

CITY OF HEMPHILL, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015

CITY OF HEMPHILL, TEXAS
Annual Financial Report
For the Year Ended June 30, 2015

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FINANCIAL SECTION



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Certified Public Accountants

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, 2015, 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.

Emphasis of Matter

As discussed in the Notes to the financial statements, in 2015, the City adopted new accounting guidance prescribed by GASB #68 for its pension plan, a nontraditional, joint contributory, hybrid defined benefit pension plan that has a special funding situation. Because GASB #68 implements new measurement criteria and reporting provisions, significant information has been added to the government-wide statements. The government-wide statement of net position discloses the City's Net Pension Liability and some deferred resource outflows and deferred resource inflows related to the City's pension plan. The government-wide statement of activities discloses the adjustment to the City's beginning net position. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (page 4-11), the budgetary comparison information (page 40), and the pension schedules (pages 41-42) 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.

Independent Auditor's Report

Honorable Mayor and Members of City Council.

City of Hemphill, Texas

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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 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. The statistical tables 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, 2015, 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, 2015

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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, 2015. 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 \$5,906,908 as of June 30, 2015. Of this amount, \$1,290,006 (unrestricted) may be used to meet the City's continuing obligations to citizens, customers and creditors.
- ▶ During the year ended June 30, 2015, the City's net position **decreased** by \$460,973.
- ▶ Total long-term debt of the City decreased by \$32,000 to \$644,000 during the current fiscal year.
- ▶ At the end of the current fiscal year, unreserved fund balance for the general fund was \$73,567 or 5.94 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 government-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 report also presents other supplementary information which includes detail expenditures by fund and department. Supplementary information follows the notes to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 \$5,906,908 at the close of the fiscal year.

By far the largest portion of the City's net position (77.61 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	
	2015	2014	2015	2014	2015	2014
Current and Other Assets	98,879	161,006	1,474,382	1,529,160	1,573,261	1,690,166
Capital and Non-Current	1,337,970	1,426,664	4,006,897	4,244,470	5,344,867	5,671,134
Total Assets	1,436,849	1,587,670	5,481,279	5,773,630	6,918,128	7,361,300
Deferred outflows - TMRS	21,556	-	26,451	-	48,007	-
Total Deferred Outflows	21,556	-	26,451	-	48,007	-
Other Liabilities	79,445	320,979	314,662	335,711	394,107	656,690
Long Term Liabilities	225,000	-	419,000	419,000	644,000	419,000
Total Liabilities	304,445	320,979	733,662	754,711	1,038,107	1,075,690
Deferred inflows - TMRS	9,483	-	11,638	-	21,121	-
Total Deferred Inflows	9,483	-	11,638	-	21,121	-
Net Position:						
Net Investment in Capital						
Assets	1,070,045	1,176,664	3,514,433	3,818,470	4,584,478	4,995,134
Restricted	5,226	4,163	27,198	22,334	32,424	26,497
Unrestricted	69,206	85,863	1,220,800	1,178,116	1,290,006	1,263,979
Total Net Position	1,144,477	1,266,690	4,762,431	5,018,920	5,906,908	6,285,610

MANAGEMENT'S DISCUSSION AND ANALYSIS

A portion of the City's net assets (0.55 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 \$1,290,006 may be used to meet the City's ongoing obligations to citizens and creditors.

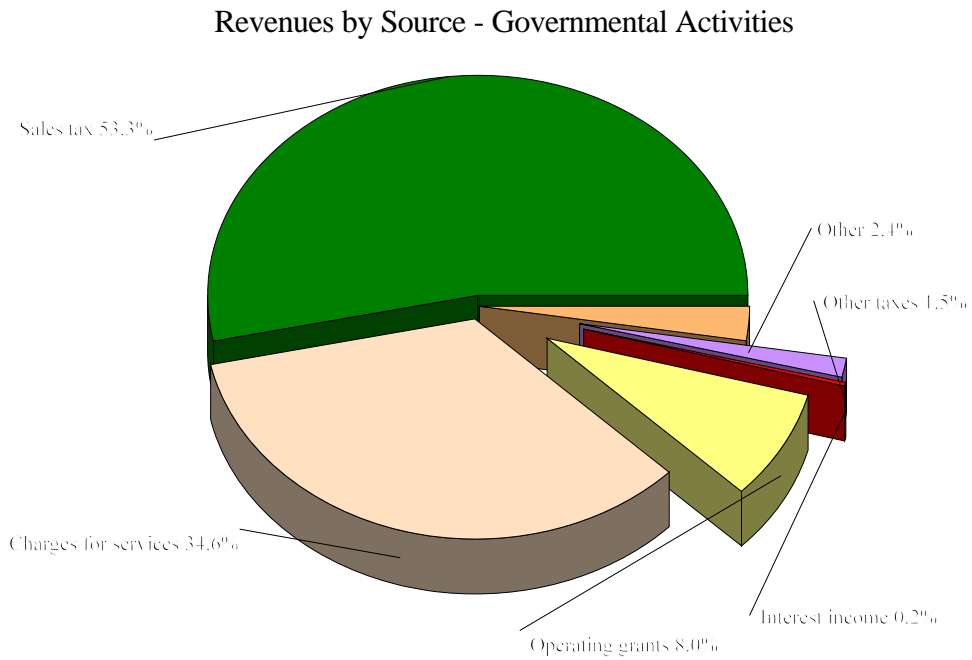
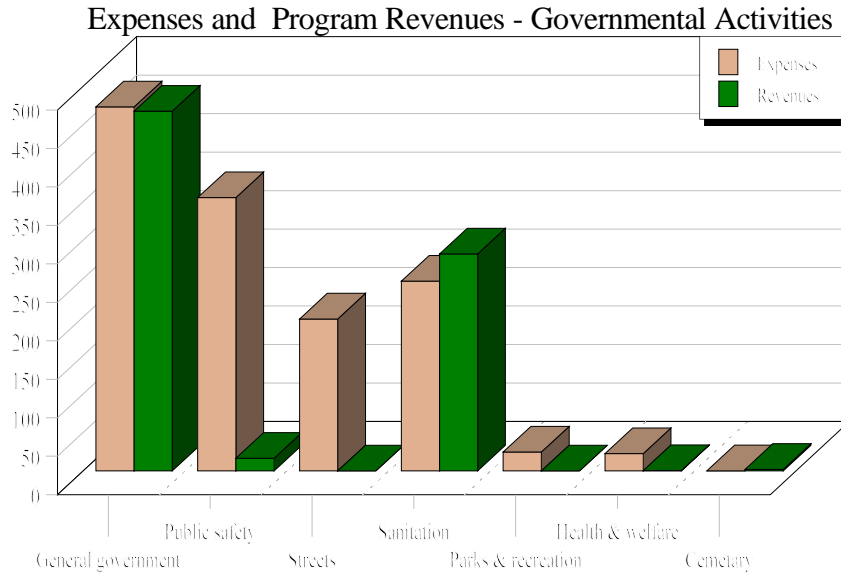
At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the City as a whole, as well as for its separate governmental and business-type activities.

Changes in the City's Net Position

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program Revenues:						
Charges for services	301,622	265,125	3,621,606	3,921,620	3,923,228	4,186,745
Operating grants	2,900	17,975	174,889	114,532	177,789	132,507
Capital grants	-	42,132	-	-	0	42,132
General Revenues:						
Sales taxes	438,135	453,767	-	-	438,135	453,767
Other taxes	12,338	11,960	-	-	12,338	11,960
Other	68,456	41,460	11,024	10,979	79,480	52,439
Total revenues	823,451	832,419	3,807,519	4,047,131	4,630,970	4,879,550
Expenses:						
General government	473,780	466,187	-	-	473,780	466,187
Public safety	355,177	285,651	-	-	355,177	285,651
Streets	197,619	197,940	-	-	197,619	197,940
Sanitation	246,428	237,880	-	-	246,428	237,880
Parks and recreation	24,528	6,750	-	-	24,528	6,750
Health and welfare	22,590	36,717	-	-	22,590	36,717
Cemetery	74	-	-	-	74	0
Debt service	7,383	-	-	-	-	-
Electric	-	-	2,166,106	2,172,497	2,166,106	2,172,497
Natural gas	-	-	271,949	265,196	271,949	265,196
Water	-	-	909,136	736,023	909,136	736,023
Sewer	-	-	417,173	395,866	417,173	395,866
Total expenses	1,327,579	1,231,125	3,764,364	3,569,582	5,084,560	4,800,707
Transfers	344,976	365,000	(344,976)	(365,000)	-	-
Increase in net position	(159,152)	(33,706)	(301,821)	112,549	(460,973)	78,843
Beginning net position	1,266,690	1,300,396	5,018,920	4,906,371	6,285,610	6,206,767
Prior period adjustment	36,939	-	45,332	-	82,271	-
Ending net position	1,144,477	1,266,690	4,762,431	5,018,920	5,906,908	6,285,610

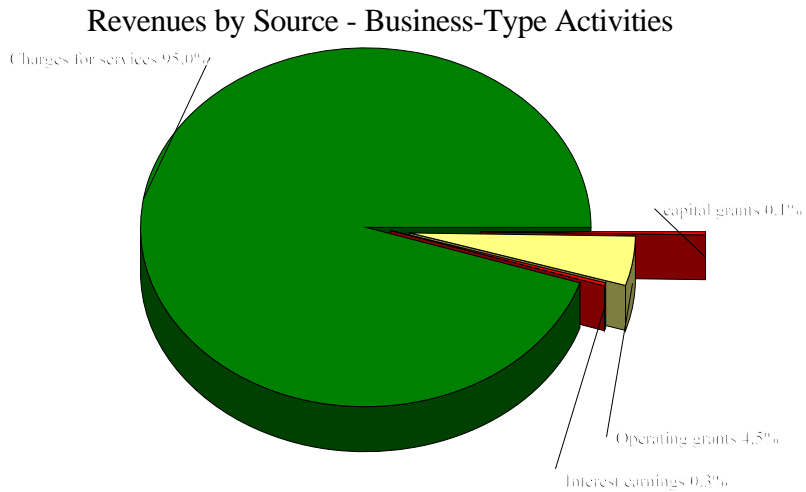
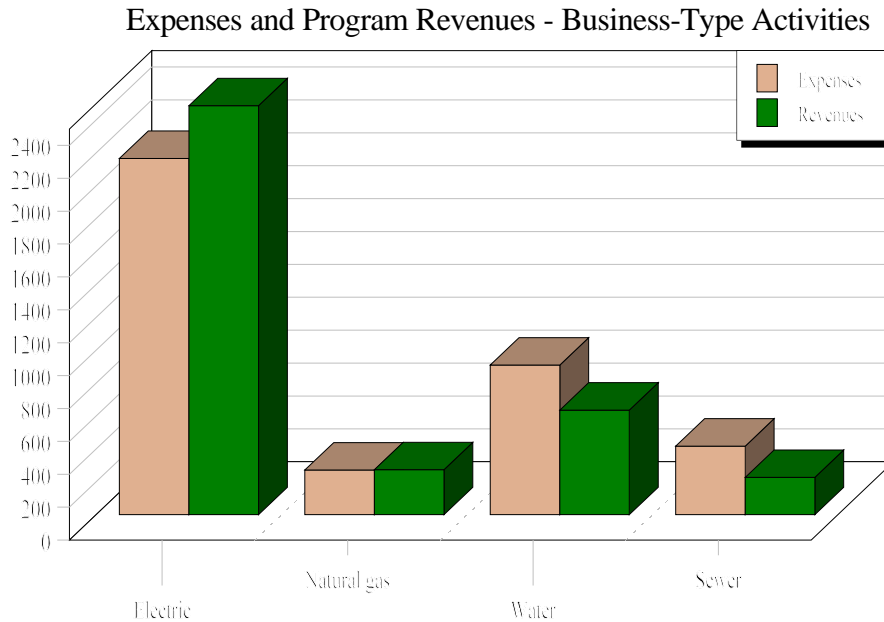
MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities. Governmental activities decreased the City's net position by \$159,152 contributing to the overall decrease in the City's total net position.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-type Activities. Business-type activities decreased the City's net position by \$301,821, contributing to the overall decrease in the City's total net position.



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 \$73,567, a decrease of \$52,728 compared with the prior year. Of this balance, \$68,341 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 \$1,220,800.

General Fund Budgetary Highlights

During the year, the City monitored it’s budget as its actual results were analyzed. Actual expenditures were \$27,776 under the final budget amounts. The most significant positive variance was in the capital outlay function.

There was a negative budget variance of \$48,864 in overall revenues. The most significant negative variance was in sales tax revenues and permits, fees, & assessments, as they were lower 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 \$5,228,478 (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	
	2015	2014	2015	2014	2015	2014
Land	118,389	118,389	79,523	79,523	197,912	197,912
Buildings & improvements	1,021,303	814,990	11,874	13,230	1,033,177	828,220
Utility systems	-	-	3,703,651	3,988,868	3,703,651	3,988,868
Property - capital lease	-	-	-	-	-	-
Vehicles and equipment	134,353	176,150	138,385	140,021	272,738	316,171
Construction in progress	21,000	317,135	-	22,828	21,000	339,963
Net capital assets	1,295,045	1,426,664	3,933,433	4,244,470	5,228,478	5,671,134

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	
	2015	2014	2015	2014	2015	2014
Revenue bonds	-	-	419,000	426,000	419,000	426,000
Loans	225,000	250,000	-	-	225,000	250,000
Net capital assets	<u>225,000</u>	<u>250,000</u>	<u>419,000</u>	<u>426,000</u>	<u>644,000</u>	<u>676,000</u>

The City's total long term debt decreased by \$32,000 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 2015-2016 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 \$339,889 in other capital improvements during fiscal year 2015-2016. These include purchasing an equipment shed, improvements to city hall and city parks, a bucket truck, water and waste water system improvements, and a bobcat skidsteer with attachments.

If these estimates are realized, the City's budgetary general fund balance and utility reserves are expected to decrease 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, 2015**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	71,050	1,172,307	1,243,357
Sales tax receivable	27,829	-	27,829
Accounts receivable, net	-	297,442	297,442
Inventories	-	4,633	4,633
Net pension asset	37,699	46,266	83,965
Restricted assets:			
Cash and cash equivalents	5,226	27,198	32,424
Capital Assets (net of accumulated depreciation):			
Land	118,389	79,523	197,912
Other capital assets, net of depreciation	1,176,656	3,853,910	5,030,566
Total assets	1,436,849	5,481,279	6,918,128
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to TMRS	21,556	26,451	48,007
Total deferred outflows of resources	21,556	26,451	48,007
LIABILITIES			
Accounts payable	17,987	150,111	168,098
Accrued expenses	61,458	39,200	100,658
Accrued interest payable	-	4,717	4,717
Customer meter deposits	-	120,634	120,634
Long Term Liabilities:			
Due within one year	225,000	8,000	233,000
Due after one year	-	411,000	411,000
Total liabilities	304,445	733,662	1,038,107
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to TMRS	9,483	11,637	21,120
Total deferred inflows of resources	9,483	11,637	21,120
NET POSITION			
Net investment in capital assets	1,070,045	3,514,433	4,584,478
Restricted for other purposes	5,226	27,198	32,424
Unrestricted	69,206	1,220,800	1,290,006
Total net position	1,144,477	4,762,431	5,906,908

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Governmental activities:			
General government	473,780	16,927	-
Public safety	355,177	-	-
Streets	197,619	-	2,750
Sanitation	246,428	282,155	-
Parks and recreation	24,528	-	-
Health and welfare	22,590	440	-
Cemetery	74	2,100	150
Interest on long term debt	7,383	-	-
Total governmental activities	1,327,579	301,622	2,900
Business-type activities:			
Electric	2,166,106	2,486,028	-
Natural gas	271,949	273,536	-
Water	909,136	635,492	-
Sewer	417,173	226,552	-
Total business-type activities	3,764,364	3,621,606	-
	5,091,943	3,923,228	2,900

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 (GASB 68)
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
-	(456,853)	-	(456,853)
-	(355,177)	-	(355,177)
-	(194,869)	-	(194,869)
-	35,727	-	35,727
-	(24,528)	-	(24,528)
-	(22,150)	-	(22,150)
-	2,176	-	2,176
-	(7,383)	-	(7,383)
-	(1,023,057)	-	(1,023,057)
5,000	-	324,922	324,922
-	-	1,587	1,587
169,889	-	(103,756)	(103,756)
-	-	(190,622)	(190,622)
174,889	-	32,131	32,131
174,889	(1,023,057)	32,131	(990,926)
	438,135	-	438,135
	12,338	-	12,338
	66,839	-	66,839
	1,617	11,024	12,641
	344,976	(344,976)	-
	863,905	(333,952)	529,953
	(159,152)	(301,821)	(460,973)
	1,266,690	5,018,920	6,285,610
	36,939	45,332	82,271
	1,144,477	4,762,431	5,906,908

See accompanying notes to the financial statements

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Fund Financial Statements

**CITY OF HEMPHILL, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	71,050	-	71,050
Sales tax receivable	27,829	-	27,829
Intergovernmental receivables	-	-	-
Cash and cash equivalents - restricted	5,226	-	5,226
Total assets	104,105	-	104,105
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	17,987	-	17,987
Accrued liabilities	12,551	-	12,551
Total liabilities	30,538		30,538
Fund balances:			
Restricted fund balance	5,226		5,226
Unassigned fund balance	68,341	-	68,341
Total fund balances	73,567	-	73,567
Total liabilities and fund balances	104,105	-	104,105

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, 2015

Total fund balances - governmental funds	73,567
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 \$2,277,733 and the accumulated depreciation was \$969,458. The effect of including beginning balances for capital assets (net of depreciation) in the governmental activities is to increase (decrease) net position.	1,426,664
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 decrease net position.	(131,115)
Included in the items related to debt is the recognition of the City's proportionate share of the net pension asset required by GASB 68 in the amount of \$37,699, a Deferred Resource Inflow related to TMRS in the amount of \$9,483, and a Deferred Resource Outflow related to TRS in the amount of \$9,905. This amounted to an increase in Net Position in the amount of \$49,772.	49,772
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(274,411)</u>
Net position of governmental activities	<u><u>1,144,477</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, 2015

REVENUES	General Fund	Other Governmental Funds	Total Governmental Funds
Taxes:			
Sales taxes	438,135	-	438,135
Franchise taxes	4,765	-	4,765
Permits, fees and assessments	7,573	-	7,573
Fines	16,627	-	16,627
Charges for services	284,255	-	284,255
Interest income	1,617	-	1,617
Intergovernmental	2,750	-	2,750
Contributions and donations	150	-	150
Other	65,437	-	65,437
Total revenues	821,309	-	821,309
EXPENDITURES			
Current:			
General government:			
Finance and administration	442,203	-	442,203
Municipal court	26,417	-	26,417
Public safety:			
Fire	47,749	-	47,749
Police	250,921	-	250,921
Streets	112,913	-	112,913
Sanitation	240,725	-	240,725
Parks and recreation	9,297	-	9,297
Health and welfare	22,468	-	22,468
Cemetery	74	-	74
Debt service	25,000	-	25,000
Capital outlay	61,283	-	61,283
Total expenditures	1,239,050	-	1,239,050
Excess (deficiency) of revenues over expenditures	(417,741)	-	(417,741)
OTHER FINANCING SOURCES (USES)			
Insurance proceeds	27,420	-	27,420
Interest Expense	(7,383)	-	(7,383)
Transfers in	344,976	-	344,976
Total other financing sources and uses	365,013	-	365,013
Net change in fund balance	(52,728)	-	(52,728)
Fund balance - beginning	126,295	-	126,295
Fund balance - ending	<u>73,567</u>	<u>-</u>	<u>73,567</u>

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, 2015

Net change in fund balances - governmental funds	(52,728)
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.	61,283
Depreciation are 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.	(191,896)
Current year debt payments are expenditures in governmental fund financial statements but they should be shown as reductions of long-term debt in the government-wide financial statements. The effect of removing the current year debt payments is to increase net position.	25,000
The City recorded the their share of the pension expense as part of GASB 68 requirement to record the net pension liability. The effect of recording the current year pension expense increased the net postion.	11,832
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>(12,643)</u>
Change in net position of governmental activities	<u><u>(159,152)</u></u>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2015**

ASSETS

Current assets:	
Cash and cash equivalents	1,172,307
Accounts receivable, net	297,442
Inventories	4,633
Total current assets	1,474,382
Noncurrent assets:	
Net pension asset	46,266
Restricted cash and cash equivalents	27,198
Capital assets:	
Land	79,523
Other capital assets, net of depreciation	3,853,910
Total noncurrent assets	4,006,897
Total assets	5,481,279

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to TMRS	26,451
Total deferred outflows of resources	26,451
Total assets and deferred outflows	5,507,730

LIABILITIES

Current liabilities:	
Accounts payable	150,111
Accrued expenses	39,200
Accrued interest payable	4,717
Current portion of:	
Revenue bonds payable	8,000
Total current liabilities	202,028
Noncurrent liabilities:	
Revenue bonds payable	411,000
Customer deposits	120,634
Total noncurrent liabilities	531,634
Total liabilities	733,662

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to TMRS	11,637
Total deferred inflows of resources	11,637

NET ASSETS

Invested in capital assets, net of related debt	3,514,433
Restricted for debt service	27,198
Unrestricted	1,220,800
Total net position	4,762,431
Total liabilities, deferred inflows, and net position	5,507,730

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, 2015

Operating revenues:	
Water sales	618,045
Sewer charges	209,105
Electric sales	2,468,581
Gas sales	256,089
Other services	<u>69,786</u>
Total operating revenues	<u>3,621,606</u>
Operating expenses:	
Personnel	811,198
Supplies and materials	420,796
Maintenance and repairs	67,271
Contractual services	86,083
Cost of services	1,742,131
Depreciation	356,317
Impairment losses	192,718
Other operating	<u>55,626</u>
Total operating expenses	<u>3,732,140</u>
Operating income	(110,534)
Nonoperating revenues (expenses):	
Capital grants	174,889
Pension benefit (expense)	(13,130)
Interest income	11,024
Interest expense	<u>(19,094)</u>
Total nonoperating revenue (expenses)	153,689
Income before transfers	43,155
Transfers to other funds	<u>(344,976)</u>
Change in net position	(301,821)
Total net position - beginning	5,018,920
Prior period adjustment - GASB 68	<u>45,332</u>
Total net position - ending	<u><u>4,762,431</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, 2015**

Cash flows from operating activities:	
Receipts from customers	3,680,775
Payments to suppliers and contractors	(2,410,112)
Payments to employees	(811,198)
Net cash provided by (used for) operating activities	<u>459,465</u>
Cash flows from noncapital financing activities:	
Operating transfers	(344,976)
Contributions received	-
Net cash provided by (used for) noncapital activities	<u>(344,976)</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(237,996)
Principal paid on capital debt	(7,000)
Interest paid on capital debt	(19,019)
Capital grants received	174,889
Net cash provided by (used for) capital activities	<u>(89,126)</u>
Cash flows from investing activities:	
Interest received	11,024
Net cash provided by (used for) investing activities	<u>11,024</u>
 Net increase (decrease) in cash and cash equivalents	 36,387
 Cash and cash equivalents, beginning	 <u>1,163,118</u>
 Cash and cash equivalents, ending	 <u><u>1,199,505</u></u>
 Reconciliation of operating income to net cash used by operating activities:	
Operating income	(110,534)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	356,317
Impairment losses	192,718
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	59,169
(Increase) decrease in supply inventory	4,799
Increase (decrease) in accounts payable	(15,711)
Increase (decrease) in accrued liabilities	(29,978)
Increase (decrease) in customer meter deposits	2,685
Net cash provided by operating activities	<u><u>459,465</u></u>

See accompanying notes to the financial statements

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CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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 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.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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 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.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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 purchases or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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.

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

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, 2015, 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

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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, 2015 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, 2015, the bank balances of the City’s deposits (demand and certificates) were \$1,273,040, 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, 2015 as follows:

FDIC Insurance	250,000
Market value of securities pledged	<u>2,173,338</u>
Total coverage	<u>2,423,338</u>

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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, 2015.

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, 2015.

Interest Rate Risk. - This is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's investment policy states that the investment officer should monitor the investment portfolio and keep the Council informed of significant declines in the market value of the City's investment portfolio.

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, 2015.

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, 2015.

The City's investments, which are reported as cash or cash equivalents, as of June 30, 2015 are with the depository bank in certificates of deposit in the amount of \$624,030.

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, 2015, the City's business type activities restricted assets consisted of \$27,197 for debt service. The governmental activities restricted assets consisted of \$3,078 for cemetery operations and \$2,148 for other purposes.

PROPERTY TAXES

The City did not levy property taxes in October, 2014. An allowance in the amount of \$2,224 is established for the entire balance of delinquent property taxes due to the City.

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

DUE FROM OTHER GOVERNMENTS

Amounts due from other governments as of June 30, 2015 are \$27,829 for sales tax due from the State of Texas.

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 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	1,294,180	10,278	317,135	1,621,593
Vehicles and equipment	666,418	29,758	(34,462)	661,714
Construction in progress	317,135	21,000	(317,135)	21,000
Total capital assets being depreciated	<u>2,277,733</u>	<u>61,036</u>	<u>(34,462)</u>	<u>2,304,307</u>
Less accumulated depreciation for:				
Buildings and improvements	479,190	121,100	-	600,290
Vehicles and equipment	490,268	43,985	(6,892)	527,361
Total accumulated depreciation	<u>969,458</u>	<u>165,085</u>	<u>(6,892)</u>	<u>1,127,651</u>
Total capital assets, being depreciated, net	<u>1,308,275</u>	<u>(104,049)</u>	<u>(27,570)</u>	<u>1,176,656</u>
Governmental activities capital assets, net	<u><u>1,426,664</u></u>	<u><u>(104,049)</u></u>	<u><u>(27,570)</u></u>	<u><u>1,295,045</u></u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	79,523	-	-	79,523
Construction in progress	22,827	-	(22,827)	0
Capital assets, being depreciated:				
Buildings and improvements	42,420	-	-	42,420
Utility systems	9,457,570	200,447	(169,889)	9,488,128
Vehicles and equipment	834,527	37,550	-	872,077

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Totals at cost	<u>10,334,517</u>	<u>237,997</u>	<u>(192,716)</u>	<u>10,402,625</u>
Less accumulated depreciation:				
Buildings and improvements	29,189	1,357	-	30,546
Utility system	5,468,516	315,961	-	5,784,477
Vehicles and equipment	694,692	39,000	-	733,692
Total accumulated depreciation	<u>6,192,397</u>	<u>356,318</u>	<u>0</u>	<u>6,548,715</u>
Total capital assets, being depreciated, net	<u>4,142,120</u>	<u>(118,321)</u>	<u>(192,716)</u>	<u>3,853,910</u>
Business-type activities capital assets, net	<u>4,244,470</u>	<u>(118,321)</u>	<u>(192,716)</u>	<u>3,933,433</u>

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

Governmental activities:	
General government	22,957
Public safety	35,720
Streets	85,035
Sanitation	5,702
Health and welfare	440
Parks and recreation	<u>15,231</u>
Total depreciation expense - governmental activities	<u><u>165,085</u></u>
Business-type activities:	
Overhead	40,357
Water	27,717
Sewer	103,562
Natural Gas	3,203
Electric	32,761
Water Plant	<u>148,718</u>
Total depreciation expense - business-type activities	<u><u>356,318</u></u>

During the year ended June 30, 2015, the City was constructing a new water well when methane gas was found in the well water, resulting in the complete impairment of the water well. The impairment losses related to the well were \$192,716 and are included in the statement of revenues, expenses, and changes in fund net position - proprietary fund as an operating expense.

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

LONG-TERM DEBT

Revenue Bonds

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

The 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, 2015, the City had 689 water connections and 582 sewer connections.

During the year ended June 30, 2014, the City borrowed \$250,000 from First State Bank Hemphill to finance the street paving project. The amount due related to this note at June 30, 2015 was \$225,000. The balance is due in one installment of \$225,000 in June 2016 and interest is payable monthly until the loan is paid in full. The loan has an interest rate of 2.75%.

The City's compliance with the balances required as of June 30, 2015 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	6,714	7,011	297
Reserve Fund	20,000	20,187	187

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, 2015, is as follows:

<u>Year ending June 30, 2015</u>	
2016	251,855
2017	26,495
2018	26,135
2019	26,775

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

2020	26,370
2021-2025	129,505
2026-2030	131,400
2031-2035	129,830
2036-2040	122,830
2041-2045	<u>113,500</u>
Total principal and interest	984,695
Less interest	<u>340,695</u>
Total debt at June 30, 2015	<u><u>644,000</u></u>

Change in Long-Term Liabilities

Long term liability activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Issued	Retired	Ending Balance	Due in One Year
Government-type activities:					
Street paving loan	250,000	-	25,000	225,000	225,000
Business-type activities:					
Revenue bonds	426,000	-	7,000	419,000	8,000
Total	<u>676,000</u>	<u>0</u>	<u>32,000</u>	<u>644,000</u>	<u>233,000</u>

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

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

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, 2015.

Subsequent to year end, the city received correspondence from G-M Water Supply Corporation stating that they were not in agreement with the 2015-2016 rate for treated water produced. The City calculates the rate based on budgeted water production costs and water consumption per the operating agreement dated June 30, 2015 between G-M Water Supply Corporation and the City. The City is confident that the rate is being calculated as defined in the operating agreement and plans to defend the calculated rate vigorously.

DEFINED BENEFIT PENSION PLAN

Plan Description

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

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

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Employees covered by benefit terms

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	5
Active employees	<u>26</u>
	35

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 5.0% of their annual gross earnings during the fiscal year. The contribution rates for the City were 5.13% and 5.39% in calendar years 2014 and 2015, respectively. The city's contributions to TMRS for the year ended June 30, 2015, were \$55,633, and were equal to the required contributions.

Net Pension Asset/Liability

The city's Net Pension Asset/Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Asset/Liability was determined by an actuarial valuation as of that date.

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Actuarial Assumptions:

Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.00% per year
Overall Payroll Growth	3.00% per year
Investment Rate of Return	7.00%, net of pension plan investment expense, including inflation

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

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.80%
International Equity	17.50%	6.05%
Core Fixed Income	30.00%	1.50%
Non-Core Fixed Income	10.00%	3.50%
Real Return	5.00%	1.75%
Real Estate	10.00%	5.25%
Absolute Return	5.00%	4.25%
Private Equity	5.00%	8.50%
Total	100.00%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Changes in the Net Pension Asset/Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) - (b)
Balance at 12/31/2013	\$2,046,485	\$ 2,106,102	\$ (59,617)
Changes for the year:			
Service cost	76,685	-	76,685
Interest	143,886	-	143,886
Difference between expected and actual expense	(26,977)	-	(26,977)
Changes of assumptions	-		0
Contributions - employer	-	48,602	(48,602)
Contributions - employee	-	50,207	(50,207)
Net investment income	-	120,494	(120,494)
Benefit payments, including refunds of employee			
Contributions	(58,639)	(58,639)	0
Administrative expense	-	(1,258)	1,258
Other charges	-	(103)	103
Net Changes	<u>134,955</u>	<u>159,303</u>	<u>(24,348)</u>
Balance at 12/31/2014	<u>\$2,181,440</u>	<u>\$ 2,265,405</u>	<u>\$ (83,965)</u>

Sensitivity of the net pension asset/liability to changes in the discount rate.

The following presents the net pension (asset)liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension (asset)liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate.

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's Net Pension (Asset)Liability	\$ 166,668	\$ (83,965)	\$ (296,897)

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Pension Plan Fiduciary Net Position

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

For the year ended June 30, 2015, the City recognized pension expense of \$23,922.

At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	-	21,120
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	21,546	
Contributions subsequent to measurement date	26,461	
Total	\$ 48,007	\$ 21,120

The amount of \$26,461 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	
2016	(470)
2017	(470)
2018	(470)
2019	1,836
Thereafter	-
	426

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Supplemental Death Benefits Fund

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 2015, 2014, and 2013 were \$3,225, \$2,590, and \$2,510, respectively, which equaled the required contributions each year.

PRIOR PERIOD ADJUSTMENT

During the fiscal year 2015, The City adopted GASB Statement No. 68 for Accounting and Reporting for Pensions. With GASB 68, the City must Assume their share of the Net Pension Liability of the Texas Municipal Retirement System. Adoption of GASB 68 required a prior period adjustment to report the effect of GASB 68 retroactively. The amount of the prior period adjustment is \$82,271. The restated beginning net position is \$6,367,881.

Required Supplementary Schedules

CITY OF HEMPHILL, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Sales taxes	516,448	516,448	438,135	(78,313)
Franchise taxes	5,944	5,944	4,765	(1,179)
Permits, fees & assessments	7,500	7,500	7,573	73
Fines	11,306	11,306	16,627	5,321
Charges for services	270,024	270,024	284,255	14,231
Interest income	1,472	1,472	1,617	145
Intergovernmental	5,000	5,000	2,750	(2,250)
Contributions and donations	-	-	150	150
Other	52,479	52,479	65,437	12,958
Total revenues	870,173	870,173	821,309	(48,864)
EXPENDITURES				
Current:				
General government:				
Finance and administration	419,608	419,608	442,203	(22,595)
Municipal court	27,216	27,216	26,417	799
Public safety:				
Fire	36,114	36,114	47,749	(11,635)
Police	273,365	273,365	250,921	22,444
Streets	121,244	121,244	112,913	8,331
Sanitation	235,157	235,157	240,725	(5,568)
Parks and recreation	9,771	9,771	9,297	474
Health and welfare	24,807	24,807	22,468	2,339
Cemetery	8,252	8,252	74	8,178
Debt service	6,875	6,875	32,383	(25,508)
Capital outlay	436,800	111,800	61,283	50,517
Total expenditures	1,599,209	1,274,209	1,246,433	27,776
Excess (deficiency) of revenues over expenditures	(729,036)	(404,036)	(425,124)	(21,088)
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	-	-	27,420	(27,420)
Transfers in	344,976	344,976	344,976	-
Total other financing sources (uses)	344,976	344,976	372,396	(27,420)
Net change in fund balance	(384,060)	(59,060)	(52,728)	(48,508)
Fund balance - beginning	161,006	161,006	161,006	-
Fund balance - ending	(223,054)	101,946	108,278	(48,508)

See accompanying notes to the financial statements

CITY OF HEMPHILL, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED DECEMBER 31,

TOTAL PENSION LIABILITY	2014
Service cost	\$ 76,685
Interest (on the Total Pension Liability)	143,886
Changes of benefit terms	-
Difference between expected and actual experience	(26,977)
Changes in assumptions	-
Benefit payments, including refunds of employee contributions	(58,639)
Net Change in Total Pension Liability	134,955
Total Pension Liability - Beginning	2,046,485
Total Pension Liability - Ending (a)	\$ 2,181,440
 PLAN FIDUCIARY NET POSITION	
Contributions:	
Employer	48,602
Employee	50,207
Net investment income	120,494
Benefit payments, including refund of employee contributions	(58,639)
Administrative expense	(1,258)
Other	(103)
Net Change in Plan Fiduciary Net Position	159,303
Plan Fiduciary Net Position- Beginning	2,106,102
Plan Fiduciary Net Position- Ending (b)	\$ 2,265,405
Net Pension Asset - Ending (a) - (b)	(83,965)
Plan Fiduciary Net Position as a Percentage of Total Pension Asset	103.85%
Covered Employer Payroll	1,004,144
Net Pension Asset as a Percentage of Covered Employer Payroll	(8.36%)

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30,**

	2015
Actuarial Determined Contributions	\$ 55,633
Contributions in relation to the actuarially determined contribution	(55,633)
Contribution Deficiency (Excess)	0
Covered Employer Payroll	1,057,996
Contributions as a Percentage of Covered Employer Payroll	5.26%

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS
NOTES TO THE SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2015**

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	3 years
Asset Valuation Method	10 Year smoothed market; 15% sof corridor
Inflation	3.0%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009
Mortality	RP2000 Combined Mortality Table with Blue Collar adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

There were no benefit changes during the year.

Other Schedules

**CITY OF HEMPHILL, TEXAS
GENERAL FUND
SCHEDULE OF CURRENT EXPENDITURES BY DEPARTMENT
BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2015**

General Government	Budget	Actual	Variance favorable (unfavorable)
Administration:			
Personnel	304,011	332,017	(28,006)
Supplies and materials	34,651	37,773	(3,122)
Maintenance and repairs	27,717	28,351	(634)
Contractual services	29,461	26,662	2,799
Miscellaneous	50,984	43,817	7,167
Total administration	446,824	468,620	(21,796)
Public Safety			
Fire Department:			
Personnel	1,619	798	821
Supplies and materials	19,804	33,544	(13,740)
Maintenance and repairs	10,383	9,927	456
Contractual services	2,590	2,245	345
Miscellaneous	1,718	1,235	483
Total fire department	36,114	47,749	(11,635)
Police department:			
Personnel	247,625	214,352	33,273
Supplies and materials	19,664	26,777	(7,113)
Maintenance and repairs	2,834	5,963	(3,129)
Contractual services	299	1,312	(1,013)
Miscellaneous	2,943	2,517	426
Total police department	273,365	250,921	22,444
Total public safety	309,479	298,670	10,809
Sanitation			
Personnel	1,355	1,264	91
Supplies and materials	2,618	4,299	(1,681)
Maintenance and repairs	7,902	5,943	1,959
Contractual services	223,232	223,682	(450)
Miscellaneous	50	5,537	(5,487)
Total sanitation	235,157	240,725	(5,568)

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, 2015**

	Budget	Actual	Variance favorable (unfavorable)
Streets			
Personnel	91,457	88,898	2,559
Supplies and materials	26,902	20,976	5,926
Maintenance and repairs	1,785	1,239	546
Contractual services	1,100	1,800	(700)
Miscellaneous	-	-	-
Total streets	121,244	112,913	8,331
Parks and recreation			
Personnel	-	1,586	(1,586)
Supplies and materials	4,009	5,098	(1,089)
Maintenance and repairs	4,662	2,613	2,049
Contractual services	1,000	-	1,000
Miscellaneous	100	-	100
Total parks and recreation	9,771	9,297	474
Health and welfare			
Personnel	20,992	19,110	1,882
Supplies and materials	1,441	2,936	(1,495)
Maintenance and repairs	1,000	-	1,000
Contractual services	606	-	606
Miscellaneous	768	422	346
Total health and welfare	24,807	22,468	2,339
Cemetery			
Supplies and materials	252	-	252
Maintenance and repairs	400	74	326
Contractual services	7,500	-	7,500
Miscellaneous	100	-	100
Total cemetery	8,252	74	8,178
Total current expenditures	1,155,534	1,152,767	2,767

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, 2015**

	Budget	Actual	Variance favorable (unfavorable)
Electric Department			
Personnel	224,465	218,627	5,838
Supplies and materials	114,472	116,013	(1,541)
Maintenance and repairs	5,703	8,609	(2,906)
Contractual services	3,868	15,575	(11,707)
Cost of services	1,733,359	1,611,371	121,988
Depreciation	46,372	52,230	(5,858)
Other operating expenses	2,943	2,111	832
Total electric department	2,131,182	2,024,536	106,646
Gas department			
Personnel	-	973	(973)
Supplies and materials	10,448	8,263	2,185
Maintenance and repairs	198	-	198
Contractual services	2,663	2,520	143
Cost of services	105,165	111,071	(5,906)
Depreciation	553	3,203	(2,650)
Other operating expenses	4,352	4,350	2
Total gas department	123,379	130,380	(7,001)
Water department			
Supplies and materials	38,872	37,761	1,111
Maintenance and repairs	907	227	680
Contractual services	292	2,904	(2,612)
Depreciation	23,097	27,717	(4,620)
Other operating expenses	1,818	2,280	(462)
Total water department	64,986	70,889	(5,903)

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, 2015**

	Budget	Actual	Variance favorable (unfavorable)
Sewer department			
Personnel	45,468	41,417	4,051
Supplies and materials	84,270	72,602	11,668
Maintenance and repairs	18,813	23,155	(4,342)
Contractual services	14,704	15,157	(453)
Depreciation	104,622	100,119	4,503
Other operating expenses	5,072	4,060	1,012
Total sewer department	272,949	256,510	16,439
Warehouse			
Personnel	415,291	392,348	22,943
Supplies and materials	64,367	62,767	1,600
Maintenance and repairs	14,516	17,994	(3,478)
Contractual services	23,344	22,074	1,270
Depreciation	23,433	24,330	(897)
Miscellaneous	38,985	33,635	5,350
Total warehouse	579,936	553,148	26,788
Water plant			
Personnel	172,279	157,833	14,446
Supplies and materials	127,250	123,390	3,860
Maintenance and repairs	12,755	17,286	(4,531)
Contractual services	66,084	27,853	38,231
Cost of services	36,542	19,689	16,853
Depreciation	129,031	148,718	(19,687)
Other operating expenses	9,470	9,190	280
Total water plant	553,411	503,959	49,452
Total expenditures	3,725,843	3,539,422	186,421

See accompanying notes to the financial statements

Statistical Tables

CITY OF HEMPHILL, TEXAS

SCHEDULE OF INSURANCE POLICIES IN FORCE

JUNE 30, 2015

Insurer	Amount of Coverage	Risk Covered	Expiration Date
Texas Municipal League	\$2,000,000	Comprehensive General liability	10-01-15
Intergovernmental Risk Pool	\$2,000,000	Sudden events - Pollution	10-01-15
	\$2,000,000	Automobile liability	10-01-15
	\$2,000,000	Law enforcement liability	10-01-15
	\$2,000,000	Errors and omissions	10-01-15
	\$7,718,820	Real and personal property	10-01-15
	\$500,000	Boiler and machinery accident	10-01-15
As scheduled		Automobile physical damage	10-01-15
	\$204,318	Mobile equipment	10-01-15
	Statutory	Workers compensation	10-01-15

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FEDERAL AWARDS SECTION



Certified Public Accountants

Goff & Herrington, P.C.

A.J. Goff, CPA
Ronnie Herrington, CPA

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**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, 2015, 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, 2015.

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
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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, 2015

**CITY OF HEMPHILL, TEXAS
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

None

**CITY OF HEMPHILL, TEXAS
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

No prior audit findings reported.

**CITY OF HEMPHILL, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2015**

None required.

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