

CITY OF HEMPHILL, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2007

CITY OF HEMPHILL, TEXAS
Annual Financial Report
For the Year Ended June 30, 2007

Table of Contents

	Page
FINANCIAL SECTION	
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	21-35
Budgetary Comparison Reporting:	
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	36
Other Schedules:	
Schedule of General Fund Current Expenditures by Department - Budget and Actual	37-38
Schedule of Utility Fund Expenditures by Department - Budget and Actual	39-40
Statistical Tables:	
Schedule of Insurance Policies in Force	41

CITY OF HEMPHILL, TEXAS
Annual Financial Report
For the Year Ended June 30, 2007

Table of Contents

	Page
FEDERAL AWARDS SECTION	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	42-43
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	44-45
Schedule of Findings and Questioned Costs	46
Summary Schedule of Prior Audit Findings	47
Corrective Action Plan	48
Notes to Schedule of Expenditures of Federal Awards	49
Schedule of Expenditures of Federal Awards	50

FINANCIAL SECTION

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, 2007, 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hemphill, Texas as of June 30, 2007, 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 December 4, 2007, 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.

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 36 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 an opinion on the financial statements that collectively comprise the City's basic financial statements. The other schedules and the accompanying schedule of expenditures of federal awards as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other schedules, the accompanying schedule of expenditures of federal awards 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

December 4, 2007

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, 2007. 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 \$4,850,688 as of June 30, 2007. Of this amount, \$1,218,181 (unrestricted net assets) may be used to meet the City's continuing obligations to citizens, customers and creditors.
- ▶ During the year ended June 30, 2007, the City's net assets **increased** by \$911,691.
- ▶ Total long-term debt of the City decreased by \$89,181 to \$1,235,246 during the current fiscal year.
- ▶ At the end of the current fiscal year, unreserved fund balance for the general fund was \$108,308 or 11.7 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 \$4,850,688 at the close of the fiscal year.

By far the largest portion of the City's net assets (73.5 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	
	2007	2006	2007	2006	2007	2006
Current and Other Assets	161,139	119,060	1,683,986	1,753,636	1,845,125	1,872,696
Capital and Non-Current Assets	490,960	476,843	4,312,306	3,563,350	4,803,266	4,040,193
Total Assets	652,099	595,903	5,996,292	5,316,986	6,648,391	5,912,889
Other Liabilities	52,831	36,031	509,626	613,434	562,457	649,465
Long Term Liabilities	6,629	12,055	1,228,617	1,312,372	1,235,246	1,324,427
Total Liabilities	59,460	48,086	1,738,243	1,925,806	1,797,703	1,973,892
Net Assets:						
Investment in Capital Assets,						
Net of Related Debt	484,331	464,788	3,083,689	2,250,978	3,568,020	2,715,766
Restricted	-	-	64,487	64,940	64,487	64,940
Unrestricted	108,308	83,029	1,109,873	1,075,262	1,218,181	1,158,291
Total Net Assets	592,639	547,817	4,258,049	3,391,180	4,850,688	3,938,997

A portion of the City's net assets (1.3 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 \$1,218,181 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.

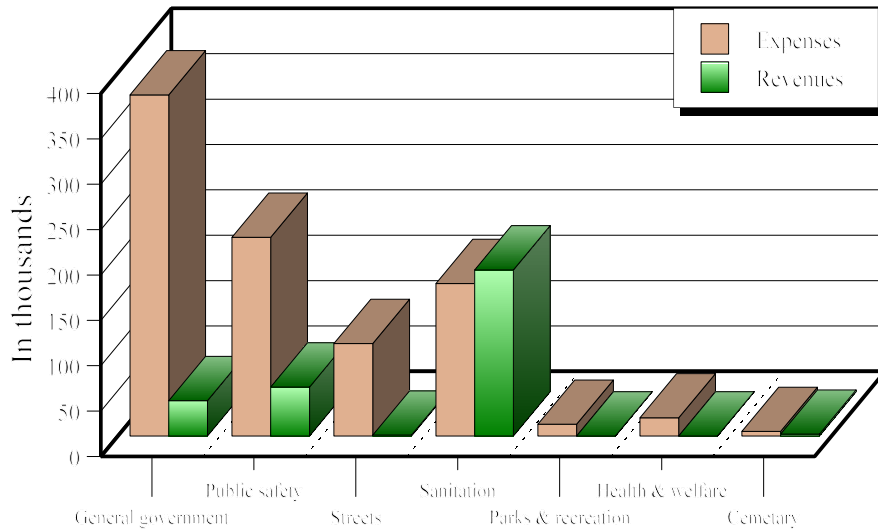
Changes in the City's Net Assets

	Governmental Activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues:						
Charges for services	200,053	201,898	3,370,983	3,383,723	3,571,036	3,585,621
Operating	2,862	7,204	-	-	2,862	7,204
Capital grants	76,053	-	524,550	839,650	600,603	839,650
General Revenues:						
Sales taxes	479,023	419,677	-	-	479,023	419,677
Other taxes	7,558	9,335	-	-	7,558	9,335
Other	73,840	153,148	39,716	32,458	113,556	185,606
Total revenues	839,389	791,262	3,935,249	4,255,831	4,774,638	5,047,093
Expenses:						
General government	376,225	346,888	-	-	376,225	346,888
Public safety	218,884	209,726	-	-	218,884	209,726
Streets	102,422	108,087	-	-	102,422	108,087
Sanitation	168,430	180,531	-	-	168,430	180,531
Parks and recreation	12,877	20,828	-	-	12,877	20,828
Health and welfare	20,413	18,029	-	-	20,413	18,029
Cemetery	4,675	4,950	-	-	4,675	4,950
Debt service	641	904	-	-	641	904
Electric	-	-	1,486,453	1,682,176	1,486,453	1,682,176
Natural gas	-	-	271,068	340,275	271,068	340,275
Water	-	-	967,392	985,018	967,392	985,018
Sewer	-	-	233,467	193,229	233,467	193,229
Total expenses	904,567	889,943	2,958,380	3,200,698	3,862,947	4,090,641
Transfers	110,000	144,000	(110,000)	(144,000)	-	-
Increase in net assets	44,822	45,319	866,869	911,133	911,691	956,452
Beginning net assets	547,817	502,498	3,391,180	2,480,047	3,938,997	2,982,545
Ending net assets	<u>592,639</u>	<u>547,817</u>	<u>4,258,049</u>	<u>3,391,180</u>	<u>4,850,688</u>	<u>3,938,997</u>

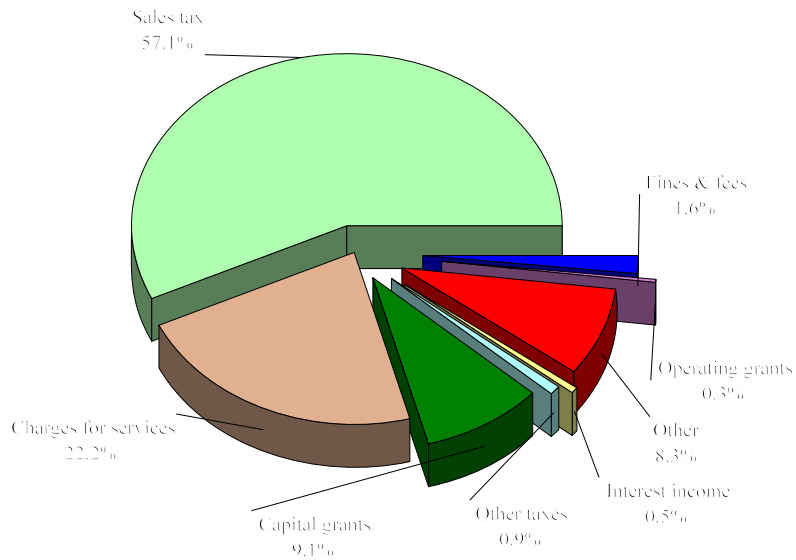
MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities. Governmental activities increased the City's net assets by \$44,822 contributing to the overall increase in the City's total net assets.

Expenses and Program Revenues - Governmental Activities



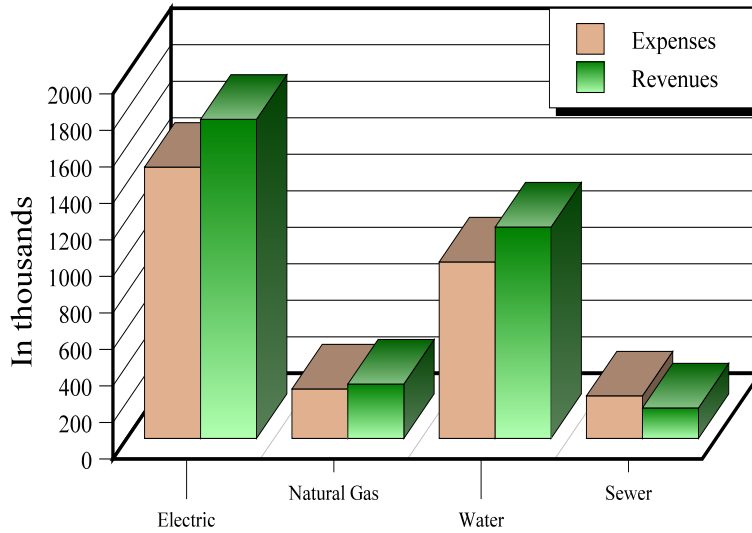
Revenues by Source - Governmental Activities



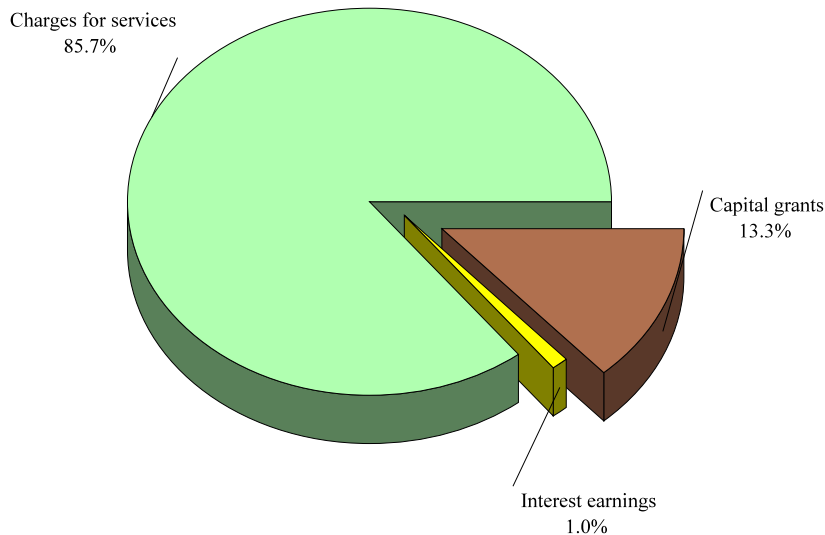
MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-type Activities. Business-type activities increased the City's net assets by \$866,869, accounting for the significant increase in the City's net assets.

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 \$108,308, an increase of \$25,279 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 \$1,109,873.

General Fund Budgetary Highlights

During the year there was no increase in appropriations between the original and final amended budget. The following are components of amounts amended between functions:

- ▶ \$30,000 increase in general government capital outlay.
- ▶ \$30,000 decrease in general government miscellaneous outlay.

The general government capital outlay budget was increased to fund the City's acquisition of land adjacent to the city hall.

Capital Asset and Debt Administration

Capital Assets. At the end of the current fiscal year, the City's investment in capital assets for its governmental and business type activities amounts to \$4,803,266 (net of accumulated depreciation). This investment in capital assets included land, buildings, utility system improvements, machinery, equipment, and park facilities.

	City's Capital Assets (net of depreciation)					
	Governmental		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Land	53,653	53,653	79,523	79,523	133,176	133,176
Buildings & improvements	182,238	196,334	-	-	182,238	196,334
Utility systems	-	-	4,062,474	1,792,569	4,062,474	1,792,569
Property - capital lease	-	-	30,917	49,467	30,917	49,467
Vehicles and equipment	255,069	226,856	125,292	78,453	380,361	305,309
Construction in progress	-	-	14,100	1,563,338	14,100	1,563,338
Net capital assets	<u>490,960</u>	<u>476,843</u>	<u>4,312,306</u>	<u>3,563,350</u>	<u>4,803,266</u>	<u>4,040,193</u>

More detailed information about the City's capital assets is presented in the notes to the financial statements. Major capital assets events during the current fiscal year include the completion of water storage tanks and a new sewer plant. Construction in progress at year end is related to a low water intake structure at the water treatment plant.

MANAGEMENT DISCUSSION AND ANALYSIS

Long-term debt. At the end of the current fiscal year, the City had total long term debt of \$1,235,246.

	City's Outstanding Debt					
	Governmental Activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue bonds	-	-	757,000	792,000	757,000	792,000
Capital lease	-	-	203,949	232,180	203,949	232,180
Promissory notes	-	-	248,809	253,884	248,809	253,884
Bank loans	6,629	12,055	18,859	34,308	25,488	46,363
Net capital assets	<u>6,629</u>	<u>12,055</u>	<u>1,228,617</u>	<u>1,312,372</u>	<u>1,235,246</u>	<u>1,324,427</u>

The City's total long term debt decreased by \$89,181 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 2007 - 2008 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 revenue due to a reduction in federal assistance received related to continuing recovery from hurricane damage. The ongoing general fund revenue items (sales tax, charges for services, etc.) should generate similar revenues as the prior year. The City expects a modest increase in utility fund revenue due to increased rates.

Operating costs are expected to increase less than 1.0% as overall operating costs remain similar to the prior year.

The City anticipates spending \$413,600 in capital improvements during fiscal year 2007-2008. These include equipment purchases, completion of low water intake structure at the water treatment plant, utility system improvements, and park improvements.

If these estimates and reimbursement are realized, the City's budgetary general fund balance and utility reserves are expected to increase modestly by the close of 2008.

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, and 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, 2007**

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash and cash equivalents	69,636	1,036,478	1,106,114
Sales tax receivable	53,645	-	53,645
Accounts receivable	-	281,971	281,971
Intergovernmental receivable	-	14,200	14,200
Other receivables	239	-	239
Inventories	-	6,404	6,404
Deferred charges	-	31,750	31,750
Restricted assets:			
Cash and cash equivalents	37,619	313,183	350,802
Capital Assets (net of accumulated depreciation):			
Land	53,653	79,523	133,176
Other capital assets, net of depreciation	437,307	4,232,783	4,670,090
Total assets	652,099	5,996,292	6,648,391
LIABILITIES			
Accounts payable	28,539	371,508	400,047
Accrued expenses	24,292	25,309	49,601
Accrued interest payable		11,153	11,153
Deferred revenue	-	-	-
Customer meter deposits	-	101,656	101,656
Long Term Liabilities:			
Due within one year	6,629	65,156	71,785
Due after one year	-	1,163,461	1,163,461
Total liabilities	59,460	1,738,243	1,797,703
NET ASSETS			
Invested in capital assets, net of related debt	484,331	3,083,689	3,568,020
Restricted for other purposes	-	64,487	64,487
Unrestricted net assets	108,308	1,109,873	1,218,181
Total net assets	592,639	4,258,049	4,850,688

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Governmental activities:			
General government	376,225	324	-
Public safety	218,884	14,300	1,763
Streets	102,422	1,490	-
Sanitation	168,430	182,539	-
Parks and recreation	12,877	-	-
Health and welfare	20,413	100	-
Cemetery	4,675	1,300	1,099
Interest on long term debt	641	-	-
Total governmental activities	904,567	200,053	2,862
Business-type activities:			
Electric	1,486,453	1,748,165	-
Natural gas	271,068	297,567	-
Water	967,392	1,158,493	-
Sewer	233,467	166,758	-
Total business-type activities	2,958,380	3,370,983	-
	3,862,947	3,571,036	2,862

General revenues:
 Property taxes
 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

Program Revenues	Net (Expense) Revenues and Changes in Net Assets		
Capital Grants and Contributions	Governmental Activities	Business Activities	Total
38,247	(337,654)	-	(337,654)
37,806	(165,015)	-	(165,015)
-	(100,932)	-	(100,932)
-	14,109	-	14,109
-	(12,877)	-	(12,877)
-	(20,313)	-	(20,313)
-	(2,276)	-	(2,276)
-	(641)	-	(641)
76,053	(625,599)	-	(625,599)
-	-	261,712	261,712
-	-	26,499	26,499
18,950	-	210,051	210,051
505,600	-	438,891	438,891
524,550	-	937,153	937,153
600,603	(625,599)	937,153	311,554
-	-	-	-
-	479,023	-	479,023
-	7,558	-	7,558
-	5,297	-	5,297
-	64,639	-	64,639
-	3,904	39,716	43,620
-	110,000	(110,000)	-
-	670,421	(70,284)	600,137
-	44,822	866,869	911,691
-	547,817	3,391,180	3,938,997
-	-	-	-
-	592,639	4,258,049	4,850,688

See accompanying notes to the financial statements

Fund Financial Statements

**CITY OF HEMPHILL, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	69,636	-	69,636
Sales tax receivable	53,645	-	53,645
Property tax receivable (net of allowance for uncollectible)	-	-	-
Other receivables	239	-	239
Due from other funds	-	-	-
Cash and cash equivalents - restricted	37,619	-	37,619
Total assets	161,139	-	161,139
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	28,539	-	28,539
Accrued liabilities	24,292	-	24,292
Notes payable	-	-	-
Deferred revenues	-	-	-
Total liabilities	52,831	-	52,831
Fund balances:			
Unreserved and undesignated	108,308	-	108,308
Total fund balances	108,308	-	108,308
Total liabilities and fund balances	161,139	-	161,139

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, 2007

Total fund balances - governmental funds	108,308
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 \$788,615 and the accumulated depreciation was \$311,772. The effect of including beginning balances for capital assets (net of depreciation) in the governmental activities is to increase (decrease) net assets.	476,843
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.	14,117
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(6,629)</u>
Net assets of governmental activities	<u><u>592,639</u></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, 2007

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes:			
Sales taxes	479,023	-	479,023
Franchise taxes	7,558	-	7,558
License and permits	150	-	150
Fines	13,208	-	13,208
Charges for services	182,539	-	182,539
Interest income	3,904	-	3,904
Intergovernmental	142,455	-	142,455
Contributions and donations	2,399	-	2,399
Other	8,155	-	8,155
Total revenues	839,391	-	839,391
EXPENDITURES			
Current:			
General government:			
Finance and administration	337,402	-	337,402
Municipal court	26,432	-	26,432
Public safety:			
Fire	22,758	-	22,758
Police	154,335	-	154,335
Streets	102,032	-	102,032
Sanitation	168,430	-	168,430
Parks and recreation	6,687	-	6,687
Health and welfare	19,407	-	19,407
Cemetery	4,675	-	4,675
Debt service	6,069	-	6,069
Capital outlay	75,885	-	75,885
Total expenditures	924,112	-	924,112
Excess (deficiency) of revenues over expenditures	(84,721)	-	(84,721)
OTHER FINANCING SOURCES (USES)			
Transfers in	110,000	-	110,000
Total other financing sources and uses	110,000	-	110,000
Net change in fund balance	25,279	-	25,279
Fund balance - beginning	83,029	-	83,029
Fund balance - ending	108,308	-	108,308

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, 2007**

Net change in fund balances - governmental funds	25,279
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.	75,885
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.	(61,768)
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.	<u>5,426</u>
Change in net assets of governmental activities	<u><u>44,822</u></u>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007**

ASSETS

Current assets:	
Cash and cash equivalents	1,036,478
Accounts receivable	281,971
Intergovernmental receivable	14,200
Inventories	6,404
Total current assets	<u>1,339,053</u>
Noncurrent assets:	
Restricted cash and cash equivalents	313,183
Deferred charges	31,750
Capital assets:	
Land	79,523
Other capital assets, net of depreciation	4,232,783
Total noncurrent assets	<u>4,657,239</u>
Total assets	<u><u>5,996,292</u></u>

LIABILITIES

Current liabilities:	
Accounts payable	371,508
Accrued expenses	25,309
Accrued interest payable	11,153
Current portion of:	
Bank loan	18,859
Capital leases	10,856
Promissory note	5,441
Revenue bonds payable	30,000
Total current liabilities	<u>473,126</u>
Noncurrent liabilities:	
Bank loan	-
Capital leases	193,093
Promissory note	243,368
Revenue bonds payable	727,000
Customer deposits	101,656
Total noncurrent liabilities	<u>1,265,117</u>
Total liabilities	<u>1,738,243</u>

NET ASSETS

Invested in capital assets, net of related debt	3,083,689
Restricted for debt service	64,487
Unrestricted	1,109,873
Total net assets	<u>4,258,049</u>
Total liabilities and net assets	<u><u>5,996,292</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, 2007

Operating revenues:	
Water sales	1,149,112
Sewer charges	165,407
Electric sales	1,734,010
Gas sales	295,160
Other services	<u>27,294</u>
Total operating revenues	<u>3,370,983</u>
Operating expenses:	
Personnel	518,547
Supplies and materials	287,318
Maintenance and repairs	46,086
Contractual services	31,351
Cost of services	1,737,073
Depreciation	205,005
Other operating	<u>55,429</u>
Total operating expenses	<u>2,880,809</u>
Operating income	490,174
Nonoperating revenues (expenses):	
Interest income	39,716
Capital grant	524,550
Interest expense	<u>(77,571)</u>
Total nonoperating revenue (expenses)	486,695
Income before transfers	976,869
Transfers to other funds	<u>(110,000)</u>
Change in net assets	866,869
Total net assets - beginning	<u>3,391,180</u>
Total net assets - ending	<u><u>4,258,049</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, 2007**

Cash flows from operating activities:	
Receipts from customers	3,459,233
Payments to suppliers and contractors	(2,188,230)
Payments to employees	(512,519)
Net cash provided by (used for) operating activities	<u>758,484</u>
Cash flows from noncapital financing activities:	
Operating transfers	(110,000)
Net cash provided by (used for) noncapital activities	<u>(110,000)</u>
Cash flows from capital and related financing activities:	
Debt proceeds received	-
Debt issue costs paid	-
Capital grant received	711,127
Purchases of capital assets	(1,032,256)
Principal paid on capital debt	(83,755)
Interest paid on capital debt	(76,593)
Net cash provided by (used for) capital activities	<u>(481,477)</u>
Cash flows from investing activities:	
Interest received	39,716
Net cash provided by (used for) investing activities	<u>39,716</u>
 Net increase (decrease) in cash and cash equivalents	 206,723
 Cash and cash equivalents, beginning	 <u>1,142,938</u>
 Cash and cash equivalents, ending	 <u><u>1,349,661</u></u>
 Reconciliation of operating income to net cash used by operating activities:	
Operating income	490,174
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	205,005
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	90,364
(Increase) decrease in supply inventory	(1,896)
Increase (decrease) in accounts payable	(29,077)
Increase (decrease) in accrued liabilities	4,226
Increase (decrease) in customer meter deposits	(312)
Net cash provided by operating activities	<u><u>758,484</u></u>

See accompanying notes to the financial statements

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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, 2007

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

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

operating revenues of the Utility Fund are charges to customers for sale and services. The Utility 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.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Depreciation is provided on all capital assets used by the general and utility funds over the following 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, 2007

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, 2007 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, 2007, the bank balances of the City's deposits (demand and certificates) were \$1,473,732. 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, 2007 as follows:

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

FDIC Insurance	300,000
Market value of securities pledged	<u>1,570,566</u>
Total coverage	<u>1,870,566</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, 2007 are with the depository bank in certificates of deposit in the amount of \$861,505.

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, 2007, the City's business type activities restricted assets consisted of \$64,487 for debt service and \$248,696 for construction. The governmental activities restricted assets consisted of \$760 for training of volunteer fire department personnel, \$8,879 for cemetery operations, \$2,555 for police officer department functions, and \$25,425 for disaster recovery.

PROPERTY TAXES

The City did not levy property taxes in October, 2006. 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, 2007

DUE FROM OTHER GOVERNMENTS

Amounts due from other governments as of June 30, 2007 are \$53,645 for sales tax and \$14,200 for Community Development Block Grant program, both due from agencies of the State of Texas.

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	53,653	-	-	53,653
Capital assets, being depreciated:				
Buildings and improvements	297,446	-	-	297,446
Vehicles and equipment	437,516	75,885	(38,634)	474,767
Total capital assets being depreciated	734,962	75,885	(38,634)	772,213
Less accumulated depreciation for:				
Buildings and improvements	101,112	14,096	-	115,208
Vehicles and equipment	210,660	47,672	(38,634)	219,698
Total accumulated depreciation	311,772	61,768	(38,634)	334,906
Total capital assets, being depreciated, net	423,190	14,117	-	437,307
Governmental activities capital assets, net	476,843	14,117	-	490,960

Business-type activities:

Capital assets, not being depreciated:

Land	79,523		-	79,523
Construction in progress	1,563,338	14,100	(1,563,338)	14,100
Total capital assets, not being depreciated	1,642,861	14,100	(1,563,338)	93,623
Capital assets, being depreciated:				
Buildings and improvements	32,500	-	-	32,500

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
Utility systems	4,616,175	2,432,116	677,337	7,725,628
Vehicles and equipment	565,444	66,057	(1,891)	629,610
Property under capital lease	1,022,311	-	(672,311)	350,000
Totals at cost	<u>6,236,430</u>	<u>2,498,173</u>	<u>3,135</u>	<u>8,737,738</u>
Less accumulated depreciation:				
Buildings and improvements	32,500	-	-	32,500
Utility system	2,823,606	167,419	672,311	3,663,336
Vehicles and equipment	486,991	19,036	(1,891)	504,136
Property under capital lease	972,844	18,550	(672,311)	319,083
Total accumulated depreciation	<u>4,315,941</u>	<u>205,005</u>	<u>(1,891)</u>	<u>4,519,055</u>
Total capital assets, being depreciated, net	<u>1,920,489</u>	<u>2,293,168</u>	<u>5,026</u>	<u>4,218,683</u>
Business-type activities capital assets, net	<u>3,563,350</u>	<u>2,307,268</u>	<u>(1,558,312)</u>	<u>4,312,306</u>

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

Governmental activities:

General government	12,391
Public safety	41,791
Streets	390
Health and welfare	1,006
Parks and recreation	<u>6,190</u>
Total depreciation expense - governmental activities	<u>61,768</u>

Business-type activities:

Overhead	13,134
Water	25,578
Sewer	38,084
Natural Gas	25,126
Electric	31,236
Water Plant	<u>71,847</u>
Total depreciation expense - business-type activities	<u>205,005</u>

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

CAPITAL LEASES

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

The first lease agreement was entered into in December, 1975. Construction of the facilities was completed during 1977 and is currently providing the City water. The lease is for a period of 30 years, with minimum payments ranging from \$3,200 to \$3,840 per month. Amortization is computed using the straight-line method and is included in depreciation expense. The 1975 lease matured in 2007 and the leased facilities were deeded to the City from the Authority.

The second 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 these leases was \$10,643 for the year ended June 30, 2007.

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, 2007:

Years ending June 30,	
2008	22,517
2009	20,442
2010	20,725
2011	21,133
2012	20,658
2013-2017	105,934
2018-2022	68,592
Total minimum lease payments	<u>280,001</u>
Less: Amount representing interest	<u>76,052</u>
Present value of future minimum lease payments	<u><u>203,949</u></u>

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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 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, 2007, the City had 672 water connections and 584 sewer connections.

The City's compliance with the balances required as of June 30, 2007 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	12,149	13,927	1,778
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.

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 and sewer system will service the debt from net revenues of the system. In April, 2006, the interest rate was adjusted to 7.0%.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Bank Loan

In August 2003, the City borrowed \$100,000 from First State Bank for the purchase of vehicles and a bucket truck. The note is payable in monthly installments with an annual adjustable interest rate. The interest rate was adjusted to 8.25% in September 2006. The note is scheduled to mature in August 2008, however the City paid the note in full subsequent to year end.

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, 2007 is as follows:

<u>Year ending June 30,</u>	
2008	139,245
2009	120,537
2010	119,196
2011	121,919
2012	118,339
2013-2017	509,201
2018-2022	313,824
2023-2027	243,388
2028-2032	152,389
2033-2037	124,855
2038-2044	122,730
2043-2045	<u>65,400</u>
Total principal and interest	2,151,023
Less interest	<u>922,406</u>
Total debt at June 30, 2007	<u><u>1,228,617</u></u>

The annual debt service requirements to maturity including principal and interest for the City's governmental activities long term debt as of June 30, 2007 is as follows:

<u>Year ending June 30,</u>	
2008	6,827

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

2009	-
Total principal and interest	6,827
Less interest	198
Total liability at June 30,	6,629

Change in Long-Term Liabilities

Long term liability activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Issued	Retired	Ending Balance	Due in One Year
Governmental Activities:					
Bank loans	12,055	-	5,426	6,629	6,629
Governmental Activities, long-term liabilities	12,055	-	5,426	6,629	6,629
Business-type activities:					
Capital leases	232,180	-	28,232	203,948	10,856
Promissory Notes	253,884	-	5,074	248,810	5,441
Bank loans	34,308	-	15,449	18,859	18,859
Revenue bonds	792,000	-	35,000	757,000	30,000
Business-type activity, long-term liabilities	1,312,372	-	83,755	1,228,617	65,156

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, 2007, the City's cost for treated water under this agreement was \$398,745.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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, 2007, the City earned \$403,111 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 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, 2007.

RETIREMENT PLAN

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 821 administered by TMRS, an agent multiple-employer public employee retirement system.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Benefits

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the City Council, within the options available in the state statutes governing TMRS. Members can retire at ages 60 and above with 5 or more years of service or with 25 years of service regardless of age. A member is vested after 5 years. The contribution rate for the employees is 5% and the City matching ratio (City to Employee) is 1 to 1.

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2006 valuation is effective for rates beginning January 2008).

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Actuarial Valuation Information

The City of Hemphill is one of 821 municipalities having the benefit plan administered by TMRS. Each of the 821 municipalities have an individual actuarial valuation performed. All assumptions for the December 31, 2006 valuations are contained in the 2006 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained in writing to P.O. Box 149153, Austin, Texas 78714-9153.

Trend Information

Accounting Year End	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/07	27,340	100%	---
6/30/06	24,280	100%	---
6/30/05	21,831	100%	---

Schedule of Funding Progress

	Actuarial Valuation Date		
	12/31/04	12/31/05	12/31/06
a. Actuarial value of assets	740,616	835,607	934,267
b. Actuarial accrued liability (AAL)	751,282	859,736	948,048
Unfunded (Overfunded) AAL	10,666	24,129	13,781
Funded ratio	98.60%	97.20%	98.55%
c. Annual covered payroll	648,283	692,018	701,967
UAAL as percentage of covered payroll	1.60%	3.50%	1.96%

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, 2007

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Sales taxes	418,246	418,246	479,023	60,777
Franchise taxes	9,831	9,831	7,558	(2,273)
Licenses and permits	4,275	4,275	150	(4,125)
Fines	16,283	16,283	13,208	(3,075)
Charges for services	185,587	185,587	182,539	(3,048)
Interest income	2,348	2,348	3,904	1,556
Intergovernmental	69,750	69,750	142,455	72,705
Contributions and donations	-	-	2,399	2,399
Other	9,937	9,937	8,155	(1,782)
Total revenues	716,257	716,257	839,391	123,134
EXPENDITURES				
Current:				
General government:				
Finance and administration	339,731	309,731	337,402	(27,671)
Municipal court	30,888	30,888	26,432	4,456
Public safety:				
Fire	26,312	26,312	22,758	3,554
Police	165,673	165,673	154,335	11,338
Streets	104,429	104,429	102,032	2,397
Sanitation	174,459	174,459	168,430	6,029
Parks and recreation	18,178	18,178	6,687	11,491
Health and welfare	20,878	20,878	19,407	1,471
Cemetery	-	-	4,675	(4,675)
Debt service	686	686	6,069	(5,383)
Capital outlay	68,400	98,400	75,885	22,515
Total expenditures	949,634	949,634	924,112	25,522
Excess (deficiency) of revenues over expenditures	(233,377)	(233,377)	(84,721)	148,656
OTHER FINANCING SOURCES (USES)				
Transfers in	285,332	285,332	110,000	(175,332)
Total other financing sources (uses)	285,332	285,332	110,000	(175,332)
Net change in fund balance	51,955	51,955	25,279	(26,676)
Fund balance - beginning	83,029	83,029	83,029	-
Fund balance - ending	134,984	134,984	108,308	(26,676)

See accompanying notes to the financial statements

Other Schedules

**CITY OF HEMPHILL, TEXAS
GENERAL FUND
SCHEDULE OF CURRENT EXPENDITURES BY DEPARTMENT
BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2007**

General Government	Budget	Actual	Variance favorable (unfavorable)
Administration:			
Personnel	225,338	231,558	(6,220)
Supplies and materials	9,741	5,844	3,897
Maintenance and repairs	16,911	16,615	296
Contractual services	47,729	36,286	11,443
Miscellaneous	70,900	73,531	(2,631)
Total administration	370,619	363,834	6,785
Public Safety			
Fire Department:			
Personnel	2,731	650	2,081
Supplies and materials	10,800	4,036	6,764
Maintenance and repairs	5,657	13,014	(7,357)
Contractual services	4,539	4,104	435
Miscellaneous	2,585	954	1,631
Total fire department	26,312	22,758	3,554
Police department:			
Personnel	145,850	134,586	11,264
Supplies and materials	10,616	10,493	123
Maintenance and repairs	3,664	3,891	(227)
Contractual services	2,901	2,714	187
Miscellaneous	2,642	2,651	(9)
Total police department	165,673	154,335	11,338
Total public safety	191,985	177,093	14,892
Sanitation			
Supplies and materials	1,500	1,123	377
Contractual services	172,959	166,662	6,297
Miscellaneous	-	645	(645)
Total sanitation	174,459	168,430	6,029

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, 2007**

	Budget	Actual	Variance favorable (unfavorable)
Streets			
Personnel	76,278	71,787	4,491
Supplies and materials	19,365	25,974	(6,609)
Maintenance and repairs	6,734	2,389	4,345
Contractual services	1,952	1,882	70
Miscellaneous	100	-	100
Total streets	104,429	102,032	2,397
Parks and recreation			
Personnel	-	-	-
Supplies and materials	1,000	277	723
Maintenance and repairs	5,642	2,292	3,350
Contractual services	11,286	4,118	7,168
Miscellaneous	250	-	250
Total parks and recreation	18,178	6,687	11,491
Health and welfare			
Personnel	18,798	17,958	840
Supplies and materials	780	1,009	(229)
Maintenance and repairs	500	7	493
Contractual services	350	433	(83)
Miscellaneous	450	-	450
Total health and welfare	20,878	19,407	1,471
Cemetery			
Maintenance and repairs	-	4,675	(4,675)
Total cemetery	-	4,675	(4,675)
Total current expenditures	880,548	842,158	38,390

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, 2007**

	Budget	Actual	Variance favorable (unfavorable)
Electric Department			
Personnel	82,567	113,468	(30,901)
Supplies and materials	83,349	83,560	(211)
Maintenance and repairs	7,196	4,480	2,716
Contractual services	1,907	150	1,757
Cost of services	1,429,663	1,160,505	269,158
Depreciation	29,472	31,259	(1,787)
Other operating expenses	4,022	2,628	1,394
Total electric department	1,638,176	1,396,050	242,126
Gas department			
Personnel	-	-	-
Supplies and materials	7,716	6,326	1,390
Maintenance and repairs	270	329	(59)
Contractual services	1,860	323	1,537
Cost of services	192,160	147,158	45,002
Depreciation	25,128	25,126	2
Other operating expenses	3,339	2,861	478
Total gas department	230,473	182,123	48,350
Water department			
Personnel	-	-	-
Supplies and materials	24,311	39,681	(15,370)
Maintenance and repairs	2,397	28	2,369
Contractual services	867	1,784	(917)
Depreciation	25,800	25,578	222
Other operating expenses	1,520	3,046	(1,526)
Total water department	54,895	70,117	(15,222)

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, 2007**

	Budget	Actual	Variance favorable (unfavorable)
Sewer department			
Personnel	28,675	26,945	1,730
Supplies and materials	19,723	36,133	(16,410)
Maintenance and repairs	5,231	8,662	(3,431)
Contractual services	3,410	2,914	496
Depreciation	41,436	38,084	3,352
Other operating expenses	3,315	10,123	(6,808)
Total sewer department	101,790	122,861	(21,071)
Warehouse			
Personnel	309,271	254,708	54,563
Supplies and materials	30,709	36,720	(6,011)
Maintenance and repairs	7,809	10,856	(3,047)
Contractual services	13,797	13,305	492
Depreciation	10,500	13,111	(2,611)
Miscellaneous	25,338	26,718	(1,380)
Total warehouse	397,424	355,418	42,006
Water plant			
Personnel	137,755	123,058	14,697
Supplies and materials	102,598	84,898	17,700
Maintenance and repairs	17,760	21,732	(3,972)
Contractual services	18,829	12,610	6,219
Cost of services	498,612	429,410	69,202
Depreciation	95,000	71,847	23,153
Other operating expenses	10,854	10,685	169
Total water plant	881,408	754,240	127,168
Total expenditures	3,304,166	2,880,809	423,357

See accompanying notes to the financial statements

Statistical Tables

CITY OF HEMPHILL, TEXAS

SCHEDULE OF INSURANCE POLICIES IN FORCE

JUNE 30, 2007

Insurer	Amount of Coverage	Risk Covered	Expiration Date
Texas Municipal League Intergovernmental Risk Pool	\$2,000,000	Comprehensive General liability	10-01-07
	\$2,000,000	Sudden events - Pollution	10-01-07
	\$2,000,000	Automobile liability	10-01-07
	\$2,000,000	Law enforcement liability	10-01-07
	\$2,000,000	Errors and omissions	10-01-07
	\$1,337,100	Real and personal property	10-01-07
	\$500,000	Boiler and machinery accident	10-01-07
	As scheduled	Automobile physical damage	10-01-07
	\$115,984	Mobile equipment	10-01-07
	Statutory	Workers compensation	10-01-07
Texas Water Conservation Association Risk Management	\$1,296,960	Water treatment plant facilities and equipment	06-30-07

FEDERAL AWARD SECTION

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH 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, 2007, which collectively comprise the City’s basic financial statements and have issued our report thereon dated December 4, 2007. 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

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

December 4, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Members of the Board:

Compliance

We have audited the compliance of the City of Hemphill, Texas with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. The City's major federal programs are identified in the the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Hemphill, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Board of Directors

December 4, 2007

Page 2

to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in the City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

December 4, 2007

**CITY OF HEMPHILL, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	___yes <u>X</u> no
Reportable conditions identified that are not considered to be material weaknesses? reported	___yes <u>X</u> none
Noncompliance material to financial statements noted?	___yes <u>X</u> no

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	___yes <u>X</u> no
Reportable conditions identified that are not considered to be material weaknesses?	___yes <u>X</u> none reported
Type of auditor's report on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in compliance with section 510(a) of OMB Circular A-133?	___yes <u>X</u> no

Identification of Major Programs

CFDA 10.760	Water and Waste Disposal Systems for Rural Communities
Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as a low risk auditee?	___yes <u>X</u> no

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

**CITY OF HEMPHILL, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007**

No prior audit findings reported.

**CITY OF HEMPHILL, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2007**

No corrective action plan necessary.

**CITY OF HEMPHILL, TEXAS
NOTES TO SUPPLEMENTARY SCHEDULE OF
EXPENDITURE OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007**

Basis of Presentation:

The accompanying schedule of expenditure of federal awards includes the federal grant activity of City of Hemphill, Texas and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations.

**CITY OF HEMPHILL, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007**

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditure</u>
U. S. Department Homeland Security:		
<i>Passed through State of Texas Office of the Governor</i>		
Public Assistance Grant	97.036	39,980
U. S. Department Housing and Urban Development:		
<i>Passed through State of Texas Office of Rural and Community Affairs</i>		
Community Development Block Grant No. 722299	14.228	6,600
Community Development Block Grant No. 723371	14.228	11,350
Community Development Block Grant No. 725337	14.228	38,247
Community Development Block Grant No. 726017	14.228	7,600
Community Development Block Grant No. DRS 060032	14.228	<u>24,659</u>
Total U. S. Department Housing and Urban Development		88,456
U.S. Department of Agriculture:		
<i>Direct Program</i>		
Water and Waste Disposal Systems for Rural Communities	10.760	499,000
Total federal awards		<u><u>627,436</u></u>

See accompanying notes to supplementary schedule of expenditures of federal awards