601
Net assets at beginning of the year					5,486,224	3,847,888	9,334,112
Net assets at end of year					\$ 5,719,328	\$ 4,239,385	\$ 9,958,713

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

**City of Hearne, Texas**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2012**

	General	4A Sales Tax Fund	4B Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash	\$ 5,614	\$ -	\$ -	\$ -	\$ 5,614
Receivables:					
Taxes	368,254	34,422	34,423	25,682	462,781
Accounts	18,673	67	-	-	18,740
Due from other funds	693,647	146,682	151,999	-	992,328
Other assets	85,057	8,997	126	-	94,180
Restricted assets:					
Cash	143,611	575,665	938,192	24,524	1,681,992
Investments	-	139,898	-	-	139,898
<b>Total assets</b>	<b>\$ 1,314,856</b>	<b>\$ 905,731</b>	<b>\$ 1,124,740</b>	<b>\$ 50,206</b>	<b>\$ 3,395,533</b>
<b>Liabilities and fund balances</b>					
Liabilities:					
Accounts payable	\$ 72,385	\$ 1,043	\$ -	\$ 36,614	\$ 110,042
Salaries payable	62,158	-	-	-	62,158
Accrued liabilities	2,695	-	-	-	2,695
Deposits	250	-	-	-	250
Deferred revenues	270,805	-	-	-	270,805
Due to other funds	-	-	-	-	-
				21,624	21,624
<b>Total liabilities</b>	<b>408,293</b>	<b>1,043</b>	<b>-</b>	<b>58,238</b>	<b>467,574</b>
Fund balances:					
Nonspendable					
Prepaid expenses	57	-	-	-	57
Restricted for:					
Debt Service	10,372	-	-	-	10,372
Court security	65,343	-	-	-	65,343
Court technology	47,250	-	-	-	47,250
Fire truck	1,096	-	-	-	1,096
Child safety fund	19,550	-	-	-	19,550
4A and 4B Sales Tax	-	904,688	1,124,740	-	2,029,428
Police	-	-	-	9,475	9,475
Unassigned (deficit) reported in:					
General fund	762,895	-	-	-	762,895
Hotel/Motel Tax Fund	-	-	-	(17,507)	(17,507)
<b>Total fund balances</b>	<b>906,563</b>	<b>904,688</b>	<b>1,124,740</b>	<b>(8,032)</b>	<b>2,927,959</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,314,856</b>	<b>\$ 905,731</b>	<b>\$ 1,124,740</b>	<b>\$ 50,206</b>	<b>\$ 3,395,533</b>

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