

**CITY OF HEMPHILL, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2016**



**CITY OF HEMPHILL, TEXAS**  
**Annual Financial Report**  
**For the Year Ended June 30, 2016**

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**For the Year Ended June 30, 2016**

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## **FINANCIAL SECTION**





Certified Public Accountants

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A.J. Goff, CPA  
Ronnie Herrington, CPA  
Daniel Raney, 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, 2016, 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, 2016, 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 (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.

#### ***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.



## **Independent Auditor's Report**

Honorable Mayor and Members of City Council.

City of Hemphill, Texas

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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 1, 2016, 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 1, 2016

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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, 2016. 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 \$5,372,802 as of June 30, 2016. Of this amount, \$1,017,610 (unrestricted) may be used to meet the City's continuing obligations to citizens, customers and creditors.
- ▶ During the year ended June 30, 2016, the City's net position **decreased** by \$534,106.
- ▶ Total long-term debt of the City decreased by \$33,000 to \$611,000 during the current fiscal year.
- ▶ At the end of the current fiscal year, unassigned fund balance for the general fund was \$11,366 or 0.89 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 \$5,372,802 at the close of the fiscal year.

By far the largest portion of the City's net position (80 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	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	93,418	98,879	1,620,581	1,474,382	1,713,999	1,573,261
Capital and Non-Current	1,181,249	1,337,970	3,727,965	4,006,897	4,909,214	5,344,867
<b>Total Assets</b>	<b>1,274,667</b>	<b>1,436,849</b>	<b>5,348,546</b>	<b>5,481,279</b>	<b>6,623,213</b>	<b>6,918,128</b>
Deferred outflows - TMRS	155,348	21,556	140,421	26,451	295,769	48,007
<b>Total Deferred Outflows</b>	<b>155,348</b>	<b>21,556</b>	<b>140,421</b>	<b>26,451</b>	<b>295,769</b>	<b>48,007</b>
Other Liabilities	79,772	79,445	336,977	314,662	416,749	394,107
Long Term Liabilities	479,353	225,000	634,815	419,000	1,114,168	644,000
<b>Total Liabilities</b>	<b>559,125</b>	<b>304,445</b>	<b>971,792</b>	<b>733,662</b>	<b>1,530,917</b>	<b>1,038,107</b>
Deferred inflows - TMRS	6,320	9,483	8,943	11,638	15,263	1,682,107
<b>Total Deferred Inflows</b>	<b>6,320</b>	<b>9,483</b>	<b>8,943</b>	<b>11,638</b>	<b>15,263</b>	
Net Position:						
Net Investment in						
Capital Assets	981,249	1,070,045	3,316,965	3,514,433	4,298,214	4,584,478
Restricted	27,323	5,226	29,655	27,198	56,978	32,424
Unrestricted	(144,002)	69,206	1,161,612	1,220,800	1,017,610	1,290,006
<b>Total Net Position</b>	<b>864,570</b>	<b>1,144,477</b>	<b>4,508,232</b>	<b>4,762,431</b>	<b>5,372,802</b>	<b>5,906,908</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

A portion of the City's net assets (1.06 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 \$1,017,610 may be used to meet the City's ongoing obligations to citizens and creditors.

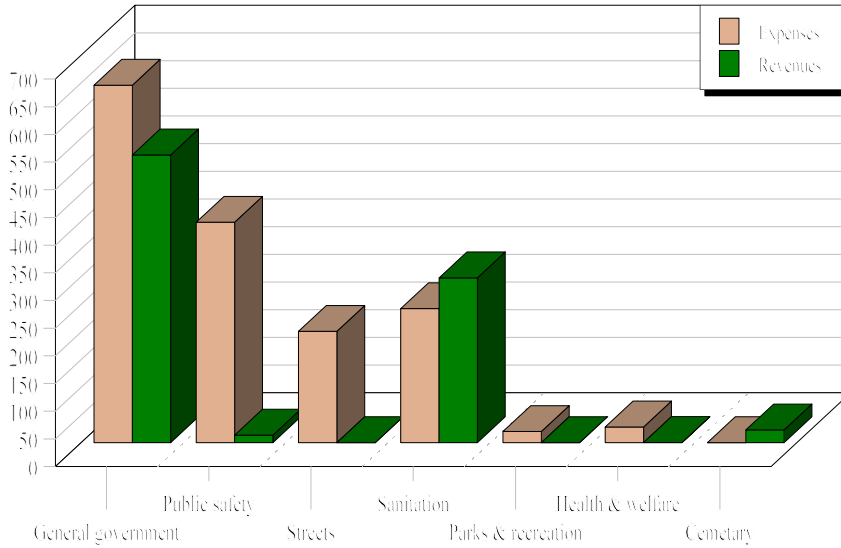
### Changes in the City's Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Revenues:</b>						
Program Revenues:						
Charges for services	295,480	301,622	3,602,536	3,621,606	3,898,016	3,923,228
Operating grants	54,905	2,900	-	174,889	54,905	177,789
Capital grants	-	-	81,894	-	81,894	0
General Revenues:						
Sales taxes	443,372	438,135	-	-	443,372	438,135
Other taxes	12,196	12,338	-	-	12,196	12,338
Other	47,974	68,456	16,584	11,024	64,558	79,480
<b>Total revenues</b>	<b>853,927</b>	<b>823,451</b>	<b>3,701,014</b>	<b>3,807,519</b>	<b>4,554,941</b>	<b>4,630,970</b>
<b>Expenses:</b>						
General government	642,098	473,780	-	-	642,098	473,780
Public safety	394,063	355,177	-	-	394,063	355,177
Streets	200,876	197,619	-	-	200,876	197,619
Sanitation	242,059	246,428	-	-	242,059	246,428
Parks and recreation	20,066	24,528	-	-	20,066	24,528
Health and welfare	28,532	22,590	-	-	28,532	22,590
Cemetery	-	74	-	-	0	74
Debt service	6,140	7,383	-	-	-	-
Electric	-	-	2,086,729	2,166,106	2,086,729	2,166,106
Natural gas	-	-	236,748	271,949	236,748	271,949
Water	-	-	743,595	909,136	743,595	909,136
Sewer	-	-	488,141	417,173	488,141	417,173
<b>Total expenses</b>	<b>1,533,834</b>	<b>1,327,579</b>	<b>3,555,213</b>	<b>3,764,364</b>	<b>5,082,907</b>	<b>5,084,560</b>
Transfers	400,000	344,976	(400,000)	(344,976)	-	-
Increase in net position	(279,907)	(159,152)	(254,199)	(301,821)	(534,106)	(460,973)
Beginning net position	1,144,477	1,266,690	4,762,431	5,018,920	5,906,908	6,285,610
Prior period adjustment	-	36,939	-	45,332	0	82,271
Ending net position	<u>864,570</u>	<u>1,144,477</u>	<u>4,508,232</u>	<u>4,762,431</u>	<u>5,372,802</u>	<u>5,906,908</u>

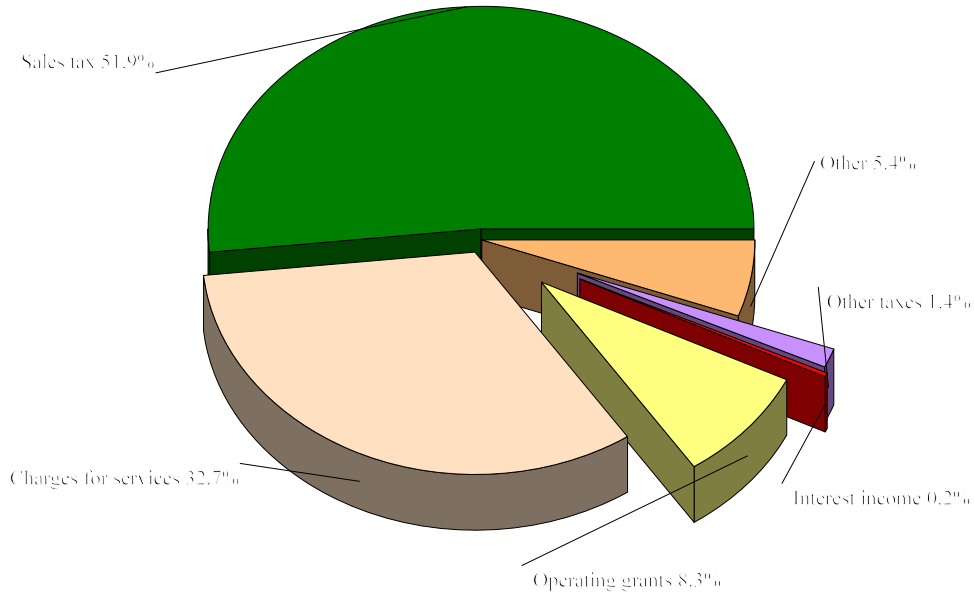
## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Governmental Activities.** Governmental activities decreased the City's net position by \$279,907 contributing to the overall decrease in the City's total net position.

Expenses and Program Revenues - Governmental Activities



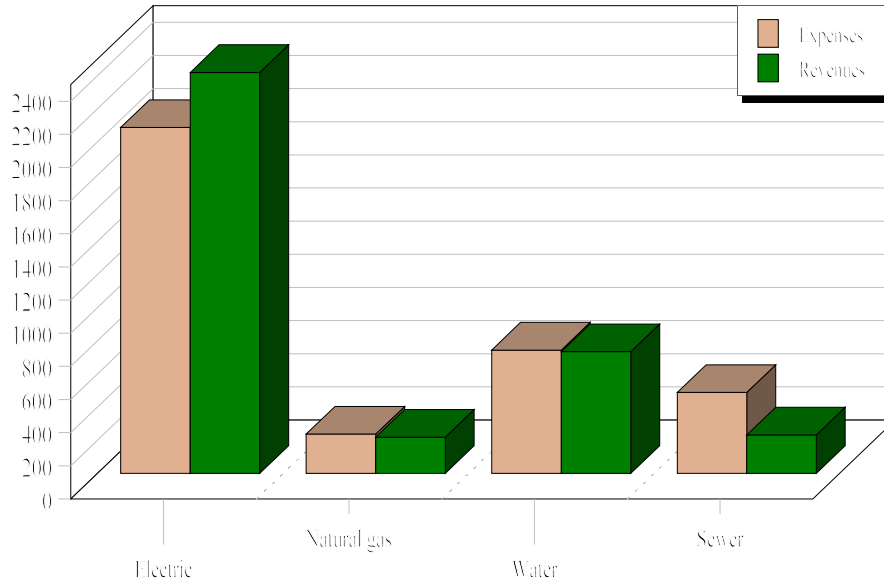
Revenues by Source - Governmental Activities



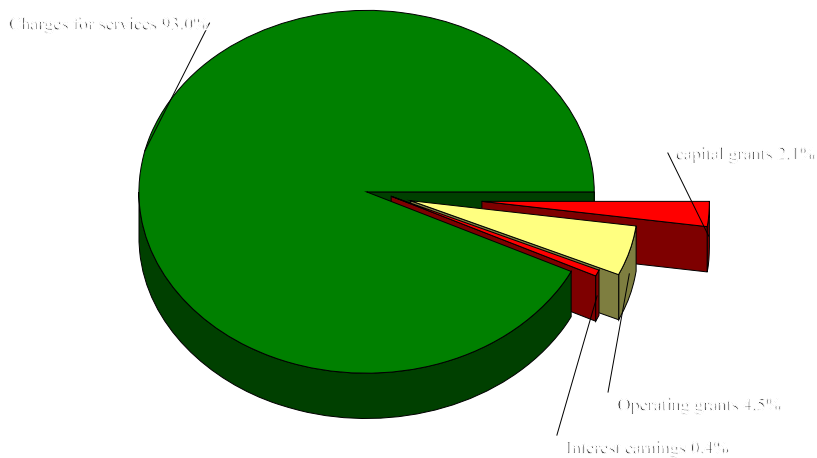
## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Business-type Activities.** Business-type activities decreased the City's net position by \$254,199, contributing to the overall decrease 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 \$38,689, a decrease of \$34,878 compared with the prior year. Of this balance, \$11,366 is unassigned, 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 \$1,161,612.

### General Fund Budgetary Highlights

During the year, the City monitored it’s budget as its actual results were analyzed. Actual expenditures were \$26,026 under the final budget amounts. The most significant positive variance was in the capital outlay function.

There was a positive budget variance of \$69,254 in overall revenues. The most significant positive variance was in grant receipts and contributions, 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 \$5,228,478 (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	
	2016	2015	2016	2015	2016	2015
Land	118,389	118,389	79,523	79,523	197,912	197,912
Buildings & improvements	957,361	1,021,303	10,517	11,874	967,878	1,033,177
Utility systems	-	-	3,512,575	3,703,651	3,512,575	3,703,651
Vehicles and equipment	105,499	134,353	125,350	138,385	230,849	272,738
Construction in progress	-	21,000	-	-	0	21,000
Net capital assets	1,181,249	1,295,045	3,727,965	3,933,433	4,909,214	5,228,478

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.

	<b>City's Outstanding Debt</b>					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenue bonds	-	-	411,000	419,000	411,000	419,000
Loans	200,000	225,000	-	-	200,000	225,000
Net capital assets	200,000	225,000	411,000	419,000	611,000	644,000

The City's total long term debt decreased by \$33,000 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 2016-2017 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 increases in utility rates effective July 1, 2016.

Additionally, the City anticipates spending \$210,889 in other capital improvements during fiscal year 2016-2017. These include purchasing a police car, fire department equipment, and a used bucket truck, as well as improvements to city streets and the water plant.

If these estimates are realized, the City's budgetary general fund balance and utility reserves are expected to decrease by the close of 2017.

### **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, 2016**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	34,258	1,145,894	1,180,152
Sales tax receivable	31,837	-	31,837
Accounts receivable, net	-	421,700	421,700
Inventories	-	23,343	23,343
Restricted assets:			
Cash and cash equivalents	27,323	29,655	56,978
Capital Assets (net of accumulated depreciation):			
Land	118,389	79,523	197,912
Other capital assets, net of depreciation	1,062,860	3,648,442	4,711,302
<b>Total assets</b>	<b>1,274,667</b>	<b>5,348,557</b>	<b>6,623,224</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to TMRS	155,348	140,421	295,769
<b>Total deferred outflows of resources</b>	<b>155,348</b>	<b>140,421</b>	<b>295,769</b>
<b>LIABILITIES</b>			
Accounts payable	29,699	165,390	195,089
Accrued expenses	50,073	45,619	95,692
Accrued interest payable	-	4,717	4,717
Customer meter deposits	-	121,262	121,262
Long Term Liabilities:			
Due within one year	200,000	8,000	208,000
Due after one year	-	403,000	403,000
Net pension liability	279,353	223,815	503,168
<b>Total liabilities</b>	<b>559,125</b>	<b>971,803</b>	<b>1,530,928</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to TMRS	6,320	8,943	15,263
<b>Total deferred inflows of resources</b>	<b>6,320</b>	<b>8,943</b>	<b>15,263</b>
<b>NET POSITION</b>			
Net investment in capital assets	981,249	3,316,965	4,298,214
Restricted for other purposes	27,323	29,655	56,978
Unrestricted	(144,002)	1,161,612	1,017,610
<b>Total net position</b>	<b>864,570</b>	<b>4,508,232</b>	<b>5,372,802</b>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Governmental activities:			
General government	642,098	16,051	-
Public safety	394,063	-	13,500
Streets	200,876	-	-
Sanitation	242,059	277,087	20,626
Parks and recreation	20,066	-	-
Health and welfare	28,532	242	-
Cemetery	-	2,100	20,779
Interest on long term debt	6,140	-	-
Total governmental activities	1,533,834	295,480	54,905
Business-type activities:			
Electric	2,086,729	2,418,832	-
Natural gas	236,748	217,812	-
Water	743,595	734,186	-
Sewer	488,141	231,707	-
Total business-type activities	3,555,213	3,602,536	-
	5,089,047	3,898,016	54,905

General revenues:

Sales taxes  
Franchise taxes  
Miscellaneous  
Investment earnings  
Transfers

Total general revenues and transfers

Change in net position

Net position, beginning

Net position, ending

See accompanying notes to the financial statements

<b>Program Revenues</b>	<b>Net (Expense) Revenues and Changes in Net Position</b>		
<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business Activities</b>	<b>Total</b>
-	(626,047)	-	(626,047)
-	(380,563)	-	(380,563)
-	(200,876)	-	(200,876)
-	55,654	-	55,654
-	(20,066)	-	(20,066)
-	(28,290)	-	(28,290)
-	22,879	-	22,879
-	(6,140)	-	(6,140)
-	(1,183,449)	-	(1,183,449)
-	-	332,102	332,102
-	-	(18,936)	(18,936)
81,894	-	72,484	72,484
-	-	(256,434)	(256,434)
81,894	-	129,217	129,217
81,894	(1,183,449)	129,217	(1,054,232)
	443,372	-	443,372
	12,196	-	12,196
	46,244	-	46,244
	1,730	16,584	18,314
	400,000	(400,000)	-
	903,542	(383,416)	520,126
	(279,907)	(254,199)	(534,106)
	1,144,477	4,762,431	5,906,908
	864,570	4,508,232	5,372,802

See accompanying notes to the financial statements

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## **Fund Financial Statements**



**CITY OF HEMPHILL, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	34,258	-	34,258
Sales tax receivable	31,837	-	31,837
Intergovernmental receivables	-	-	-
Cash and cash equivalents - restricted	27,323	-	27,323
Total assets	93,418	-	93,418
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	29,699	-	29,699
Accrued liabilities	25,030	-	25,030
Total liabilities	54,729		54,729
<b>Fund balances:</b>			
Restricted fund balance	27,323		27,323
Unassigned fund balance	11,366	-	11,366
Total fund balances	38,689	-	38,689
Total liabilities and fund balances	93,418	-	93,418

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, 2016**

Total fund balances - governmental funds	38,689
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 \$2,304,307 and the accumulated depreciation was \$1,176,656. The effect of including beginning balances for capital assets (net of depreciation) in the governmental activities is to increase (decrease) net position.	1,295,045
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.	(57,706)
Included in the items related to debt is the recognition of the City's proportionate share of the net pension liability required by GASB 68 in the amount of \$317,052, a Deferred Resource Inflow related to TMRS in the amount of \$133,791, and a Deferred Resource Outflow related to TRS in the amount of \$3,163. This amounted to a decrease in Net Position in the amount of \$186,424.	(186,424)
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(225,034)</u>
Net position of governmental activities	<u><u>864,570</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, 2016**

<b>REVENUES</b>	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
Taxes:			
Sales taxes	443,372	-	443,372
Franchise taxes	4,540	-	4,540
Permits, fees and assessments	7,656	-	7,656
Fines	16,293	-	16,293
Charges for services	279,187	-	279,187
Interest income	1,730	-	1,730
Intergovernmental	34,126	-	34,126
Contributions and donations	20,779	-	20,779
Other	46,244	-	46,244
<b>Total revenues</b>	<b>853,927</b>	<b>-</b>	<b>853,927</b>
<b>EXPENDITURES</b>			
Current:			
General government:			
Finance and administration	505,788	-	505,788
Municipal court	29,119	-	29,119
Public safety:			
Fire	62,722	-	62,722
Police	257,664	-	257,664
Streets	128,978	-	128,978
Sanitation	235,819	-	235,819
Parks and recreation	5,387	-	5,387
Health and welfare	23,638	-	23,638
Cemetery	-	-	-
Debt service	25,000	-	25,000
Capital outlay	8,550	-	8,550
<b>Total expenditures</b>	<b>1,282,665</b>	<b>-</b>	<b>1,282,665</b>
Excess (deficiency) of revenues over expenditures	(428,738)	-	(428,738)
<b>OTHER FINANCING SOURCES (USES)</b>			
Interest Expense	(6,140)	-	(6,140)
Transfers in	400,000	-	400,000
<b>Total other financing sources and uses</b>	<b>393,860</b>	<b>-</b>	<b>393,860</b>
Net change in fund balance	(34,878)	-	(34,878)
Fund balance - beginning	73,567	-	73,567
Fund balance - ending	38,689	-	38,689

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, 2016**

Net change in fund balances - governmental funds	(34,878)
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.	55,504
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.	(169,299)
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.	(180,107)
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>23,873</u>
Change in net position of governmental activities	<u><u>(279,907)</u></u>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2016**

**ASSETS**

Current assets:	
Cash and cash equivalents	1,145,894
Accounts receivable, net	421,700
Inventories	23,343
Total current assets	<u>1,590,937</u>
Noncurrent assets:	
Restricted cash and cash equivalents	29,655
Capital assets:	
Land	79,523
Other capital assets, net of depreciation	3,648,442
Total noncurrent assets	<u>3,757,620</u>
Total assets	<u>5,348,557</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows related to TMRS	140,421
Total deferred outflows of resources	<u>140,421</u>
Total assets and deferred outflows	<u>5,488,978</u>

**LIABILITIES**

Current liabilities:	
Accounts payable	165,390
Accrued expenses	45,619
Accrued interest payable	4,717
Current portion of:	
Revenue bonds payable	8,000
Total current liabilities	<u>223,726</u>
Noncurrent liabilities:	
Revenue bonds payable	403,000
Customer deposits	121,262
Net pension liability	223,815
Total noncurrent liabilities	<u>748,077</u>
Total liabilities	<u>971,803</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows related to TMRS	8,943
Total deferred inflows of resources	<u>8,943</u>

**NET ASSETS**

Invested in capital assets, net of related debt	3,316,965
Restricted for debt service	29,655
Unrestricted	1,161,612
Total net position	<u>4,508,232</u>
Total liabilities, deferred inflows, and net position	<u>5,488,978</u>

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, 2016**

<b>Operating revenues:</b>	
Water sales	718,994
Sewer charges	216,515
Electric sales	2,403,640
Gas sales	202,620
Other services	<u>60,767</u>
Total operating revenues	<u>3,602,536</u>
<b>Operating expenses:</b>	
Personnel	823,401
Supplies and materials	360,542
Maintenance and repairs	69,459
Contractual services	113,770
Cost of services	1,571,034
Depreciation	354,543
Other operating	<u>60,611</u>
Total operating expenses	<u>3,353,360</u>
Operating income	249,176
<b>Nonoperating revenues (expenses):</b>	
Capital grants	81,894
Pension benefit (expense)	(182,998)
Interest income	16,584
Interest expense	<u>(18,855)</u>
Total nonoperating revenue (expenses)	(103,375)
Income before transfers	145,801
Transfers to other funds	<u>(400,000)</u>
Change in net position	(254,199)
Total net position - beginning	<u>4,762,431</u>
Total net position - ending	<u><u>4,508,232</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, 2016**

<b>Cash flows from operating activities:</b>	
Receipts from customers	3,478,278
Payments to suppliers and contractors	(2,201,489)
Payments to employees	(823,401)
Net cash provided by (used for) operating activities	<u>453,388</u>
<b>Cash flows from noncapital financing activities:</b>	
Operating transfers	(400,000)
Contributions received	-
Net cash provided by (used for) noncapital activities	<u>(400,000)</u>
<b>Cash flows from capital and related financing activities:</b>	
Purchases of capital assets	(149,056)
Principal paid on capital debt	(8,000)
Interest paid on capital debt	(18,855)
Capital grants received	81,983
Net cash provided by (used for) capital activities	<u>(93,928)</u>
<b>Cash flows from investing activities:</b>	
Interest received	16,584
Net cash provided by (used for) investing activities	<u>16,584</u>
 Net increase (decrease) in cash and cash equivalents	 (23,956)
 Cash and cash equivalents, beginning	 <u>1,199,505</u>
 Cash and cash equivalents, ending	 <u><u>1,175,549</u></u>
 <b>Reconciliation of operating income to net cash used by operating activities:</b>	
Operating income	249,176
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	354,543
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(124,258)
(Increase) decrease in supply inventory	(18,710)
Increase (decrease) in accounts payable	15,279
Increase (decrease) in accrued liabilities	(23,270)
Increase (decrease) in customer meter deposits	<u>628</u>
 Net cash provided by operating activities	 <u><u>453,388</u></u>

See accompanying notes to the financial statements

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## CITY OF HEMPHILL, TEXAS

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

#### 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, 2016

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.

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.

## CITY OF HEMPHILL, TEXAS

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 expensed 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, 2016

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:

Assets Years

Buildings and improvements	10-30
Utility distribution systems	30
Vehicles and equipment	3-10
Furniture and equipment	5-10

**Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then.

**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

## CITY OF HEMPHILL, TEXAS

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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.

**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 1, 2016, 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)

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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, 2016 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, 2016, the bank balances of the City’s deposits (demand and certificates) were \$1,291,594, 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, 2016 as follows:

FDIC Insurance	250,000
Market value of securities pledged	<u>1,658,647</u>
Total coverage	<u>1,908,647</u>



## CITY OF HEMPHILL, TEXAS

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

#### 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, 2016.

**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, 2016.

**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, 2016.

**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, 2016.

The City's investments, which are reported as cash or cash equivalents, as of June 30, 2016 are with the depository bank in certificates of deposit in the amount of \$566,631.

**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, 2016, the City's business type activities restricted assets consisted of \$29,655 for debt service. The governmental activities restricted assets consisted of \$24,432 for cemetery operations and \$2,891 for other purposes.

#### PROPERTY TAXES

The City did not levy property taxes in October, 2015. 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, 2016 are \$31,837 for sales tax due from the State of Texas.

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	118,389	-	-	118,389
Capital assets, being depreciated:				
Buildings and improvements	1,621,593	37,240	21,000	1,679,833
Vehicles and equipment	661,714	18,264	-	679,978
Construction in progress	21,000	-	(21,000)	0
Total capital assets being depreciated	<u>2,304,307</u>	<u>55,504</u>	<u>0</u>	<u>2,359,811</u>
Less accumulated depreciation for:				
Buildings and improvements	600,290	122,182	-	722,472
Vehicles and equipment	527,361	47,118	-	574,479
Total accumulated depreciation	<u>1,127,651</u>	<u>169,300</u>	<u>0</u>	<u>1,296,951</u>
Total capital assets, being depreciated, net	<u>1,176,656</u>	<u>(113,796)</u>	<u>0</u>	<u>1,062,860</u>
Governmental activities capital assets, net	<u>1,295,045</u>	<u>(113,796)</u>	<u>0</u>	<u>1,181,249</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	79,523	-	-	79,523
Capital assets, being depreciated:				
Buildings and improvements	42,420	-	-	42,420
Utility systems	9,488,148	122,135	-	9,610,283
Vehicles and equipment	872,077	26,900	-	898,977
Totals at cost	<u>10,402,645</u>	<u>149,035</u>	<u>0</u>	<u>10,551,680</u>
Less accumulated depreciation:				
Buildings and improvements	30,546	1,357	-	31,903
Utility system	5,784,457	313,251	-	6,097,708
Vehicles and equipment	733,692	39,935	-	773,627
Total accumulated depreciation	<u>6,548,695</u>	<u>354,543</u>	<u>0</u>	<u>6,903,238</u>
Total capital assets, being depreciated, net	<u>3,853,950</u>	<u>(205,508)</u>	<u>0</u>	<u>3,648,442</u>
Business-type activities capital assets, net	<u>3,933,473</u>	<u>(205,508)</u>	<u>0</u>	<u>3,727,965</u>

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

**JUNE 30, 2016**

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

Governmental activities:	
General government	23,856
Public safety	37,954
Streets	86,897
Sanitation	5,850
Health and welfare	440
Parks and recreation	<u>14,303</u>
Total depreciation expense - governmental activities	<u><u>169,300</u></u>
Business-type activities:	
Overhead	41,292
Water	26,283
Sewer	99,553
Natural Gas	3,195
Electric	31,333
Water Plant	<u>152,887</u>
Total depreciation expense - business-type activities	<u><u>354,543</u></u>

**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, 2016, the City had 688 water connections and 581 sewer connections.

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

**JUNE 30, 2016**

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, 2016 was \$200,000. The balance is due in one installment of \$200,000 in June 2017 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, 2016 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	6,935	221
Reserve Fund	22,500	22,721	221

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, 2016, is as follows:

	<u>Year ending June 30, 2016</u>
2017	26,495
2018	26,135
2019	26,775
2020	26,370
2021	25,965
2022-2026	130,300
2027-2031	131,565
2032-2036	127,365
2037-2041	122,870
2042-2045	<u>89,000</u>
Total principal and interest	732,840
Less interest	<u>321,840</u>
Total debt at June 30, 2016	<u><u>411,000</u></u>

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**Change in Long-Term Liabilities**

Long term liability activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Issued	Retired	Ending Balance	Due in One Year
<b>Government-type activities:</b>					
Street paving loan	225,000	-	25,000	200,000	200,000
<b>Business-type activities:</b>					
Revenue bonds	419,000	-	8,000	411,000	8,000
Total	<u>644,000</u>	<u>-</u>	<u>33,000</u>	<u>611,000</u>	<u>208,000</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 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, 2016.

## CITY OF HEMPHILL, TEXAS

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

During the year ended June 30, 2016, the city received correspondence from G-M Water Supply Corporation (G-M) 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 and the City. After the City received the correspondence, G-M stopped paying the full amount invoiced by the City, instead only paying an amount that G-M unilaterally proposed. During 2016, a trial court granted the City's request for an injunction pending trial and ordered G-M to pay the monthly contracted rate, calculated by the City, until the trial. The court also ordered G-M to pay the past due amount of \$87,633. G-M subsequently did begin paying the full invoice amount monthly, but had not paid the past due portion as of year end June 30, 2016. G-M has appealed the trial courts rulings. The City is confident that the rate is being calculated as defined in the operating agreement and plans to defend the calculated rate vigorously.

The total amount due from G-M at year end, including the amount past due, current invoices, and interest, is \$128,117, and is reported as accounts receivable on the statement of net position.

#### **DEFINED BENEFIT PENSION PLAN**

##### **Plan Description**

The City participates as one of 866 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](http://www.tmrs.com).

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

##### **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.

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	7
Active employees	<u>26</u>
	38

**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 5.39% and 7.79% in calendar years 2015 and 2016, respectively. The city’s contributions to TMRS for the year ended June 30, 2015, were \$64,307, 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, 2015, 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, 2016**

*Actuarial Assumptions:*

Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall Payroll Growth	3.00% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment, 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 Combined Healthy Mortality Table with Blue Collar Adjustments are used with males rates multiplied by 109% and females rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. These rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. 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. After the Asset Allocation Study analysis and investigation study, the Board amended the long-term expected rate of return on the pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with 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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time



**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

(aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of 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%	4.55%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.65%
Real Return	10.00%	4.03%
Real Estate	10.00%	5.00%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	8.00%
Total	100.00%	

*Discount Rate*

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

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

**JUNE 30, 2016**

*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 12/31/2014	\$2,181,440	\$ 2,265,405	\$ (83,965)
Changes for the year:			
Service cost	90,088	-	90,088
Interest	174,273	-	174,273
Change in benefit terms	281,065		281,065
Difference between expected and actual expense	64,580	-	64,580
Changes of assumptions	87,370		87,370
Contributions - employer	-	54,897	(54,897)
Contributions - employee	-	54,139	(54,139)
Net investment income	-	3,343	(3,343)
Benefit payments, including refunds of employee			
Contributions	(35,868)	(35,868)	0
Administrative expense	-	(2,036)	2,036
Other charges	-	(100)	100
Net Changes	661,508	74,375	587,133
<b>Balance at 12/31/2015</b>	<b><u>\$2,842,948</u></b>	<b><u>\$ 2,339,780</u></b>	<b><u>\$ 503,168</u></b>

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

**JUNE 30, 2016**

*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 6.75%, 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 (5.75%) or 1-percentage-point higher (7.75%) than the current rate.

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City’s Net Pension (Asset)Liability	\$ 836,582	\$ 503,168	\$ 220,388

*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](http://www.tmr.com).

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

For the year ended June 30, 2016, the City recognized pension expense of \$397,822.

At June 30, 2016, 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	50,810	15,263
Changes is actuarial assumptions	68,741	-
Difference between projected and actual investment earnings	140,347	
Contributions subsequent to measurement date	35,871	
Total	\$ 295,769	\$ 15,263

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

The amount of \$35,871 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, 2017. 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,	
2017	62,976
2018	62,976
2017	65,282
2020	53,401
Thereafter	<u>-</u>
	244,635

**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 2016, 2015, and 2014 were \$3,539, \$3,225, and \$2,590, respectively, which equaled the required contributions each year.

## **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, 2016**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Sales taxes	428,872	428,872	443,372	14,500
Franchise taxes	4,980	4,980	4,540	(440)
Permits, fees & assessments	55,077	55,077	7,656	(47,421)
Fines	11,942	11,942	16,293	4,351
Charges for services	267,319	267,319	279,187	11,868
Interest income	1,597	1,597	1,730	133
Intergovernmental	8,354	8,354	34,126	25,772
Contributions and donations	-	-	20,779	20,779
Other	6,532	6,532	46,244	39,712
Total revenues	784,673	784,673	853,927	69,254
<b>EXPENDITURES</b>				
Current:				
General government:				
Finance and administration	437,805	437,805	505,788	(67,983)
Municipal court	28,316	28,316	29,119	(803)
Public safety:				
Fire	36,565	36,565	62,722	(26,157)
Police	283,694	283,694	257,664	26,030
Streets	148,170	148,170	128,978	19,192
Sanitation	236,997	236,997	235,819	1,178
Parks and recreation	9,942	9,942	5,387	4,555
Health and welfare	24,343	24,343	23,638	705
Cemetery	4,625	4,625	-	4,625
Debt service	31,985	31,985	31,140	845
Capital outlay	72,389	72,389	8,550	63,839
Total expenditures	1,314,831	1,314,831	1,288,805	26,026
Excess (deficiency) of revenues over expenditures	(530,158)	(530,158)	(434,878)	95,280
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	368,486	368,486	400,000	31,514
Total other financing sources (uses)	368,486	368,486	400,000	31,514
Net change in fund balance	(161,672)	(161,672)	(34,878)	126,794
Fund balance - beginning	73,567	73,567	73,567	-
Fund balance - ending	(88,105)	(88,105)	38,689	126,794

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,**

<b>TOTAL PENSION LIABILITY</b>	<b>2014</b>	<b>2015</b>
Service cost	\$ 76,685	\$ 90,088
Interest (on the Total Pension Liability)	143,886	174,273
Changes of benefit terms	-	281,065
Difference between expected and actual experience	(26,977)	64,580
Changes in assumptions	-	87,370
Benefit payments, including refunds of employee contributions	(58,639)	(35,868)
<b>Net Change in Total Pension Liability</b>	<b>134,955</b>	<b>661,508</b>
<b>Total Pension Liability - Beginning</b>	<b>2,046,485</b>	<b>2,181,440</b>
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 2,181,440</b>	<b>\$ 2,842,948</b>
 <b>PLAN FIDUCIARY NET POSITION</b>		
Contributions:		
Employer	48,602	54,897
Employee	50,207	54,139
Net investment income	120,494	3,343
Benefit payments, including refund of employee contributions	(58,639)	(35,868)
Administrative expense	(1,258)	(2,036)
Other	(103)	(100)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>159,303</b>	<b>74,375</b>
<b>Plan Fiduciary Net Position- Beginning</b>	<b>2,106,102</b>	<b>2,265,405</b>
<b>Plan Fiduciary Net Position- Ending (b)</b>	<b>\$ 2,265,405</b>	<b>\$ 2,339,780</b>
<b>Net Pension Asset - Ending (a) - (b)</b>	<b>(83,965)</b>	<b>503,168</b>
Plan Fiduciary Net Position as a Percentage of Total Pension Asset	103.85%	82.30%
Covered Employer Payroll	1,004,144	1,082,784
Net Pension Asset as a Percentage of Covered Employer Payroll	(8.36%)	46.47%

See accompanying notes to the financial statements



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

	<u>2015</u>	<u>2016</u>
Actuarial Determined Contributions	\$ 55,633	\$ 64,307
Contributions in relation to the actuarially determined contribution	<u>(55,633)</u>	<u>(64,307)</u>
<b>Contribution Deficiency (Excess)</b>	0	0
Covered Employer Payroll	1,057,996	1,106,014
Contributions as a Percentage of Covered Employer Payroll	5.26%	5.81%

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS**  
**NOTES TO THE SCHEDULE OF CONTRIBUTIONS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**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	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
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:**

The municipal matching ratio was increase from 1.5 - 1 to 2.0 - 1.

The statutory max was increased to 11.50% due to plan changes.

## **Other Schedules**

**CITY OF HEMPHILL, TEXAS  
GENERAL FUND  
SCHEDULE OF CURRENT EXPENDITURES BY DEPARTMENT  
BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2016**

<b>General Government</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance favorable (unfavorable)</b>
<b>Administration:</b>			
Personnel	309,544	374,403	(64,859)
Supplies and materials	34,349	24,741	9,608
Maintenance and repairs	28,938	31,344	(2,406)
Contractual services	32,114	42,982	(10,868)
Miscellaneous	61,176	61,437	(261)
Total administration	466,121	534,907	(68,786)
<b>Public Safety</b>			
<b>Fire Department:</b>			
Personnel	1,680	1,537	143
Supplies and materials	10,793	25,695	(14,902)
Maintenance and repairs	15,826	23,378	(7,552)
Contractual services	5,226	6,975	(1,749)
Miscellaneous	3,040	5,137	(2,097)
Total fire department	36,565	62,722	(26,157)
<b>Police department:</b>			
Personnel	252,963	232,962	20,001
Supplies and materials	7,853	5,526	2,327
Maintenance and repairs	17,114	12,130	4,984
Contractual services	3,479	4,358	(879)
Miscellaneous	2,285	2,688	(403)
Total police department	283,694	257,664	26,030
Total public safety	320,259	320,386	(127)
<b>Sanitation</b>			
Personnel	-	1,564	(1,564)
Supplies and materials	638	-	638
Maintenance and repairs	3,500	2,985	515
Contractual services	232,687	231,270	1,417
Miscellaneous	172	-	172
Total sanitation	236,997	235,819	1,178

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, 2016**

	<b>Budget</b>	<b>Actual</b>	<b>Variance favorable (unfavorable)</b>
<b>Streets</b>			
Personnel	110,258	89,128	21,130
Supplies and materials	22,434	13,734	8,700
Maintenance and repairs	2,026	23,312	(21,286)
Contractual services	13,452	2,531	10,921
Miscellaneous	-	273	(273)
<b>Total streets</b>	<b>148,170</b>	<b>128,978</b>	<b>19,192</b>
<b>Parks and recreation</b>			
Personnel	-	1,507	(1,507)
Supplies and materials	5,035	3,405	1,630
Maintenance and repairs	3,907	198	3,709
Contractual services	1,000	277	723
Miscellaneous	-	-	-
<b>Total parks and recreation</b>	<b>9,942</b>	<b>5,387</b>	<b>4,555</b>
<b>Health and welfare</b>			
Personnel	19,852	20,621	(769)
Supplies and materials	1,190	510	680
Maintenance and repairs	500	-	500
Contractual services	721	-	721
Miscellaneous	2,080	2,507	(427)
<b>Total health and welfare</b>	<b>24,343</b>	<b>23,638</b>	<b>705</b>
<b>Cemetery</b>			
Supplies and materials	250	-	250
Maintenance and repairs	375	-	375
Contractual services	1,500	-	1,500
Miscellaneous	2,500	-	2,500
<b>Total cemetery</b>	<b>4,625</b>	<b>-</b>	<b>4,625</b>
<b>Total current expenditures</b>	<b>1,210,457</b>	<b>1,249,115</b>	<b>(38,658)</b>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS  
UTILITY FUND  
SCHEDULE OF EXPENDITURES BY DEPARTMENT  
BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2016**

	<b>Budget</b>	<b>Actual</b>	<b>Variance favorable (unfavorable)</b>
<b>Electric Department</b>			
Personnel	227,184	218,834	8,350
Supplies and materials	111,748	89,347	22,401
Maintenance and repairs	5,219	4,021	1,198
Contractual services	9,324	2,807	6,517
Cost of services	1,708,161	1,540,493	167,668
Depreciation	52,288	50,743	1,545
Other operating expenses	5,128	1,202	3,926
<b>Total electric department</b>	<b>2,119,052</b>	<b>1,907,447</b>	<b>211,605</b>
<b>Gas department</b>			
Personnel	-	4,685	(4,685)
Supplies and materials	12,456	5,625	6,831
Maintenance and repairs	74	195	(121)
Contractual services	1,976	5,733	(3,757)
Cost of services	120,353	33,586	86,767
Depreciation	3,211	3,195	16
Other operating expenses	4,452	4,447	5
<b>Total gas department</b>	<b>142,522</b>	<b>57,466</b>	<b>85,056</b>
<b>Water department</b>			
Supplies and materials	36,717	35,804	913
Maintenance and repairs	1,200	-	1,200
Contractual services	249	2,378	(2,129)
Depreciation	27,735	26,283	1,452
Other operating expenses	2,788	571	2,217
<b>Total water department</b>	<b>68,689</b>	<b>65,036</b>	<b>3,653</b>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS  
UTILITY FUND  
SCHEDULE OF EXPENDITURES BY DEPARTMENT  
BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2016**

	<b>Budget</b>	<b>Actual</b>	<b>Variance favorable (unfavorable)</b>
<b>Sewer department</b>			
Personnel	42,334	46,520	(4,186)
Supplies and materials	74,386	88,047	(13,661)
Maintenance and repairs	14,485	30,975	(16,490)
Contractual services	3,627	23,956	(20,329)
Depreciation	102,750	96,090	6,660
Other operating expenses	10,607	4,416	6,191
<b>Total sewer department</b>	<b>248,189</b>	<b>290,004</b>	<b>(41,815)</b>
<b>Warehouse</b>			
Personnel	399,566	385,965	13,601
Supplies and materials	59,610	48,434	11,176
Maintenance and repairs	14,965	15,678	(713)
Contractual services	37,726	19,073	18,653
Depreciation	21,971	25,345	(3,374)
Miscellaneous	33,468	39,635	(6,167)
<b>Total warehouse</b>	<b>567,306</b>	<b>534,130</b>	<b>33,176</b>
<b>Water plant</b>			
Personnel	169,142	167,397	1,745
Supplies and materials	65,797	93,285	(27,488)
Maintenance and repairs	8,825	18,590	(9,765)
Contractual services	72,714	59,823	12,891
Cost of services	69,079	(3,045)	72,124
Depreciation	152,101	152,887	(786)
Other operating expenses	15,206	10,340	4,866
<b>Total water plant</b>	<b>552,864</b>	<b>499,277</b>	<b>53,587</b>
<b>Total expenditures</b>	<b>3,698,622</b>	<b>3,353,360</b>	<b>345,262</b>

See accompanying notes to the financial statements

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## **Statistical Tables**



**CITY OF HEMPHILL, TEXAS**

**SCHEDULE OF INSURANCE POLICIES IN FORCE**

**JUNE 30, 2016**

<b>Insurer</b>	<b>Amount of Coverage</b>	<b>Risk Covered</b>	<b>Expiration Date</b>
Texas Municipal League	\$2,000,000	Comprehensive General liability	10-01-16
Intergovernmental Risk Pool	\$2,000,000	Sudden events - Pollution	10-01-16
	\$2,000,000	Automobile liability	10-01-16
	\$2,000,000	Law enforcement liability	10-01-16
	\$2,000,000	Errors and omissions	10-01-16
	\$7,718,820	Real and personal property	10-01-16
	\$500,000	Boiler and machinery accident	10-01-16
	As scheduled	Automobile physical damage	10-01-16
	\$204,318	Mobile equipment	10-01-16
	Statutory	Workers compensation	10-01-16

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**FEDERAL AWARDS SECTION**





Certified Public Accountants

Goff & Herrington, P.C.

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Daniel Raney, 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, 2016, 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 1, 2016.

**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 1, 2016



**CITY OF HEMPHILL, TEXAS  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2016**

None

**CITY OF HEMPHILL, TEXAS  
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2016**

No prior audit findings reported.

**CITY OF HEMPHILL, TEXAS  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2016**

None required.

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