

**CITY OF HEMPHILL, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2009**



**CITY OF HEMPHILL, TEXAS**  
**Annual Financial Report**  
**For the Year Ended June 30, 2009**

**Table of Contents**

	Page
<b>FINANCIAL SECTION</b>	
Independent Auditor's Report .....	1-2
Management's Discussion and Analysis .....	3-10
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets .....	11
Statement of Activities .....	12-13
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets .....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds .....	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities .....	17
Statement of Net Assets - Proprietary Fund .....	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Fund .....	19
Statement of Cash Flows - Proprietary Fund .....	20
Notes to the Financial Statements .....	21-36
<b>Budgetary Comparison Reporting:</b>	
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund .....	37
<b>Other Schedules:</b>	
Schedule of General Fund Current Expenditures by Department - Budget and Actual	38-39
Schedule of Utility Fund Expenditures by Department - Budget and Actual .....	40-41
<b>Statistical Tables:</b>	
Schedule of Insurance Policies in Force .....	42

**CITY OF HEMPHILL, TEXAS**  
**Annual Financial Report**  
**For the Year Ended June 30, 2009**

**Table of Contents**

	Page
<b>FEDERAL AWARDS SECTION</b>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u> .....	43-44
Schedule of Findings .....	45
Schedule of Prior Audit Findings .....	46
Corrective Action Plan .....	47

## **FINANCIAL SECTION**





Pipes & Associates

Monte C. Pipes, CPA  
Carolyn A. Pipes, CPA

P.O. Box 631468 • Nacogdoches, TX. 75963-1468 • (936) 560-5040 • Fax:(936) 560-5632 • pipescpa@yahoo.com

Certified Public Accountants

### **Independent Auditor's Report**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hemphill, Texas as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, each major fund, and the aggregate remaining fund information of the City of Hemphill, Texas as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

## **Independent Auditor's Report**

Honorable Mayor and Members of City Council

City of Hemphill, Texas

Page 2

Management's discussion and analysis on pages 3 through 10 and the budgetary comparison schedule on page 37 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Pipes & Associates*

PIPES & ASSOCIATES

Certified Public Accountants

September 30, 2009



## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Hemphill, Texas annual financial report presents our narrative discussion and analysis of the City's financial activities for the year ended June 30, 2009. Please read it in conjunction with the City's financial statements, which immediately follow this section.

### Financial Highlights

- ▶ The City's total net assets were \$4,869,999 as of June 30, 2009. Of this amount, \$1,154,373 (unrestricted net assets) may be used to meet the City's continuing obligations to citizens, customers and creditors.
- ▶ During the year ended June 30, 2009, the City's net assets **increased** by \$1,467.
- ▶ Total long-term debt of the City decreased by \$52,662 to \$1,109,475 during the current fiscal year.
- ▶ At the end of the current fiscal year, unreserved fund balance for the general fund was \$121,959 or 11.8 percent of total general fund expenditures.

### Overview of the Financial Statements

This annual financial report consists of three parts - **management's discussion and analysis** (this section), the **basic financial statements**, and **required supplementary information**. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The required supplementary information further explains and supports the information in the financial statements.

### Government-wide Financial Statements

The City's annual financial report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's finances. Financial reporting at this level uses a perspective similar to that found in the private sector.

The first of these government-wide financial statements is the **Statement of Net Assets**. This is the City wide statement of financial position presenting information that includes all of the City's assets and liabilities, with the difference reported as **net assets**. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall health of the City would extend to other non financial factors such as changes to the City's tax base.

The second government-wide financial statement is the **Statement of Activities**, which reports how the City's net assets changed during the current year. All current revenues and expenses are included regardless of when the cash is received or paid.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Both of the government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, streets, parks and recreation, health and welfare, and sanitation collection. Business-type activities include water and sewer operations, natural gas utilities, and electric services.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term cash inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains one individual governmental fund, the general fund, which is considered a major fund. The City adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds** - Proprietary funds are used to report the same functions presented as business-type activities in the governmental-wide financial statements. The City uses an enterprise fund (a type of proprietary fund) to account for its water and sewer operations, natural gas utilities, and electric services.

**Notes to the financial statements** - The accompanying notes to the financial statements provide essential information to a full understanding of the government-wide and fund financial statements.

**Other information** - In addition to the basic financial statements and accompanying notes, this

## MANAGEMENT'S DISCUSSION AND ANALYSIS

report also presents other supplementary information which includes detail expenditures by fund and department. Supplementary information follows the notes to the financial statements.

### Government-wide Financial Analysis

**Net Assets.** As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. The City's assets exceed liabilities by \$4,869,999 at the close of the fiscal year.

By far the largest portion of the City's net assets (74.7 percent) reflects its investment in capital assets (land, buildings, utility systems, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these assets to provide services to the citizens, consequently, these assets are not available for future spending. Although the City investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

#### The City's Net Assets

	Governmental Activities		Business-type activities		Total	
	2009	2008	2009	2008	2009	2008
Current and Other Assets	165,906	130,111	1,488,487	1,326,255	1,654,393	1,456,366
Capital and Non-Current	570,344	566,115	4,179,650	4,391,798	4,749,994	4,957,913
<b>Total Assets</b>	<b>736,250</b>	<b>696,226</b>	<b>5,668,137</b>	<b>5,718,053</b>	<b>6,404,387</b>	<b>6,414,279</b>
Other Liabilities	43,947	36,451	380,966	346,159	424,913	382,610
Long Term Liabilities	-	-	1,109,475	1,163,137	1,109,475	1,163,137
<b>Total Liabilities</b>	<b>43,947</b>	<b>36,451</b>	<b>1,490,441</b>	<b>1,509,296</b>	<b>1,534,388</b>	<b>1,545,747</b>
Net Assets:						
Investment in Capital Assets,						
Net of Related Debt	570,344	566,115	3,070,175	3,228,661	3,640,519	3,794,776
Restricted	-	-	75,107	78,369	75,107	78,369
Unrestricted	121,959	93,660	1,032,414	901,727	1,154,373	995,387
<b>Total Net Assets</b>	<b>692,303</b>	<b>659,775</b>	<b>4,177,696</b>	<b>4,208,757</b>	<b>4,869,999</b>	<b>4,868,532</b>

A portion of the City's net assets (1.5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets in the amount of \$1,154,373 may be used to meet the City's ongoing obligations to citizens and creditors.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities.

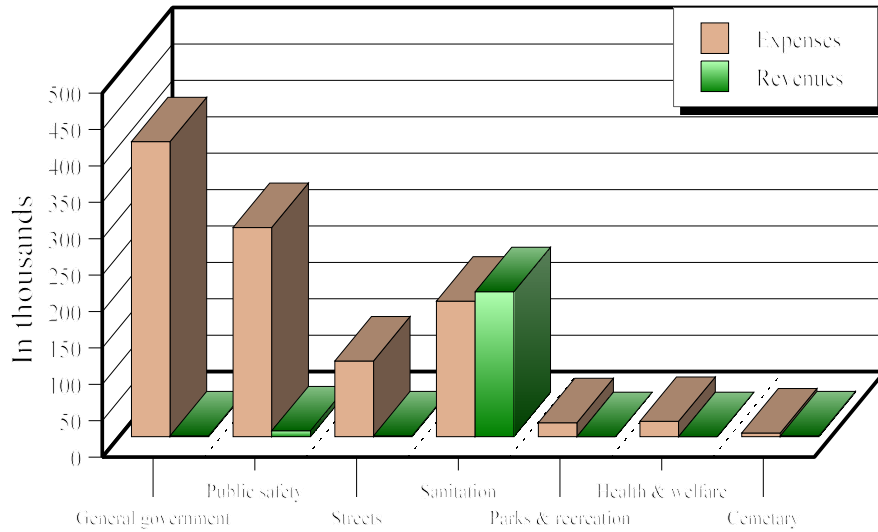
### Changes in the City's Net Assets

	Governmental Activities		Business-type activities		Total	
	2009	2008	2009	2008	2009	2008
<b>Revenues:</b>						
Program Revenues:						
Charges for services	209,472	225,977	3,763,783	3,430,858	3,973,255	3,656,835
Operating grants	15,477	1,063	-	-	15,477	1,063
Capital grants	33,600	11,753	1,900	184,400	35,500	196,153
General Revenues:						
Sales taxes	490,087	358,912	-	-	490,087	358,912
Other taxes	6,491	7,278	-	-	6,491	7,278
Other	41,204	66,605	33,290	36,180	74,494	102,785
<b>Total revenues</b>	796,331	671,588	3,798,973	3,651,438	4,595,304	4,323,026
<b>Expenses:</b>						
General government	405,305	411,505	-	-	405,305	411,505
Public safety	286,803	222,634	-	-	286,803	222,634
Streets	104,300	100,265	-	-	104,300	100,265
Sanitation	185,512	193,077	-	-	185,512	193,077
Parks and recreation	19,283	18,135	-	-	19,283	18,135
Health and welfare	20,795	20,913	-	-	20,795	20,913
Cemetary	4,800	4,490	-	-	4,800	4,490
Debt service	-	201	-	-	-	201
Electric	-	-	1,751,309	1,680,885	1,751,309	1,680,885
Natural gas	-	-	308,377	330,557	308,377	330,557
Water	-	-	1,142,973	997,264	1,142,973	997,264
Sewer	-	-	364,380	325,256	364,380	325,256
<b>Total expenses</b>	1,026,798	971,220	3,567,039	3,333,962	4,593,837	4,305,182
Transfers	262,995	366,768	(262,995)	(366,768)	-	-
Increase in net assets	32,528	67,136	(31,061)	(49,292)	1,467	17,844
Beginning net assets	659,775	592,639	4,208,757	4,258,049	4,868,532	4,850,688
Ending net assets	692,303	659,775	4,177,696	4,208,757	4,869,999	4,868,532

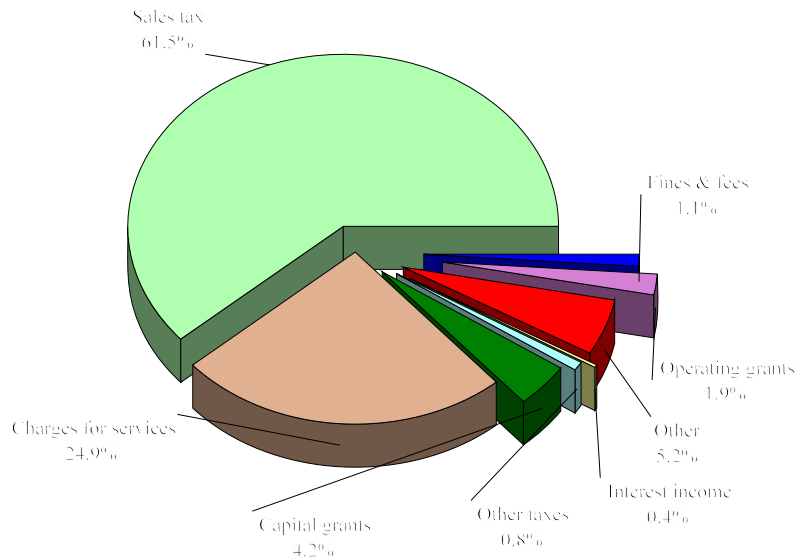
## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Governmental Activities.** Governmental activities increased the City's increased assets by \$32,528 contributing to the overall increase in the City's total net assets.

Expenses and Program Revenues - Governmental Activities



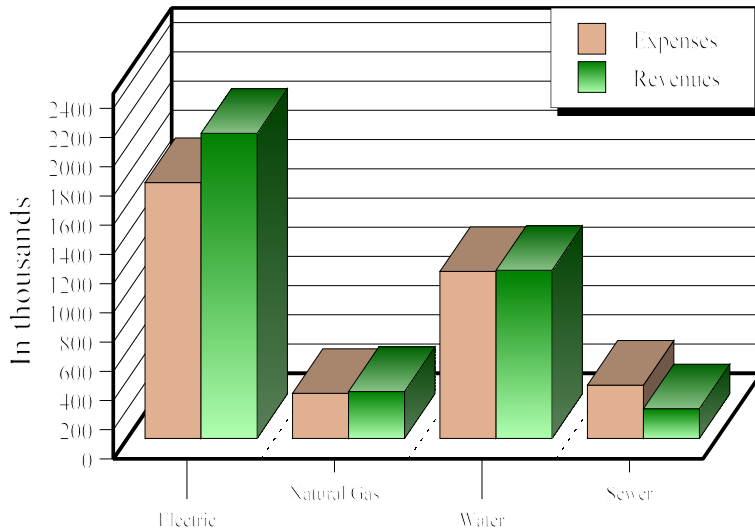
Revenues by Source - Governmental Activities



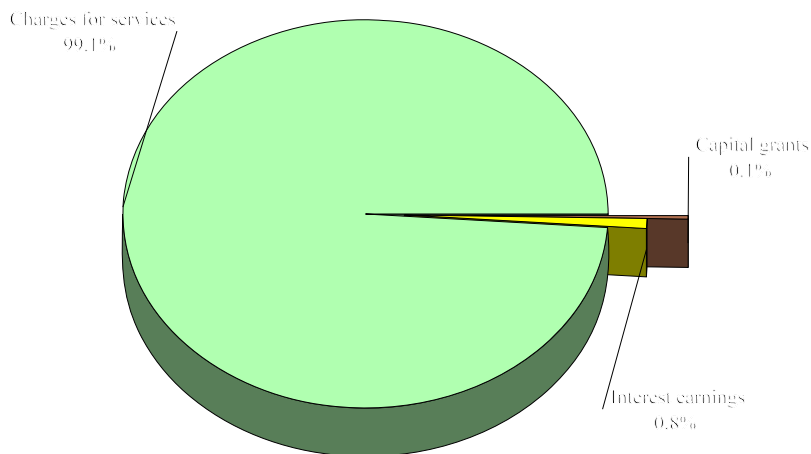
## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Business-type Activities.** Business-type activities decreased the City's net assets by \$31,061, partially offsetting the increase generated by the governmental activities.

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Business-Type Activities



### Financial Analysis of the City's Funds

**Governmental funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

## MANAGEMENT DISCUSSION AND ANALYSIS

As of the end of the current fiscal year, the City's governmental funds reported an ending fund balance of \$121,959, an increase of \$28,299 compared with the prior year. This balance is unreserved, which is available for current expenditures.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the proprietary fund at the end of the year amounted to \$1,032,414.

### General Fund Budgetary Highlights

During the year, the City Council approved an increase in appropriations between the original and final amended budget. The following are components of amounts amended:

- ▶ \$8,000 increase in the Street department capital outlay.
- ▶ \$10,000 increase in the Sanitation department capital outlay.

These capital outlay budget increases were to provide for downtown parking lot paving and completion of citizen solid waste collection station.

### Capital Asset and Debt Administration

**Capital Assets.** At the end of the current fiscal year, the City's investment in capital assets for the governmental and business type activities amounted to \$4,749,994 (net of accumulated depreciation). This investment in capital assets included land, buildings, utility system improvements, machinery, equipment, and park facilities.

	<b>City's Capital Assets (net of depreciation)</b>					
	Governmental		Business-type activities		Total	
	2009	2008	2009	2008	2009	2008
Land	88,290	88,290	79,523	79,523	167,813	167,813
Buildings & improvements	307,544	269,386	-	-	307,544	269,386
Utility systems	-	-	3,992,576	3,950,690	3,992,576	3,950,690
Property - capital lease	-	-	-	12,367	-	12,367
Vehicles and equipment	174,510	208,439	107,551	115,336	282,061	323,775
Construction in progress	-	-	-	233,882	-	233,882
Net capital assets	<u>570,344</u>	<u>566,115</u>	<u>4,179,650</u>	<u>4,391,798</u>	<u>4,749,994</u>	<u>4,957,913</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

More detailed information about the City’s capital assets is presented in the notes to the financial statements. Construction in progress at year end is related to a low water intake structure at the water treatment plant.

**Long-term debt.** At the end of the current fiscal year, the City had total long term debt of \$1,109,475.

	<b>City’s Outstanding Debt</b>					
	Governmental Activities		Business-type activities		Total	
	2009	2008	2009	2008	2009	2008
Revenue bonds	-	-	692,000	727,000	692,000	727,000
Capital lease	-	-	181,973	193,093	181,973	193,093
Promissory notes	-	-	235,502	243,044	235,502	243,044
Bank loans	-	-	-	-	-	-
Net capital assets	-	-	1,109,475	1,163,137	1,109,475	1,163,137

The City’s total long term debt decreased by \$52,662 during the current fiscal year. The City’s revenue bonds are owned by the Texas Water Development Board and the U. S. Department of Agriculture and are not rated.

### **Economic Factors and Next Year’s Budgets and Rates**

The City considered many factors when setting the fiscal year 2009-2010 budget, including estimated sales tax receipts and fees that will be charged for business-type activities. The City estimates a net decrease in general fund revenues due to a decrease in sales tax revenue and grants. The other ongoing general fund revenue items (charges for services, etc.) should generate similar revenues as the prior year. The City’s General Fund budgeted expenditures reflect cost of living adjustments for current services. The City’s business-type activities budget reflect increased utility rates of 2% to offset increased operating costs and fund capital improvements at the water treatment plant as required by the Texas Commission on Environmental Quality.

The City anticipates spending \$262,258 in capital improvements during fiscal year 2009-2010. These include technology equipment purchases, cemetery and park improvements, vehicles, and electrical system improvements and TCEQ mandated improvements to the water treatment plant.

If these estimates are realized, the City’s budgetary general fund balance and utility reserves are expected to increase modestly by the close of 2010.

### **Request for Information**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City of Hemphill’s finances and to demonstrate accountability for the money it receives. If you have any questions about this report or need additional financial information contact the City Secretary, P. O. Box 788, Hemphill, Texas, 75948.



## **Government-Wide Financial Statements**



**CITY OF HEMPHILL, TEXAS  
STATEMENT OF NET ASSETS  
JUNE 30, 2009**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	133,020	1,016,876	1,149,896
Sales tax receivable	26,048	-	26,048
Accounts receivable	-	355,664	355,664
Inventories	-	11,564	11,564
Deferred charges	-	29,089	29,089
Restricted assets:			
Cash and cash equivalents	6,838	75,294	82,132
Capital Assets (net of accumulated depreciation):			
Land	88,290	79,523	167,813
Other capital assets, net of depreciation	482,054	4,100,127	4,582,181
<b>Total assets</b>	<b>736,250</b>	<b>5,668,137</b>	<b>6,404,387</b>
<b>LIABILITIES</b>			
Accounts payable	23,881	235,603	259,484
Accrued expenses	20,066	25,741	45,807
Accrued interest payable	-	9,946	9,946
Customer meter deposits	-	109,676	109,676
Long Term Liabilities:			
Due within one year	-	57,050	57,050
Due after one year	-	1,052,425	1,052,425
<b>Total liabilities</b>	<b>43,947</b>	<b>1,490,441</b>	<b>1,534,388</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	570,344	3,070,175	3,640,519
Restricted for other purposes	-	75,107	75,107
Unrestricted net assets	121,959	1,032,414	1,154,373
<b>Total net assets</b>	<b>692,303</b>	<b>4,177,696</b>	<b>4,869,999</b>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2009**

<u>Functions/Programs</u>	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental activities:			
General government	405,305	797	-
Public safety	286,803	7,591	14,077
Streets	104,300	725	-
Sanitation	185,512	199,019	-
Parks and recreation	19,283	-	-
Health and welfare	20,795	290	-
Cemetery	4,800	1,050	1,400
Interest on long term debt	-	-	-
Total governmental activities	<u>1,026,798</u>	<u>209,472</u>	<u>15,477</u>
Business-type activities:			
Electric	1,751,309	2,089,293	-
Natural gas	308,377	321,140	-
Water	1,142,973	1,151,036	-
Sewer	364,380	202,314	-
Total business-type activities	<u>3,567,039</u>	<u>3,763,783</u>	<u>-</u>
	<u>4,593,837</u>	<u>3,973,255</u>	<u>15,477</u>

General revenues:  
 Sales taxes  
 Franchise taxes  
 Miscellaneous  
 Net grants not restricted to specific programs  
 Investment earnings  
 Transfers

Total general revenues and transfers  
 Change in net assets  
 Net assets, beginning

Net assets, ending

See accompanying notes to the financial statements

<b>Program Revenues</b>	<b>Net (Expense) Revenues and Changes in Net Assets</b>		
<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business Activities</b>	<b>Total</b>
-	(404,508)	-	(404,508)
12,000	(253,135)	-	(253,135)
-	(103,575)	-	(103,575)
21,600	35,107	-	35,107
-	(19,283)	-	(19,283)
-	(20,505)	-	(20,505)
-	(2,350)	-	(2,350)
-	-	-	-
33,600	(768,249)	-	(768,249)
-	-	337,984	337,984
-	-	12,763	12,763
1,900	-	9,963	9,963
-	-	(162,066)	(162,066)
1,900	-	198,644	198,644
35,500	(768,249)	198,644	(569,605)
	490,087	-	490,087
	6,491	-	6,491
	12,028	-	12,028
	25,677	-	25,677
	3,499	33,290	36,789
	262,995	(262,995)	-
	800,777	(229,705)	571,072
	32,528	(31,061)	1,467
	659,775	4,208,757	4,868,532
	-	-	-
	692,303	4,177,696	4,869,999

See accompanying notes to the financial statements

This page left blank intentionally.

## **Fund Financial Statements**





**CITY OF HEMPHILL, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2009**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	133,020	-	133,020
Sales tax receivable	26,048	-	26,048
Cash and cash equivalents - restricted	6,838	-	6,838
Total assets	165,906	-	165,906
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	23,881	-	23,881
Accrued liabilities	20,066	-	20,066
Total liabilities	43,947	-	43,947
<b>Fund balances:</b>			
Unreserved and undesignated	121,959	-	121,959
Total fund balances	121,959	-	121,959
Total liabilities and fund balances	165,906	-	165,906

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2009**

Total fund balances - governmental funds	121,959
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$971,726 and the accumulated depreciation was \$405,611. The effect of including beginning balances for capital assets (net of depreciation) in the governmental activities is to increase (decrease) net assets.	566,115
Capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the current year capital outlays, less current year depreciation is to increase net assets.	4,229
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds.	-
Net assets of governmental activities	<u>692,303</u>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Taxes:			
Sales taxes	490,087	-	490,087
Franchise taxes	6,491	-	6,491
License and permits	1,190	-	1,190
Fines	7,739	-	7,739
Charges for services	199,019	-	199,019
Interest income	3,499	-	3,499
Intergovernmental	77,304	-	77,304
Contributions and donations	1,400	-	1,400
Other	9,602	-	9,602
<b>Total revenues</b>	<b>796,331</b>	<b>-</b>	<b>796,331</b>
<b>EXPENDITURES</b>			
Current:			
General government:			
Finance and administration	362,166	-	362,166
Municipal court	28,575	-	28,575
Public safety:			
Fire	40,796	-	40,796
Police	194,671	-	194,671
Streets	98,465	-	98,465
Sanitation	185,512	-	185,512
Parks and recreation	9,080	-	9,080
Health and welfare	19,740	-	19,740
Cemetery	4,800	-	4,800
Debt service	-	-	-
Capital outlay	87,222	-	87,222
<b>Total expenditures</b>	<b>1,031,027</b>	<b>-</b>	<b>1,031,027</b>
Excess (deficiency) of revenues over expenditures	(234,696)	-	(234,696)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	262,995	-	262,995
<b>Total other financing sources and uses</b>	<b>262,995</b>	<b>-</b>	<b>262,995</b>
Net change in fund balance	28,299	-	28,299
Fund balance - beginning	93,660	-	93,660
Fund balance - ending	121,959	-	121,959

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2009**

Net change in fund balances - governmental funds	28,299
Current year capital outlays are expenditures in the governmental fund financial statements but they should be shown as increases in capital assets in the government-wide financial statements. The effect of removing the current year capital outlays is to increase net assets.	87,222
Depreciation is not recognized as an expense in governmental fund financial statements since it does not require the use of current financial resources. The net effect of the current year depreciation and retiring assets not fully depreciated is to decrease net assets.	(82,993)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. The net effect of removing principal payments is to increase net assets.	-
Change in net assets of governmental activities	<u>32,528</u>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2009**

**ASSETS**

Current assets:	
Cash and cash equivalents	1,016,876
Accounts receivable	355,664
Inventories	11,564
Total current assets	<u>1,384,104</u>
Noncurrent assets:	
Restricted cash and cash equivalents	75,294
Deferred charges	29,089
Capital assets:	
Land	79,523
Other capital assets, net of depreciation	4,100,127
Total noncurrent assets	<u>4,284,033</u>
Total assets	<u><u>5,668,137</u></u>

**LIABILITIES**

Current liabilities:	
Accounts payable	235,603
Accrued expenses	25,741
Accrued interest payable	9,946
Current portion of:	
Capital leases	11,886
Promissory note	9,164
Revenue bonds payable	36,000
Total current liabilities	<u>328,340</u>
Noncurrent liabilities:	
Capital leases	170,087
Promissory note	226,338
Revenue bonds payable	656,000
Customer deposits	109,676
Total noncurrent liabilities	<u>1,162,101</u>
Total liabilities	<u>1,490,441</u>

**NET ASSETS**

Invested in capital assets, net of related debt	3,070,175
Restricted for debt service	75,107
Unrestricted	1,032,414
Total net assets	<u>4,177,696</u>
Total liabilities and net assets	<u><u>5,668,137</u></u>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2009**

<b>Operating revenues:</b>	
Water sales	1,138,192
Sewer charges	200,048
Electric sales	2,066,001
Gas sales	317,573
Other services	<u>41,969</u>
Total operating revenues	<u>3,763,783</u>
<b>Operating expenses:</b>	
Personnel	638,150
Supplies and materials	451,475
Maintenance and repairs	49,954
Contractual services	55,210
Cost of services	1,953,868
Depreciation	309,513
Other operating	<u>45,014</u>
Total operating expenses	<u>3,503,184</u>
Operating income	260,599
<b>Nonoperating revenues (expenses):</b>	
Interest income	33,290
Capital grant	1,900
Interest expense	<u>(63,855)</u>
Total nonoperating revenue (expenses)	(28,665)
Income before transfers	231,934
Transfers to other funds	<u>(262,995)</u>
Change in net assets	(31,061)
Total net assets - beginning	<u>4,208,757</u>
Total net assets - ending	<u><u>4,177,696</u></u>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2009**

<b>Cash flows from operating activities:</b>	
Receipts from customers	3,774,570
Payments to suppliers and contractors	(2,532,823)
Payments to employees	(636,577)
Net cash provided by (used for) operating activities	<u>605,170</u>
<b>Cash flows from noncapital financing activities:</b>	
Operating transfers	(262,995)
Net cash provided by (used for) noncapital activities	<u>(262,995)</u>
<b>Cash flows from capital and related financing activities:</b>	
Capital grant received	1,900
Purchases of capital assets	(97,366)
Principal paid on capital debt	(53,662)
Interest paid on capital debt	(63,181)
Net cash provided by (used for) capital activities	<u>(212,309)</u>
<b>Cash flows from investing activities:</b>	
Interest received	33,290
Net cash provided by (used for) investing activities	<u>33,290</u>
 Net increase (decrease) in cash and cash equivalents	 163,156
 Cash and cash equivalents, beginning	 <u>929,014</u>
 Cash and cash equivalents, ending	 <u><u>1,092,170</u></u>
 <b>Reconciliation of operating income to net cash used by operating activities:</b>	
Operating income	260,599
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	309,513
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	4,318
(Increase) decrease in supply inventory	(4,724)
Increase (decrease) in accounts payable	27,422
Increase (decrease) in accrued liabilities	1,171
Increase (decrease) in customer meter deposits	6,871
Net cash provided by operating activities	<u><u>605,170</u></u>

See accompanying notes to the financial statements

This page left blank intentionally.



## CITY OF HEMPHILL, TEXAS

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting Entity** - The City of Hemphill, Texas, (City) operates under Section 4, Article XI of the Texas constitution as a general law city. The City is governed by a Mayor and five council members. The accompanying financial statements present the City's primary government which includes all functions which the City's mayor and council exercise significant influence and are financially accountable. Significant influence or accountability is based on any budget adoption, rate setting, taxing authority, outstanding debt secured by the City to finance any deficits that may occur, and receipt of significant subsidies from the City.

**Government-wide and Fund Financial Statements** - The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City as a whole. Individual funds are not displayed in the government-wide financial statements. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds and proprietary funds.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation** - The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governments. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The proprietary fund applies Financial Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which GASB prevails.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the

## CITY OF HEMPHILL, TEXAS

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible with the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Sales tax, franchise taxes and interest associated with the current fiscal year are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the general operating fund of the City. It is used to account for all financial resources except for those required to be accounted for in another fund.

The City reports the following major proprietary funds:

**Utility Fund** - accounts for the activities of the City's electric distribution operations, water and sewer services, and natural gas utilities.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's utility functions and various other functions of the City. Elimination of these charges would distort the direct cost and program revenues reported for the various functions concerned.

Amounts reported as programs revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and operations. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The proprietary fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal operations. The principal operating revenues of the Utility Fund are charges to customers for sale and services. The Utility

## CITY OF HEMPHILL, TEXAS

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Fund also recognizes as operating revenues tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the Utility Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**Budget** - Annual appropriated budgets are adopted for the general fund and utility fund. All annual appropriation lapse at fiscal year end. The budget presented includes all approved amendments.

**Deposits and Investments** - The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The City only invests in short term certificates of deposit. Investments are stated at cost, which approximates market.

**Short-term Interfund Receivables/Payables** - During the course of operations, transactions occur between individual funds for advances or for goods provided or services rendered. These receivables and payables are classified as due from other funds or due to other funds on the balance sheet.

**Inventory of Supplies** - Inventory of supplies consist primarily of supplies held for consumption stated at cost, which approximates market. Inventory is expended at the time the individual items are used or consumed.

**Restricted Assets** - Certain resources set aside for repayment of utility fund revenue bonds and tax anticipation notes are classified as restricted assets on the balance sheet, since use is limited by bond covenants or City Council authorization.

**Capital assets** - Capital assets, which include property, utility systems, buildings, vehicles and equipment, are reported in the applicable governmental or business-types activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation is provided on all capital assets used by the general and utility funds over the following

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

estimated useful lives using the straight-line method. The estimated useful lives are:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	10-30
Utility distribution systems	30
Vehicles and equipment	3-10
Furniture and equipment	5-10

**Net Assets and Fund Balance** - Net assets in the statement of net assets include components that are restricted for debt service. Unreserved fund balance in the governmental fund financial statements represents that portion of fund balance that is available for budgeting in future periods.

**Compensated Absences** - The City allows employees to accumulate sick leave and vacation time. Upon termination, the City pays any accumulated vacation that was not used. Accumulated sick leave is not paid upon termination. The liability for accrued vacation is recorded in the applicable funds. The amount expected to be paid from current resources is not significant.

**Long-Term Obligations** - In the government-wide financial statements, and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund financial statements. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**Interfund Transactions** - Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. All other interfund transactions are reported as operating transfers.

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

**Statement of Cash Flows** - For the purposes of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

## CITY OF HEMPHILL, TEXAS

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

#### DEPOSITS AND INVESTMENTS

**Legal and Contractual Provisions Governing Deposits and Investments.** The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market saving accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. The policy addresses the following risks:

#### Deposits

**Custodial Credit Risk - Deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's policy regarding types of deposits allowed and collateral requirements is that the funds of the City must be deposited under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. The City's cash deposits at June 30, 2009 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

As of June 30, 2009, the bank balances of the City's deposits (demand and certificates) were \$1,278,161. The City is not exposed to custodial credit risk for its deposits as all are covered by depository insurance or by pledged collateral as of June 30, 2009 as follows:

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

FDIC Insurance	500,000
Market value of securities pledged	<u>2,052,215</u>
Total coverage	<u>2,552,215</u>

**Investments**

**Custodial Credit Risk - Investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investments in money market accounts and certificates of deposits were not exposed to custodial risk.

**Interest Rate Risk.** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City's policy provides that to the extent practicable, investments are matched with anticipated cash flows. Certificates of deposit may not be purchased with maturities greater than one year from date of purchase.

**Concentration of Credit Risk.** The City places no limit on the amount the City may invest in any one issuer. Investments are governed by the objectives of preservation and safety of principal, liquidity, and yield. More than 5% of the City's investments are at First State Bank (100.0%).

The City's investments as of June 30, 2009 are with the depository bank in certificates of deposit in the amount of \$926,462.

**Restricted deposits** - Resources set aside for repayment of revenue bonds and for construction of utility system improvements are classified as restricted assets in the statement of net assets since their use is limited by bond covenants or Council authorization. At June 30, 2009, the City's business type activities restricted assets consisted of \$75,107 for debt service and \$187 for construction. The governmental activities restricted assets consisted of \$6,199 for cemetery operations and \$639 for police department functions.

**PROPERTY TAXES**

The City did not levy property taxes in October, 2008. An allowance in the amount of \$2,224 is established for the entire balance of property taxes due to the City.

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

**DUE FROM OTHER GOVERNMENTS**

Amount due from other governments as of June 30, 2009 is \$26,048 for sales tax due from the State of Texas.

**CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	88,290	-	-	88,290
Capital assets, being depreciated:				
Buildings and improvements	400,000	62,510	-	462,510
Vehicles and equipment	483,436	24,712	(15,000)	493,148
Total capital assets being depreciated	883,436	87,222	(15,000)	955,658
Less accumulated depreciation for:				
Buildings and improvements	130,614	24,351	-	154,965
Vehicles and equipment	274,997	58,642	(15,000)	318,639
Total accumulated depreciation	405,611	82,993	(15,000)	473,604
Total capital assets, being depreciated, net	477,825	4,229	-	482,054
Governmental activities capital assets, net	<u>566,115</u>	<u>4,229</u>	<u>-</u>	<u>570,344</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	79,523	-	-	79,523
Construction in progress	233,882	1,940	(235,822)	0
Total capital assets, not being depreciated	313,405	-	(235,822)	79,523
Capital assets, being depreciated:				
Buildings and improvements	32,500	-	-	32,500

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
Utility systems	7,874,497	307,155	-	8,181,652
Vehicles and equipment	651,671	24,092	-	675,763
Property under capital lease	350,000	-	-	350,000
Totals at cost	<u>8,908,668</u>	<u>331,247</u>	<u>0</u>	<u>9,239,915</u>
Less accumulated depreciation:				
Buildings and improvements	32,500	-	-	32,500
Utility system	3,923,807	265,269	-	4,189,076
Vehicles and equipment	536,335	31,877	-	568,212
Property under capital lease	337,633	12,367	-	350,000
Total accumulated depreciation	<u>4,830,275</u>	<u>309,513</u>	<u>0</u>	<u>5,139,788</u>
Total capital assets, being depreciated, net	<u>4,078,393</u>	<u>21,734</u>	<u>0</u>	<u>4,100,127</u>
Business-type activities capital assets, net	<u>4,391,798</u>	<u>21,734</u>	<u>(235,822)</u>	<u>4,179,650</u>

Depreciation expense was charged to functions of the City as follows:

Governmental activities:

General government	14,564
Public safety	51,336
Streets	5,835
Health and welfare	1,055
Parks and recreation	<u>10,203</u>
Total depreciation expense - governmental activities	<u>82,993</u>

Business-type activities:

Overhead	25,976
Water	22,258
Sewer	97,602
Natural Gas	25,926
Electric	30,877
Water Plant	<u>106,874</u>
Total depreciation expense - business-type activities	<u>309,513</u>



**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

**CAPITAL LEASE**

The City has entered into a lease agreement with the Sabine River Authority (Authority) to lease water treatment and transmission facilities that were constructed by the Authority. The lease agreement has been accounted for as capital lease in the accompanying financial statements.

The lease agreement was entered into in September, 1980 and went into effect in 1981. This contract was entered into to provide for the additional sale of water to a major purchaser. The lease is for a period of 40 years, with minimum payments ranging from \$1,683 to \$1,833 per month. The facilities are owned by the Authority, with the City having the exclusive use of the entire project throughout its useful life. Amortization is computed using the straight-line method and is included in depreciation expense. Interest expense for this lease was \$9,368 for the year ended June 30, 2009.

The following is a schedule of the future minimum lease payments under the capitalized lease together with the present value of the net minimum lease payments as of June 30, 2009:

Years ending June 30,	
2010	20,638
2011	22,160
2012	20,658
2013	20,842
2014	20,317
2015-2019	108,700
2020-2021	24,667
Total minimum lease payments	237,982
Less: Amount representing interest	56,009
Present value of future minimum lease payments	<u>181,973</u>

**LONG-TERM DEBT**

**Revenue Bonds**

In April 1995, the City Council authorized the issuance of Waterworks and Sewer System Revenue Bonds in the amount of \$495,000. The proceeds were used to make improvements and extensions to the Water and Sewer system, including water supply and treatment facilities. The revenue bonds are scheduled to mature April 1, 2015, with interest rates ranging from 6.65% to 8.25%. The

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

revenue bonds are payable solely from the net revenues derived from the operations of the City's water and sewer system.

The revenue bond ordinance contains significant requirements for annual debt service and reserve funds, in addition to various other requirements. The City is in compliance with all significant requirements of the bond ordinance. As of June 30, 2009, the City had 701 water connections and 604 sewer connections.

The City's compliance with the balances required as of June 30, 2009 in each account is as follows:

	<u>Balance Required</u>	<u>Balance Available</u>	<u>Excess (Deficiency)</u>
Series 1995 Revenue Bonds:			
Interest & Sinking Fund	12,305	14,111	1,806
Reserve Fund	50,560	50,560	-

In March 2005, the City Council authorized the issuance of Waterworks and Sewer System Revenue Bonds in the amount of \$477,000. The proceeds were used for construction of a waste water treatment plant. The revenue bonds are scheduled to mature May 1, 2044, with an interest rate of 4.50%. The revenue bonds are payable solely from the net revenues derived from the operations of the City's water and sewer system. The City is in compliance with all significant requirements of this bond ordinance.

The City's compliance with the balances required as of June 30, 2009 in each account is as follows:

	<u>Balance Required</u>	<u>Balance Available</u>	<u>Excess (Deficiency)</u>
Series 2005 Revenue Bonds:			
Interest & Sinking Fund	6,641	5,384	(1,257)
Reserve Fund	5,000	5,051	51

Subsequent to year end additional funds were deposited to the Series 2005 interest and sinking fund to meet the required balances.

**Promissory Note**

In May 1998, the City entered into a promissory note in the amount of \$288,062 to fund repairs and improvements to the water plant. The note is payable in monthly installments to the Sabine River Authority of Texas with an annual adjustable interest rate, maturing May 2028. The City's water

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

and sewer system will service the debt from net revenues of the system. In April, 2008, the interest rate was adjusted to 3.25%.

The annual debt service requirements to maturity, including principal and interest, for the City's business type activities long term debt is as of June 30, 2009 is as follows:

Year ending June 30,	
2010	113,105
2011	116,943
2012	112,336
2013	114,396
2014	116,322
2015-2019	378,667
2020-2024	238,744
2025-2029	194,349
2030-2034	132,250
2035-2039	122,610
2040-2044	118,000
2045	20,900
Total principal and interest	1,778,622
Less interest	669,147
Total debt at June 30, 2009	1,109,475

**Change in Long-Term Liabilities**

Long term liability activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Issued	Retired	Ending Balance	Due in One Year
<b>Governmental Activities:</b>					
Bank loans	-	-	-	-	-
Governmental Activities, long-term liabilities	-	-	-	-	-

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

	Beginning Balance	Issued	Retired	Ending Balance	Due in One Year
<b>Business-type activities:</b>					
Capital lease	193,092	-	11,120	181,972	11,886
Promissory Notes	243,045	-	7,542	235,503	9,164
Bank loans	-	-	-	-	-
Revenue bonds	727,000	-	35,000	692,000	36,000
Business-type activity, long-term liabilities	<u>1,163,137</u>	<u>-</u>	<u>53,662</u>	<u>1,109,475</u>	<u>57,050</u>

**WATER SUPPLY AGREEMENT**

On July 1, 1996, the City entered into a long term water supply agreement with the Sabine River Authority of Texas (Authority). The agreement requires the City to take and pay for a minimum monthly quantity of treated water of 18,000,000 gallons. The City will pay the Authority a monthly fee based on the unit cost for treated water. The unit cost is recalculated each year based on the total estimated annual cost for the next full contract year. The agreement expires in 2020, and the City must make minimum monthly payments whether or not it is able to take delivery of the water. For the year ended June 30, 2009, the City's cost for treated water under this agreement was \$478,936.

**WATER TREATMENT AND TRANSMISSION FACILITIES OPERATING AGREEMENT**

On July 1, 1996, the City entered into a long term operating agreement with the Sabine River Authority of Texas (Authority). The agreement stipulates that the City will operate and maintain the treatment and transmission facilities as an independent contractor and shall be paid a monthly fee by the Authority based on the actual quantity of water purchased times the unit cost for treated water. The unit cost for treated water is developed from an annual budget. The agreement expires in 2020. For the year ended June 30, 2009, the City earned \$487,512 under the operating agreement.

**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 maintains workers' compensation and other risks of loss coverage through the Texas Municipal League Intergovernmental Risk Pool, which is a public entity risk pool. The pool is to be self-sustaining through member premiums and obtains reinsurance through commercial insurance companies for claims in excess of dollar amount. City management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims did not exceed the commercial coverage

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

during the current fiscal year.

**COMMITMENTS AND CONTINGENCIES**

**Grants**

Intergovernmental grants received by the City are subject to audit and adjustment by the funding agency or its representatives. If grant revenues are received for expenditures which are subsequently disallowed, the City may be required to repay the revenues to the funding agency. In the opinion of City management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements as of June 30, 2009.

**RETIREMENT PLAN**

**Plan Description`**

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

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

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

	Plan Year 2008	Plan year 2009
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service retirement eligibility (expresses as age/years of service)	60/5,0/20	60/5,0/20

**CITY OF HEMPHILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

Updates Service Credit	100% Repeating	100% Repeating
Annuity Increase (to retirees)	0% of CPI	0% of CPI

**Contributions**

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

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/asset are as follows:

Annual Required Contribution (ARC)	29,935
Interest on Net Pension Obligation	0
Adjustment to the ARC	0
Annual Pension Cost (APC)	29,935
Contributions Made	29,935
Increase (decrease) in net pension obligation	0
Net Pension Obligation/(Asset) beginning of year	0
Net Pension Obligation/(Asset), end of year	0

**CITY OF HEMPHILL, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

**Three-year Trend Information**

Accounting Year End	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/08	27,619	100%	---
6/30/07	25,234	100%	---
6/30/06	24,280	100%	---

The required contribution rates for fiscal year 2009 were determined as part of the December 31, 2006 and 2007 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2008, also follows:

Valuation Date	12/31/06	12/31/07	12/31/08
Actuarial Cost Method	Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	25 years; open period	25 years; closed period	25 years; closed period
Asset Valuation Method	Amortized Cost	Amortized Cost	Amortized Cost
<b>Actuarial Assumptions</b>			
Investment Rate of Return*	7.00%	7.00%	7.00%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustment	N/A	0.00%	0.00%

The funded status as of December 31, 2008, the most recent actuarial valuation date, is as follows

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
-----------------------------	---------------------------------	--	-----------------	---------------------------	--------------------	--

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

12/31/08	\$1,154,757	\$1,130,755	102.1%	\$(24,002)	\$850,235	(2.8%)
----------	-------------	-------------	--------	------------	-----------	--------

The City also participates in the cost sharing multiple-employer defined 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 the 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 post employment 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 life insurance during employees' entire careers.

The City's contribution to the TMRS SDBF for the fiscal years ended 2009, 2008, and 2007 were \$2,521, \$2,349, and \$2,176, respectively, which equaled the required contributions each year.



## **Budgetary Comparison Reporting**



**CITY OF HEMPHILL, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Sales taxes	442,783	442,783	490,087	47,304
Franchise taxes	6,861	6,861	6,491	(370)
Licenses and permits	5,356	5,356	1,190	(4,166)
Fines	12,735	12,735	7,739	(4,996)
Charges for services	189,867	189,867	199,019	9,152
Interest income	4,090	4,090	3,499	(591)
Intergovernmental	16,415	16,415	77,304	60,889
Contributions and donations	-	-	1,400	1,400
Other	16,023	16,023	9,602	(6,421)
Total revenues	694,130	694,130	796,331	102,201
<b>EXPENDITURES</b>				
Current:				
General government:				
Finance and administration	328,744	328,744	362,166	(33,422)
Municipal court	28,542	28,542	28,575	(33)
Public safety:				
Fire	24,844	24,844	40,796	(15,952)
Police	224,142	224,142	194,671	29,471
Streets	108,403	108,403	98,465	9,938
Sanitation	184,250	184,250	185,512	(1,262)
Parks and recreation	14,524	14,524	9,080	5,444
Health and welfare	24,784	24,784	19,740	5,044
Cemetery	7,150	7,150	4,800	2,350
Debt service	-	-	-	-
Capital outlay	-	18,000	87,222	(69,222)
Total expenditures	945,383	963,383	1,031,027	(67,644)
Excess (deficiency) of revenues over expenditures	(251,253)	(269,253)	(234,696)	34,557
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	262,995	262,995	262,995	-
Total other financing sources (uses)	262,995	262,995	262,995	-
Net change in fund balance	11,742	(6,258)	28,299	34,557
Fund balance - beginning	93,660	93,660	93,660	-
Fund balance - ending	105,402	87,402	121,959	34,557

See accompanying notes to the financial statements

This page left blank intentionally.

## **Other Schedules**



**CITY OF HEMPHILL, TEXAS  
GENERAL FUND  
SCHEDULE OF CURRENT EXPENDITURES BY DEPARTMENT  
BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2009**

<b>General Government</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance favorable (unfavorable)</b>
<b>Administration:</b>			
Personnel	235,848	276,723	(40,875)
Supplies and materials	8,660	7,554	1,106
Maintenance and repairs	18,079	22,181	(4,102)
Contractual services	45,561	47,759	(2,198)
Miscellaneous	49,138	36,524	12,614
Total administration	357,286	390,741	(33,455)
<b>Public Safety</b>			
<b>Fire Department:</b>			
Personnel	2,435	600	1,835
Supplies and materials	9,158	20,674	(11,516)
Maintenance and repairs	5,935	14,668	(8,733)
Contractual services	4,781	3,706	1,075
Miscellaneous	2,535	1,148	1,387
Total fire department	24,844	40,796	(15,952)
<b>Police department:</b>			
Personnel	197,801	163,271	34,530
Supplies and materials	15,725	20,440	(4,715)
Maintenance and repairs	5,613	4,970	643
Contractual services	2,333	4,105	(1,772)
Miscellaneous	2,670	1,885	785
Total police department	224,142	194,671	29,471
Total public safety	248,986	235,467	13,519
<b>Sanitation</b>			
Supplies and materials	2,024	1,055	969
Contractual services	181,726	174,974	6,752
Miscellaneous	500	9,483	(8,983)
Total sanitation	184,250	185,512	(1,262)

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS  
GENERAL FUND  
SCHEDULE OF CURRENT EXPENDITURES BY DEPARTMENT  
BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Budget</b>	<b>Actual</b>	<b>Variance favorable (unfavorable)</b>
<b>Streets</b>			
Personnel	78,528	75,634	2,894
Supplies and materials	24,045	18,953	5,092
Maintenance and repairs	3,568	1,770	1,798
Contractual services	2,162	2,108	54
Miscellaneous	100	-	100
<b>Total streets</b>	<b>108,403</b>	<b>98,465</b>	<b>9,938</b>
<b>Parks and recreation</b>			
Personnel	-	4,519	(4,519)
Supplies and materials	1,581	573	1,008
Maintenance and repairs	5,102	386	4,716
Contractual services	7,591	3,564	4,027
Miscellaneous	250	38	212
<b>Total parks and recreation</b>	<b>14,524</b>	<b>9,080</b>	<b>5,444</b>
<b>Health and welfare</b>			
Personnel	18,777	18,208	569
Supplies and materials	1,744	1,374	370
Maintenance and repairs	3,500	-	3,500
Contractual services	413	148	265
Miscellaneous	350	10	340
<b>Total health and welfare</b>	<b>24,784</b>	<b>19,740</b>	<b>5,044</b>
<b>Cemetery</b>			
Supplies and materials	250	-	250
Maintenance and repairs	500	3,600	(3,100)
Contractual services	6,300	1,200	5,100
Miscellaneous	100	-	100
<b>Total cemetery</b>	<b>7,150</b>	<b>4,800</b>	<b>2,350</b>
<b>Total current expenditures</b>	<b>945,383</b>	<b>943,805</b>	<b>1,578</b>

See accompanying notes to the financial statements



**CITY OF HEMPHILL, TEXAS  
UTILITY FUND  
SCHEDULE OF EXPENDITURES BY DEPARTMENT  
BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2009**

	<b>Budget</b>	<b>Actual</b>	<b>Variance favorable (unfavorable)</b>
<b>Electric Department</b>			
Personnel	133,418	165,917	(32,499)
Supplies and materials	88,971	149,489	(60,518)
Maintenance and repairs	4,912	1,071	3,841
Contractual services	14,489	405	14,084
Cost of services	1,276,246	1,291,415	(15,169)
Depreciation	31,258	35,348	(4,090)
Other operating expenses	4,520	2,908	1,612
<b>Total electric department</b>	<b>1,553,814</b>	<b>1,646,553</b>	<b>(92,739)</b>
<b>Gas department</b>			
Supplies and materials	8,165	18,161	(9,996)
Maintenance and repairs	237	148	89
Contractual services	2,413	3,027	(614)
Cost of services	161,898	154,814	7,084
Depreciation	25,126	25,927	(801)
Other operating expenses	3,475	1,545	1,930
<b>Total gas department</b>	<b>201,314</b>	<b>203,622</b>	<b>(2,308)</b>
<b>Water department</b>			
Supplies and materials	34,686	49,108	(14,422)
Maintenance and repairs	500	-	500
Contractual services	1,280	758	522
Depreciation	25,578	22,258	3,320
Other operating expenses	1,105	225	880
<b>Total water department</b>	<b>63,149</b>	<b>72,349</b>	<b>(9,200)</b>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS  
UTILITY FUND  
SCHEDULE OF EXPENDITURES BY DEPARTMENT  
BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2009**

	<b>Budget</b>	<b>Actual</b>	<b>Variance favorable (unfavorable)</b>
<b>Sewer department</b>			
Personnel	26,646	30,747	(4,101)
Supplies and materials	46,283	84,864	(38,581)
Maintenance and repairs	9,423	9,056	367
Contractual services	4,486	11,739	(7,253)
Depreciation	38,084	97,601	(59,517)
Other operating expenses	2,935	4,194	(1,259)
<b>Total sewer department</b>	<b>127,857</b>	<b>238,201</b>	<b>(110,344)</b>
<b>Warehouse</b>			
Personnel	328,503	295,317	33,186
Supplies and materials	39,180	47,630	(8,450)
Maintenance and repairs	8,154	7,997	157
Contractual services	16,563	19,304	(2,741)
Depreciation	13,111	21,052	(7,941)
Miscellaneous	25,519	27,721	(2,202)
<b>Total warehouse</b>	<b>431,030</b>	<b>419,021</b>	<b>12,009</b>
<b>Water plant</b>			
Personnel	142,975	146,170	(3,195)
Supplies and materials	90,839	102,224	(11,385)
Maintenance and repairs	11,317	31,681	(20,364)
Contractual services	16,912	19,880	(2,968)
Cost of services	549,175	507,640	41,535
Depreciation	71,847	107,326	(35,479)
Other operating expenses	11,235	8,517	2,718
<b>Total water plant</b>	<b>894,300</b>	<b>923,438</b>	<b>(29,138)</b>
<b>Total expenditures</b>	<b>3,271,464</b>	<b>3,503,184</b>	<b>(231,720)</b>

See accompanying notes to the financial statements

## **Statistical Tables**



**CITY OF HEMPHILL, TEXAS**

**SCHEDULE OF INSURANCE POLICIES IN FORCE**

**JUNE 30, 2009**

Insurer	Amount of Coverage	Risk Covered	Expiration Date
Texas Municipal League Intergovernmental Risk Pool	\$2,000,000	Comprehensive General liability	10-01-09
	\$2,000,000	Sudden events - Pollution	10-01-09
	\$2,000,000	Automobile liability	10-01-09
	\$2,000,000	Law enforcement liability	10-01-09
	\$2,000,000	Errors and omissions	10-01-09
	\$3,236,900	Real and personal property	10-01-09
	\$500,000	Boiler and machinery accident	10-01-09
	As scheduled	Automobile physical damage	10-01-09
	\$161,684	Mobile equipment	10-01-09
	Statutory	Workers compensation	10-01-09
Texas Water Conservation Association Risk Management	\$1,355,588	Water treatment plant facilities and equipment	06-30-09

This page left blank intentionally.

**FEDERAL AWARDS SECTION**







Certified Public Accountants

**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 AUDIT STANDARDS**

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hemphill, Texas (City) as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

**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 AUDIT STANDARDS**

Honorable Mayor and Members of the City Council  
City of Hemphill, Texas  
Page 2

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

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

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

*Pipes & Associates*

PIPES & ASSOCIATES  
Certified Public Accountants

September 30, 2009

**CITY OF HEMPHILL, TEXAS  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2009**

No findings reported.

**CITY OF HEMPHILL, TEXAS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2009**

No prior audit findings reported.

**CITY OF HEMPHILL, TEXAS  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2009**

None required.

This page left blank intentionally.