

CITY OF HEMPHILL, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2014

CITY OF HEMPHILL, TEXAS
Annual Financial Report
For the Year Ended June 30, 2014

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FINANCIAL SECTION



Certified Public Accountants

Goff & Herrington, P.C.

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A.J. Goff, CPA
Ronnie Herrington, CPA

Independent Auditor's Report

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

Report on the Financial Statements

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 City of Hemphill, Texas (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Independent Auditor's Report

Honorable Mayor and Members of City Council

City of Hemphill, Texas

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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, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-11 and 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hemphill, Texas' basic financial statements. The introductory section, other schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Independent Auditor's Report

Honorable Mayor and Members of City Council.

City of Hemphill, Texas

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 17, 2014, on our consideration of the City of Hemphill, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Hemphill, Texas' internal control over financial reporting and compliance.

Goff & Herrington, P.C.

GOFF & HERRINGTON, P. C.

Certified Public Accountants

October 17, 2014

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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, 2014. Please read it in conjunction with the City's financial statements, which immediately follow this section.

Financial Highlights

- ▶ The City's total net position was \$6,285,610 as of June 30, 2014. Of this amount, \$1,263,979 (unrestricted) may be used to meet the City's continuing obligations to citizens, customers and creditors.
- ▶ During the year ended June 30, 2014, the City's net position **increased** by \$78,843.
- ▶ Total long-term debt of the City increased by \$148,000 to \$676,000 during the current fiscal year.
- ▶ At the end of the current fiscal year, unreserved fund balance for the general fund was \$122,133 or 8.47 percent of total general fund current 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 Position**. This is the City wide statement of financial position presenting information that includes all of the City's assets, deferred outflows and inflows of resources, and liabilities, with the difference reported as **net position**. Over time, increases or decreases in net position 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 position 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Other information - In addition to the basic financial statements and accompanying notes, this 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 Position. As noted earlier, net position may serve over time as a useful indicator of the City's financial position. The City's net position was \$6,285,610 at the close of the fiscal year.

By far the largest portion of the City's net position (79.49 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 Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	161,006	264,741	1,529,160	1,393,010	1,690,166	1,657,751
Capital and Non-Current	1,426,664	1,209,870	4,244,470	4,461,842	5,671,134	5,671,712
Total Assets	1,587,670	1,474,611	5,773,630	5,854,852	7,361,300	7,329,463
Other Liabilities	320,979	174,215	335,711	471,481	656,690	645,696
Long Term Liabilities	-	-	419,000	477,000	419,000	477,000
Total Liabilities	320,979	174,215	754,711	948,481	1,075,690	1,122,696
Net Position:						
Investment in Capital Assets						
Net of Related Debt	1,176,664	1,209,870	3,818,470	3,933,842	4,995,134	5,143,712
Restricted	4,163	4,444	22,334	87,418	26,497	91,862
Unrestricted	85,863	86,082	1,178,116	885,111	1,263,979	971,193
Total Net Position	1,266,690	1,300,396	5,018,920	4,906,371	6,285,610	6,206,767

MANAGEMENT'S DISCUSSION AND ANALYSIS

A portion of the City's net assets (0.4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position in the amount of \$1,263,979 may be used to meet the City's ongoing obligations to citizens and creditors.

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

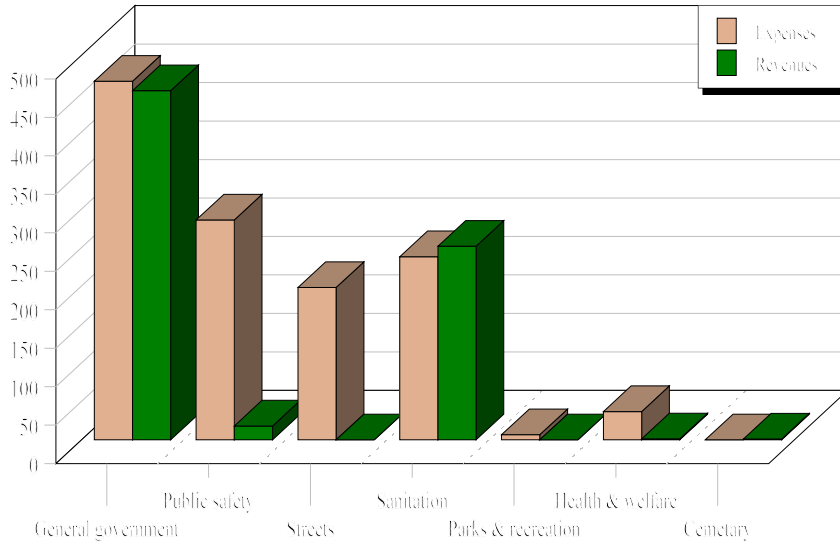
Changes in the City's Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program Revenues:						
Charges for services	265,125	274,956	3,921,620	3,465,429	4,186,745	3,740,385
Operating grants	17,975	9,817	114,532	67,472	132,507	77,289
Capital grants	42,132	527,569	-	293,212	42,132	820,781
General Revenues:						
Sales taxes	453,767	445,326	-	-	453,767	445,326
Other taxes	11,960	11,951	-	-	11,960	11,951
Other	41,460	20,019	10,979	15,880	52,439	35,899
Total revenues	832,419	1,289,638	4,047,131	3,841,993	4,879,550	5,131,631
Expenses:						
General government	466,187	450,004	-	-	466,187	450,004
Public safety	285,651	275,525	-	-	285,651	275,525
Streets	197,940	179,024	-	-	197,940	179,024
Sanitation	237,880	227,653	-	-	237,880	227,653
Parks and recreation	6,750	14,483	-	-	6,750	14,483
Health and welfare	36,717	21,004	-	-	36,717	21,004
Cemetery	-	2,885	-	-	0	2,885
Debt service	-	-	-	-	-	-
Electric	-	-	2,172,497	1,967,288	2,172,497	1,967,288
Natural gas	-	-	265,196	221,589	265,196	221,589
Water	-	-	736,023	668,678	736,023	668,678
Sewer	-	-	395,866	412,013	395,866	412,013
Total expenses	1,231,125	1,170,578	3,569,582	3,269,568	4,800,707	4,440,146
Transfers	365,000	367,500	(365,000)	(367,500)	-	-
Increase in net position	(33,706)	486,560	112,549	204,925	78,843	691,485
Beginning net position	1,300,396	813,836	4,906,371	4,701,446	6,206,767	5,515,282
Ending net position	<u>1,266,690</u>	<u>1,300,396</u>	<u>5,018,920</u>	<u>4,906,371</u>	<u>6,285,610</u>	<u>6,206,767</u>

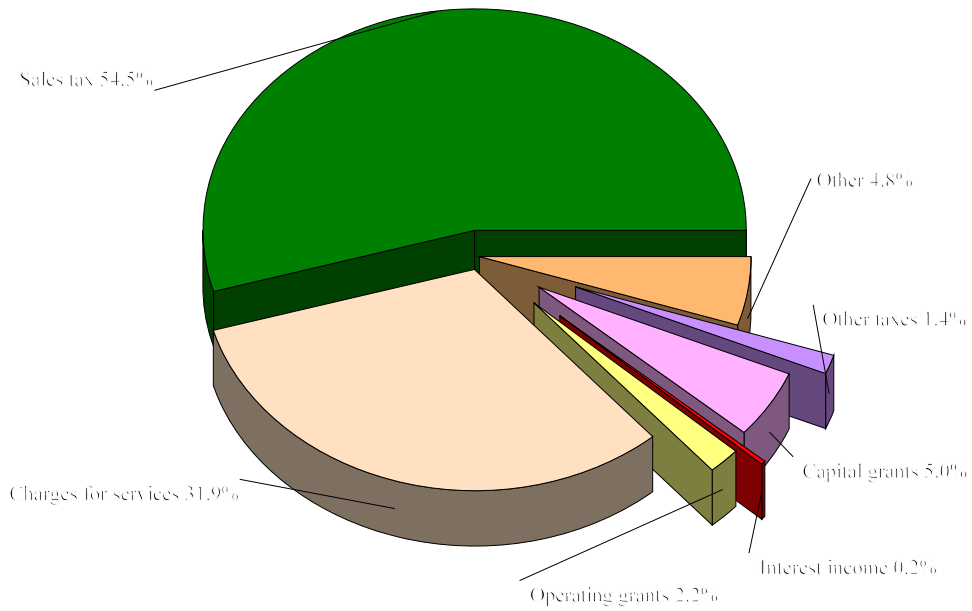
MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities. Governmental activities decreased the City's net position by \$33,706 reducing the overall increase in the City's total net position.

Expenses and Program Revenues - Governmental Activities



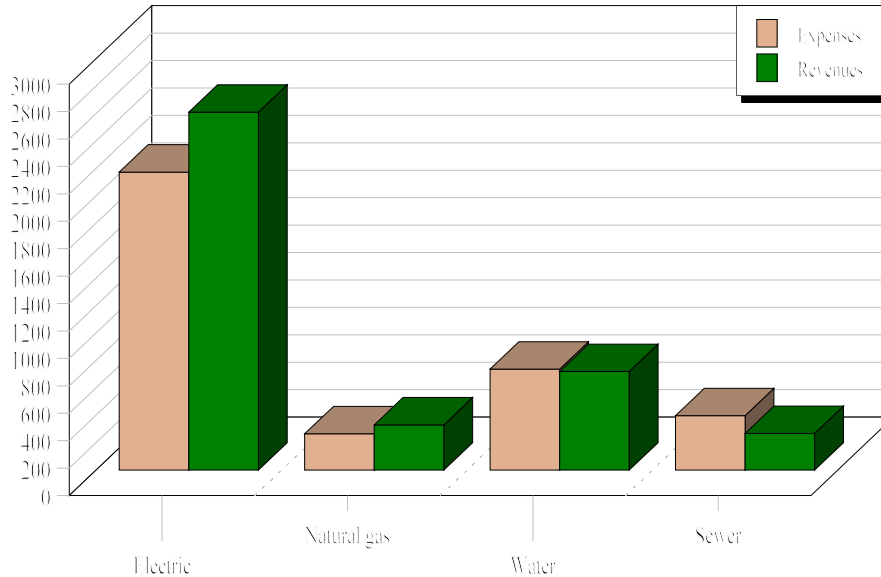
Revenues by Source - Governmental Activities



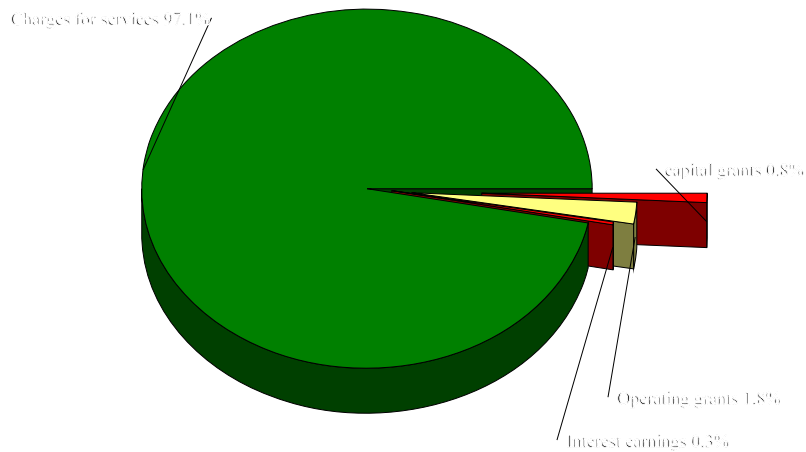
MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-type Activities. Business-type activities increased the City's net position by \$112,549, contributing to the overall increase in the City's total net position.

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 \$126,296, an increase of \$5,901 compared with the prior year. Of this balance, \$122,133 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 position of the proprietary fund at the end of the year amounted to \$1,178,115.

General Fund Budgetary Highlights

During the year, the City monitored its budget as its actual results were analyzed. Actual expenditures were \$16,102 over the final budget amounts. The most significant negative variance was in the capital outlay function.

There was a positive budget variance of \$103,288 in overall revenues. The most significant positive variance was in intergovernmental revenues and sales tax revenues, as they were higher than anticipated.

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 \$5,672,758 (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 Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	118,389	118,389	79,523	79,523	197,912	197,912
Buildings & improvements	814,990	644,265	13,230	-	828,220	644,265
Utility systems	-	-	3,988,868	3,426,752	3,988,868	3,426,752
Property - capital lease	-	-	-	-	-	-
Vehicles and equipment	176,150	151,551	140,021	182,398	316,171	333,949
Construction in progress	317,135	295,665	22,828	773,169	339,963	1,068,834
Net capital assets	1,426,664	1,209,870	4,244,470	4,461,842	5,671,134	5,671,712

More detailed information about the City's capital assets is presented in the notes to the financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Long-term debt. At the end of the current fiscal year, the City had total long term debt of \$676,000.

	City's Outstanding Debt					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenue bonds	-	-	426,000	528,000	426,000	528,000
Loans	250,000	-	-	-	250,000	-
Net capital assets	<u>250,000</u>	<u>-</u>	<u>426,000</u>	<u>528,000</u>	<u>676,000</u>	<u>528,000</u>

The City's total long term debt increased by \$148,000 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.

More detailed information about the City's long term debt is presented in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The City considered many factors when setting the fiscal year 2014-2015 budget, including estimated sales tax receipts and fees that will be charged for business-type activities. The City estimates revenues and operating transfers in the General Fund will provide resources to fund the necessary operating expenses of the General Fund. The other ongoing general fund revenue items (charges for services, etc.) should generate similar revenues as the prior year. The City's business-type activities budget reflect no increases in utility rates.

Additionally, the City anticipates spending \$32,794 in other capital improvements during fiscal year 2014-2015. These include purchasing welcome signs, improvements to city parks, and replacing the air conditioning unit at the fire department.

If these estimates are realized, the City's budgetary general fund balance and utility reserves are expected to increase by the close of 2015.

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 POSITION
JUNE 30, 2014**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	105,252	1,140,783	1,246,035
Sales tax receivable	30,929	-	30,929
Intergovernmental receivables	20,662	-	20,662
Accounts receivable, net	-	356,611	356,611
Inventories	-	9,432	9,432
Restricted assets:			
Cash and cash equivalents	4,163	22,334	26,497
Capital Assets (net of accumulated depreciation):			
Land	118,389	79,523	197,912
Other capital assets, net of depreciation	1,308,275	4,164,947	5,473,222
Total assets	1,587,670	5,773,630	7,361,300
LIABILITIES			
Accounts payable	23,787	164,624	188,411
Accrued expenses	47,193	41,344	88,537
Accrued interest payable	-	4,793	4,793
Customer meter deposits	-	117,949	117,949
Long Term Liabilities:			
Due within one year	250,000	7,000	257,000
Due after one year	-	419,000	419,000
Total liabilities	320,980	754,710	1,075,690
NET POSITION			
Invested in capital assets, net of related debt	1,176,664	3,818,470	4,995,134
Restricted for other purposes	4,163	22,334	26,497
Unrestricted	85,863	1,178,116	1,263,979
Total net position	1,266,690	5,018,920	6,285,610

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

<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	466,187	11,228	-
Public safety	285,651	-	17,975
Streets	197,940	-	-
Sanitation	237,880	251,466	-
Parks and recreation	6,750	-	-
Health and welfare	36,717	1,331	-
Cemetery	-	900	200
Interest on long term debt	-	-	-
Total governmental activities	<u>1,231,125</u>	<u>264,925</u>	<u>18,175</u>
Business-type activities:			
Electric	2,172,496	2,609,038	-
Natural gas	265,196	328,615	-
Water	736,023	718,068	-
Sewer	395,867	265,901	-
Total business-type activities	<u>3,569,582</u>	<u>3,921,620</u>	<u>-</u>
	<u>4,800,707</u>	<u>4,186,545</u>	<u>18,175</u>

General revenues:

Sales taxes
Franchise taxes
Miscellaneous
Investment earnings
Transfers

Total general revenues and transfers

Change in net position
Net position, beginning
Prior period adjustment
Net position, ending

See accompanying notes to the financial statements

Program Revenues	Net (Expense) Revenues and Changes in Net Position		
Capital Grants and Contributions	Governmental Activities	Business Activities	Total
42,132	(412,827)	-	(412,827)
-	(267,676)	-	(267,676)
-	(197,940)	-	(197,940)
-	13,586	-	13,586
-	(6,750)	-	(6,750)
-	(35,386)	-	(35,386)
-	1,100	-	1,100
-	-	-	-
42,132	(905,893)	-	(905,893)
79,010	-	515,552	515,552
-	-	63,419	63,419
35,522	-	17,567	17,567
-	-	(129,967)	(129,967)
114,532	-	466,570	466,570
156,664	(905,893)	466,570	(439,323)
	453,767	-	453,767
	11,960	-	11,960
	39,864	-	39,864
	1,596	10,979	12,575
	365,000	(365,000)	-
	872,187	(354,021)	518,166
	(33,706)	112,549	78,843
	1,300,396	4,840,899	6,141,295
	-	65,472	65,472
	1,266,690	5,018,920	6,285,610

See accompanying notes to the financial statements

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Fund Financial Statements

**CITY OF HEMPHILL, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	105,252	-	105,252
Sales tax receivable	30,929	-	30,929
Intergovernmental receivables	20,662	-	20,662
Cash and cash equivalents - restricted	4,163	-	4,163
Total assets	161,006	-	161,006
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	23,787	-	23,787
Accrued liabilities	10,923	-	10,923
Total liabilities	34,710		34,710
Fund balances:			
Restricted fund balance	4,163		4,163
Unassigned fund balance	122,133	-	122,133
Total fund balances	126,296	-	126,296
Total liabilities and fund balances	161,006	-	161,006

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Total fund balances - governmental funds	126,296
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 \$2,026,371 and the accumulated depreciation was \$816,501. The effect of including beginning balances for capital assets (net of depreciation) in the governmental activities is to increase (decrease) net position.	1,209,870
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 position.	216,794
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(286,270)</u>
Net position of governmental activities	<u><u>1,266,690</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, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes:			
Sales taxes	453,767	-	453,767
Franchise taxes	4,485	-	4,485
Permits, fees and assessments	7,475	-	7,475
Fines	12,559	-	12,559
Charges for services	252,365	-	252,365
Interest income	1,596	-	1,596
Intergovernmental	60,107	-	60,107
Contributions and donations	200	-	200
Other	39,864	-	39,864
Total revenues	832,418	-	832,418
EXPENDITURES			
Current:			
General government:			
Finance and administration	420,056	-	420,056
Municipal court	31,116	-	31,116
Public safety:			
Fire	41,905	-	41,905
Police	205,536	-	205,536
Streets	113,008	-	113,008
Sanitation	232,325	-	232,325
Parks and recreation	6,310	-	6,310
Health and welfare	21,512	-	21,512
Cemetery	-	-	-
Debt service	-	-	-
Capital outlay	369,750	-	369,750
Total expenditures	1,441,518	-	1,441,518
Excess (deficiency) of revenues over expenditures	(609,100)	-	(609,100)
OTHER FINANCING SOURCES (USES)			
Loan proceeds	250,000	-	250,000
Transfers in	365,000	-	365,000
Total other financing sources and uses	615,000	-	615,000
Net change in fund balance	5,900	-	5,900
Fund balance - beginning	120,395	-	120,395
Fund balance - ending	126,295	-	126,295

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, 2014**

Net change in fund balances - governmental funds	5,900
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 position.	369,750
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 position.	(152,956)
Current year debt proceeds are revenue in governmental fund financial statements but they should be shown as additions to long-term debt in the government-wide financial statements. The effect of removing the current year debt proceeds is to decrease net position	(250,000)
Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, they are not reported as expenditures in governmental funds. This amount reflects the changes in the accrued liability for compensated absences.	<u>(6,400)</u>
Change in net position of governmental activities	<u><u>(33,706)</u></u>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2014**

ASSETS

Current assets:		
Cash and cash equivalents		1,140,783
Accounts receivable, net		356,611
Inventories		9,432
	Total current assets	1,506,826
Noncurrent assets:		
Restricted cash and cash equivalents		22,334
Capital assets:		
Land		79,523
Other capital assets, net of depreciation		4,164,947
	Total noncurrent assets	4,266,804
Total assets		5,773,630

LIABILITIES

Current liabilities:		
Accounts payable		164,624
Accrued expenses		41,344
Accrued interest payable		4,793
Current portion of:		
Revenue bonds payable		7,000
	Total current liabilities	217,761
Noncurrent liabilities:		
Revenue bonds payable		419,000
Customer deposits		117,949
	Total noncurrent liabilities	536,949
Total liabilities		754,710

NET ASSETS

Invested in capital assets, net of related debt		3,818,470
Restricted for debt service		22,334
Unrestricted		1,178,116
Total net position		5,018,920
Total liabilities and net position		5,773,630

See accompanying notes to the financial statements

CITY OF HEMPHILL, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2014

Operating revenues:	
Water sales	694,351
Sewer charges	242,184
Electric sales	2,585,321
Gas sales	304,898
Other services	<u>94,866</u>
 Total operating revenues	 <u>3,921,620</u>
Operating expenses:	
Personnel	728,406
Supplies and materials	410,516
Maintenance and repairs	67,501
Contractual services	138,470
Cost of services	1,789,760
Depreciation	360,232
Other operating	<u>48,737</u>
 Total operating expenses	 <u>3,543,622</u>
 Operating income	 377,998
Nonoperating revenues (expenses):	
Capital grants	114,532
Contributions & donations	-
Interest income	10,979
Interest expense	<u>(25,960)</u>
 Total nonoperating revenue (expenses)	 99,551
 Income before transfers	 477,549
 Transfers to other funds	 <u>(365,000)</u>
 Change in net position	 112,549
 Total net position - beginning	 <u>4,906,371</u>
 Total net position - ending	 <u><u>5,018,920</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, 2014**

Cash flows from operating activities:	
Receipts from customers	3,968,256
Payments to suppliers and contractors	(2,545,272)
Payments to employees	(728,406)
Net cash provided by (used for) operating activities	<u>694,578</u>
Cash flows from noncapital financing activities:	
Operating transfers	(365,000)
Contributions received	-
Net cash provided by (used for) noncapital activities	<u>(365,000)</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(142,860)
Principal paid on capital debt	(102,000)
Interest paid on capital debt	(25,960)
Capital grants received	114,532
Net cash provided by (used for) capital activities	<u>(156,288)</u>
Cash flows from investing activities:	
Interest received	10,979
Net cash provided by (used for) investing activities	<u>10,979</u>
Net increase (decrease) in cash and cash equivalents	184,269
Cash and cash equivalents, beginning	<u>978,849</u>
Cash and cash equivalents, ending	<u><u>1,163,118</u></u>
Reconciliation of operating income to net cash used by operating activities:	
Operating income	377,998
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	360,232
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	46,636
(Increase) decrease in supply inventory	1,482
Increase (decrease) in accounts payable	(100,484)
Increase (decrease) in accrued liabilities	(2,294)
Increase (decrease) in customer meter deposits	11,008
Net cash provided by operating activities	<u><u>694,578</u></u>

See accompanying notes to the financial statements

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CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 position 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, 2014

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 be 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, 2014

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 \$2,000 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, 2014

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

Fund Balance Policy - The City reports fund balances for governmental funds in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The nonspendable classification represents assets that will be consumed or “must be maintained intact” and therefore will never convert to cash, such as inventories of supplies and endowments. Provisions of laws, contracts, and grants specify how fund resources can be used in the restricted classification. The nature of these two classifications precludes a need for a policy from the City Council. However, the City Council has adopted fund balance policies for the three unrestricted classifications-committed, assigned, and unassigned.

The City’s restricted fund balances represents amounts for cemetery expenses and amounts to be spent on technology, security, and sewer improvements.

Compensated Absences - The City allows employees to accumulate sick leave and vacation time. Upon termination, the City pays any accumulated vacation that is earned, but not used. Accumulated sick leave is not paid upon termination. Accumulated vacation is accrued, when incurred in the government-wide and proprietary fund financial statements. A liability for the estimated amount to be paid from current resources is reported in the governmental funds.

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.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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.

Subsequent Events - Management has evaluated subsequent events through October 17, 2014, which is the date that these financial statements were available to be issued.

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:

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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, 2014 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, 2014, the bank balances of the City’s deposits (demand and certificates) were \$1,272,532, and 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, 2014 as follows:

FDIC Insurance	250,000
Market value of securities pledged	<u>2,025,371</u>
Total coverage	<u>2,275,371</u>

Investments

Credit Risk. - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. The City was not exposed to credit risk at June 30, 2014.

Custodial Credit Risk - Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty’s trust department or agent but not in the name of the City. The City was not exposed to custodial credit risk at June 30, 2014.

Interest Rate Risk. - This is the risk that changes in interest rates will adversely affect the fair value of an investment. The City was not exposed to interest rate risk at June 30, 2014.

Concentration of Credit Risk.- This is the risk of loss attributed to the magnitude of the government’s investment in a single issuer. The City was not exposed to concentration of credit risk at June 30, 2014.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Foreign Currency Risk. - This is the risk that exchange rates will adversely affect the fair value of an investment. The City was not exposed to foreign currency risk at June 30, 2014.

The City's investments, which are reported as cash equivalents, as of June 30, 2014 are with the depository bank in certificates of deposit in the amount of \$637,785.

Restricted deposits - Resources set aside for repayment of revenue bonds are classified as restricted assets in the statement of net position since their use is limited by bond covenants. At June 30, 2014, the City's business type activities restricted assets consisted of \$22,334 for debt service. The governmental activities restricted assets consisted of \$2,757 for cemetery operations and \$1,406 for other purposes.

PROPERTY TAXES

The City did not levy property taxes in October, 2013. An allowance in the amount of \$2,224 is established for the entire balance of delinquent property taxes due to the City.

DUE FROM OTHER GOVERNMENTS

Amounts due from other governments as of June 30, 2014 are \$30,929 for sales tax due from the State of Texas, and \$20,662 capital grant receivable due from State of Texas.

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 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	118,389	-	-	118,389
Capital assets, being depreciated:				
Buildings and improvements	1,013,512	280,668	-	1,294,180
Vehicles and equipment	598,806	67,612	-	666,418
Construction in progress	295,665	21,470	-	317,135
Total capital assets being depreciated	<u>1,907,983</u>	<u>369,750</u>	<u>0</u>	<u>2,277,733</u>
Less accumulated depreciation for:				
Buildings and improvements	369,247	109,943	-	479,190
Vehicles and equipment	447,255	43,013	-	490,268
Total accumulated depreciation	<u>816,502</u>	<u>152,956</u>	<u>0</u>	<u>969,458</u>

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
Total capital assets, being depreciated, net	1,091,481	216,794	0	1,308,275
Governmental activities capital assets, net	<u>1,209,870</u>	<u>216,794</u>	<u>0</u>	<u>1,426,664</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	79,523	-	-	79,523
Construction in progress	773,169	111,839	(862,181)	22,827
Capital assets, being depreciated:				
Buildings and improvements	28,850	13,570	-	42,420
Utility systems	8,577,939	17,450	862,181	9,457,570
Vehicles and equipment	834,527	-	-	834,527
Totals at cost	<u>9,441,316</u>	<u>31,020</u>	<u>0</u>	<u>10,334,517</u>
Less accumulated depreciation:				
Buildings and improvements	28,850	339	-	29,189
Utility system	5,151,187	317,329	-	5,468,516
Vehicles and equipment	652,129	42,563	-	694,692
Total accumulated depreciation	<u>5,832,166</u>	<u>360,231</u>	<u>0</u>	<u>6,192,397</u>
Total capital assets, being depreciated, net	<u>3,609,150</u>	<u>(329,211)</u>	<u>0</u>	<u>4,142,120</u>
Business-type activities capital assets, net	<u>4,461,842</u>	<u>(217,372)</u>	<u>0</u>	<u>4,244,470</u>

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

Governmental activities:	
General government	13,075
Public safety	33,621
Streets	85,034
Sanitation	5,555
Health and welfare	440
Parks and recreation	<u>15,231</u>
Total depreciation expense - governmental activities	<u>152,956</u>

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Business-type activities:	
Overhead	42,902
Water	27,734
Sewer	106,193
Natural Gas	3,212
Electric	30,350
Water Plant	<u>149,840</u>
Total depreciation expense - business-type activities	<u><u>360,231</u></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 were paid off during the year ended June 30, 2014.

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, 2014, the City had 689 water connections and 582 sewer connections.

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.

During the year ended June 30, 2014, the City borrowed \$250,000 from First State Bank Hemphill to finance the street paving project. The funds are due in one installment of \$250,000 on June 3, 2015 and interest is payable monthly, beginning July 3, 2014 until the loan is paid in full. The loan has an interest rate of 2.75%.

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

The City's compliance with the balances required as of June 30, 2014 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	6,543	4,677	(1,866)
Reserve Fund	15,000	17,657	2,657

The annual debt service requirements to maturity, including principal and interest, for the City's business type activities long term debt as of June 30, 2014, is as follows:

	<u>Year ending June 30, 2014</u>
2015	26,170
2016	26,855
2017	26,495
2018	26,135
2019	26,775
2020-2024	130,665
2025-2029	129,010
2030-2034	132,250
2035-2039	122,610
2040-2044	118,000
2045-2046	<u>21,800</u>
Total principal and interest	786,765
Less interest	<u>360,765</u>
Total debt at June 30, 2014	<u><u>426,000</u></u>

Change in Long-Term Liabilities

Long term liability activity for the year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Retired</u>	<u>Ending Balance</u>	<u>Due in One Year</u>
Business-type activities:					
Revenue bonds	<u>528,000</u>	-	102,000	426,000	7,000

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

AGREEMENT TO PURCHASE WATER

On July 1, 2011, the City entered into a long term water supply contract with the Sabine River Authority of Texas (Authority) to purchase raw untreated water. The agreement initially requires the City to take and pay for a minimum of 500,000 gallons per day of untreated raw water. The City will pay the Authority a monthly fee based on the contractual rate for raw water.

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, 2014.

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.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 from TMRS' website at 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 2013	Plan year 2014
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)	60/5,0/25	60/5,0/25
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.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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)	47,380
Interest on Net Pension Obligation	0
Adjustment to the ARC	0
Annual Pension Cost (APC)	47,380
Contributions Made	47,380
Increase (decrease) in net pension obligation	0
Net Pension Obligation/(Asset) beginning of year	0
Net Pension Obligation/(Asset), end of year	0

Three-year Trend Information

Accounting Year End	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/14	47,380	100%	---
6/30/13	44,023	100%	---
6/30/12	37,288	100%	---

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation Date	12/31/11	12/31/12	12/31/13
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	25.1 years; closed period	24.3 years; closed period	4.0 years; closed period
Amortization Period for new Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10 Year Smoothed Market	10 Year Smoothed Market	10 Year Smoothed Market
Actuarial Assumptions			
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	0.00%	0.00%	0.00%

The funded status as of December 31, 2013, is presented 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
12/31/11	\$1,637,328	\$1,599,576	102.4%	\$(37,752)	\$906,890	(4.2%)
12/31/12	\$1,809,485	\$1,772,547	102.1%	\$(36,938)	\$944,918	(3.9%)
12/31/13	\$1,987,899	\$2,046,485	97.1%	\$58,586	\$957,194	6.1%

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarial determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented above, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

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 2014, 2013, and 2012 were \$2,590, \$2,510, and \$2,589, respectively, which equaled the required contributions each year.

PRIOR PERIOD ADJUSTMENT

Beginning net position has been increased by \$65,472 to correct for grant receivable related reporting in prior year.

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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, 2014

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Sales taxes	412,998	412,998	453,767	40,769
Franchise taxes	5,723	5,723	4,485	(1,238)
Permits, fees & assessments	27,134	27,134	7,475	(19,659)
Fines	13,485	13,485	12,559	(926)
Charges for services	240,168	240,168	252,365	12,197
Interest income	1,555	1,555	1,596	41
Intergovernmental	-	-	60,107	60,107
Contributions and donations	-	-	200	200
Other	28,067	28,067	39,864	11,797
Total revenues	729,130	729,130	832,418	103,288
EXPENDITURES				
Current:				
General government:				
Finance and administration	424,101	424,101	420,056	4,045
Municipal court	31,337	31,337	31,116	221
Public safety:				
Fire	28,600	28,600	41,905	(13,305)
Police	213,297	213,297	205,536	7,761
Streets	128,572	128,572	113,008	15,564
Sanitation	222,378	222,378	232,325	(9,947)
Parks and recreation	8,597	8,597	6,310	2,287
Health and welfare	23,565	23,565	21,512	2,053
Cemetery	7,269	7,269	-	7,269
Debt service	-	-	-	-
Capital outlay	337,700	337,700	369,750	(32,050)
Total expenditures	1,425,416	1,425,416	1,441,518	(16,102)
Excess (deficiency) of revenues over expenditures	(696,286)	(696,286)	(609,100)	87,186
OTHER FINANCING SOURCES (USES)				
Loan proceeds	250,000	250,000	250,000	-
Transfers in	345,936	345,936	365,000	19,064
Total other financing sources (uses)	595,936	595,936	615,000	19,064
Net change in fund balance	(100,350)	(100,350)	5,900	106,250
Fund balance - beginning	82,862	82,862	120,395	(37,533)
Fund balance - ending	(17,488)	(17,488)	126,295	68,717

See accompanying notes to the financial statements

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Other Schedules

**CITY OF HEMPHILL, TEXAS
GENERAL FUND
SCHEDULE OF CURRENT EXPENDITURES BY DEPARTMENT
BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2014**

General Government	Budget	Actual	Variance favorable (unfavorable)
Administration:			
Personnel	306,151	321,607	(15,456)
Supplies and materials	34,928	31,345	3,583
Maintenance and repairs	24,386	25,832	(1,446)
Contractual services	24,033	24,697	(664)
Miscellaneous	65,940	47,691	18,249
Total administration	455,438	451,172	4,266
Public Safety			
Fire Department:			
Personnel	1,738	914	824
Supplies and materials	14,774	19,960	(5,186)
Maintenance and repairs	6,276	8,812	(2,536)
Contractual services	3,562	2,034	1,528
Miscellaneous	2,250	10,185	(7,935)
Total fire department	28,600	41,905	(13,305)
Police department:			
Personnel	186,625	182,225	4,400
Supplies and materials	18,013	19,398	(1,385)
Maintenance and repairs	3,399	1,883	1,516
Contractual services	2,982	160	2,822
Miscellaneous	2,278	1,870	408
Total police department	213,297	205,536	7,761
Total public safety	241,897	247,441	(5,544)
Sanitation			
Personnel	1,288	3,624	(2,336)
Supplies and materials	3,422	7,696	(4,274)
Maintenance and repairs	1,200	1,639	(439)
Contractual services	216,418	219,366	(2,948)
Miscellaneous	50	-	50
Total sanitation	222,378	232,325	(9,947)

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, 2014**

	Budget	Actual	Variance favorable (unfavorable)
Streets			
Personnel	87,844	87,654	190
Supplies and materials	36,279	24,471	11,808
Maintenance and repairs	1,975	(217)	2,192
Contractual services	2,474	1,100	1,374
Miscellaneous	-	-	-
Total streets	128,572	113,008	15,564
Parks and recreation			
Personnel	-	1,571	(1,571)
Supplies and materials	4,623	3,195	1,428
Maintenance and repairs	2,824	544	2,280
Contractual services	1,000	1,000	-
Miscellaneous	150	-	150
Total parks and recreation	8,597	6,310	2,287
Health and welfare			
Personnel	20,147	19,578	569
Supplies and materials	1,530	1,381	149
Maintenance and repairs	250	-	250
Contractual services	747	-	747
Miscellaneous	891	553	338
Total health and welfare	23,565	21,512	2,053
Cemetery			
Supplies and materials	800	-	800
Maintenance and repairs	469	-	469
Contractual services	6,000	-	6,000
Miscellaneous	-	-	-
Total cemetery	7,269	-	7,269
Total current expenditures	1,087,716	1,071,768	15,948

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, 2014**

	Budget	Actual	Variance favorable (unfavorable)
Electric Department			
Personnel	174,650	175,002	(352)
Supplies and materials	101,045	119,645	(18,600)
Maintenance and repairs	4,387	7,244	(2,857)
Contractual services	12,965	21,030	(8,065)
Cost of services	1,553,152	1,662,796	(109,644)
Depreciation	47,309	52,288	(4,979)
Other operating expenses	1,441	918	523
Total electric department	1,894,949	2,038,923	(143,974)
Gas department			
Personnel	-	1,111	(1,111)
Supplies and materials	9,724	15,842	(6,118)
Maintenance and repairs	241	-	241
Contractual services	3,092	2,190	902
Cost of services	86,878	105,942	(19,064)
Depreciation	13,073	3,211	9,862
Other operating expenses	2,220	3,327	(1,107)
Total gas department	115,228	131,623	(16,395)
Water department			
Supplies and materials	35,318	34,829	489
Maintenance and repairs	486	3,054	(2,568)
Contractual services	308	1,745	(1,437)
Depreciation	20,956	27,735	(6,779)
Other operating expenses	1,579	1,738	(159)
Total water department	58,647	69,101	(10,454)

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, 2014**

	Budget	Actual	Variance favorable (unfavorable)
Sewer department			
Personnel	52,170	33,418	18,752
Supplies and materials	63,414	64,866	(1,452)
Maintenance and repairs	15,115	19,943	(4,828)
Contractual services	13,851	19,227	(5,376)
Depreciation	102,129	102,750	(621)
Other operating expenses	4,364	4,644	(280)
Total sewer department	251,043	244,848	6,195
Warehouse			
Personnel	385,105	357,404	27,701
Supplies and materials	58,069	66,771	(8,702)
Maintenance and repairs	10,453	28,718	(18,265)
Contractual services	33,776	31,102	2,674
Depreciation	23,394	22,145	1,249
Miscellaneous	24,047	28,152	(4,105)
Total warehouse	534,844	534,292	552
Water plant			
Personnel	160,775	161,471	(696)
Supplies and materials	79,389	108,563	(29,174)
Maintenance and repairs	15,146	8,542	6,604
Contractual services	54,007	63,176	(9,169)
Cost of services	77,207	21,022	56,185
Depreciation	125,472	152,103	(26,631)
Other operating expenses	8,424	9,958	(1,534)
Total water plant	520,420	524,835	(4,415)
Total expenditures	3,375,131	3,543,622	(168,491)

See accompanying notes to the financial statements

Statistical Tables

CITY OF HEMPHILL, TEXAS
SCHEDULE OF INSURANCE POLICIES IN FORCE
JUNE 30, 2014

Insurer	Amount of Coverage	Risk Covered	Expiration Date
Texas Municipal League Intergovernmental Risk Pool	\$2,000,000	Comprehensive General liability	10-01-14
	\$2,000,000	Sudden events - Pollution	10-01-14
	\$2,000,000	Automobile liability	10-01-14
	\$2,000,000	Law enforcement liability	10-01-14
	\$2,000,000	Errors and omissions	10-01-14
	\$7,592,700	Real and personal property	10-01-14
	\$500,000	Boiler and machinery accident	10-01-14
	As scheduled	Automobile physical damage	10-01-14
	\$211,218	Mobile equipment	10-01-14
	Statutory	Workers compensation	10-01-14

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FEDERAL AWARDS SECTION



Certified Public Accountants

Goff & Herrington, P.C.

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A.J. Goff, CPA
Ronnie Herrington, CPA

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hemphill, Texas (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 17, 2014.

Internal Control Over Financial Reporting

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

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

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

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

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

Purpose of this Report

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

Goff & Herrington, P.C.

GOFF & HERRINGTON
Certified Public Accountants

October 17, 2014

**CITY OF HEMPHILL, TEXAS
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

None

**CITY OF HEMPHILL, TEXAS
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

No prior audit findings reported.

**CITY OF HEMPHILL, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2014**

None required.

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