

CITY OF HEMPHILL, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2017

CITY OF HEMPHILL, TEXAS
Annual Financial Report
For the Year Ended June 30, 2017

Table of Contents

	Page
FINANCIAL SECTION	
Independent Auditor’s Report	1-3
Management’s Discussion and Analysis	4-11
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13-14
Fund Financial Statements:	
Balance Sheet - Governmental Funds	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	16
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Statement of Net Position - Proprietary Fund	19
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund	20
Statement of Cash Flows - Proprietary Fund	21
Notes to the Financial Statements	22-38
 Required Supplementary Information:	
Budgetary Comparison Reporting	
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	39
Texas Municipal Retirement System	
Schedule of Changes in Net Pension Liability and Related Ratios - TMRS	40
Schedule of Contributions - TMRS	41
Notes to the Schedule of Contributions	42
 Other Supplementary Information:	
Other Schedules	
Schedule of General Fund Expenditures by Department - Budget and Actual	43-44
Schedule of Utility Fund Expenditures by Department - Budget and Actual	45-46
 Statistical Tables:	
Schedule of Insurance Policies in Force	47

CITY OF HEMPHILL, TEXAS
Annual Financial Report
For the Year Ended June 30, 2017

Table of Contents

	Page
FEDERAL AWARDS SECTION	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	48-49
Schedule of Findings	50
Schedule of Status of Prior Audit Findings	51
Corrective Action Plan	52

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, 2017, 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

Page 2

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, 2017, 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 39), and the pension schedules (pages 40-42) 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

Page 3

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 November 10, 2017, 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

November 10, 2017

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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, 2017. 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 \$4,922,828 as of June 30, 2017. Of this amount, \$886,584 (unrestricted) may be used to meet the City's continuing obligations to citizens, customers and creditors.
- ▶ During the year ended June 30, 2017, the City's net position **decreased** by \$449,974.
- ▶ Total long-term debt of the City decreased by \$33,000 to \$578,000 during the current fiscal year.
- ▶ At the end of the current fiscal year, unassigned fund balance for the general fund was \$43,459 or 2.95 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 \$4,922,828 at the close of the fiscal year.

By far the largest portion of the City's net position (80.67 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	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	117,080	93,418	1,527,762	1,620,581	1,644,842	1,713,999
Capital and Non-Current	1,159,473	1,181,249	3,389,967	3,727,965	4,549,440	4,909,214
Total Assets	1,276,553	1,274,667	4,917,729	5,348,546	6,194,282	6,623,213
Deferred outflows - TMRS	144,075	155,348	130,384	140,421	274,459	295,769
Total Deferred Outflows	144,075	155,348	130,384	140,421	274,459	295,769
Other Liabilities	63,552	79,772	317,706	336,977	381,258	416,749
Long Term Liabilities	493,428	479,353	661,608	634,815	1,155,036	1,114,168
Total Liabilities	556,980	559,125	979,314	971,792	1,536,294	1,530,917
Deferred inflows - TMRS	3,334	6,320	6,285	8,943	9,619	15,263
Total Deferred Inflows	3,334	6,320	6,285	8,943	9,619	15,263
Net Position:						
Net Investment in						
Capital Assets	984,473	981,249	2,986,967	3,316,965	3,971,440	4,298,214
Restricted	28,304	27,323	36,500	29,655	64,804	56,978
Unrestricted	(152,463)	(144,002)	1,039,047	1,161,612	886,584	1,017,610
Total Net Position	860,314	864,570	4,062,514	4,508,232	4,922,828	5,372,802

MANAGEMENT'S DISCUSSION AND ANALYSIS

A portion of the City's net assets (1.32 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 \$886,584 may be used to meet the City's ongoing obligations to citizens and creditors.

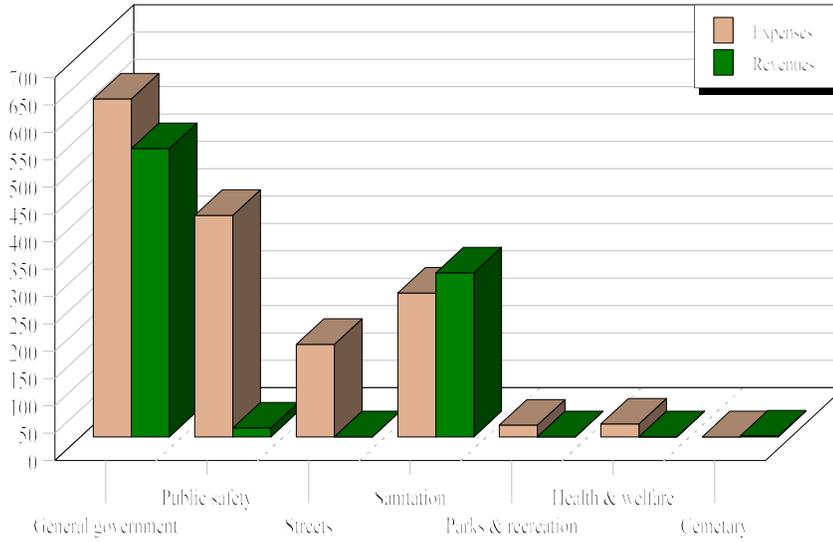
Changes in the City's Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues:						
Charges for services	352,036	295,480	3,600,190	3,602,536	3,952,226	3,898,016
Operating grants	16,413	54,905	-	-	16,413	54,905
Capital grants	-	-	-	81,894	0	81,894
General Revenues:						
Sales taxes	458,788	443,372	-	-	458,788	443,372
Other taxes and fees	17,586	12,196	-	-	17,586	12,196
Other	55,796	47,974	15,476	16,584	71,272	64,558
Total revenues	900,619	853,927	3,615,666	3,701,014	4,516,285	4,554,941
Expenses:						
General government	617,614	642,098	-	-	617,614	642,098
Public safety	404,904	394,063	-	-	404,904	394,063
Streets	169,183	200,876	-	-	169,183	200,876
Sanitation	262,748	242,059	-	-	262,748	242,059
Parks and recreation	21,467	20,066	-	-	21,467	20,066
Health and welfare	23,523	28,532	-	-	23,523	28,532
Cemetery	-	-	-	-	0	0
Debt service	5,436	6,140	-	-	-	-
Electric	-	-	2,095,641	2,086,729	2,095,641	2,086,729
Natural gas	-	-	262,783	236,748	262,783	236,748
Water	-	-	661,832	743,595	661,832	743,595
Sewer	-	-	441,128	488,141	441,128	488,141
Total expenses	1,504,875	1,533,834	3,461,384	3,555,213	4,960,823	5,082,907
Transfers	600,000	400,000	(600,000)	(400,000)	-	-
Increase in net position	(4,256)	(279,907)	(445,718)	(254,199)	(449,974)	(534,106)
Beginning net position	864,570	1,144,477	4,508,232	4,762,431	5,372,802	5,906,908
Ending net position	<u>860,314</u>	<u>864,570</u>	<u>4,062,514</u>	<u>4,508,232</u>	<u>4,922,828</u>	<u>5,372,802</u>

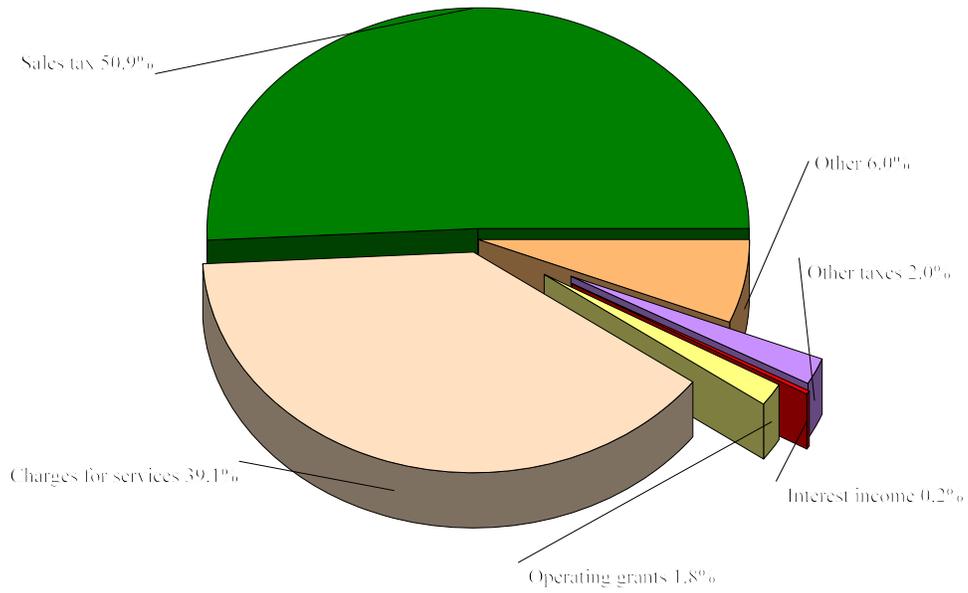
MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities. Governmental activities decreased the City's net position by \$4,256, contributing to the overall decrease in the City's total net position.

Expenses and Program Revenues - Governmental Activities



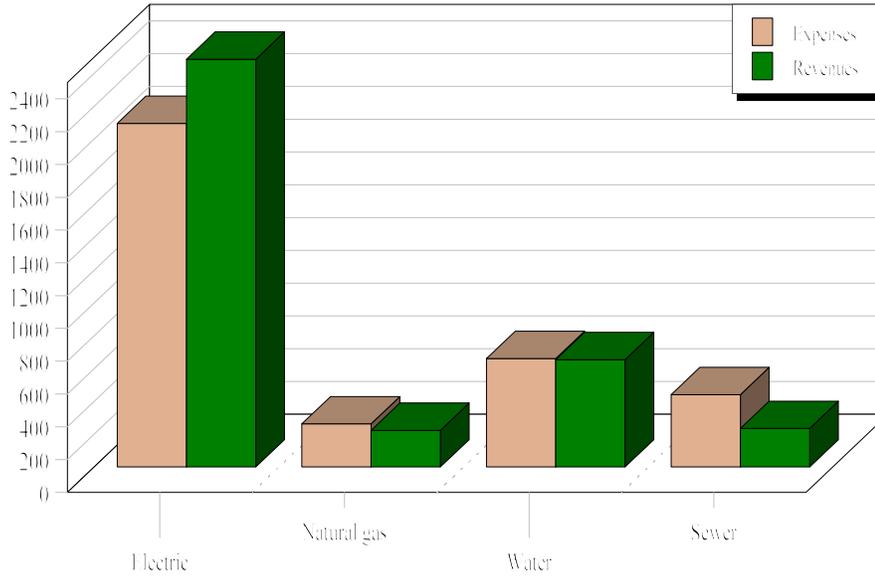
Revenues by Source - Governmental Activities



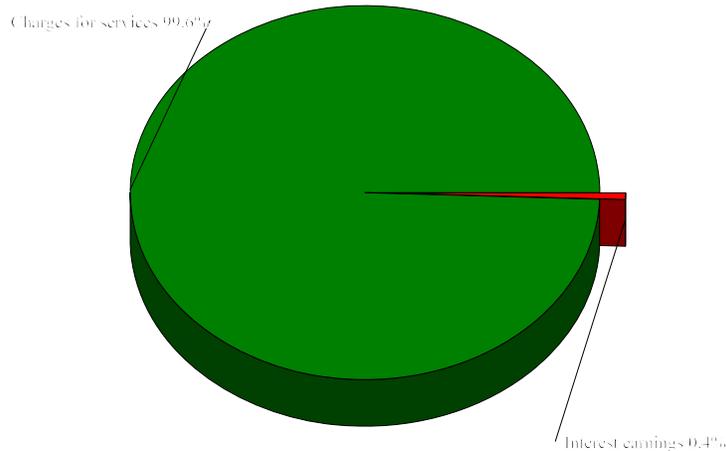
MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-type Activities. Business-type activities decreased the City's net position by \$445,718, 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 \$71,763, an increase of \$33,074 compared with the prior year. Of this balance, \$43,459 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 \$1,039,047.

General Fund Budgetary Highlights

During the year, the City monitored it’s budget as its actual results were analyzed. Actual expenditures were \$90,048 over the final budget amounts. The most significant negative variance was in the finance and administration function, as the city had unexpected write-offs of receivables charged to bad debts expense.

There was a positive budget variance of \$52,694 in overall revenues. The most significant positive variance was in other revenues, as the city received insurance proceeds that were not 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 \$4,549,440 (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	
	2017	2016	2017	2016	2017	2016
Land	189,202	118,389	79,523	79,523	268,725	197,912
Buildings & improvements	835,055	957,361	9,160	10,517	844,215	967,878
Utility systems	-	-	3,201,437	3,512,575	3,201,437	3,512,575
Vehicles and equipment	135,216	105,499	99,847	125,350	235,063	230,849
Construction in progress	-	-	-	-	0	0
Net capital assets	1,159,473	1,181,249	3,389,967	3,727,965	4,549,440	4,909,214

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 \$578,000.

	City's Outstanding Debt					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenue bonds	-	-	403,000	411,000	403,000	411,000
Loans	175,000	200,000	-	-	175,000	200,000
Net capital assets	175,000	200,000	403,000	411,000	578,000	611,000

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 2017-2018 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, 2017.

Additionally, the City anticipates spending \$503,000 in capital improvements during fiscal year 2017-2018. These include purchasing a bucket truck, fire department vehicle, a lift station, a skid steer, a trackhoe, and major improvements to the water plant, including tank coating and pond cleaning. The City also anticipates spending \$750,000 in capital expenditures related to an economic development project.

If these estimates are realized, the City's budgetary general fund balance and utility reserves are expected to decrease by the close of 2018.

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, 2017**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	56,041	1,097,746	1,153,787
Sales tax receivable	32,735	-	32,735
Accounts receivable, net	-	367,068	367,068
Inventories	-	26,448	26,448
Restricted assets:			
Cash and cash equivalents	28,304	36,500	64,804
Capital Assets (net of accumulated depreciation):			
Land	189,202	79,523	268,725
Other capital assets, net of depreciation	970,271	3,310,444	4,280,715
Total assets	1,276,553	4,917,729	6,194,282
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to TMRS	144,075	130,384	274,459
Total deferred outflows of resources	144,075	130,384	274,459
LIABILITIES			
Accounts payable	20,342	150,831	171,173
Accrued expenses	43,210	36,168	79,378
Accrued interest payable	-	4,717	4,717
Customer meter deposits	-	125,990	125,990
Long Term Liabilities:			
Due within one year	175,000	8,000	183,000
Due after one year	-	395,000	395,000
Net pension liability	318,428	258,608	577,036
Total liabilities	556,980	979,314	1,536,294
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to TMRS	3,334	6,285	9,619
Total deferred inflows of resources	3,334	6,285	9,619
NET POSITION			
Net investment in capital assets	984,473	2,986,967	3,971,440
Restricted for other purposes	28,304	36,500	64,804
Unrestricted	(152,463)	1,039,047	886,584
Total net position	860,314	4,062,514	4,922,828

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Governmental activities:			
General government	617,614	50,588	-
Public safety	404,904	-	16,288
Streets	169,183	-	-
Sanitation	262,748	299,786	-
Parks and recreation	21,467	-	-
Health and welfare	23,523	162	-
Cemetery	-	1,500	125
Interest on long term debt	5,436	-	-
Total governmental activities	1,504,875	352,036	16,413
Business-type activities:			
Electric	2,095,641	2,487,251	-
Natural gas	262,783	223,303	-
Water	661,832	654,834	-
Sewer	441,128	234,803	-
Total business-type activities	3,461,384	3,600,190	-
	4,966,259	3,952,226	16,413

General revenues:

- Sales taxes
- Franchise taxes
- Fines and penalties
- 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

Program Revenues	Net (Expense) Revenues and Changes in Net Position		
Capital Grants and Contributions	Governmental Activities	Business Activities	Total
-	(567,026)	-	(567,026)
-	(388,616)	-	(388,616)
-	(169,183)	-	(169,183)
-	37,038	-	37,038
-	(21,467)	-	(21,467)
-	(23,361)	-	(23,361)
-	1,625	-	1,625
-	(5,436)	-	(5,436)
-	(1,136,426)	-	(1,136,426)
-	-	391,610	391,610
-	-	(39,480)	(39,480)
-	-	(6,998)	(6,998)
-	-	(206,325)	(206,325)
-	-	138,806	138,806
-	(1,136,426)	138,806	(997,620)
	458,788	-	458,788
	4,471	-	4,471
	13,115	-	13,115
	53,999	-	53,999
	1,797	15,476	17,273
	600,000	(600,000)	-
	1,132,170	(584,524)	547,646
	(4,256)	(445,718)	(449,974)
	864,570	4,508,232	5,372,802
	860,314	4,062,514	4,922,828

See accompanying notes to the financial statements

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Fund Financial Statements

**CITY OF HEMPHILL, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	56,041	-	56,041
Sales tax receivable	32,735	-	32,735
Intergovernmental receivables	-	-	-
Cash and cash equivalents - restricted	28,304	-	28,304
Total assets	117,080	-	117,080
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	20,342	-	20,342
Accrued liabilities	24,975	-	24,975
Total liabilities	45,317		45,317
Fund balances:			
Restricted fund balance	28,304		28,304
Unassigned fund balance	43,459	-	43,459
Total fund balances	71,763	-	71,763
Total liabilities and fund balances	117,080	-	117,080

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, 2017

Total fund balances - governmental funds	71,763
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 \$2,359,811 and the accumulated depreciation was \$1,296,951. The effect of including beginning balances for capital assets (net of depreciation) in the governmental activities is to increase (decrease) net position.	1,181,249
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.	(21,776)
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 \$318,428, a Deferred Resource Inflow related to TMRS in the amount of \$3,334, and a Deferred Resource Outflow related to TRS in the amount of \$144,075. This amounted to a decrease in Net Position in the amount of \$177,687.	(177,687)
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(193,235)</u>
Net position of governmental activities	<u><u>860,314</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, 2017

REVENUES	General Fund	Other Governmental Funds	Total Governmental Funds
Taxes:			
Sales taxes	458,788	-	458,788
Franchise taxes	4,471	-	4,471
Permits, fees and assessments	50,588	-	50,588
Fines	13,277	-	13,277
Charges for services	299,786	-	299,786
Interest income	1,797	-	1,797
Intergovernmental	16,288	-	16,288
Contributions and donations	125	-	125
Other	65,418	-	65,418
Total revenues	910,538	-	910,538
EXPENDITURES			
Current:			
General government:			
Finance and administration	537,913	-	537,913
Municipal court	38,720	-	38,720
Public safety:			
Fire	46,921	-	46,921
Police	291,051	-	291,051
Streets	82,739	-	82,739
Sanitation	256,898	-	256,898
Parks and recreation	8,091	-	8,091
Health and welfare	16,324	-	16,324
Cemetery	-	-	-
Debt service	25,000	-	25,000
Capital outlay	168,371	-	168,371
Total expenditures	1,472,028	-	1,472,028
Excess (deficiency) of revenues over expenditures	(561,490)	-	(561,490)
OTHER FINANCING SOURCES (USES)			
Interest Expense	(5,436)	-	(5,436)
Transfers in	600,000	-	600,000
Total other financing sources and uses	594,564	-	594,564
Net change in fund balance	33,074	-	33,074
Fund balance - beginning	38,689	-	38,689
Fund balance - ending	71,763	-	71,763

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, 2017**

Net change in fund balances - governmental funds	33,074
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.	168,371
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.	(180,228)
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.	(47,361)
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>(3,112)</u>
Change in net position of governmental activities	<u><u>(4,256)</u></u>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2017**

ASSETS

Current assets:	
Cash and cash equivalents	1,097,746
Accounts receivable, net	367,068
Inventories	26,448
Total current assets	<u>1,491,262</u>
Noncurrent assets:	
Restricted cash and cash equivalents	36,500
Capital assets:	
Land	79,523
Other capital assets, net of depreciation	3,310,444
Total noncurrent assets	<u>3,426,467</u>
Total assets	<u>4,917,729</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to TMRS	130,384
Total deferred outflows of resources	<u>130,384</u>
 Total assets and deferred outflows	 <u><u>5,048,113</u></u>

LIABILITIES

Current liabilities:	
Accounts payable	150,831
Accrued expenses	36,168
Accrued interest payable	4,717
Current portion of:	
Revenue bonds payable	8,000
Total current liabilities	<u>199,716</u>
Noncurrent liabilities:	
Revenue bonds payable	395,000
Customer deposits	125,990
Net pension liability	258,608
Total noncurrent liabilities	<u>779,598</u>
Total liabilities	<u>979,314</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to TMRS	6,285
Total deferred inflows of resources	<u>6,285</u>

NET ASSETS

Invested in capital assets, net of related debt	2,986,967
Restricted for debt service	36,500
Unrestricted	1,039,047
Total net position	<u>4,062,514</u>
 Total liabilities, deferred inflows, and net position	 <u><u>5,048,113</u></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, 2017

Operating revenues:	
Water sales	639,870
Sewer charges	219,839
Electric sales	2,472,287
Gas sales	208,339
Other services	<u>59,855</u>
Total operating revenues	<u>3,600,190</u>
Operating expenses:	
Personnel	819,425
Supplies and materials	310,228
Maintenance and repairs	60,046
Contractual services	70,678
Cost of services	1,608,107
Depreciation	342,298
Other operating	<u>152,069</u>
Total operating expenses	<u>3,362,851</u>
Operating income	237,339
Nonoperating revenues (expenses):	
Pension benefit (expense)	(80,281)
Interest income	15,476
Interest expense	<u>(18,252)</u>
Total nonoperating revenue (expenses)	(83,057)
Income before transfers	154,282
Transfers to other funds	<u>(600,000)</u>
Change in net position	(445,718)
Total net position - beginning	<u>4,508,232</u>
Total net position - ending	<u><u>4,062,514</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, 2017**

Cash flows from operating activities:	
Receipts from customers	3,659,550
Payments to suppliers and contractors	(2,218,791)
Payments to employees	(866,986)
Net cash provided by (used for) operating activities	<u>573,773</u>
Cash flows from noncapital financing activities:	
Operating transfers	(600,000)
Contributions received	-
Net cash provided by (used for) noncapital activities	<u>(600,000)</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(4,300)
Principal paid on capital debt	(8,000)
Interest paid on capital debt	(18,252)
Net cash provided by (used for) capital activities	<u>(30,552)</u>
Cash flows from investing activities:	
Interest received	15,476
Net cash provided by (used for) investing activities	<u>15,476</u>
 Net increase (decrease) in cash and cash equivalents	 (41,303)
 Cash and cash equivalents, beginning	 <u>1,175,549</u>
 Cash and cash equivalents, ending	 <u><u>1,134,246</u></u>
 Reconciliation of operating income to net cash used by operating activities:	
Operating income	237,339
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	342,298
 Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	54,632
(Increase) decrease in supply inventory	(3,105)
Increase (decrease) in accounts payable	(14,559)
Increase (decrease) in accrued liabilities	(47,560)
Increase (decrease) in customer meter deposits	4,728
 Net cash provided by operating activities	 <u><u>573,773</u></u>

See accompanying notes to the financial statements

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CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017

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, 2017

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, 2017

Depreciation is provided on all capital assets used by the general and utility funds over the following estimated useful lives using the straight-line method. The estimated useful lives are:

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

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 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

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 November 10, 2017, which is the date that these financial statements were available to be issued.

DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments. The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017 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, 2017, the bank balances of the City’s deposits (demand and certificates) were \$1,253,111, 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, 2017 as follows:

FDIC Insurance	250,000
Market value of securities pledged	<u>2,051,651</u>
Total coverage	<u><u>2,301,651</u></u>

Investments

Credit Risk. - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. The City was not exposed to credit risk at June 30, 2017.

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017.

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, 2017.

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, 2017.

The City's investments , which are reported as cash as cash equivalents, as of June 30, 2017 are with the depository bank in certificates of deposit in the amount of \$661,729.

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, 2017, the City's business type activities restricted assets consisted of \$36,500 for debt service. The governmental activities restricted assets consisted of \$24,752 for cemetery operations and \$3,552 for other purposes.

PROPERTY TAXES

The City did not levy property taxes in October, 2016. 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, 2017 are \$32,735 for sales tax due from the State of Texas.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	118,389	70,813	-	189,202
Capital assets, being depreciated:				
Buildings and improvements	1,679,833	-	-	1,679,833
Vehicles and equipment	679,978	97,558	(29,758)	747,778
Construction in progress	-	-	-	0
Total capital assets being depreciated	<u>2,359,811</u>	<u>97,558</u>	<u>(29,758)</u>	<u>2,427,611</u>
Less accumulated depreciation for:				
Buildings and improvements	722,472	122,306	-	844,778
Vehicles and equipment	574,479	57,922	(19,839)	612,562
Total accumulated depreciation	<u>1,296,951</u>	<u>180,228</u>	<u>(19,839)</u>	<u>1,457,340</u>
Total capital assets, being depreciated, net	<u>1,062,860</u>	<u>(82,670)</u>	<u>(9,919)</u>	<u>970,271</u>
Governmental activities capital assets, net	<u>1,181,249</u>	<u>(11,857)</u>	<u>(9,919)</u>	<u>1,159,473</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	79,523	-	-	79,523
Capital assets, being depreciated:				
Buildings and improvements	42,420	-	-	42,420
Utility systems	9,610,283	-	-	9,610,283
Vehicles and equipment	898,977	4,300	-	903,277
Totals at cost	<u>10,551,680</u>	<u>4,300</u>	<u>0</u>	<u>10,555,980</u>
Less accumulated depreciation:				
Buildings and improvements	31,903	1,357	-	33,260
Utility system	6,097,708	311,138	-	6,408,846
Vehicles and equipment	773,627	29,803	-	803,430
Total accumulated depreciation	<u>6,903,238</u>	<u>342,298</u>	<u>0</u>	<u>7,245,536</u>
Total capital assets, being depreciated, net	<u>3,648,442</u>	<u>(337,998)</u>	<u>0</u>	<u>3,310,444</u>
Business-type activities capital assets, net	<u>3,727,965</u>	<u>(337,998)</u>	<u>0</u>	<u>3,389,967</u>

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

Governmental activities:	
General government	22,097
Public safety	50,518
Streets	87,946
Sanitation	5,850
Health and welfare	440
Parks and recreation	<u>13,377</u>
Total depreciation expense - governmental activities	<u><u>180,228</u></u>
Business-type activities:	
Overhead	31,159
Water	25,304
Sewer	100,347
Natural Gas	3,195
Electric	27,460
Water Plant	<u>154,833</u>
Total depreciation expense - business-type activities	<u><u>342,298</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, 2017, the City had 697 water connections and 585 sewer connections.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017 was \$175,000. The balance is due in one installment of \$175,000 in June 2018 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, 2017 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	2,083	4,220	2,137
Reserve Fund	22,500	25,258	2,758

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, 2017, is as follows:

Year ending June 30,	
2018	26,135
2019	26,775
2020	26,370
2021	25,965
2022	26,560
2023-2027	129,960
2028-2032	131,595
2033-2037	124,855
2038-2042	122,730
2043-2045	65,400
Total principal and interest	706,345
Less interest	303,345
Total debt at June 30, 2017	403,000

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Change in Long-Term Liabilities

Long term liability activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Issued	Retired	Ending Balance	Due in One Year
Government-type activities:					
Street paving loan	200,000	-	25,000	175,000	175,000
Business-type activities:					
Revenue bonds	411,000	-	8,000	403,000	8,000
Total	<u>611,000</u>	<u>-</u>	<u>33,000</u>	<u>578,000</u>	<u>183,000</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, 2017.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

During 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, and G-M stopped paying the full amount invoiced by the City for a period of time. The amount due to the City from G-M related to the unpaid portions of these invoices was \$95,957 at June 30, 2017. During the year ended June 30, 2017, the City reached a new agreement with G-M to sell treated water. As a result of the new agreement, all legal proceedings related to the prior agreement were terminated, and the full amount due to the City related to the unpaid portions of the invoices during the dispute period was forgiven and recognized as bad debt expense in 2017.

DEFINED BENEFIT PENSION PLAN

Plan Description

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

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

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Employees covered by benefit terms

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	8
Inactive employees entitled to but not yet receiving benefits	5
Active employees	<u>25</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 7.79% and 8.20% in calendar years 2016 and 2017, respectively. The city's contributions to TMRS for the year ended June 30, 2017, were \$80,906, 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, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Asset/Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

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

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 Disabled Retiree Mortality table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2016, 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.

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. 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%	

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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.

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 12/31/2015	\$2,842,948	\$ 2,339,780	\$ 503,168
Changes for the year:			
Service cost	114,286	-	114,286
Interest	193,615	-	193,615
Change in benefit terms			
Difference between expected and actual expense	52,548	-	52,548
Changes of assumptions	-		0
Contributions - employer	-	74,016	(74,016)
Contributions - employee	-	56,243	(56,243)
Net investment income	-	158,204	(158,204)
Benefit payments, including refunds of employee			
Contributions	(63,427)	(63,427)	0
Administrative expense	-	(1,786)	1,786
Other charges	-	(96)	96
Net Changes	297,022	223,154	73,868
Balance at 12/31/2016	\$3,139,970	\$ 2,562,934	\$ 577,036

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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	\$ 937,226	\$ 577,036	\$ 271,968

Pension Plan Fiduciary Net Position

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

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

For the year ended June 30, 2017, the City recognized pension expense of \$170,443.

At June 30, 2017, 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	77,672	9,404
Changes in actuarial assumptions	50,112	-
Difference between projected and actual investment earnings	103,913	215
Contributions subsequent to measurement date	42,762	-
Total	<u>\$ 274,459</u>	<u>\$ 9,619</u>

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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	74,838
2018	77,144
2017	65,263
2020	4,831
Thereafter	<u>-</u>
	<u><u>222,076</u></u>

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 2017, 2016, and 2015 were \$3,762, \$3,539, and \$3,225, respectively, which equaled the required contributions each year.

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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, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Sales taxes	479,473	479,473	458,788	(20,685)
Franchise taxes	5,360	5,360	4,471	(889)
Permits, fees & assessments	54,333	54,333	50,588	(3,745)
Fines	13,259	13,259	13,277	18
Charges for services	280,007	280,007	299,786	19,779
Interest income	1,679	1,679	1,797	118
Intergovernmental	16,800	16,800	16,288	(512)
Contributions and donations	-	-	125	125
Other	6,933	6,933	65,418	58,485
Total revenues	857,844	857,844	910,538	52,694
EXPENDITURES				
Current:				
General government:				
Finance and administration	439,279	439,279	537,913	(98,634)
Municipal court	28,316	28,316	38,720	(10,404)
Public safety:				
Fire	37,394	37,394	46,921	(9,527)
Police	299,003	299,003	291,051	7,952
Streets	97,147	97,147	82,739	14,408
Sanitation	234,364	234,364	256,898	(22,534)
Parks and recreation	6,383	6,383	8,091	(1,708)
Health and welfare	24,156	24,156	16,324	7,832
Cemetery	3,275	3,275	-	3,275
Debt service	30,500	30,500	30,436	64
Capital outlay	100,599	187,599	168,371	19,228
Total expenditures	1,300,416	1,387,416	1,477,464	(90,048)
Excess (deficiency) of revenues over expenditures	(442,572)	(529,572)	(566,926)	(37,354)
OTHER FINANCING SOURCES (USES)				
Transfers in	349,374	349,374	600,000	250,626
Total other financing sources (uses)	349,374	349,374	600,000	250,626
Net change in fund balance	(93,198)	(180,198)	33,074	213,272
Fund balance - beginning	38,689	38,689	38,689	-
Fund balance - ending	(54,509)	(141,509)	71,763	213,272

See accompanying notes to the financial statements

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

TOTAL PENSION LIABILITY	<u>2016</u>	<u>2015</u>	<u>2014</u>
Service cost	\$ 114,286	\$ 90,088	\$ 76,685
Interest (on the Total Pension Liability)	193,615	174,273	143,886
Changes of benefit terms	-	281,065	-
Difference between expected and actual experience	52,548	64,580	(26,977)
Changes in assumptions	-	87,370	-
Benefit payments, including refunds of employee contributions	(63,427)	(35,868)	(58,639)
Net Change in Total Pension Liability	<u>297,022</u>	<u>661,508</u>	<u>134,955</u>
Total Pension Liability - Beginning	<u>2,842,948</u>	<u>2,181,440</u>	<u>2,046,485</u>
Total Pension Liability - Ending (a)	<u>\$ 3,139,970</u>	<u>\$ 2,842,948</u>	<u>\$ 2,181,440</u>
 PLAN FIDUCIARY NET POSITION			
Contributions:			
Employer	74,016	54,897	48,602
Employee	56,243	54,139	50,207
Net investment income	158,204	3,343	120,494
Benefit payments, including refund of employee contributions	(63,427)	(35,868)	(58,639)
Administrative expense	(1,786)	(2,036)	(1,258)
Other	(96)	(100)	(103)
Net Change in Plan Fiduciary Net Position	<u>223,154</u>	<u>74,375</u>	<u>159,303</u>
Plan Fiduciary Net Position- Beginning	<u>2,339,780</u>	<u>2,265,405</u>	<u>2,106,102</u>
Plan Fiduciary Net Position- Ending (b)	<u>\$ 2,562,934</u>	<u>\$ 2,339,780</u>	<u>\$ 2,265,405</u>
 Net Pension (Asset)Liability - Ending (a) - (b)	 577,036	 503,168	 (83,965)
 Plan Fiduciary Net Position as a Percentage of Total Pension Asset/Liability	 81.62%	 82.30%	 103.85%
 Covered Payroll	 1,124,858	 1,082,784	 1,004,144
 Net Pension Asset/Liability as a Percentage of Covered Payroll	 51.30%	 46.47%	 (8.36%)

See accompanying notes to the financial statements

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

	<u>2017</u>		<u>2016</u>		<u>2015</u>
Actuarial Determined Contributions	\$ 80,906	\$	64,307	\$	55,633
Contributions in relation to the actuarially determined contribution	<u>(80,906)</u>		<u>(64,307)</u>		<u>(55,633)</u>
Contribution Deficiency (Excess)	0		0		0
Covered Payroll	1,124,441		1,106,014		1,057,996
Contributions as a Percentage of Covered Payroll	7.20%		5.81%		5.26%

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS
NOTES TO THE SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2017**

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:

There were no benefit changes during the year.

Other Schedules

**CITY OF HEMPHILL, TEXAS
GENERAL FUND
SCHEDULE OF CURRENT EXPENDITURES BY DEPARTMENT
BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2017**

General Government	Budget	Actual	Variance favorable (unfavorable)
Administration:			
Personnel	307,709	388,153	(80,444)
Supplies and materials	27,380	20,287	7,093
Maintenance and repairs	31,304	39,582	(8,278)
Contractual services	67,258	66,777	481
Capital outlay	87,000	70,813	16,187
Miscellaneous	33,944	61,834	(27,890)
Total administration	554,595	647,446	(92,851)
Public Safety			
Fire Department:			
Personnel	4,298	1,775	2,523
Supplies and materials	11,625	12,755	(1,130)
Maintenance and repairs	10,483	17,393	(6,910)
Contractual services	4,446	7,990	(3,544)
Miscellaneous	6,542	7,008	(466)
Total fire department	37,394	46,921	(9,527)
Police department:			
Personnel	268,661	257,453	11,208
Supplies and materials	20,534	19,677	857
Maintenance and repairs	2,776	3,744	(968)
Contractual services	3,340	6,995	(3,655)
Capital outlay	100,599	97,558	3,041
Miscellaneous	3,692	3,182	510
Total police department	399,602	388,609	10,993
Total public safety	436,996	435,530	1,466
Sanitation			
Personnel	-	1,806	(1,806)
Supplies and materials	2,698	775	1,923
Maintenance and repairs	2,015	792	1,223
Contractual services	229,651	253,525	(23,874)
Miscellaneous	-	-	-
Total sanitation	234,364	256,898	(22,534)

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, 2017**

	Budget	Actual	Variance favorable (unfavorable)
Streets			
Personnel	67,975	66,952	1,023
Supplies and materials	21,882	6,684	15,198
Maintenance and repairs	2,632	229	2,403
Contractual services	2,248	3,438	(1,190)
Miscellaneous	7,910	5,436	2,474
Total streets	102,647	82,739	19,908
Parks and recreation			
Personnel	-	1,697	(1,697)
Supplies and materials	4,133	4,471	(338)
Maintenance and repairs	1,750	1,600	150
Contractual services	500	323	177
Miscellaneous	-	-	-
Total parks and recreation	6,383	8,091	(1,708)
Health and welfare			
Personnel	21,077	20,942	135
Supplies and materials	1,291	258	1,033
Maintenance and repairs	-	-	-
Contractual services	360	-	360
Miscellaneous	1,428	560	868
Total health and welfare	24,156	21,760	2,396
Cemetery			
Supplies and materials	700	-	700
Maintenance and repairs	-	-	-
Contractual services	2,500	-	2,500
Miscellaneous	75	-	75
Total cemetery	3,275	-	3,275
Total current expenditures	1,362,416	1,452,464	(90,048)

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, 2017**

	Budget	Actual	Variance favorable (unfavorable)
Electric Department			
Personnel	233,294	232,466	828
Supplies and materials	100,326	78,660	21,666
Maintenance and repairs	5,722	12,698	(6,976)
Contractual services	16,240	16,073	167
Cost of services	1,707,555	1,548,621	158,934
Depreciation	52,230	46,572	5,658
Other operating expenses	1,735	4,482	(2,747)
Total electric department	2,117,102	1,939,572	177,530
Gas department			
Personnel	55,302	50,198	5,104
Supplies and materials	7,685	4,917	2,768
Maintenance and repairs	195	-	195
Contractual services	2,566	2,393	173
Cost of services	94,804	59,734	35,070
Depreciation	3,203	3,195	8
Other operating expenses	5,409	3,940	1,469
Total gas department	169,164	124,377	44,787
Water department			
Supplies and materials	35,729	23,861	11,868
Maintenance and repairs	600	-	600
Contractual services	458	7,367	(6,909)
Depreciation	27,717	25,304	2,413
Other operating expenses	1,518	929	589
Total water department	66,022	57,461	8,561

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, 2017**

	Budget	Actual	Variance favorable (unfavorable)
Sewer department			
Personnel	45,218	39,484	5,734
Supplies and materials	83,098	81,197	1,901
Maintenance and repairs	21,640	20,672	968
Contractual services	15,062	14,348	714
Depreciation	100,118	96,904	3,214
Other operating expenses	11,560	5,373	6,187
Total sewer department	276,696	257,978	18,718
Warehouse			
Personnel	383,271	320,748	62,523
Supplies and materials	40,445	44,751	(4,306)
Maintenance and repairs	16,552	16,144	408
Contractual services	18,213	10,212	8,001
Depreciation	24,330	15,491	8,839
Miscellaneous	55,675	127,012	(71,337)
Total warehouse	538,486	534,358	4,128
Water plant			
Personnel	176,745	176,529	216
Supplies and materials	83,459	76,842	6,617
Maintenance and repairs	11,119	10,532	587
Contractual services	21,017	20,285	732
Cost of services	28,594	(248)	28,842
Depreciation	148,718	154,833	(6,115)
Other operating expenses	27,347	10,332	17,015
Total water plant	496,999	449,105	47,894
Total expenditures	3,664,469	3,362,851	301,618

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, 2017

Insurer	Amount of Coverage	Risk Covered	Expiration Date
Texas Municipal League	\$2,000,000	Comprehensive General liability	10-01-17
Intergovernmental Risk Pool	\$2,000,000	Sudden events - Pollution	10-01-17
	\$2,000,000	Automobile liability	10-01-17
	\$2,000,000	Law enforcement liability	10-01-17
	\$2,000,000	Errors and omissions	10-01-17
	\$7,805,936	Real and personal property	10-01-17
	\$500,000	Boiler and machinery accident	10-01-17
	As scheduled	Automobile physical damage	10-01-17
	\$231,218	Mobile equipment	10-01-17
	Statutory	Workers compensation	10-01-17

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FEDERAL AWARDS SECTION



Certified Public Accountants

Goff & Herrington, P.C.

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A.J. Goff, CPA
Ronnie Herrington, CPA
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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 10, 2017.

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

November 10, 2017

**CITY OF HEMPHILL, TEXAS
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

None

**CITY OF HEMPHILL, TEXAS
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

No prior audit findings reported.

**CITY OF HEMPHILL, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2017**

None required.

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