OFFICIAL STATEMENT
Dated: October 20, 2020

S&P Insured Rating "AA
S&P Underlying "BBB+"

NEW ISSUE: Book-Entry-Only **(See "RATINGS" herein)**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. (see "TAX MATTERS" herein).

THE BONDS WILL BE DESIGNATED
AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

$2,815,000
CITY OF HEARNE, TEXAS
(Robertson County, Texas)
General Obligation Refunding Bonds, Series 2020

Dated Date: November 1, 2020 **Due: February 15, as shown on inside cover**

PAYMENT TERMS… Interest on the $2,815,000 City of Hearne, Texas, General Obligation Refunding Bonds, Series 2020 (the "Bonds"), will accrue from their delivery date to the underwriter listed below (the "Underwriter") and will be payable February 15 and August 15 of each year, commencing on February 15, 2021. The Bonds will be issued only in fully registered form in principal denominations of $5,000 or any integral multiple thereof. Principal of the Bonds will be payable to the registered owner (the "Owner") at maturity or prior redemption upon presentation at the principal corporate office of the paying agent/registrar (the "Paying Agent/Registrar"), initially UMB Bank, N.A., Austin, Texas. The Bonds will be initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will be responsible for distributing the principal and interest payments to the participating members of DTC and the participating members will be responsible for distributing the payment to the owners of beneficial interests in the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

PURPOSE… Proceeds from the sale of the Bonds will be used to refund certain obligations of the City described in Schedule I (the "Refunded Obligations") for debt service savings and to pay the costs associated with the issuance of the Bonds. See "THE BONDS – Sources and Uses of Funds" herein.

REDEMPTION… The Bonds are not subject to redemption prior to maturity. See "THE BONDS – Optional Redemption" herein.

SECURITY AND SOURCE OF PAYMENT… The Bonds will constitute direct obligations of the City of Hearne, Texas (the "City"), payable from ad valorem taxes levied against all taxable property within the City within the limits prescribed by law as provided in the ordinance authorizing the Bonds.

Insurance The scheduled payment of principal and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by Build America Mutual Assurance Company ("BAM"). BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P").

See Principal Amounts, Maturities, Interest Rates, and Prices on the Inside Cover Page

LEGALITY… *The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State of Texas and Orrick, Herrington & Sutcliffe LLP, Bond Counsel, Houston, Texas. Certain legal matters will be passed upon for the Underwriter by its counsel, Naman Howell Smith & Lee, PLLC, Austin, Texas.*

DELIVERY… *The Bonds are expected to be available for delivery to the Underwriter through DTC on or about November 20, 2020.*

FROST BANK

MATURITY SCHEDULE

$2,815,000 General Obligation Refunding Bonds, Series 2020

CUSIP NO.[C] Prefix 422254

Maturity (02/15)[a]	Principal Amount	Interest Rate	Initial Yield[b]	Price[b]	CUSIP[c] Suffix
2021	$ 25,000	3.000%	0.780%	100.521	FJ6
2022	360,000	3.000%	0.800%	102.699	FK3
2023	370,000	3.000%	0.830%	104.796	FL1
2024	385,000	3.000%	0.860%	106.814	FM9
2025	400,000	3.000%	1.020%	108.187	FN7
2026	410,000	3.000%	1.200%	109.107	FP2
2027	425,000	3.000%	1.350%	109.835	FQ0
2028	440,000	3.000%	1.500%	110.248	FR8

(a) The Bonds are not subject to redemption prior to maturity. (See "THE BONDS – Optional Redemption").

(b) The initial yields and prices are established by, and are the sole responsibility of the Underwriter and may subsequently be changed.

(c) CUSIP numbers have been assigned to this issue by the CUSIP Global Services managed by Standard and Poor's Financial Services LLC on behalf of the American Bankers Association and are included solely for the convenience of the purchasers of the Bonds. Neither the City, the Financial Advisor, nor the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

CITY OF HEARNE, TEXAS

CITY COUNCIL

Mayor	Ruben Gomez
Mayor Pro-Tem	Emmett Aguirre
Councilmember	Nelda Trevino
Councilmember	LaShunda White
Councilmember	Ray A. Edwards
Councilmember	Margaret Salvaggio

ADMINISTRATIVE OFFICERS

John Naron	City Manager
Linda Pecina	City Secretary
Floyd Akers	City Attorney

CONSULTANTS, ADVISORS AND INDEPENDENT AUDITORS

Orrick, Herrington & Sutcliff LLP, Houston, Texas	Bond Counsel
Donald L. Allman, CPA, PC	Independent Auditor
Government Capital Securities Corporation, Southlake, Texas	Financial Advisor

For additional information regarding the City, please contact:

John Naron
City Manager
City of Hearne
209 Cedar St.
Hearne, Texas 77859
(979) 279-3461
citymanager@cityofhearne.com

Jake Lawrence
Government Capital Securities Corporation
559 Silicon Drive, Suite 102
Southlake, TX 76092
(817) 722-0220
jlawrence@govcapsecurities.com

USE OF INFORMATION IN OFFICIAL STATEMENT

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

THE BONDS ARE EXEMPTED FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THESE SECURITIES HAVE BEEN REGISTERED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The agreements of the City and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL SCHEDULES AND APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information set forth in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Neither the City, the Financial Advisor nor the Underwriter make any representation as to the accuracy, completeness or adequacy of the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry-Only System.

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "Bond Insurance" and "Appendix E - Specimen Municipal Bond Insurance Policy."

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BOND INSURANCE

BOND INSURANCE POLICY

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company ("BAM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of June 30, 2020 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were $488.7 million, $143.6 million and $345.1 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE".

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at

buildamerica.com/creditinsights/. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at buildamerica.com/obligor/. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

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SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information contained in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement, including the schedules and appendices hereto. No person is authorized to detach this Summary Statement from this Official Statement or to otherwise use it without this entire Official Statement including the Appendices hereto.

The Issuer	The City of Hearne, Texas (the "City"), is located in Robertson County, Texas. For information regarding the City, see Appendices A and B.
The Bonds	$2,815,000 General Obligation Refunding Bonds, Series 2020, dated November 1, 2020, maturing on the dates and in the amounts set forth on the inside front cover of this Official Statement. Interest on the Bonds will accrue from their date of delivery and will be paid semiannually on February 15 and August 15, commencing February 15, 2021, until maturity or prior redemption.
Purpose of Bonds	Proceeds from the sale of the Bonds will be used to refund certain obligations of the City described in Schedule I (the "Refunded Obligations") for debt service savings and to pay the costs associated with the issuance of the Bonds. See "THE BONDS – Sources and Uses of Funds" herein.
Authorization and Security	The Bonds are issued pursuant to the general laws of the State, including particularly Chapter 1207, Texas Government Code, as amended, and an ordinance (the "Bond Ordinance") adopted by the City Council (the "Council") of the City authorizing the issuance of the Bonds. As permitted by the Provisions of Chapter 1207, the Council, in the Bond Ordinance, delegated the authority to certain City Officials (each a "Pricing Officer") to execute approval of a pricing certificate establishing the pricing terms for the bonds (the "Pricing Certificate" and together with the Bond Ordinance the "Ordinance). The Bonds are payable from ad valorem taxes to be levied, within the limits prescribed by law, on all taxable property within the City as provided in the ordinance authorizing the Bonds.
Optional Redemption	The Bonds are not subject to optional redemption prior to maturity. See "THE BONDS – Optional Redemption" herein.
Tax Exemption	In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds (See "TAX MATTERS")
Qualified Tax-Exempt Obligations	The City will designate the Bonds as "qualified tax-exempt obligations" for financial institutions.
Ratings	S&P Global Ratings, a Standard and Poor's Financial Services LLC business ("S&P"), has assigned a rating of "AA" to the Bonds based upon the Municipal Bond Insurance Policy to be issued by Build America Mutual Assurance Company. The Bonds have also been assigned an underlying rating of "__" by S&P. An explanation of the significance of such rating may be obtained from S&P. See "RATINGS" herein.

Book-Entry-Only System	The Bonds are initially issuable only to Cede & Co., the nominee of The Depository Trust Company, New York, New York, pursuant to the book-entry only system described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the purchasers thereof. Principal of, premium if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the DTC Participants (as defined herein) for subsequent remittance to the owners of the beneficial interests in the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.
Payment Record	The City has never defaulted on the payment of its bonded indebtedness.

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SELECTED FINANCIAL INFORMATION
(Unaudited)

2020-2021 Certified Taxable Assessed Valuation……..	$310,782,281 [(a)]

City Debt:

Outstanding Tax Supported Debt (as of August 1, 2020)……	$11,225,000
Plus: The Bonds……...	$2,815,000
Less: The Refunded Obligations	$2,860,000
Total Tax Supported Debt……	$11,180,000

Debt Service Fund Balance (as of Sept. 30, 2019)……..	$937,666

	% of 2020-21 Assessed Valuation	2018 Per Capita (4648)
Debt Ratios:		
Direct Tax Supported Debt……..	3.59%	$2,405

2020-21 Tax Rate (per $100 of Assessed Valuation)

Maintenance and Operation	$0.25179
Debt Service ……	$0.41360
Total ……	$0.66539

Estimated Annual Debt Service Requirements……..

Average……	$ 650,195
Maximum (2028)……	$ 948,550

Tax Collections

Tax Year 2018 (fiscal year ending September 30, 2019…….	93.75%
Total Collections……..	93.75%

(a) Provided by the Robertson County Appraisal District (the "Appraisal District") and net of exemptions. Such value is further subject to changes as additions, corrections and deletions are made to the tax roll.

OFFICIAL STATEMENT
RELATING TO

$2,815,000
CITY OF HEARNE, TEXAS
(Robertson County, Texas)
General Obligation Refunding Bonds, Series 2020

INTRODUCTORY STATEMENT

This Official Statement, which includes the cover page, the schedules and the appendices hereto, provides certain information regarding the issuance by the City of Hearne, Texas (the "City") of $2,815,000 General Obligation Refunding Bonds, Series 2020 (the "Bonds").

The Bonds will be authorized to be issued, sold and delivered by an ordinance enacted by the City's governing body (the "City Council") and the pricing certificate executed pursuant thereto (collectively the "Ordinance"). Capitalized terms used in this Official Statement have the same meaning assigned to such terms in the Ordinance, except as otherwise indicated herein.

The City is a political subdivision of the State of Texas (the "State") and a municipal corporation organized and existing under the laws of the State. For information regarding the City, see Appendices A and B of this Official Statement.

All financial and other information presented in this Official Statement has been provided by the City, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue to be repeated in the future.

THE BONDS

Purpose

Proceeds from the sale of the Bonds will be used to refund certain obligations of the City described in Schedule I (the "Refunded Obligations") for debt service savings and to pay the costs associated with the issuance of the Bonds. See "THE BONDS – Sources and Uses of Funds" herein.

Authorization

The Bonds are issued pursuant to the general laws of the State, including particularly Chapter 1207, Texas Government Code, as amended, and an ordinance (the "Bond Ordinance") adopted by the City Council (the "Council") of the City authorizing the issuance of the Bonds. As permitted by the Provisions of Chapter 1207, the Council, in the Bond Ordinance, delegated the authority to certain City Officials (each a "Pricing Officer") to execute approval of a pricing certificate establishing the pricing terms for the bonds (the "Pricing Certificate" and together with the Bond Ordinance the "Ordinance).

Security for the Bonds

The Bonds are payable from ad valorem taxes to be levied and collected, within the limits prescribed by law, on all taxable property within the City as provided in the Ordinance.

Optional Redemption

The Bonds are not subject to optional redemption prior to maturity.

Notice of Redemption

Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. If notice is so given and sufficient funds are provided for the payment of the redemption price of the Bonds, interest shall cease to accrue after the date fixed for redemption whether or not the Bonds have been submitted for payment. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, AND THE FUNDS NECESSARY TO REDEEM SUCH BONDS HAVING BEEN PROVIDED, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

The Paying Agent/Registrar and the City, so long as a Book-Entry Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC.

In such event, DTC may implement, through its Book-Entry Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners.

Any such selection of Bonds to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants, or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption (see "THE BONDS – Book-Entry Only System").

Refunded Obligations

The Order provides that from a portion of the proceeds of the sale of the Bonds, the City will deposit with UMB Bank, N.A., Austin, Texas (the "Escrow Agent") an amount which when added to the investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in an escrow account (the "Escrow Fund") and used to purchase a portfolio of securities authorized by Section 1207.062, Texas Government Code, which authorized securities include direct noncallable obligations of the United States and noncallable obligations of an agency or instrumentality of the United States rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent and guaranteed by the full faith and credit of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds.

BLX Group LLC, will verify at the time of delivery of the Bonds to the Underwriters that the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds on their respective scheduled redemption date and maturity dates. Such maturing principal of and interest on the Federal Securities will not be available to pay the debt service on the Bonds (see "VERIFICATION OF ARITHMETICAL COMPUTATIONS").

By the deposit of the Federal Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of the Refunded Bonds pursuant to the terms of Chapter 1207, Texas Government Code, and the Order authorizing the issuance of the Refunded Bonds. As a result of such deposit and in reliance upon the report of BLX Group LLC, firm banking arrangements will have been made for the discharge and final payment of the Refunded Bonds, and such Refunded Bonds will be deemed to be fully paid and no longer outstanding except for the purpose of being paid from funds provided therefor, in the Escrow Agreement. Upon defeasance of the Refunded Bonds, the payment of such Refunded Bonds will no longer be guaranteed by the Permanent School Fund.

In the Escrow Agreement, the City covenants to make timely deposits with the Escrow Agent from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Bonds, if for any reason the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources of Funds	
Principal Amount of Bonds	$2,815,000.00
Original Issue Premium	210,802.40
Total Sources of Funds	3,025,802.40
Uses of Funds	
Refunding Escrow Deposit	$2,912,509.63
Costs of Issuance	66,000.00
Underwriter's Discount	33,525.00
Bond Insurance	12,087.76
Deposit to Debt Service Fund	1,680.01
Total Uses of Funds	$3,025,802.40

GENERAL INFORMATION REGARDING THE BONDS

General Description

The Bonds will be dated November 1, 2020 (the "Dated Date"), and will be issued in fully registered form in principal denominations of $5,000 or any integral multiple thereof. The Bonds will bear interest from the date of delivery to the underwriter listed on the cover page hereof (the "Underwriter"), and interest will be paid semiannually on each February 15 and August 15, commencing February 15, 2021. Interest will accrue on the Bonds on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued as book-entry only securities pursuant to arrangements made with The Depository Trust Company, New York, New York. See "BOOK-ENTRY-ONLY SYSTEM."

Principal of the Bonds will be payable to the registered owners (the "Owners") at maturity or prior redemption upon presentation and surrender of such Bonds at the principal corporate office of the paying agent/registrar (the "Paying Agent/Registrar"), initially UMB Bank, N.A., Austin, Texas. Interest on the Bonds will be payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to Owners as shown on the records of the Paying Agent/Registrar on the Record Date (see "REGISTRATION, TRANSFER AND EXCHANGE – Record Date for Interest Payment" herein), or by such other customary banking arrangement, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Owner. If the date for the payment of the principal of or interest on a Bond shall be a Saturday, Sunday, legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or a day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

The Bonds will mature on the dates, in the amounts and bear interest at the rates as set forth on inside cover page of this Official Statement.

Legality

The Bonds are offered when, as and if issued, subject to the approvals of legality by the Attorney General of the State of Texas and Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Bond Counsel. (See "LEGAL MATTERS" and Appendix C – "Form of Opinion of Bond Counsel").

Defeasance

The Ordinance provides that the City may defease the Bonds and discharge its obligation to the holders of any or all of the Bonds to pay the principal of and interest thereon in any manner now or hereafter permitted by law, including by depositing with the Registrar or with the Comptroller of the State of Texas either: (a) cash in an amount equal to the principal amount of and interest thereon to the date of maturity or redemption; or (b) pursuant to an escrow or trust agreement, cash and/or (i) direct noncallable obligations of United States of America, including obligations that are unconditionally guaranteed by the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; or (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the Board approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, which, in the case of (i), (ii), or (iii), may be in book entry form, and the principal of and interest on which will, when due or redeemable at the option of the holder, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, provide money in an amount which, together with other moneys, if any, held in such escrow at the same time and available for such purpose, shall be sufficient to provide for the timely payment of the principal of and interest thereon to the date of maturity or earlier redemption; provided, however, that if any of the Bonds are to be redeemed prior to their respective dates of maturity, provision shall be made for the giving of notice of redemption as provided in the Ordinance. Any surplus amount not required to accomplish such defeasance shall be returned to the City.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorize.

Amendments to the Ordinance

In the Ordinance, the City has reserved the right to amend such Ordinance without the consent of any holder of the Bonds in any manner not detrimental to the interests of the holders of the Bonds, including the curing of any ambiguity, defect or omission therein.

The Ordinance further provides that the holders of the Bonds aggregating in principal amount 51% of the outstanding Bonds shall have the right from time to time to approve any amendment not described above to the Ordinance; provided, however, that without the consent of 100% of the holders in original principal amount of the then outstanding Bonds no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Bonds; (ii) reducing the rate of interest borne by any of the outstanding Bonds; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Bonds; or (v) changing the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment. Reference is made to the Ordinance for further provisions relating to the amendment thereof.

OWNERSHIP

The City, the Paying Agent/Registrar and any other person may treat the person in whose name any Bond is registered as the absolute owner of such Bond for the purpose of making and receiving payment of principal and

interest, and for all other purposes, whether or not such Bond is overdue, and neither the City nor the Paying Agent/Registrar will be bound by any notice or knowledge to the contrary.

All payments made to the person deemed to be the owner of any Bond in accordance with the Ordinance will be valid and effectual and will discharge the liability of the City and the Paying Agent/Registrar upon such Bond to the extent of the sums paid.

OWNER'S REMEDIES

The Ordinance does not provide for the appointment of a trustee to represent the interests of the Bond holders upon any failure of the City to perform in accordance with the terms of the Ordinance or upon any other condition and, in the event of any such failure to perform, the registered owners would be responsible for the initiation and cost of any legal action to enforce performance of the Ordinance. Furthermore, the Ordinance does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Ordinance. A registered owner of Bonds could seek a judgment against the City if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the City and a suit for monetary damages could be vulnerable to the defense of sovereign immunity. A registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to levy, assess, and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due or perform other material terms and covenants contained in the Ordinance. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

The City is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bond holders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City, the Financial Advisor, and the Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered Bonds in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered security certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities Bonds. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest, and redemption payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on

the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest, and redemption payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor Securities depository). In that event, physical Bonds will be printed and delivered.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry Only System and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

UMB Bank, N.A., Austin, Texas has been named to serve as initial Paying Agent/Registrar for the Bonds. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. If the City replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the City shall be a commercial bank; a trust company organized under applicable law; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

In the event the Book-Entry Only System should be discontinued, interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid (i) by check sent United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal and redemption payments of the Bonds will be paid to the registered owner at the stated maturity or earlier redemption upon presentation to the designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal or interest on the Bonds is a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due. So long as Cede & Co. is the registered owner of the Bonds, principal, interest, and redemption payments on the Bonds will be made as described in "BOOK-ENTRY ONLY SYSTEM" above.

Future Registration

In the event the book-entry only system should be discontinued, printed Bonds will be delivered to the Owners and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the Owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond will be delivered by the Paying Agent/Registrar in lieu of the Bond being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered Owner at the Owner's request, risk and expense. New Bonds issued in an exchange or transfer of Bonds will be delivered to the registered Owner or assignee of the Owner after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the Owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be of like kind and in authorized denominations and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" for a description of the system to be utilized initially in the settlement and transfer of the Bonds.

Record Date for Interest Payment

The record date ("Record Date") for the interest payable on any interest payment date is the close of the last Business Day of the month next preceding such interest payment date, as specified in the Ordinance. In the event of a nonpayment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (the "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least 5 days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each Owner of a Bond appearing on the books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Limitation on Transfer of Bonds

Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond, or any portion thereof, called for redemption prior to maturity within 45 days prior to its redemption date, provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement of Bonds

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and in substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the City and the Paying Agent/Registrar evidence satisfactory to them that such Bond has been destroyed, stolen or lost and proof of the ownership thereof and (b) upon furnishing the City and the Paying Agent/Registrar with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

AD VALOREM PROPERTY TAXATION

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Reference is made to Title I of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board ("Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the responsibility of the Robertson County Appraisal District (the "Appraisal District"). Except as described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (the "10% Homestead Cap"). The 10% increase is cumulative, meaning the maximum increase is 10% times the number of years since the property was last appraised. See Table 1 for the reduction in taxable valuation attributable to the 10% Homestead Cap.

State law provides that eligible owners of both agricultural land and open-space land, including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity ("Productivity Value"). The same land may not be qualified as both agricultural and open-space land. See Table 1 for the reduction in taxable valuation attributable to valuation by Productivity Value.

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates. See "AD VALOREM PROPERTY TAXATION – Issuer and Taxpayer Remedies."

State Mandated Homestead Exemptions

State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty. See Table 1 for the reduction in taxable valuation attributable to state-mandated homestead exemptions.

Local Option Homestead Exemptions

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the market value of all homesteads (but not less than $5,000) and (2) an additional exemption of the market value of the homesteads of persons 65 years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. See Table 1 for the reduction in taxable valuation, if any, attributable to local option homestead exemptions.

Local Option Freeze for the Elderly and Disabled

The governing body of a county, municipality or junior college district may, at its option, provide for a freeze on the total amount of ad valorem taxes levied on the homesteads of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon voter

initiative, an election may be held to determine by majority vote whether to establish such a freeze on ad valorem taxes. Once the freeze is established, the total amount of taxes imposed on such homesteads cannot be increased except for certain improvements, and such freeze cannot be repealed or rescinded. See Table 1 for the reduction in taxable valuation attributable to the freeze on taxes for the elderly and disabled.

Personal Property

Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the "production of income" is taxed based on the property's market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property.

Freeport Exemptions

Certain goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue to tax Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal. Certain goods, principally inventory, that are stored for the purposes of assembling, storing, manufacturing, processing or fabricating the goods in a location that is not owned by the owner of the goods and are transferred from that location to another location within 175 days ("Goods-in-Transit"), are exempt from ad valorem taxation unless a taxing unit takes official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax Goods-in-Transit beginning the following tax year. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include special inventories such as motor vehicles or boats in a dealer's retail inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property. See Table 1 for the reduction in taxable valuation, if any, attributable to Goods-in-Transit or Freeport Property exemptions.

Other Exempt Property

Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property.

Tax Increment Financing Zones

A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment financing zones ("TIRZ") within its boundaries, and other overlapping taxing units may agree to contribute taxes levied against the "Incremental Value" in the TIRZ to finance or pay for project costs, as defined in Chapter 311, Texas Government Code, general located within the TIRZ. At the time of the creation of the TIRZ, a "base value" for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value is known as the "Incremental Value", and during the existence of the TIRZ, all or a portion of the taxes levied by each participating taxing unit against the Incremental Value in the TIRZ are restricted to paying project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units. See "AD VALOREM PROPERTY TAXATION" City Application of Property Tax Code" for descriptions of any TIRZ created in the City.

Tax Abatement Agreements

Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. See "AD VALOREM PROPERTY TAXATION – City Application of Property Tax Code" for descriptions of any of the City's tax

abatement agreements. See Table 1 for the reduction in taxable valuation, if any, attributable to tax abatement agreements.

For a discussion of how the various exemptions described above are applied by the City, see "AD VALOREM PROPERTY TAXATION – City Application of Property Tax Code" herein.

Public Hearing and Maintenance and Operation Tax Rate Limitations

The following terms as used in this section have the meanings provided below:

"adjusted" means lost values are not included in the calculation of the prior year's taxes and new values are not included in the current year's taxable values.

"de minimis rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted), plus the rate that produces an additional $500,000 in tax revenue when applied to the current year's taxable value, plus the debt service tax rate.

"no-new-revenue tax rate" means the combined maintenance and operations tax rate and debt service tax rate that will produce the prior year's total tax levy (adjusted) from the current year's total taxable values (adjusted).

"special taxing unit" means a city for which the maintenance and operations tax rate proposed for the current tax year is 2.5 cents or less per $100 of taxable value.

"unused increment rate" means the cumulative difference between a city's voter-approval tax rate and its actual tax rate for each of the tax years 2020 through 2022, which may be applied to a city's tax rate in tax years 2021 through 2023 without impacting the voter-approval tax rate.

"voter-approval tax rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted) multiplied by 1.035, plus the debt service tax rate, plus the "unused increment rate".

The City's tax rate consists of two components: (1) a rate for funding of maintenance and operations expenditures in the current year (the "maintenance and operations tax rate"), and (2) a rate for funding debt service in the current year (the "debt service tax rate"). Under State law, the assessor for the City must submit an appraisal roll showing the total appraised, assessed, and taxable values of all property in the City to the City Council by August 1 or as soon as practicable thereafter.

A city must annually calculate its "voter-approval tax rate" and "no-new-revenue tax rate" (as such terms are defined above) in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the county tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

As described below, the Property Tax Code provides that if a city adopts a tax rate that exceeds its voter-approval tax rate or, in certain cases, its "de minimis rate", an election must be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

A city may not adopt a tax rate that exceeds the lower of the voter-approval tax rate or the no-new-revenue tax rate until each appraisal district in which such city participates has delivered notice to each taxpayer of the estimated total amount of property taxes owed and the city has held a public hearing on the proposed tax increase.

For cities with a population of 30,000 or more as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the voter-approval tax rate, that city must conduct an election on the next occurring

November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

For cities with a population less than 30,000 as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the greater of (i) the voter-approval tax rate or (ii) the de minimis rate, the city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate. However, for any tax year during which a city has a population of less than 30,000 as of the most recent federal decennial census and does not qualify as a special taxing unit, if a city's adopted tax rate is equal to or less than the de minimis rate but greater than both (a) the no-new-revenue tax rate, multiplied by 1.08, plus the debt service tax rate or (b) the city's voter-approval tax rate, then a valid petition signed by at least three percent of the registered voters in the city would require that an election be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

Any city located at least partly within an area declared a disaster area by the Governor of the State or the President of the United States during the current year may calculate its "voter-approval tax rate" using a 1.08 multiplier, instead of 1.035, until the earlier of (i) the second tax year in which such city's total taxable appraised value exceeds the taxable appraised value on January 1 of the year the disaster occurred, or (ii) the third tax year after the tax year in which the disaster occurred.

State law provides cities and counties in the State the option of assessing a maximum one-half percent (1/2%) sales and use tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional sales and use tax for ad valorem tax reduction is approved and levied, the no-new-revenue tax rate and voter-approval tax rate must be reduced by the amount of the estimated sales tax revenues to be generated in the current tax year.

The calculations of the no-new-revenue tax rate and voter-approval tax rate do not limit or impact the City's ability to set a debt service tax rate in each year sufficient to pay debt service on all of the City's tax-supported debt obligations, including the Bonds.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

Debt Tax Rate Limitations

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax-supported debt within the limits prescribed by law. Article XI, Section 4, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $1.50 per $100 of Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of $1.50 of the $2.50 maximum tax rate for all debt service on ad valorem tax-supported debt, as calculated at the time of issuance.

City's Rights in the Event of Tax Delinquencies

Taxes levied by the City are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the City, having power to tax the property. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes. At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two (2) years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents

liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

Issuer and Taxpayer Remedies

Under certain circumstances, the City and its taxpayers may appeal the determinations of the Appraisal District by timely initiating a protest with the Appraisal Review Board. Additionally, taxing units such as the City may bring suit against the Appraisal District to compel compliance with the Property Tax Code.
Owners of certain property with a taxable value of at least $50 million and situated in a county with a population of one million or more as of the most recent federal decennial census may additionally protest the determinations of appraisal district directly to a three-member special panel of the appraisal review board, selected by a State district judge, consisting of highly qualified professionals in the field of property tax appraisal.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the City and provides for taxpayer referenda that could result in the repeal of certain tax increases (See "– Public Hearing and Maintenance and Operation Tax Rate Limitations".) The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

City Application of the Property Tax Code

The City does grant a local option exemption of the market value of all residence homesteads.

The City does grant a local option exemption of the market value of the residence homestead of persons 65 years of age or older of $3,000.

The City does not grant a local option freeze on taxes for persons 65 years of age or older or disabled persons.

The City does not permit split payments, and discounts are not allowed.

The City does not tax Freeport Property.

The City has not taken action to tax Goods-in-Transit.

The City does not participate in a TIRZ.

The City does not tax non business personal property.

The City has adopted a tax abatement policy. The city has one (1) active Tax Abatement Agreement with a business. For the 2018 tax year the total assessed valuation loss due to the abatement agreement equals $4,847,877. The current Tax Abatement Agreement has four (4) distinctive abatement periods as new improvements are brought into service. If all contemplated improvements are brought into service the last abatement period under the agreement will expire in 2030 but none of the improvements shall be subject to an abatement period longer than ten (10) years.

RETIREMENT PLAN

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System, an agent multi-employer public employee retirement system. For a discussion of the Retirement Plan, see Appendix D "Audited Financial Statements for the Fiscal Year Ended September 30, 2019."

INVESTMENT POLICIES

Accounting Principles Generally Accepted in the United States

The City policy is to adhere to accounting principles generally accepted in the United States (see Appendix D "Audited Financial Statements for the Fiscal Year Ended September 30, 2019").

Legal Investments

Under State law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the City selects from a list the governing body of the City or designated investment committee of the City adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the City selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the City appoints as the City's custodian of the banking deposits issued for the City's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of Chapter 2256, Texas Government Code (the "Public Funds Investment Act"), that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the City through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the City, (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d), Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements as defined in the Public Funds Investment Act, that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph or corporate bonds as described below, require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations

described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 365 days or less that is rated not less than "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and have either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract.

A political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, other than the prohibited obligations described below, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service if the governing body of the City authorizes such investment in the particular pool by order, ordinance, or resolution and the investment pool complies with the requirements of Section 2256.016, Texas Government Code.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution.

The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and

capability of investment management; and that include a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the City's investment officers shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from City Council.

Additional Provisions

Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a written instrument by rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and recording any changes made to either its investment policy or investment strategy; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

Current Investments

As of September 30, 2019, the City's investment portfolio was invested in the following categories. As of such date, the market value of such investments was approximately 100% of their book value.

Type of Investment	Amount
TexStar	$937,666
Total	$937,666

INFECTIOUS DISEASE OUTBREAK – COVID-19

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the "Pandemic") by the World Health Organization and is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President's Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic, which disaster declaration was extended in both April and May. . Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has issued a series of executive orders relating to COVID-19 preparedness and mitigation. These include, for example, the issuance on September 17, 2020 of Executive Order GA-30, which, among other things, provided further guidelines for the reopening of businesses and the maximum threshold level of occupancy related to such establishments. Certain businesses, such as cybersecurity services, child care services, local government operations, youth camps, recreational programs, schools, and religious services, do not have the foregoing limitations. The Governor's order also states, in providing or obtaining services, every person (including individuals, businesses, and other legal entities) should use good-faith efforts and available resources to follow the minimum standard health protocols. Executive Order GA-30 permits visits to nursing homes, state supported living centers, assisted living facilities, or long-term care facilities as determined through the guidance from the Texas Health and Human Services Commission. Executive Order GA-30 remains in place until amended, rescinded, or superseded by the Governor. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects the operation of schools. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at https://gov.texas.gov/. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

The pandemic has negatively affected travel, commerce and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values within the City. The Bonds are secured by an ad valorem tax (within the limits prescribed by law), and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the City's operations and maintenance expenses. See "AD VALOREM PROPERTY TAXATION – Public Hearing and Maintenance and Operations Tax Rate Limitations" and "Debt Tax Rate Limitations."

The City continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the City. While the potential impact of the Pandemic on the City cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the City's operations and financial condition.

EXPOSURE TO OIL AND GAS INDUSTRY

Recent declines in oil prices in the United States and globally may lead to adverse conditions in the oil and gas industry. Such adverse conditions may result in reduced revenues, declines in capital and operating expenditures, business failures, and the layoff of workers within the oil and gas industry. In the past, the area has been particularly affected by adverse conditions in the oil and gas industry, and adverse conditions in the oil and gas industry and spillover effects into other industries could adversely impact the businesses of ad valorem property taxpayers and the property values in the City, resulting in a reduction in property tax revenue. The Bonds are secured by an ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate, within the limits prescribed by law, required to pay the Bonds.

RATINGS

S&P Global Ratings, a business unit of Standard & Poor's Financial Services, LLC, ("S&P") has assigned a rating of "AA" to the Bonds based upon the Municipal Bond Insurance Policy to be issue by Build America Mutual Assurance Company. The Bonds have also been assigned an underlying rating of "BBB+" by S&P. An explanation

of the significance of such ratings may be obtained from S&P. The rating reflects only the view of S&P and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. Neither the Underwriter nor the City has undertaken any responsibility to bring to the attention of the holders of the Bonds any proposed revision or withdrawal of the rating of the Bonds or to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of such ratings could have an adverse effect on the market price of the Bonds.

PENDING LITIGATION

There is no material litigation currently pending against the City.

LEGAL MATTERS

The City will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the approving legal opinions of the Attorney General of the State of Texas to the effect that the Bonds are valid and binding obligations of the City, and based upon examination of such transcripts of proceedings, the approving legal opinions of Bond Counsel to the effect that (i) the Bonds issued in compliance with the provisions of the Ordinance are valid and legally binding obligations of the City and (ii) the interest on the Bonds is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions (see "TAX MATTERS"). Bond Counsel has not been engaged to investigate the financial resources of the City or its ability to provide for payment of the Bonds, and the opinion of Bond Counsel will make no statement as to such matters, or any other information that may have been relied on by anyone in making the decision to purchase the Bonds. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The applicable legal opinion will be printed on or attached to the definitive Bonds.

Bond Counsel has reviewed the statements and information appearing in the Official Statement under the captions "THE BONDS" (except the subcaption "Sources and Uses of Funds"), "GENERAL INFORMATION REGARDING THE BONDS," "REGISTRATION, TRANSFER AND EXCHANGE," "AD VALOREM PROPERTY TAXATION – Public Hearing and Maintenance and Operation Tax Rate Limitations," "LEGAL MATTERS," "TAX MATTERS," "LEGAL INVESTMENTS IN TEXAS," "REGISTRATION AND QUALIFICATION OF ISSUE FOR SALE" and "CONTINUING DISCLOSURE OF INFORMATION" (except the subcaption "Compliance With Prior Undertakings") fairly summarizes the procedures and documents referred to therein and is correct as to matters of law. Bond Counsel has not independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy, completeness, or fairness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy, completeness, or fairness of any of the information contained herein.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue

discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of Bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt Bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of Bonds presenting similar tax issues may affect the market

price for, or the marketability of, the Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

LEGAL INVESTMENTS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (1) are negotiable instruments, (2) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (3) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such Bonds are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital and savings and loan associations.

The City has made no investigation of other laws, rules, regulations, or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

REGISTRATION AND QUALIFICATION OF ISSUE FOR SALE

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration and qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available free of charge from the MSRB via Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

Annual Reports

The City will provide certain updated financial information and operating data to the MSRB annually in an electronic format as prescribed by the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included this Official Statement in Appendix A - Financial Information Regarding the City of Hearne, Texas (Tables 1-5) and in Appendix D. The City will update and provide this information within six months after the end of each fiscal year.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX D

or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by the last day of March in each year following the end of its fiscal year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

Material Event Notices

The City will also provide timely notices of certain events to the MSRB (not in excess of ten (10) days after the occurrence of the event). The City will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties. (Neither the Bonds nor the Ordinance make any provision for debt service reserves, liquidity enhancement, or credit enhancement). In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports".

For these purposes, any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

For the events listed in clause (15) and (16) above, the term "financial obligation" means a: (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) a guarantee of either (A) or (B). The term "financial obligation" shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

All documents provided to the MSRB shall be accompanied by identifying information, as prescribed by the MSRB.

Limitations and Amendments

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders and beneficial owners of the Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

This continuing disclosure agreement may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the City amends its agreement, it must include with the next financial information and opening data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in type of information and data provided. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings

The City failed to timely file its audited financial statements and annual financial operating data for fiscal years ending 2016 and 2017. The City filed its material event notices related to such late filings on March 31, 2017 and April 4, 2018 respectively. The City filed its unaudited financial statements and annual financial operating data for fiscal year ending 2016 on October 11, 2017 and its audited financial statements and annual financial operating data for fiscal year ending 2017 on February 28, 2018. The City filed its audited financial statements and annual financial operating data for fiscal year ending 2017 on May 25, 2018. The City has implemented procedures to assure compliance with filing requirements in the future. Other than as described above, over the last five years, the City has complied in all material respects with its previous continuing disclosure agreements made pursuant to the Rule.

VERIFICATION OF ARITHMETICAL COMPUTATIONS

BLX Group LLC will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Federal Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds.

BLX Group LLC relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the City. In addition, BLX Group LLC has relied on any information provided to it by the City's retained advisors, consultants or legal counsel.

OTHER INFORMATION

Financial Advisor

In its role as Financial Advisor, Government Capital Securities Corporation has relied on the City for certain information concerning the City and the Bonds. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Audited Financial Statements

Boucher, Morgan and Young, P.C., the City's independent auditor, has not reviewed, commented on, or approved, and is not associated with, this Official Statement. The report of Boucher, Morgan and Young, P.C. relating to City's financial statements for the fiscal year ended September 30, 2019 is included in this Official Statement in APPENDIX D; however, Boucher, Morgan and Young, P.C. has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the City, including without limitation any of the information contained in this Official Statement.

Underwriting

Frost Bank, the Underwriter, has agreed to purchase the Bonds from the City for $2,992,277.40 (being the principal amount of the Bonds, plus a premium of $210,802.40, less an Underwriter's discount of $33,525.00).

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information set forth in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Forward-Looking Statements

The statements contained in this Official Statement and in any other information provided by the City that are not purely historical are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligations to update any such forward-looking statements. It is important to note that the City's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

Concluding Statement

The information set forth herein has been obtained from the City's records, audited financial statements and other sources which are considered to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and the Ordinance contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Ordinance. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

The City has reviewed and approved the Official Statement and said instrument has been authorized for use and distribution by the Underwriter for the purpose of offering the Bonds.

/s/ Ruben Gomez
Mayor, City of Hearne, Texas

ATTEST:

/s/ Linda Pecina
Secretary, City of Hearne, Texas

SCHEDULE I

SCHEDULE OF REFUNDED OBLIGATIONS

Series to be Refunded	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
General Obligation Rfd Bds, Series 2011					
Serial	02/15/2022	3.300%	360,000	02/15/2021	100.000
	02/15/2023	3.500%	375,000	02/15/2021	100.000
	02/15/2024	3.600%	390,000	02/15/2021	100.000
	02/15/2025	3.750%	410,000	02/15/2021	100.000
	02/15/2026	3.800%	425,000	02/15/2021	100.000
	02/15/2027	3.900%	440,000	02/15/2021	100.000
	02/15/2028	4.000%	460,000	02/15/2021	100.000
			2,860,000		

APPENDIX A

FINANCIAL INFORMATION REGARDING
THE
CITY OF HEARNE, TEXAS

FINANCIAL INFORMATION FOR THE CITY

ASSESSED VALUATION **TABLE 1**

2020-21 Total Value of Taxable Property		$370,671,520
Less Exemptions:		
Local, Optional Over-65 and/or Disabled Homestead Exemptions	$1,026,472	
Disabled and Deceased Veterans' Exemptions	$2,441,807	
Productivity Value Loss	$3,043,105	
Homestead 10% Cap Adjustment	$7,787,512	
Abatement	$6,757,877	
Totally Exempt Property	$36,380,501	
Other	$2,451,965	$59,889,239
2020-21 Net Taxable Assessed Valuation (100% of Actual)[(a)]		$310,782,281

[(a)] *See "AD VALOREM PROPERTY TAXATION - City Application of the Property Tax Code" in the Official Statement for a description of the City's taxation procedures.*

Source: The City and Robertson Central Appraisal District

PRINCIPAL TAXPAYERS **TABLE 2**

Name	Type of Business	2020 Net Taxable Assessed Valuation	% of Total 2020 Assessed Valuation*
Motiva Enterprises LLC	Oil & Gas	$60,346,284	19.42%
Valero Marketing & Supply Co	Oil & Gas	17,705,364	5.70%
V-Tex Logistics, LLC	Oil & Gas Pipeline	14,804,266	4.76%
GATX Corp	Railcar Leasing	12,771,852	4.11%
Union Pacific Railroad Co	Railroad	8,861,058	2.85%
ECMD Inc.	Industrial Manufacturing	8,430,341	2.71%
Magellan Pipeline Company LP	Oil & Gas Pipeline	6,613,861	2.13%
Sunoco Partners Magtex	Oil & Gas Pipeline	5,109,387	1.64%
Columbus Village Apartments	Multi-Family Housing	3,996,513	1.29%
Cald-Tex LP	Rehabilitation Center	3,304,114	1.06%
Total		$141,943,040	45.67%[(1)]

* Based on 2020-21 Net Taxable Assessed Valuation of $310,782,281.

Source: Robertson Central Appraisal District

[(1)] As shown above, the total combined principal tax payers in the City currently account for over 45% of the City's tax base. A substantial portion of the principal tax payers are in oil and gas related business activities. See "EXPOSURE TO OIL & GAS INDUSTRY" herein for a discussion of the potential impact of adverse conditions in the oil & gas industry.

PROPERTY TAX RATES AND COLLECTIONS[(a)] **TABLE 3**

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Collection % Current	Collection % Total[(b)]	Fiscal Year Ended
2015	$207,652,413	$0.71039	94.85%	98.45%	9-30-16
2016	202,066,941	0.71039	97.60%	103.65%	9-30-17
2017	197,248,091	0.71039	97.56%	101.57%	9-30-18
2018	208,840,371	0.71039	93.75%	93.75%	9-30-19
2019	245,910,080	0.71039	In process		9-30-20
2020	310,782,281	0.66539	N/A		9-30-21

_____

(a) See "AD VALOREM PROPERTY TAXATION - The City Application of the Property Tax Code" in the Official Statement for a description of the City's taxation procedures.

(b) Excludes interest and penalties.

Source: Texas Municipal Report published by the Municipal Advisory Council of Texas, the Robertson Central Appraisal District, and the City.

Note: Assessed Valuations may change during the year due to various supplements and protests, and valuations on a later date or in other tables of this Official Statement may not match those shown on this table.

TAX RATE DISTRIBUTION **TABLE 4**

	2020-2021	2019-2020	2018-2019	2017-2018	2016-2017
Maintenance & Operations	$0.25179	$0.31717	$0.35335	$0.35704	$0.39249
I & S Fund	$0.41360	$0.39322	$0.35704	$0.35335	$0.31790
TOTAL	$0.66539	$0.71039	$0.71039	$0.71039	$0.71039

_____

Source: The City

PRO FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS **TABLE 5**

Debt Service Requirements
General Obligation Refunding
Bonds, Series 2020

Fiscal Year 30-Sept	Existing Debt Service	Less: Refunded Bonds	Principal	Interest	Debt Service	Total Debt Service Requirements
2021	$ 961,277.50	$ 106,130.00	$ 25,000.00	$ 61,789.58	$ 86,789.58	$941,937.08
2022	963,390.00	460,190.00	360,000.00	78,300.00	438,300.00	941,500.00
2023	964,137.50	462,687.50	370,000.00	67,350.00	437,350.00	938,800.00
2024	968,655.00	464,105.00	385,000.00	56,025.00	441,025.00	945,575.00
2025	971,747.50	469,397.50	400,000.00	44,250.00	444,250.00	946,600.00
2026	973,635.00	468,635.00	410,000.00	32,100.00	442,100.00	947,100.00
2027	969,330.00	466,980.00	425,000.00	19,575.00	444,575.00	946,925.00
2028	971,150.00	469,200.00	440,000.00	6,600.00	446,600.00	948,550.00
2029	501,150.00					501,150.00
2030	504,950.00					504,950.00
2031	503,150.00					503,150.00
2032	505,950.00					505,950.00
2033	503,150.00					503,150.00
2034	504,950.00					504,950.00
2035	501,150.00					501,150.00
2036	501,950.00					501,950.00
2037	502,150.00					502,150.00
2038	501,750.00					501,750.00
2039	500,750.00					500,750.00
2040	504,150.00					504,150.00
2041	501,100.00					501,100.00
2042	502,750.00					502,750.00
2043	503,950.00					503,950.00
2044	504,700.00					504,700.00
	$15,791,022.50	$3,367,325.00	$2,815,000.00	$365,989.58	$3,180,989.58	$15,604,687.08

APPENDIX B

GENERAL INFORMATION REGARDING
THE CITY OF HEARNE, TEXAS

The City of Hearne, Texas (the "City") is located in the center of a triangle formed by Dallas/Ft. Worth, Houston and San Antonio and is less than 100 miles from the state capital in Austin. The City is named for Christopher Columbus Hearne, an early settler whose wife donated land for the new town. The City is known as the "Crossroads of Texas" since two major rail lines and two major highways cross in the City. Robertson County was one of the first counties in Texas. The City is served by Texas State Highway 6 and US Highways 79 and 190.

Education

The City is served by the Hearne Independent School District. The District's combined enrollment is approximately 900 students and serves the City and its surrounding rural areas. The District is comprised of one elementary school, one junior high school and one high school. All campuses offer enriched curricula with special programs for gifted/talented students as well as students achieving below grade level and are equipped with computers and cafeteria service. The high school offers college classes.

Robertson County

The economy of Robertson County is diversified by agribusiness and manufacturing. Principal sources of agricultural income include cattle, hogs, horses, poultry and cotton. Minerals produced in the County include oil, gas and lignite coal. There were 133,741,185 cubic feet of natural gas and 2,094,511 barrels of crude oil recovered in 2017.[(1)]

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[(1)] Source: Texas Railroad Commission
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APPENDIX C

FORM OF OPINION OF BOND COUNSEL

November 20, 2020

City of Hearne, Texas
General Obligation Refunding Bonds, Series 2020

(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the City of Hearne, Texas (the "City") in connection with the issuance of $_____ aggregate principal amount of bonds designated as "City of Hearne, Texas General Obligation Refunding Bonds, Series 2020" (the "Bonds"). The Bonds are authorized by an ordinance adopted by the City Council (the "City Council") on September 15, 2020 "Ordinance"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Ordinance.

In such connection, we have reviewed the Ordinance, the tax certificate of the City dated the date hereof (the "Tax Certificate"), certificates of the City, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the original delivery of the Bonds on the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the original delivery of the Bonds on the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Order and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Order and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against issuers in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our

services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding obligations of the City.

2. The City Council has power and is obligated to levy an annual ad valorem tax, within the limits prescribed by law, upon taxable property located within the City, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

APPENDIX D

AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019

City of Hearne, Texas

Financial Statements with

Report of Independent Auditors

For the Fiscal Year Ended

September 30, 2019

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

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For the Year Ended September 30, 2019

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CITY OF HEARNE

March 31, 2020

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

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

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

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

Profile of the Government

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

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

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

CITY OF HEARNE

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

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

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

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

Local Economy

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

The Hearne Independent School District (HISD) is the third largest sector, employing over 250 professional educators and administrative staff. Servicing three campuses, the City's school district has a combined enrollment of 900 students. The school district is 95.5% economically disadvantage. The other 2 critical sectors are construction and retail, with construction being the highest paying industry in the area. Although the medium income is lower than the

entire USA by almost ten thousand dollars, the city's growth in recent years yielded double-digit percent change in medium wages.

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

Long –Term Financial Planning

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

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

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

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

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

Internal Control:

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

CITY OF HEARNE

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

Acknowledgements:

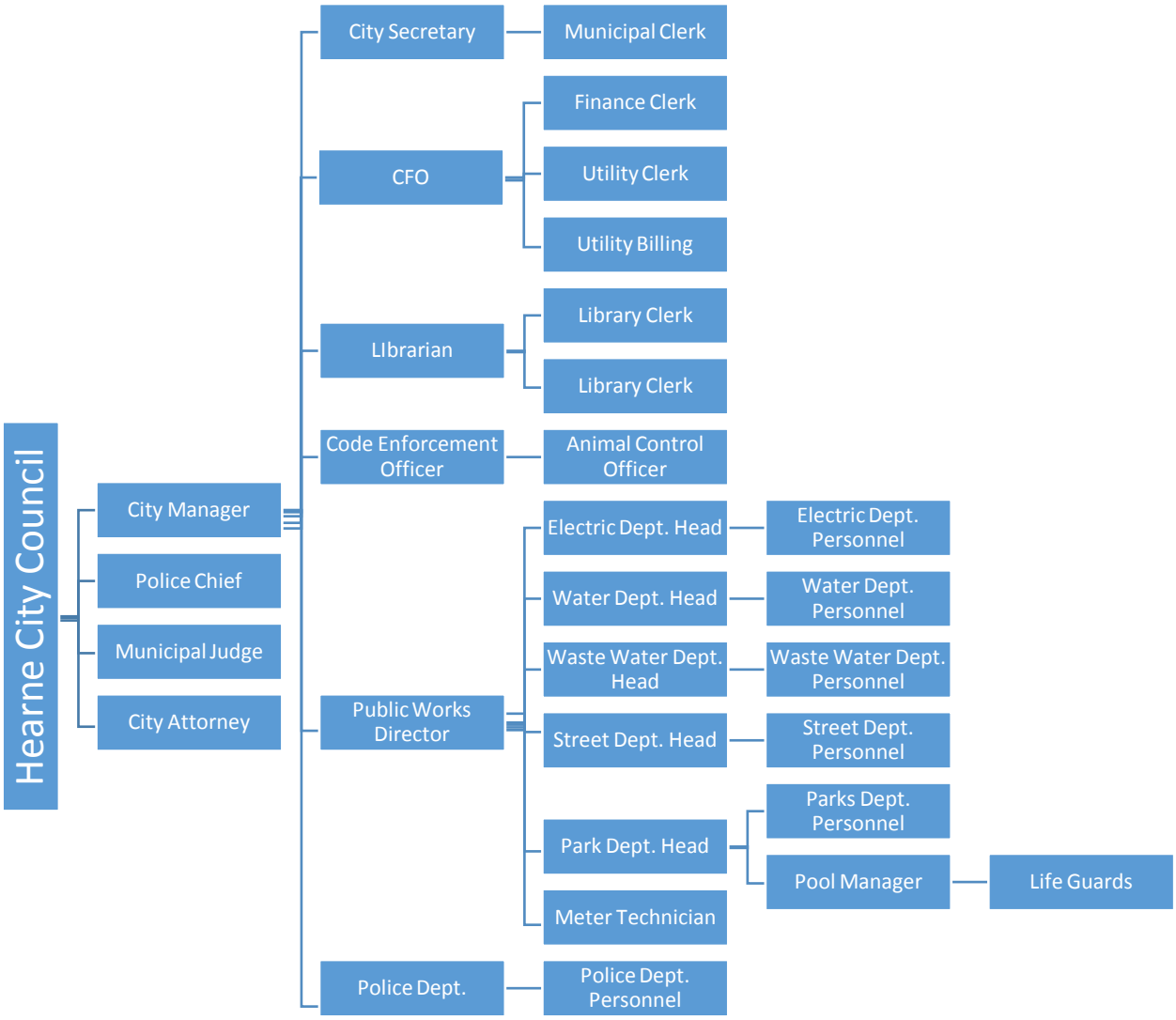
In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both generally accepted accounting principles and applicable legal requirements.

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

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

Respectfully submitted, V Alonzo Echavarria-Garza.

City of Hearne
Organizational Chart



FINANCIAL SECTION

The Accounting Firm of Donald L. Allman, CPA

Donald L. Allman, CPA, PC
4749 Williams Dr., Ste. 322
Georgetown, Texas 78633
Email: dallman@donallmancpa.com

CERTIFIED PUBLIC ACCOUNTANT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hearne, Texas as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Hearne, Texas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hearne, Texas, as of September 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-9 and 50-53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hearne, Texas' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2020, on our consideration of the City of Hearne, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Hearne, Texas internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hearne, Texas' internal control over financial reporting and compliance.

Donald L. Allman, CPA, PC

Georgetown TX
March 31, 2020

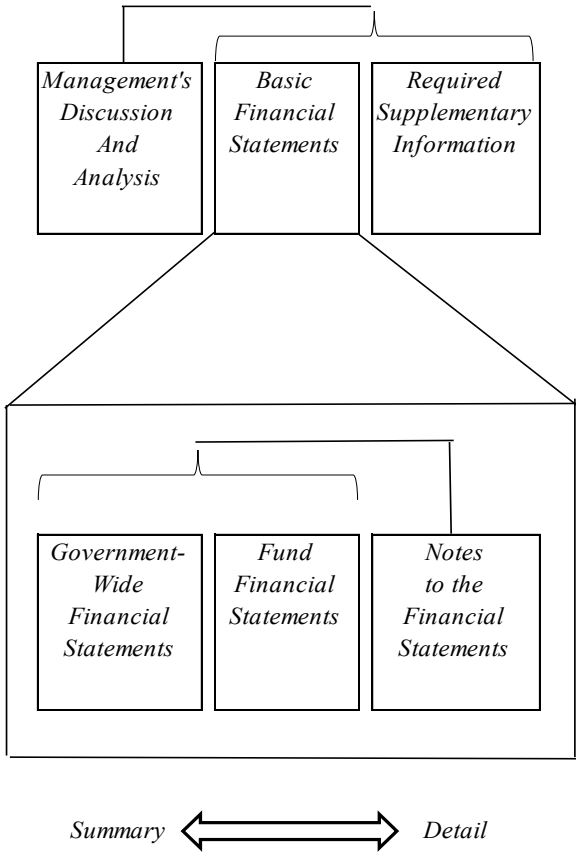
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City of Hearne Texas' annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2019. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

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

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



OVERVIEW OF THE FINANCIAL STATEMENTS

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

* The first two statements are government-wide financial statements that provide both *long-term* and *short-term* information about the City's overall financial status

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

* The *governmental funds* statements tell how general government services were financed in the *short term* as well as what remains for future spending.

* *Proprietary fund* statements offer *short* and *long-term* financial information about the activities the government operates *like* businesses.

* *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

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

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

Figure A-2

	Fund Statements			
Type of Statements	**Government-Wide**	**Governmental Funds**	**Proprietary Funds**	**Fiduciary Funds**
Scope	Entire Agency's government (except) fiduciary funds) and the Agency's component units	The activities of the city that are not proprietary or fiduciary	Activities the city operates similar to private business self insurance	Instances in which the city is the trustee or agent for someone else's resources.
Required Financial Statements	*Statement of Net Position	*Balance Sheet	*Statement of Net Assets	*Statement of Fiduciary Net Position
	*Statement of activities	*Statement of Revenues, Expenditures & Changes in Fund Balance	*Statement of Revenues, Expenditures & Changes in Fund Balance	*Statement of Changes in Fiduciary Net Position
			*Statement of Cash Flows	
Accounting basis & measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources to focus	Accrual accounting and economic resources focus
Type of Asset / Liability Information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities both short-term and long-term, the Agency's funds do not currently contain capital assets, although, they can
Type of Inflow / Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid.

Government-wide Statements
The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the City's net position and how they have changed. Net position, (the difference between the City's assets and liabilities), is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

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

Fund Financial Statements
The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.
Some funds are required by state law and by bond covenants.
The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.
The City has the following types of funds:
Government funds – most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship or differences between them.
Proprietary funds – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

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

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

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

The City's Net Position for Government Activities increased by 4.7% to $3,449,547. Unrestricted net position of governmental activities (the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements) was (1,914,685).

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

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

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

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

Governmental Activities

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

Business Activities

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

The City's management has been taking proactive steps to help with budgetary shortfalls. This is the 7th year that they have collected $0.003 per kilowatt on electric sales. $2.00 per water meter, and a sanitation administrative fee equal to approximately 16.9% (the fee varies based upon the size of garbage cart of dumpster) to strengthen the net position. They have also been collecting $0.47 per 1,000 gallons of water sold to defray the cost of the annual water storage tank maintenance and inspections.

THE CITY'S FUNDS

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

General Fund Budgetary Highlights

During the course of the year, the City revised its budget several times. These budget amendments fall into three categories. The first category includes amendments and supplemental appropriations which the 4A and the 4B Sales Tax Boards approved and agreed to pay for special projects. The second category involves unexpected revenue such as asset sales that management decided to use to cover a specific project, or insurance proceeds that was used to repair the damages covered by the insurance proceeds. The third type includes amendments at the end of the year to cover any unforeseeable budget overruns.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

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

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

At the end of 2019, the City had invested $41,688,000 in a broad range of capital assets, including land, buildings, park facilities, roads, bridges, equipment and vehicles, electric lines, water lines, sewer lines and wastewater treatment facilities. (See Table A-3). This amount represents an increase of $1,841,000, a 4.6% increase from last year.

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

Governmental	
Street Improvements	391,974
buiding construction in progress	581,280
Business-Type Activities	
Equipment Furniture & fixtures	208,457
Water & Wastewater System	383,097

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

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

Long-Term Debt

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2018-209 budget, tax rates, and fees that will be charged for the business-type activities. One of those factors is the economy. The City of Hearne has experienced notable commercial growth for a city with a population of less than 5,000.

Economic factors influencing the 2018-2019 Budget include the opening of a Chicken Express restaurant, a Tractor Supply hardware store, FEMA and the associated rental of City property projected to bring in an extra $200,000 in income per year, the Magellan East Houston to Hearne Pipeline which is projected to be a $30 million capital investment in 2018, the Valero Hearne to Hutto pipeline projected to be a $20 million capital investment in 2019, and Union Pacific is building the 2nd biggest railyard in the United States in Hearne.

The Chicken Express restaurant will increase sales tax revenues for the City of Hearne from citizens and travelers passing thru and also provide jobs.

The Tractor Supply store will also increase sales tax revenues for the City of Hearne and also provide jobs.

The FEMA and associated rental of City property is projected to increase revenues by $200,000 per year.

The Magellan East Houston to Hearne pipeline is projected to be a $30 million capital investment in 2018 and should bring jobs and increase revenues for the City of Hearne.

The Valero Hearne to Hutto pipeline is projected to be a $20 million capital investment in 2019 and should bring jobs and increase revenues for the City of Hearne.

The Union Pacific Railyard being built should bring jobs and increase revenues for the City of Hearne.

The Texas Department of Public Safety entered into an agreement with the City of Hearne to build and lease a Commercial Driver License Testing Facility to the DPS in Hearne. This facility opened in March of 2015 and has had a steady and consistent flow of people seeking a Texas Commercial Driver License.

In 2013, the City of Hearne was awarded a $750,000 TDRA "Capital Funds" Grant to upgrade the infrastructure, i.e., water lines, electric lines, sewer, city streets, and drainage to accommodate the new Nursing Home and Assisted Living Facility. The City also was awarded another Texas Capital Funds Grant in the amount of $325,000 to assist in upgrading the infrastructure for the molding and trim warehouse. The work on both of these grants is expected to be completed by the end of the first quarter of 2016.

The City of Hearne has received multiple grants from TX-DOT-Aviation Division in order to improve the Hearne Municipal Airport. One of these grants was approximately $165,000 to install a new Aviation Fuel Facility. The second grant was approximately $575,000 to build a game-proof perimeter fence around the airport. The work on the first project was completed and placed in operation in May, 2013. The Airport has a steady flow of Av-Gas customers that fly in from a radius of 100 miles, just to buy fuel. The fence was completed early in the 2014-2015 Fiscal Year. Both improvements to the airport have been appreciated and complimented by pilots.

The City of Hearne added a new restaurant, a new hardware store, FEMA rental income and 2 pipelines and a Railyard are coming.

These new businesses provide numerous economic benefits to the City of Hearne. Among these benefits are: 1. A broadened property tax base, an increase local sales tax, an increase in new jobs for the citizens, increased hotel & motel taxes from temporary workers, and a reason for people to move to Hearne and become citizens. 2. All of this comes full circle and leads to more businesses coming to Hearne. 3. Other businesses continue to show interest in relocating to Hearne. This same growth pattern is also reflected in small, locally owned businesses.

After taking all factors into consideration, the City adopted a $10.8 million budget for Fiscal Year 2017-2018. Broken down, this is $3.7 million for the General Fund and $7.1 million for the Enterprise Fund. This compares to the final budget of $3.3 million and $7.9 million respectively for fiscal year 2015-2016. This new budget is a 12.12% increase for the General Fund and 10.12% decrease for the Enterprise Fund. This provides an overall decrease of 3.57%

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

City of Hearne, Texas
Statement of Net Position
September 30, 2019

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

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

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

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

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

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

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

The accompanying notes are an integral part of this financial statement

City of Hearne, Texas
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
September 30, 2019

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

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

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

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

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

City of Hearne, Texas
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2019

Net change in fund balances - total governmental funds		$ (840,454)
because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense:		
Expenditures for capital assets	1,224,639	
Depreciation of capital assets	(470,777)	753,862
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds and are instead deferred. This amount represents the net change in unavailable tax revenue.		85,453
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(77,291)
		-
Net Pension expense, net OPEB expense, net increase or decrease in deferred outflows of resources, and increase or decrease in deferred inflows of resources are not recognized in governmental funds accounting.		(248,384)
Bond, loan and lease principal payments aren't expenses for government wide financial statements		482,103
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not included as expenditures in governmental funds.		
		-
Change in net position of governmental activities		$ 155,289

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

City of Hearne, Texas
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Year Ended September 30, 2019

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

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

City of Hearne, Texas
Statement of Net Position
Proprietary Funds
September 30, 2019

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

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

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

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

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

City of Hearne, Texas
Statement of Cash Flows
Proprietary Funds
For the Year ended September 30, 2019

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

The accompanying notes are an integral part of this financial statement

City of Hearne, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2019

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

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

Note 1. Summary of Significant Accounting Policies

The financial statements of the City of Hearne, Texas (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

A. Reporting Entity

The City is a home-rule city governed by an elected mayor and a five-member council. The City operates under a Council-Manager form of government, established by City charter. As required by generally accepted accounting principles, these financial statements present the City (the primary government) and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Discretely Presented Component Units

The Hearne Economic Development Corporation is a non-profit corporation created under Section 4A of the Development Corporation Act of 1979. The Corporation receives one-half of one percent of local sales tax collected, which is used to promote economic development within the City. The Corporation is governed by a Board of Directors that is appointed by the City Council.

The Hearne Infrastructure/Improvement Corporation is a non-profit corporation created under Section 4B of the Development Corporation Act of 1979. The Corporation receives one-half of one percent of local sales tax collected, which is used to promote economic development within the City. The Corporation is governed by a Board of Directors that is appointed by the City Council.

B. Basis of Presentation

Government-wide financial statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The effect of interfund activity, other than interfund services provided and used within the governmental and business-type activities, has been removed from these statements. The statements distinguish between governmental and business-type activities. Governmental activities are generally financed through taxes intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (General Government, Public Safety, etc.) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or

Directly benefit from goods, services, or privileges provided by a given function or segment; grants and contributions that are restricted to meeting the operational requirements of a particular function or segment; and grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Fund financial statements

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

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

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

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

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

Other Governmental Funds

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

Proprietary Funds

Enterprise Fund

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

Municipal Airport Enterprise Fund

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

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

All governmental funds utilize a *current financial resources* measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

The proprietary funds utilize an *economic resources* measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

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

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

The proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Operating revenues and expenses for proprietary funds include activities related to providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses that do not meet this definition are reported as non-operating revenues and expenses.

D. Budgets

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

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

E. Cash and Investments

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

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

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

F. Short-term Interfund Receivables/Payables

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

G. Inventories

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

H. Restricted Assets

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

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

I. Capital Assets

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

The City defines capital assets as assets with an estimated useful life greater than one year and an initial individual cost of $5,000 or more for land, machinery or equipment, buildings or improvements other than buildings. All capital assets are valued at historical cost of estimated historical cost if the actual historical cost is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. Interest incurred during construction is not capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Infrastructure assets (such as roads, bridges, curbs, and gutters, streets and sidewalks, and drainage systems) purchased before October 1, 2003 have not been capitalized and are excluded from capital assets of governmental activities.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation over the following estimated useful lives:

Buildings	10-50 years
Infrastructure	10-40 years
Improvements other than buildings	10-50 years
Machinery and equipment	5-15 years

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

J. Compensated Absences

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

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

K. Long-term Obligations

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

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

L. Fund Equity

Government-wide statements

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

a. Net investment in capital assets – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

b. Restricted net position – consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 92) law through constitutional provisions or enabling legislation.

c. Unrestricted net position – all other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund statements

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

Classification of fund balances
The *Nonspendable* fund balance includes the portion of net resources that cannot be spend because of their form or because they must be maintained intact. Resources not in spendable form include supplies inventories and prepaid items, long-term advances to other funds net of deferred interest revenue, long-term receivable net of deferred interest revenue, nonfinancial assets held for resale, and unrealized change in the fair value of investments.
Some resources are spendable but are legally or contractually required to be maintained intact. Such resources include the principal of an endowment.
The *restricted* fund balance includes net resources that can be spent only for the specific purposes stipulated by constitution, external resource providers (creditors, grantors, contributors), laws and regulations of other governments, or through enabling legislation. The enabling legislation authorizes the City to assess, levy, charge or otherwise mandate payment of resources from external resource providers; those resources can be used only for the specific purposes stipulated in the legislation. The City's revenue generated through enabling legislation includes municipal court fees.
The *committed* fund balance includes spendable net resources that can only be used for specific purposes pursuant to constraints imposed by formal Council actions, no later than the close of the fiscal year. Those constraints remain binding unless removed or changed in the same manner employed to previously commit those resources.

The *assigned* fund balance includes amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Such intent should be expressed by the City Council or its designated officials to assign amounts to be used for specific purposes, but are neither restricted nor committed. Constraints imposed on the use of assigned amounts can be removed with no formal Council actions. The assigned fund balance is only reported in the General fund.

The *unassigned* fund balance represents spendable net resources that have not been restricted, committed, or assigned to specific purposes.

Spending prioritization in Using Available Resources
When both restricted resources and other resources (i.e., committed, assigned, and unassigned) can be used for the same purpose, the City budget considers restricted resources to be spend first.
When committed, assigned, and unassigned resources can be used for the same purpose, the flow assumption in the City budget is to spend in the sequence of committed resources first, assigned second, and unassigned last.

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

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

N. Pensions

For purposes of measuring the net pension liability, deferred outflows or resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and the Texas Emergency Services Retirement System (TESRS) and additions to / deductions from TMRS's and TESRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS and TESRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

O. Post-employment Benefits

The City participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 or any year to be effective the following January 1.

Note 2. Legal Compliance – Budgets

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

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

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

Note 3. Deposits and Investments

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

As of September 30, 2018, the City had investments in TexStar with maturities less than 60 days with a fair value of $880,052.

Interest rate risk

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

Custodial credit risk

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

Credit risk

It is the government's policy to limit its investments to local government investment pools, TesSTAR, or certificates of deposit. As of September 30, 2019, the City had investments in local government investment pools and certificates of deposit. TexSTAR was rated AAAm by Standard & Poor's as of September 30, 2019.

Note 4. Restricted Assets

At September 30, 2018, restrictions on cash and investments were as follows:

	Governmental Funds	Proprietary Funds	Hearne Economic Development Corporation	Hearne Infrastructure/ Improvement Corporation
Cash and Investments				
Restricted for:				
Hotel/motel expenditures	$ 165,632	$ -	$ -	$ -
Police Special	13,174	-	-	-
Interest and sinking	609,165	328,501	-	-
Child Safety	-	-	-	-
Court security	33	-	-	-
Court technology	10	-	-	-
Community Development Block Grant Program	-	-	-	-
Meter Sinking	-	-	-	-
Economic Development	-	-	1,207,190	1,251,922
	$ 788,014	$ 328,501	$ 1,207,190	$ 1,251,922

Note 5. Receivables

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

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

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

Property taxes are collected and remitted to the city by the Robertson County Tax Assessor-Collector. The Robertson County Appraisal District appraises property values for the City. Property taxes are levied by October 1, in conformity with Subtitle E, Texas Property Code. Current taxes become delinquent on February 1 following the tax year. On January 1 of each year a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed. For the 2019 tax roll, the assessed valuation was $208,769,318 and the net taxable value was $196,917,309,. The tax rate was $0.71039 per $100 valuation. This resulted in a total tax levy of $1,398,881. Delinquent property taxes receivable at September 30, 2019 were $20,284 and current property taxes receivable were $65,169.

Note 6. Capital Assets Revised and Restated

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

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 393,082	$ -	$ -	$ 393,082
Construction in progress	-	581,280	-	581,280
Total capital assets not being depreciated	393,082	581,280	-	974,362
Capital assets being depreciated				
Buildings	5,431,966	-	-	5,431,966
Improvements other than buildings	5,833,663	418,500	-	6,252,163
Furniture and fixtures	104,272	-	-	104,272
Vehicles	1,424,830	-	-	1,424,830
Machinery and equipment	1,430,382	224,859	-	1,655,241
Total at historical cost	14,225,113	643,359	-	14,868,472
Less: accumulated depreciation for:				
Buildings	3,623,365	85,917	-	3,709,282
Improvements other than buildings	1,169,945	240,156	-	1,410,101
Furniture and fixtures	74,473	8,053	-	82,526
Vehicles	1,272,898	79,884	-	1,352,782
Machinery and equipment	736,350	56,767	-	793,117
Total accumulated depreciation	6,877,031	470,777	-	7,347,808
Total capital assets being depreciated, net	7,348,082	172,582	-	7,520,664
Governmental activities capital assets, net	$ 7,741,164	$ 753,862	$ -	$ 8,495,026
Business-type activities				
Capital assets not being depreciated				
Land	$ 61,634	$ -	$ -	$ 61,634
Construction in progress	-	-	-	-
Total capital assets not being depreciated	61,634	-	-	61,634
Capital assets being depreciated				
Buildings and improvements	3,537,073	129,023	-	3,666,096
Furniture and fixtures	586,643	-	-	586,643
Vehicles	364,357	-	-	364,357
Distribution and collection systems	20,477,835	307,535	-	20,785,370
Machinery and equipment	200,633	181,534	-	382,167
Total at historical cost	25,166,541	618,092	-	25,784,633
Less accumulated depreciation for:				
Buildings and improvements	939,280	123,998	-	1,063,278
Furniture and fixtures	326,763	38,467	-	365,230
Vehicles	293,956	18,652	-	312,608
Distribution and collection systems	15,709,301	653,336	-	16,362,637
Machinery and equipment	168,684	11,734	-	180,418
Total accumulated depreciation	17,437,984	846,187	-	18,284,171
Total capital assets being depreciated, net	7,728,557	(228,095)	-	7,500,462
Business-type activities capital assets, net	$ 7,790,191	$ (228,095)	$ -	$ 7,562,096

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

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

Note 7. Risk Management

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

Note 8. Long-term Debt

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2019:

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

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

	Business-type Activities				Governmental Activities	
Year ending	Bonds Payable		Notes Payable		Bonds Payable	
September 30	Principal	Interest	Principal	Interest	Principal	Interest
2020			133,803	21,153	335,000	121,599
2021			137,789	17,167	345,000	111,478
2022			141,893	13,063	360,000	100,190
2023			146,120	8,836	375,000	87,688
2024			150,473	4,483	390,000	74,105
2024-2028					1,735,000	139,213
			-	-		
			710,078	64,702	3,540,000	634,273

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

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

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

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

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

Note 9. Leases

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

The assets acquired through the capital leases are as follows:

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

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

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

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

Note 10. Interfund Receivables and Payables

Interfund receivables and payables, all of which are considered short-term, at September 30, 2019, were as follows:

Name of Fund	Due from other funds	Due to other funds
Governmental:		
General	$ 934,048	$ -
Non-Major Governmental	-	-
Business-Type:		
Enterprise Fund	-	934,048
Non-Major Business-Type	-	-
	$ 934,048	$ 934,048

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

Note 11. Interfund Transfers

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

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

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

Note 12. Commitments

The City entered into an amended contract with AEP Energy Partners, Inc., to provide wholesale electricity. The contract will expire December 31, 2022. After the expiration, the contract is renewable upon mutual agreement. The City paid $3,616,833 to this company during the year ended September 30, 2019.

The City entered into a contract with a company to collect commercial and residential garbage within the City. The contract will expire on December 1, 2018. The City paid $588,520 to this company during the year ended September 30, 2019.

Note 13. Pension Plans

Texas Municipal Retirement System

A. Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the city are required to participate in TMRS.

B. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

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

Plan provisions for the City were as follows:

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

Employees covered by benefit terms.

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

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

C. Contributions

The contribution rates for employees in the TMRS are either 4.75%, 5.75%, or 6.75% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the additional amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 6.75% of their annual gross earnings during the fiscal year. The contribution rates for the City were 14.19% and 15.37% in calendar years 2018 and 2017, respectively. The city's contributions to TMRS for the year ended September 30, 2019, were $360,841, and were equal to the required contributions.

D. Net Pension Liability

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

Actuarial assumptions:

The Total Pension Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by a factor of 100.0%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2017, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2010 through December 31, 2014, first used in the December 31, 2015 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2016 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core-Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the Total Pension Liability.

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

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net position liability would be if it were calculated using a discount rate that is 1-

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	$ 3,682,965	$ 2,341,969	$ 1,248,717

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

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

CITY OF HEARNE
SCHEDULE OF PENSION EXPENSE
SEPTEMBER 30, 2019

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

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

Texas Emergency Services Retirement System

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

$(215,002) reported as deferred outflows or resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

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

Texas Emergency Services Retirement System

A. Plan Description

The City participates in a cost-sharing multiple employer pension plan that has a special funding situation. The plan is administered by the Texas Emergency Services Retirement System (TESRS) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At August 31, 2018, there were 198 contributing fire and/or

A. Plan Description (continued)

emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

On August 31, 2019, the pension system membership consisted of:

Retirees and beneficiaries currently receiving benefits	3,073
Terminated members entitled to benefits but not yet receiving them	2,161
Active participants (vested and non-vested)	4,036

B. Pension Plan Fiduciary Net Position

Detailed information about the TESRS's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. TESRS issues a publicly available Annual Financial Report, which includes financial statements, notes, and required supplementary information, which can be obtained at *www.tesrs.org*. The separately issued actuarial valuations which may be of interest are also available at the same link.

Funding Policy (continued)

C. Benefits Provided

Senate Bill, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas and eligibility requirements by Board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for year of the next five years of service so that a member becomes 100% vested with 15 years of service. Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified services. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount or continuing monthly payments to a member's surviving spouse and dependent children.

D. Funding Policy

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is $36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities. The State is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

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

D. Actuarial Assumptions (continued)

E. Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2019, total contributions (due, prior service, and interest on prior financing) of $15,012 were paid by the City. The State appropriated $1,530,343 for the fiscal year ending August 31, 2019 to the plan as a whole.

F. Actuarial Assumptions

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

Actuarial valuation date	8/31/2019
Actuarial cost method	Entry age
Amortization method	Level dollar, Open
Amortization period	30 years
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value.
Actuarial assumptions:	
Investment rate of return*	7.75%
Projected salary increase	N/A
*includes inflation at	3.5%
Cost of living adjustments	None

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

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

F. Discount Rate

The discount rate used to measure the total pension liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2019 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. That UAAL was based on an actuarial value of assets that was $7.9 million less than the plan fiduciary net position as of August 31, 2014. Because of the 30-year amortization period with the conservative amortization method and with a lower value of assets, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Sensitivity of the Net Pension Liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 7.75%, as well as the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75%) or 1 percentage point higher (8.75%) than the current rate:

	1% Decrease in Discount Rate (6.75%)	Discount Rate (7.75%)	1% Increase in Discount Rate (8.75%)
City's proportionate share of the net pension liability:	$ 139,638	$ 123,679	$ 107,720

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

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

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

**Calculated using the City's proportionate share of contributions multiplied by the State's share of the collective net pension liability.*

The net pension liability was measured as of August 31, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. GASB Statement No. 68 requires the net pension liability to be measured as of a date no earlier than the end of the employer's prior fiscal year. TESRS did not roll forward the net pension liability nor did they provide the necessary information for the participants to roll forward themselves. While the City acknowledges that the measurement date does not fall within this 12 month period, the City elected to honor the conservatism principle and report a net pension liability measured as of August 31, 2017. The City used the assumption that any differences in the net pension liability measured as of August 31, 2017 versus September 30, 2016 would be immaterial. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2015 through August 31, 2019.

At August 31, 2019 the employer's proportion of the collective net pension liability was .475%. TESRS did not provide prior year proportions measured as of August 31, 2019. The City is using the assumption that the change in proportion would have been immaterial and therefore disregarded this year.

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.
For the year ended August 31, 2019, the City recognized pension expense of $20,952. The City recognized on-behalf revenues of $ 7,662 calculated by taking the State's total contributions to TESRS multiplied by the City's proportionate share.

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

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

$20,952 reported as deferred outflows or resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. The net amount of the employer's balances of deferred outflows and inflows or resources related to pensions will be recognized in pension expense as follows:

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

Note 14. Other post-employment benefits

Supplementary Death Benefit

The city also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement system (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The city elected, by ordinance to provide group-term life insurance coverage to both current and retired employees. The city may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for $7,500; this coverage is an "other postemployment benefit," or OPEB.
The city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employee's entire careers.
The city's contribution to the TMRS SDBF for the year ended September 30, 2019, were $3,917, which equaled the required contributions for the year.

Note 14. Other post-employment benefits

Net Other Post Employment Benefits Liability.
Actuarial Assumptions

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

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

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

Inflation	2.50% per year
Overall payroll growth	3.50 to 10.5% per year including inflation
Discount rate	3.31%

Changes in the Net Other Post Employment Benefits Liability

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

Total OPEB Liability as a Percentage of Covered Payroll	6.79%

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

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

Note 14. Other post-employment benefits

CITY OF HEARNE
SCHEDULE OF OPEB EXPENSE
SEPTEMBER 30, 2019

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

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

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

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

Note 15. Contingent Liabilities & Pending Litigation

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

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

NOTE 16 – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

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

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

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

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

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

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

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

Notes to Schedule:
GASB 68 requires 10 fiscal years of data to be provided in this schedule. As GASB 68 has been initially adopted for the 2014 plan year, historical data is not presented.

City of Hearne, Texas
Required Supplementary Information
For the Year Ended September 30, 2019
Schedule of Contributions
Texas Municipal Retirement System (TMRS)
Last 10 Years (will ultimately be displayed)

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

Notes to Schedule of Contributions

Valuation Date:	
Notes	Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50%, including inflation
Investment Rate of Return	6.75%
Retirement Age	Experienced-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014 RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information

Notes	There were not benefit changes during the year. GASB 68 requires 10 fiscal years of data to be provided in this schedule. As GASB 68 has been initially adopted for the 2015 fiscal year, historical data is not presented.

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

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

	8/31/2018
City's proportion of the net pension liability	0.457%
City's proportionate share of the net pension liability	98,943
State's proportionate share of the net pension liability	24,736
Total	$ 123,679
Number of Active Members*	23
City's Net Pension Liability per Active Member	$ 4,302
Plan fiduciary net position as a percentage of the total liability	21.2%

- There is no compensation for active members. Number of active members is used instead.

Notes to Schedule:

GASB 68 requires 10 fiscal years of data to be provided in this schedule. As GASB 68 has been initially adopted for the 2014 plan year, historical data is not presented.

Changes in benefit terms – There were no changes in benefit terms that affect the measurement of the total pension liability.

Changes in assumptions – There were no changes in assumptions or other inputs that affected the measurement of the total pension liability during the measurement period.

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

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

	8/31/2019
City's proportion of the net pension liability	0.457%
City's proportionate share of the net pension liability	98,943
State's proportionate share of the net pension liability	24,736
Total	$ 123,679
Number of Active Members*	23
City's Net Pension Liability per Active Member	$ 4,302
Plan fiduciary net position as a percentage of the total liability	21.2%

- There is no compensation for active members. Number of active members is used instead.

Notes to Schedule: GASB 68 requires 10 fiscal years of data to be provided in this schedule. As GASB 68 has been initially adopted for the 2015 fiscal year, historical data is not presented.

Combining Financial Statements

Non-Major Governmental Funds

Special Revenue Funds

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

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

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

City of Hearne, Texas
Combining Balance Sheet
Non-major Governmental Funds
September 30, 2019

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

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

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

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

Special Revenue Funds

City of Hearne, Texas
Hotel/Motel Occupancy Tax Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Year Ended September 30, 2018

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

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – BUDGET AND ACTUAL

Enterprise Funds

City of Hearne, Texas
Enterprise Fund
Schedule of Revenues, Expenses, and Changes in Net Position
Budget and Actual
For the Year Ended September 30, 2018

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

City of Hearne, Texas
Non-major Municipal Airport Enterprise Fund
Schedule of Revenues, and Changes in Net Position
Budget and Actual
For the Year Ended September 30, 2019

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

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

Discretely Presented Component Units

City of Hearne, Texas
Hearne Economic Development Corporation
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Year Ended September 30, 2019

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

City of Hearne, Texas
Hearne Infrastructure/Improvement Corporation
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Year Ended September 30, 2019

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

SUPPLEMENTARY INDIVIDUAL

FUND SCHEDULES

General Fund

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

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

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

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

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

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

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

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

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

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

AUDIT SECTION

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

Donald L Allman, CPA, PC
205 East University Ave., Ste. 165
Georgetown, Texas 78626

CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hearne, Texas, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Hearne, Texas' basic financial statements, and have issued our report thereon dated March 31, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Hearne, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hearne, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hearne, Texas' internal control

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hearne, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Donald L. Allman, CPA, PC

Georgetown, TX
March 31, 2020

APPENDIX E

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: $_____ in aggregate principal amount of [NAME OF TRANSACTION] [and maturing on]

Effective Date: _____

Risk Premium: $_____
Member Surplus Contribution: $_____
Total Insurance Payment: $_____

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

SPECIMEN

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIMEN

Notices (Unless Otherwise Specified by BAM)

Email:
claims@buildamerica.com
Address:
1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281
Telecopy:
212-962-1524 (attention: Claims)

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