

CITY OF HEMPHILL, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2018

CITY OF HEMPHILL, TEXAS
Annual Financial Report
For the Year Ended June 30, 2018

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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, 2018, 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, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in the Notes to the financial statements, in 2018, the City adopted new accounting guidance prescribed by GASB #75 for its supplemental death and disability post employment benefit (OPEB) plan that has a special funding situation. Because GASB #75 implements new measurement criteria and reporting provisions, significant information has been added to the Government Wide Statements. The government-wide statement of net position discloses the City's OPEB Liability and some deferred resource outflows and deferred resource inflows related to the City's OPEB plan. The government-wide statement of activities discloses the adjustment to the City's Beginning Net Position. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (page 4-11), the budgetary comparison information (page 45), and the TMRS pension and OPEB schedules (pages 46-49) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Independent Auditor's Report

Honorable Mayor and Members of City Council.

City of Hemphill, Texas

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Other Information

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

The other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other schedules are fairly stated in all material respects in relation to the basic financial statements as a whole. The statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2018, 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, 2018

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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, 2018. 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 \$4,641,080 as of June 30, 2018. Of this amount, \$818,873 (unrestricted) may be used to meet the City's continuing obligations to citizens, customers and creditors.
- ▶ During the year ended June 30, 2018, the City's net position decreased by \$207,977 from operations. The City's net position decreased during the year by an additional \$73,771 as a result of the prior period adjustment related to the implementation of GASB 75. The net change the year ended June 30, 2018 was a decrease of \$281,748.
- ▶ Total City's long-term debt decreased by \$33,000 to \$545,000 during the current fiscal year.
- ▶ At the end of the current fiscal year, unassigned fund balance for the general fund was \$110,429 or 8.45 percent of total general fund current expenditures.

Overview of the Financial Statements

This annual financial report consists of three parts - **management's discussion and analysis** (this section), the **basic financial statements**, and **required supplementary information**. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The required supplementary information further explains and supports the information in the financial statements.

Government-wide Financial Statements

The City's annual financial report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's finances. Financial reporting at this level uses a perspective similar to that found in the private sector.

The first of these government-wide financial statements is the **Statement of Net Position**. This is the City wide statement of financial position presenting information that includes all of the City's assets, deferred outflows and inflows of resources, and liabilities, with the difference reported as **net position**. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall health of the City would extend to other non financial factors such as changes to the City's tax base.

The second government-wide financial statement is the **Statement of Activities**, which reports how the City's net position changed during the current year. All current revenues and expenses are included regardless of when the cash is received or paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Both of the government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, streets, parks and recreation, health and welfare, and sanitation collection. Business-type activities include water and sewer operations, natural gas utilities, and electric services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term cash inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains one individual governmental fund, the general fund, which is considered a major fund. The City adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds - Proprietary funds are used to report the same functions presented as business-type activities in the governmental-wide financial statements. The City uses an enterprise fund (a type of proprietary fund) to account for its water and sewer operations, natural gas utilities, and electric services.

Notes to the financial statements - The accompanying notes to the financial statements provide essential information to a full understanding of the government-wide and fund financial statements.

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 \$4,641,080 at the close of the fiscal year.

By far the largest portion of the City's net position (80.94 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's 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	
	2018	2017	2018	2017	2018	2017
Current and Other Assets	126,342	117,080	1,510,943	1,527,762	1,637,285	1,644,842
Capital and Non-Current	1,177,227	1,159,473	3,189,980	3,389,967	4,367,207	4,549,440
Total Assets	1,303,569	1,276,553	4,700,923	4,917,729	6,004,492	6,194,282
Deferred outflows - TMRS	68,310	144,075	65,399	130,384	133,709	274,459
Total Deferred Outflows	68,310	144,075	65,399	130,384	133,709	274,459
Other Liabilities	63,327	63,552	317,821	317,706	381,148	381,258
Long Term Liabilities	433,350	493,428	597,822	661,608	1,031,172	1,155,036
Total Liabilities	496,677	556,980	915,643	979,314	1,412,320	1,536,294
Deferred inflows - TMRS	10,929	3,334	73,872	6,285	84,801	9,619
Total Deferred Inflows	10,929	3,334	73,872	6,285	84,801	9,619
Net Position:						
Net Investment in						
Capital Assets	998,049	984,473	2,758,211	2,986,967	3,756,260	3,971,440
Restricted	29,178	28,304	36,769	36,500	65,947	64,804
Unrestricted	(162,954)	(152,463)	981,827	1,039,047	818,873	886,584
Total Net Position	864,273	860,314	3,776,807	4,062,514	4,641,080	4,922,828

MANAGEMENT'S DISCUSSION AND ANALYSIS

A portion of the City's net assets (1.42 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 \$818,873 may be used to meet the City's ongoing obligations to citizens and creditors.

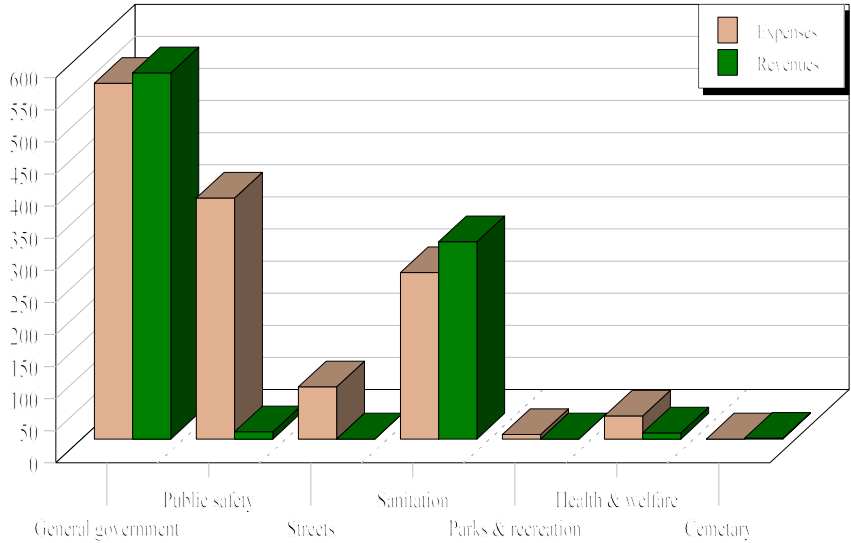
Changes in the City's Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues:						
Charges for services	369,660	352,036	3,622,481	3,600,190	3,992,141	3,952,226
Operating grants	100	16,413	-	-	100	16,413
Capital grants	-	-	-	-	-	-
General Revenues:						
Sales taxes	503,152	458,788	-	-	503,152	458,788
Other taxes and fees	17,405	17,586	-	-	17,405	17,586
Other	9,532	55,796	11,194	15,476	20,726	71,272
Total revenues	899,849	900,619	3,633,675	3,615,666	4,533,524	4,516,285
Expenses:						
General government	554,051	617,614	-	-	554,051	617,614
Public safety	375,502	404,904	-	-	375,502	404,904
Streets	81,409	169,183	-	-	81,409	169,183
Sanitation	259,237	262,748	-	-	259,237	262,748
Parks and recreation	7,039	21,467	-	-	7,039	21,467
Health and welfare	35,756	23,523	-	-	35,756	23,523
Cemetery	-	-	-	-	-	-
Debt service	4,417	5,436	-	-	-	-
Electric	-	-	2,056,433	2,095,641	2,056,433	2,095,641
Natural gas	-	-	238,666	262,783	238,666	262,783
Water	-	-	694,633	661,832	694,633	661,832
Sewer	-	-	434,358	441,128	434,358	441,128
Total expenses	1,317,411	1,504,875	3,424,090	3,461,384	4,737,084	4,960,823
Transfers	450,000	600,000	(450,000)	(600,000)	-	-
Change in net position	32,438	(4,256)	(240,415)	(445,718)	(207,977)	(449,974)
Beginning net position	860,314	864,570	4,062,514	4,508,232	4,922,828	5,372,802
Prior period adjustment	(28,479)	-	(45,292)	-	(73,771)	-
Ending net position	864,273	860,314	3,776,807	4,062,514	4,641,080	4,922,828

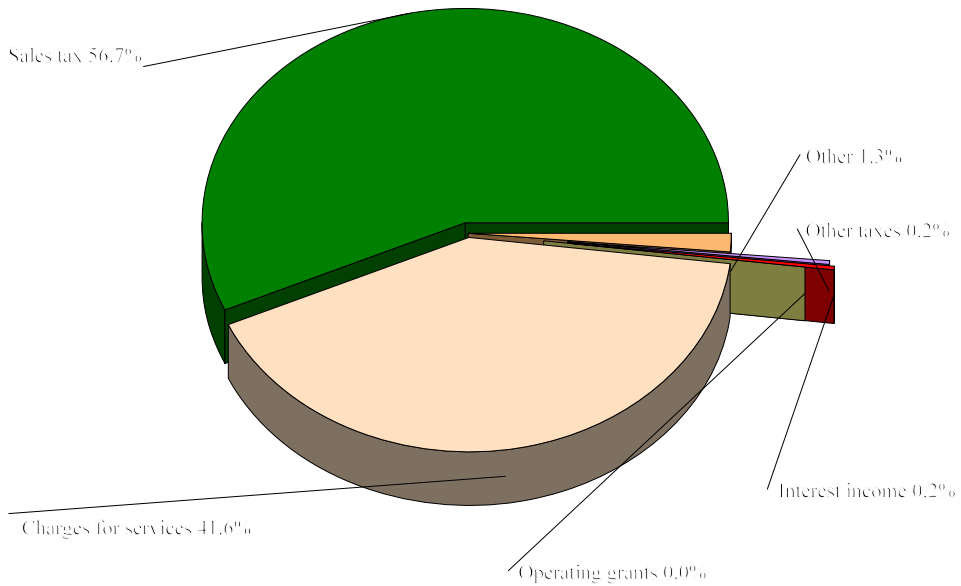
MANAGEMENT’S DISCUSSION AND ANALYSIS

Governmental Activities. Governmental activities increased the City’s net position by \$32,438, reducing the overall decrease in the City’s total net position.

Expenses and Program Revenues - Governmental Activities

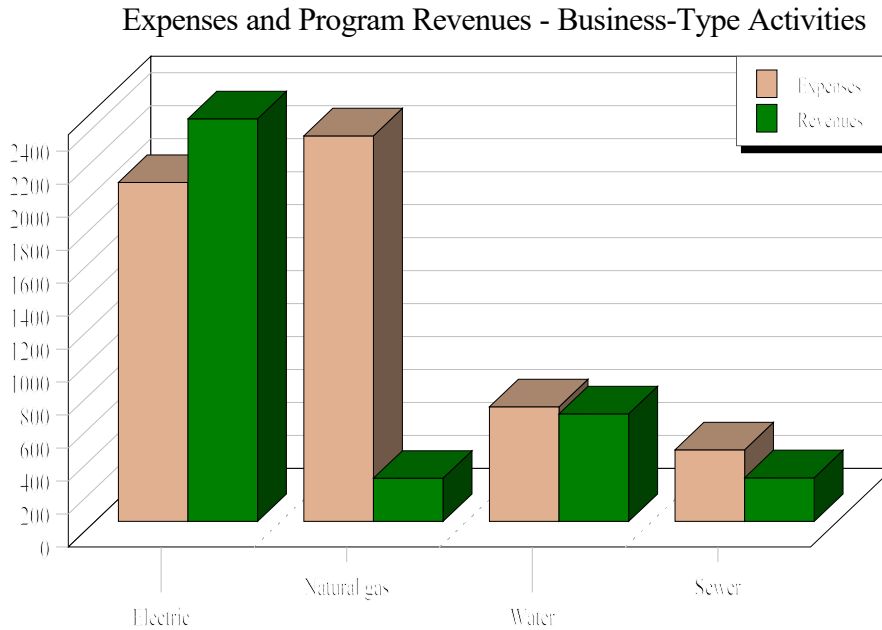


Revenues by Source - Governmental Activities

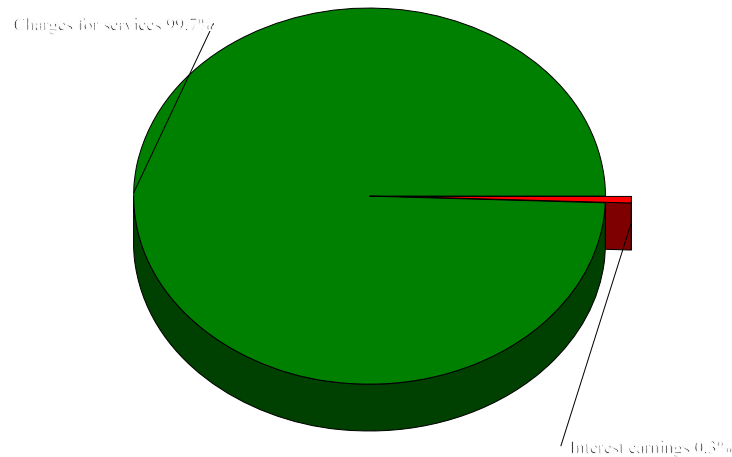


MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-type Activities. Business-type activities decreased the City's net position by \$240,415, contributing to the overall decrease in the City's total net position.



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 \$110,429, an increase of \$38,666 from the prior year. Of this balance, \$81,251 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 \$981,827.

General Fund Budgetary Highlights

During the year, the City monitored it’s budget as its actual results were analyzed. Actual expenditures were \$14,193 below the final budget amounts. The most significant negative variance was in the capital outlay function, as expenditures were higher than anticipated.

There was a positive budget variance of \$18,606 in overall revenues. The most significant positive variance was in sales tax revenues, as the city received more sales tax revenue 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 \$4,301,260 (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	
	2018	2017	2018	2017	2018	2017
Land	319,468	189,202	79,523	79,523	398,991	268,725
Buildings & improvements	712,749	835,055	7,803	9,160	720,552	844,215
Utility systems	-	-	2,938,095	3,201,437	2,938,095	3,201,437
Vehicles and equipment	115,832	135,216	103,584	99,847	219,416	235,063
Construction in progress	-	-	24,206	-	24,206	-
Net capital assets	1,148,049	1,159,473	3,153,211	3,389,967	4,301,260	4,549,440

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 \$545,000.

	City's Outstanding Debt					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenue bonds	-	-	395,000	403,000	395,000	403,000
Loans	150,000	175,000	-	-	150,000	175,000
Net capital assets	<u>150,000</u>	<u>175,000</u>	<u>395,000</u>	<u>403,000</u>	<u>545,000</u>	<u>578,000</u>

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 2018-2019 budget, including estimated sales tax receipts and fees that will be charged for business-type activities. The City estimates revenues and operating transfers in the General Fund will provide resources to fund the necessary operating expenses of the General Fund. The other ongoing general fund revenue items (charges for services, etc.) should generate similar revenues as the prior year. The City's business-type activities budget reflect no changes in utility rates for fiscal year 2018-2019.

Additionally, the City anticipates spending \$1,704,000 in capital improvements during fiscal year 2018-2019. These include purchasing a bucket truck and significant electric system upgrades, street paving and improvements, a police department vehicle, a lift station, a skid steer and utility truck, major improvements to the water plant, including tank coating and pond cleaning, and other significant economic development capital improvements.

If these estimates are realized, the City's budgetary general fund balance and utility reserves are expected to decrease by the close of 2019.

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, 2018**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	93,978	1,096,404	1,190,382
Sales tax receivable	32,364	-	32,364
Accounts receivable, net	-	388,837	388,837
Inventories	-	25,702	25,702
Restricted assets:			
Cash and cash equivalents	29,178	36,769	65,947
Capital Assets (net of accumulated depreciation):			
Land	319,468	79,523	398,991
Other capital assets, net of depreciation	828,581	3,073,688	3,902,269
Total assets	1,303,569	4,700,923	6,004,492
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to TMRS - Pension	65,792	61,394	127,186
Deferred outflows related to TMRS - OPEB	2,518	4,005	6,523
Total deferred outflows of resources	68,310	65,399	133,709
LIABILITIES			
Accounts payable	22,401	169,832	192,233
Accrued expenses	40,926	14,250	55,176
Accrued interest payable	-	4,990	4,990
Customer meter deposits	-	128,749	128,749
Long Term Liabilities:			
Due within one year	150,000	9,000	159,000
Due after one year	-	386,000	386,000
Net pension liability	250,324	150,299	400,623
Net OPEB Liability	33,026	52,523	85,549
Total liabilities	496,677	915,643	1,412,320
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to TMRS - Pension	10,929	73,872	84,801
Total deferred inflows of resources	10,929	73,872	84,801
NET POSITION			
Net investment in capital assets	998,049	2,758,211	3,756,260
Restricted for other purposes	29,178	36,769	65,947
Unrestricted	(162,954)	981,827	818,873
Total net position	864,273	3,776,807	4,641,080

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Functions/Programs</u>	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental activities:			
General government	554,051	61,178	-
Public safety	375,502	-	-
Streets	81,409	-	-
Sanitation	259,237	307,282	-
Parks and recreation	7,039	-	-
Health and welfare	35,756	-	-
Cemetery	-	1,200	100
Interest on long term debt	4,417	-	-
Total governmental activities	<u>1,317,411</u>	<u>369,660</u>	<u>100</u>
Business-type activities:			
Electric	2,056,433	2,442,324	-
Natural gas	238,666	261,976	-
Water	694,633	652,826	-
Sewer	434,358	265,356	-
Total business-type activities	<u>3,424,090</u>	<u>3,622,481</u>	<u>-</u>
	<u>4,741,501</u>	<u>3,992,141</u>	<u>100</u>

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
Prior period adjustment - GASB 75
Net position, ending

See accompanying notes to the financial statements

Program Revenues Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position		
	Governmental Activities	Business Activities	Total
-	(492,873)	-	(492,873)
-	(375,502)	-	(375,502)
-	(81,409)	-	(81,409)
-	48,045	-	48,045
-	(7,039)	-	(7,039)
-	(35,756)	-	(35,756)
-	1,300	-	1,300
-	(4,417)	-	(4,417)
-	<u>(947,651)</u>	<u>-</u>	<u>(947,651)</u>
-	-	385,891	385,891
-	-	23,309	23,309
-	-	(41,807)	(41,807)
-	-	(169,002)	(169,002)
-	-	<u>198,391</u>	<u>198,391</u>
-	<u>(947,651)</u>	<u>198,391</u>	<u>(749,260)</u>
	503,152	-	503,152
	6,111	-	6,111
	11,294	-	11,294
	7,656	-	7,656
	1,876	11,194	13,070
	<u>450,000</u>	<u>(450,000)</u>	<u>-</u>
	<u>980,089</u>	<u>(438,806)</u>	<u>541,283</u>
	32,438	(240,415)	(207,977)
	860,314	4,062,514	4,922,828
	<u>(28,479)</u>	<u>(45,292)</u>	<u>(73,771)</u>
	<u>864,273</u>	<u>3,776,807</u>	<u>4,641,080</u>

See accompanying notes to the financial statements

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FUND FINANCIAL STATEMENTS

**CITY OF HEMPHILL, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	93,978	-	93,978
Sales tax receivable	32,364	-	32,364
Intergovernmental receivables	-	-	-
Cash and cash equivalents - restricted	29,178	-	29,178
Total assets	<u>155,520</u>	<u>-</u>	<u>155,520</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	22,401	-	22,401
Accrued liabilities	22,690	-	22,690
Total liabilities	<u>45,091</u>	<u>-</u>	<u>45,091</u>
Fund balances:			
Restricted fund balance	29,178	-	29,178
Unassigned fund balance	81,251	-	81,251
Total fund balances	<u>110,429</u>	<u>-</u>	<u>110,429</u>
Total liabilities and fund balances	<u>155,520</u>	<u>-</u>	<u>155,520</u>

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, 2018**

Total fund balances - governmental funds	110,429
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 \$2,616,811 and the accumulated depreciation was \$1,457,339. The effect of including beginning balances for capital assets (net of depreciation) in the governmental activities is to increase (decrease) net position.	1,159,473
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.	(54,660)
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 \$250,324, a Deferred Resource Inflow related to TMRS in the amount of \$10,929, and a Deferred Resource Outflow related to TMRS in the amount of \$65,792. This amounted to a decrease in Net Position in the amount of \$195,462.	(195,461)
The City implemented GASB 75 reporting requirements for the OPEB benefit plan through TMRS. Since this is the first year of implementation, a prior period adjustment had to be made in the amount of \$28,479. The City's share of the TMRS plan resulted in a net OPEB liability of \$33,026 and a deferred outflow of \$2,518. This resulted in a net difference between the ending fund balance and the ending net position of \$30,508.	(30,508)
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(125,000)</u>
Net position of governmental activities	<u><u>864,273</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, 2018

REVENUES	General Fund	Other Governmental Funds	Total Governmental Funds
Taxes:			
Sales taxes	503,152	-	503,152
Franchise taxes	6,111	-	6,111
Permits, fees and assessments	61,178	-	61,178
Fines	11,294	-	11,294
Charges for services	308,482	-	308,482
Interest income	1,876	-	1,876
Contributions and donations	100	-	100
Other	7,656	-	7,656
Total revenues	<u>899,849</u>	<u>-</u>	<u>899,849</u>
EXPENDITURES			
Current:			
General government:			
Finance and administration	402,322	-	402,322
Municipal court	32,640	-	32,640
Public safety:			
Fire	36,807	-	36,807
Police	306,398	-	306,398
Streets	73,780	-	73,780
Sanitation	259,237	-	259,237
Parks and recreation	6,599	-	6,599
Health and welfare	21,697	-	21,697
Cemetery	-	-	-
Debt service	25,000	-	25,000
Capital outlay	142,286	-	142,286
Total expenditures	<u>1,306,766</u>	<u>-</u>	<u>1,306,766</u>
Excess (deficiency) of revenues over expenditures	(406,917)	-	(406,917)
OTHER FINANCING SOURCES (USES)			
Interest Expense	(4,417)	-	(4,417)
Transfers in	450,000	-	450,000
Total other financing sources and uses	<u>445,583</u>	<u>-</u>	<u>445,583</u>
Net change in fund balance	38,666	-	38,666
Fund balance - beginning	<u>71,763</u>	<u>-</u>	<u>71,763</u>
Fund balance - ending	<u>110,429</u>	<u>-</u>	<u>110,429</u>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Net change in fund balances - governmental funds	38,666
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.	142,286
Depreciation is not recognized as an expense in governmental fund financial statements since it does not require the use of current financial resources. The net effect of the current year depreciation and retiring assets not fully depreciated is to decrease net position.	(159,302)
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 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 decreased the net position.	(17,775)
The implementation of GASB 75 to report the City's share of the TMRS OPEB plan resulted in a prior period adjustment in the amount of \$28,479. The changes in the ending net position, as a result of reporting the OPEB items, was a decrease in the change in net position of \$2,029.	(2,029)
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>5,592</u>
Change in net position of governmental activities	<u><u>32,438</u></u>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2018**

ASSETS

Current assets:

Cash and cash equivalents	1,096,404
Accounts receivable, net	388,837
Inventories	25,702
Total current assets	1,510,943

Noncurrent assets:

Restricted cash and cash equivalents	36,769
Capital assets:	
Land	79,523
Other capital assets, net of depreciation	3,073,688
Total noncurrent assets	3,189,980
Total assets	4,700,923

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to TMRS Pension	61,394
Deferred outflows related to TMRS OPEB	4,005
Total deferred outflows of resources	65,399
Total assets and deferred outflows	4,766,322

LIABILITIES

Current liabilities:

Accounts payable	169,832
Accrued expenses	14,250
Accrued interest payable	4,990
Current portion of:	
Revenue bonds payable	9,000
Total current liabilities	198,072

Noncurrent liabilities:

Revenue bonds payable	386,000
Customer deposits	128,749
Net pension liability	150,299
Net OPEB liability	52,523
Total noncurrent liabilities	717,571
Total liabilities	915,643

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to TMRS Pension	73,872
Total deferred inflows of resources	73,872

NET ASSETS

Invested in capital assets, net of related debt	2,758,211
Restricted for debt service	36,769
Unrestricted	981,827
Total net position	3,776,807
Total liabilities, deferred inflows, and net position	4,766,322

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, 2018

Operating revenues:	
Water sales	637,061
Sewer charges	249,591
Electric sales	2,426,559
Gas sales	246,211
Other services	<u>63,059</u>
Total operating revenues	<u>3,622,481</u>
Operating expenses:	
Personnel	947,635
Supplies and materials	313,687
Maintenance and repairs	51,278
Contractual services	127,589
Cost of services	1,545,717
Depreciation	290,961
Other operating	<u>41,584</u>
Total operating expenses	<u>3,318,451</u>
Operating income	<u>304,030</u>
Nonoperating revenues (expenses):	
Pension benefit (expense)	(82,623)
OPEB benefit (expense)	(4,608)
Interest income	11,194
Interest expense	<u>(18,408)</u>
Total nonoperating revenue (expenses)	<u>(94,445)</u>
Income before transfers	209,585
Transfers to other funds	<u>(450,000)</u>
Change in net position	(240,415)
Total net position - beginning	4,062,514
Prior period adjustment - GASB 75	<u>(45,292)</u>
Total net position - ending	<u><u>3,776,807</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, 2018**

Cash flows from operating activities:	
Receipts from customers	3,603,471
Payments to suppliers and contractors	(2,060,108)
Payments to employees	(1,025,290)
Net cash provided by (used for) operating activities	<u>518,073</u>
Cash flows from noncapital financing activities:	
Operating transfers	(450,000)
Net cash provided by (used for) noncapital activities	<u>(450,000)</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(54,205)
Principal paid on capital debt	(8,000)
Interest paid on capital debt	(18,135)
Net cash provided by (used for) capital activities	<u>(80,340)</u>
Cash flows from investing activities:	
Interest received	11,194
Net cash provided by (used for) investing activities	<u>11,194</u>
Net increase (decrease) in cash and cash equivalents	(1,073)
Cash and cash equivalents, beginning	<u>1,134,246</u>
Cash and cash equivalents, ending	<u><u>1,133,173</u></u>
Reconciliation of operating income to net cash used by operating activities:	
Operating income	304,030
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	290,961
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(21,769)
(Increase) decrease in supply inventory	746
Increase (decrease) in accounts payable	19,001
Increase (decrease) in accrued liabilities	(77,655)
Increase (decrease) in customer meter deposits	2,759
Net cash provided by operating activities	<u>518,073</u>

See accompanying notes to the financial statements

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CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, 2018

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible with the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Sales tax, franchise taxes and interest associated with the current fiscal year are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except for those required to be accounted for in another fund.

The City reports the following major proprietary funds:

Utility Fund - accounts for the activities of the City's electric distribution operations, water and sewer services, and natural gas utilities.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's utility functions and various other functions of the City. Elimination of these charges would distort the direct cost and program revenues reported for the various functions concerned.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Amounts reported as programs revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and operations. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The proprietary fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal operations. The principal operating revenues of the Utility Fund are charges to customers for sale and services. The Utility Fund also recognizes as operating revenues tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the Utility Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Budget - Annual appropriated budgets are adopted for the general fund and utility fund. All annual appropriation lapse at fiscal year end. The budget presented includes all approved amendments.

Deposits and Investments - The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The City only invests in short term certificates of deposit. Investments are stated at cost, which approximates market.

Short-term Interfund Receivables/Payables - During the course of operations, transactions occur between individual funds for advances or for goods provided or services rendered. These receivables and payables are classified as due from other funds or due to other funds on the balance sheet.

Inventory of Supplies - Inventory of supplies consist primarily of supplies held for consumption stated at cost, which approximates market. Inventory is expended at the time the individual items are used or consumed.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

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.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

Long-Term Obligations - In the government-wide financial statements, and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund financial statements. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

Other Post-Employment Benefits (OPEB) - The fiduciary net position of the TMRS Supplemental Death and Disability Plan (SDD) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from the TMRS SDD Plan’s fiduciary net position. Benefit payments are recognized

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as you-go plan and all cash is held in a cash account.

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, 2018, which is the date that these financial statements were available to be issued.

Prior Period Adjustment. During the fiscal year 2018, The City adopted GASB Statement No. 75 for Accounting and Reporting for Other Post-Employment Benefits (OPEB). With GASB 75, the City must assume their proportionate share of the Net OPEB Liability of the Texas Municipal Retirement System. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The amount of the prior period adjustment is (\$73,771). The restated beginning net position is \$4,849,057.

DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments. The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1)

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, 2018, the bank balances of the City’s deposits (demand and certificates) were \$1,340,492, 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, 2018 as follows:

FDIC Insurance	250,000
Market value of securities pledged	<u>1,837,394</u>
Total coverage	<u><u>2,087,394</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, 2018.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, 2018.

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, 2018.

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, 2018.

The City's investments, which are reported as cash as cash equivalents, as of June 30, 2018 are with the depository bank in certificates of deposit in the amount of \$671,414.

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, 2018, the City's business type activities restricted assets consisted of \$36,769 for debt service. The governmental activities restricted assets consisted of \$25,044 for cemetery operations and \$4,134 for other purposes.

PROPERTY TAXES

The City did not levy property taxes in October, 2017. 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, 2018 are \$32,364 for sales tax due from the State of Texas.

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 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	189,202	130,266	-	319,468
Capital assets, being depreciated:				
Buildings and improvements	1,679,833	-	-	1,679,833
Vehicles and equipment	747,778	12,020	-	759,798
Total capital assets being depreciated	2,427,611	12,020	-	2,439,631
Less accumulated depreciation for:				
Buildings and improvements	844,778	122,306	-	967,084
Vehicles and equipment	612,562	31,404	-	643,966
Total accumulated depreciation	1,457,340	153,710	-	1,611,050
Total capital assets, being depreciated, net	970,271	(141,690)	-	828,581
Governmental activities capital assets, net	<u>1,159,473</u>	<u>(11,424)</u>	<u>-</u>	<u>1,148,049</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	903,277	30,000	-	933,277
Construction in progress	-	24,206	-	24,206
Totals at cost	10,555,980	54,206	-	10,610,186
Less accumulated depreciation:				
Buildings and improvements	33,260	1,357	-	34,617
Utility system	6,408,846	263,342	-	6,672,188
Vehicles and equipment	803,430	26,263	-	829,693
Total accumulated depreciation	7,245,536	290,962	-	7,536,498
Total capital assets, being depreciated, net	3,310,444	(236,756)	-	3,073,688
Business-type activities capital assets, net	<u>3,389,967</u>	<u>(236,756)</u>	<u>-</u>	<u>3,153,211</u>

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Governmental activities:	
General government	22,947
Public safety	23,149
Streets	87,947
Sanitation	5,850
Health and welfare	440
Parks and recreation	<u>13,377</u>
Total depreciation expense - governmental activities	<u><u>153,710</u></u>
Business-type activities:	
Overhead	27,620
Water	18,017
Sewer	96,836
Natural Gas	3,194
Electric	24,628
Water Plant	<u>120,667</u>
Total depreciation expense - business-type activities	<u><u>290,962</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, 2018, the City had 618 active water connections and 529 active sewer connections.

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, 2018 was \$150,000. The balance is due in one installment of \$150,000 in June 2019 and interest is payable monthly until the loan is paid in full. The loan has an interest rate of 3.55%.

The City's compliance with the balances required as of June 30, 2018 in each account is as follows:

	Balance Required	Balance Available	Excess (Deficiency)
Series 2005 Revenue Bonds:			
Interest & Sinking Fund	6,694	11,471	4,777
Reserve Fund	25,000	25,293	293

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, 2018, is as follows:

Year ending June 30,	
2019	26,775
2020	26,370
2021	25,965
2022	26,560
2023	26,110
2024-2028	129,530
2029-2033	131,490
2034-2038	124,300
2039-2043	120,410
2044-2045	42,700
Total principal and interest	680,210
Less interest	285,210
Total debt at June 30, 2018	395,000

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Change in Long-Term Liabilities

Long term liability activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Issued	Retired	Ending Balance	Due in One Year
Government-type activities:					
Street paving loan	175,000	-	25,000	150,000	150,000
Business-type activities:					
Revenue bonds	403,000	-	8,000	395,000	9,000
Total	578,000	-	33,000	545,000	159,000

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, 2018.

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

DEFINED BENEFIT PENSION PLAN

Plan Description

The City participates as one of 883 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.tmr.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.

Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	10
Inactive employees entitled to but not yet receiving benefits	6
Active employees	<u>24</u>
	40

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

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 8.20% and 8.34% in calendar years 2017 and 2018, respectively. The city's contributions to TMRS's pension plan for the year ended June 30, 2018 was \$88,536, which equated the required contributions.

Net Pension Asset/Liability

The city's Net Pension Asset/Liability (NPL) was measured as of December 31, 2017, 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, 2017 actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables 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 Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female 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. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2017 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

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. 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 (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%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.90%
Real Return	10.00%	3.80%
Real Estate	10.00%	4.50%
Absolute Return	10.00%	3.75%
Private Equity	5.00%	7.50%
Total	100.00%	

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 12/31/2016	\$3,139,970	\$ 2,562,934	\$ 577,036
Changes for the year:			
Service cost	111,009	-	111,009
Interest	212,775	-	212,775
Change in benefit terms			
Difference between expected and actual expense	(2,159)	-	(2,159)
Changes of assumptions	-	-	0
Contributions - employer	-	87,580	(87,580)
Contributions - employee	-	55,784	(55,784)
Net investment income	-	356,608	(356,608)
Benefit payments, including refunds of employee			
Contributions	(86,509)	(86,509)	0
Administrative expense	-	(1,841)	1,841
Other charges	-	(93)	93
Net Changes	<u>235,116</u>	<u>411,529</u>	<u>(176,413)</u>
Balance at 12/31/2017	<u>\$3,375,086</u>	<u>\$ 2,974,463</u>	<u>\$ 400,623</u>

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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	\$ 777,869	\$ 400,623	\$ 79,817

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, 2018, the City recognized pension expense of \$134,575.

At June 30, 2018 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	51,986	5,231
Changes in actuarial assumptions	31,483	-
Difference between projected and actual investment earnings	-	79,570
Contributions subsequent to measurement date	43,717	-
Total	\$ 127,186	\$ 84,801

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The amount of \$43,186 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, 2018. 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,	
2018	39,945
2019	28,064
2020	(32,368)
2021	(36,973)
Thereafter	<div style="border-top: 1px solid black; text-align: center;">-</div>
	<div style="border-top: 1px solid black; border-bottom: 3px double black; text-align: center;">(1,332)</div>

POST EMPLOYMENT-BENEFIT OTHER THAN PENSIONS (OPEB)

Plan description

Texas Municipal Retirement System ("TMRS") administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund ("SDBF"). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. 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). The death benefit for retirees is considered another postemployment benefit ("OPEB") and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

Benefits provided

TMRS provides supplemental death benefits for retirees. Benefits are provided through a third-party insurer, and the full cost of the benefits is covered by the plan.

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Employees covered by benefit terms

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	11
Inactive employees entitled to but not yet receiving benefits	2
Active employees	<u>24</u>
	37

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 was 0.35% in calendar years 2018 and 2017. The city's contributions to TMRS's SDD plan for the year ended June 30, 2018, was \$3,913, which equated the required contributions.

Net OPEB Liability

The City's net OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00% per year
Overall Payroll Growth	3.00% per year
Discount Rate*	3.31%

**The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.*

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 Tables 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 Tables with Blue Collar Adjustment are used with males' rates multiplied by 109% and female 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. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2017 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 experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. 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 (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-core Fixed Income	20.00%	3.90%
Real return	10.00%	3.80%
Real Estate	10.00%	4.50%
Absolute Return	10.00%	3.75%
Private Equity	5.00%	7.50%
Total	<u>100.00%</u>	

Discount rate

The discount rate used to measure the total OPEB liability was 3.31 percent. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB (Asset) Liability (a) - (b)
Balance at 12/31/2016	\$ 73,771	\$-	\$ 73,771
Changes for the year:			
Service cost	3,347	-	3,347
Interest	2,845	-	2,845
Change in benefit terms	-	-	
Difference between expected and actual expense	-	-	0
Changes of assumptions	5,921	-	5,921
Contributions - employer	-	335	(335)
Contributions - employee	-	-	0
Net investment income	-	-	0
Benefit payments, including refunds of employee			
Contributions	(335)	(335)	0
Administrative expense	-	-	0
Other charges	-	-	0
Net Changes	11,778	0	11,778
Balance at 12/31/2017	\$ 85,549	\$ 0	\$ 85,549

Sensitivity of the net OPEB liability to changes in the discount rate and health-care cost trend rates

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The following presents the net OPEB liability of the City, as well as what the City’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31 percent) or 1-percentage- point higher (4.31 percent) than the current discount rate:

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
City’s Net OPEB (Asset)Liability	\$ 100,206	\$ 85,549	\$ 73,604

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

For the year ended June 30, 2018, the City recognized OPEB expense of \$7,505. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	-	-
Changes in actuarial assumptions	4,608	-
Difference between projected and actual investment earnings	-	-
Contributions subsequent to measurement date	1,915	-
Total	6,523	-

The amount of \$1,915 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ending June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows

	Net Deferred Outflows (Inflows) of Resources
2018	1,313
2019	1,313
2020	1,313
2021	669
2022	-
Thereafter	-
Total	4,608

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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, 2018

REVENUES	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Taxes:				
Sales taxes	478,359	478,359	503,152	24,793
Franchise taxes	4,510	4,510	6,111	1,601
Permits, fees & assessments	54,948	68,423	61,178	(7,245)
Fines	12,628	12,628	11,294	(1,334)
Charges for services	308,780	308,780	308,482	(298)
Interest income	1,605	1,605	1,876	271
Contributions and donations	-	-	100	100
Other	6,938	6,938	7,656	718
Total revenues	867,768	881,243	899,849	18,606
EXPENDITURES				
General government:				
Finance and administration	407,297	407,297	402,322	4,975
Municipal court	35,048	35,048	32,640	2,408
Public safety:				
Fire	45,524	45,524	36,807	8,717
Police	302,625	302,625	306,398	(3,773)
Streets	74,104	74,104	73,780	324
Sanitation	255,101	255,101	259,237	(4,136)
Parks and recreation	19,120	19,120	6,599	12,521
Health and welfare	23,632	23,632	21,697	1,935
Cemetery	1,950	1,950	-	1,950
Debt service	27,500	27,500	29,417	(1,917)
Capital outlay	15,000	133,475	142,286	(8,811)
Total expenditures	1,206,901	1,325,376	1,311,183	14,193
Excess (deficiency) of revenues over expenditures	(339,133)	(444,133)	(411,334)	32,799
OTHER FINANCING SOURCES (USES)				
Transfers in	359,920	359,920	450,000	90,080
Total other financing sources (uses)	359,920	359,920	450,000	90,080
Net change in fund balance	20,787	(84,213)	38,666	122,879
Fund balance - beginning	71,763	71,763	71,763	-
Fund balance - ending	92,550	(12,450)	110,429	122,879

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,

	FY 2018	FY 2017	FY 2016	FY 2015
	Plan Yr 2017	Plan Yr 2016	Plan Yr 2015	Plan Yr 2014
TOTAL PENSION LIABILITY				
Service cost	111,009	114,286	90,088	76,685
Interest (on the Total Pension Liability)	212,775	193,615	174,273	143,886
Changes of benefit terms	-	-	281,065	-
Difference between expected and actual experience	(2,159)	52,548	64,580	(26,977)
Changes in assumptions	-	-	87,370	-
Benefit payments, including refunds of employee contributions	(86,509)	(63,427)	(35,868)	(58,639)
Net Change in Total Pension Liability	<u>235,116</u>	<u>297,022</u>	<u>661,508</u>	<u>134,955</u>
Total Pension Liability - Beginning	<u>3,139,970</u>	<u>2,842,948</u>	<u>2,181,440</u>	<u>2,046,485</u>
Total Pension Liability - Ending (a)	<u><u>3,375,086</u></u>	<u><u>3,139,970</u></u>	<u><u>2,842,948</u></u>	<u><u>2,181,440</u></u>
PLAN FIDUCIARY NET POSITION				
Contributions:				
Employer	87,580	74,016	54,897	48,602
Employee	55,784	56,243	54,139	50,207
Net investment income	356,608	158,204	3,343	120,494
Benefit payments, including refund of employee contributions	(86,509)	(63,427)	(35,868)	(58,639)
Administrative expense	(1,841)	(1,786)	(2,036)	(1,258)
Other	(93)	(96)	(100)	(103)
Net Change in Plan Fiduciary Net Position	<u>411,529</u>	<u>223,154</u>	<u>74,375</u>	<u>159,303</u>
Plan Fiduciary Net Position- Beginning	<u>2,562,934</u>	<u>2,339,780</u>	<u>2,265,405</u>	<u>2,106,102</u>
Plan Fiduciary Net Position- Ending (b)	<u><u>2,974,463</u></u>	<u><u>2,562,934</u></u>	<u><u>2,339,780</u></u>	<u><u>2,265,405</u></u>
Net Pension (Asset)Liability - Ending (a) - (b)	400,623	577,036	503,168	(83,965)
Plan Fiduciary Net Position as a Percentage of Total Pension Asset/Liability	88.13%	81.62%	82.30%	103.85%
Covered Payroll	1,115,670	1,124,858	1,082,784	1,004,144
Net Pension Asset/Liability as a Percentage of Covered Payroll	35.91%	51.30%	46.47%	8.36%

See accompanying notes to the financial statements

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarial Determined Contributions	88,536	80,906	64,307	55,633
Contributions in relation to the actuarially determined contribution	<u>(88,536)</u>	<u>(80,906)</u>	<u>(64,307)</u>	<u>(55,633)</u>
Contribution Deficiency (Excess)	-	-	-	-
Covered Payroll	1,118,083	1,115,670	1,124,858	1,082,784
Contributions as a Percentage of Covered Payroll	7.92%	7.25%	5.72%	5.14%

See accompanying notes to the financial statements

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

	FY 2018 Plan Yr 2017
TOTAL OPEB LIABILITY	
Service cost	3,347
Interest (on the Total OPEB Liability)	2,845
Changes of benefit terms	-
Difference between expected and actual experience	-
Changes in assumptions	5,921
Benefit payments, including refunds of employee contributions	(335)
Net Change in Total OPEB Liability	11,778
Total OPEB Liability - Beginning	73,771
Total OPEB Liability - Ending (a)	85,549
PLAN FIDUCIARY NET POSITION	
Contributions:	
Employer	-
Employee	335
Net investment income	-
Benefit payments, including refund of employee contributions	(335)
Administrative expense	-
Other	-
Net Change in Plan Fiduciary Net Position	-
Plan Fiduciary Net Position- Beginning	-
Plan Fiduciary Net Position- Ending (b)	-
Net OPEB (Asset)Liabilty - Ending (a) - (b)	85,549
Plan Fiduciary Net Position as a Percentage of Total OPEB Asset/Liability	0.00%
Covered Payroll	1,115,670
Net OPEB Asset/Liability as a Percentage of Covered Payroll	7.67%

See accompanying notes to the financial statements

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

	<u>2018</u>
Actuarial Determined Contributions	3,913
Contributions in relation to the actuarially determined contribution	<u>(3,913)</u>
Contribution Deficiency (Excess)	-
Covered Payroll	1,118,083
Contributions as a Percentage of Covered Payroll	0.35%

See accompanying notes to the financial statements

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**CITY OF HEMPHILL, TEXAS
NOTES TO THE SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE A: Net Pension Liability

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	2.50%
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.

NOTE B: Net OPEB Liability

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:

Inflation	2.50%
Salary Increases	3.50% to 10.5% including inflatio
Discount rate*	3.31%
Retirees' share of benefit-related	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.

CITY OF HEMPHILL
NOTES TO THE SCHEDULES OF CONTRIBUTIONS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

Mortality rates - service retirees 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.

Mortality rates - disabled retirees RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

Other Information:

The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

OTHER SUPPLEMENTAL SCHEDULES

**CITY OF HEMPHILL, TEXAS
GENERAL FUND
SCHEDULE OF CURRENT EXPENDITURES BY DEPARTMENT
BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2018**

General Government	Budget	Actual	Variance favorable (unfavorable)
Administration:			
Personnel	283,536	275,448	8,088
Supplies and materials	26,222	23,683	2,539
Maintenance and repairs	30,196	33,976	(3,780)
Contractual services	44,235	45,458	(1,223)
Capital outlay	103,475	130,266	(26,791)
Miscellaneous	73,156	56,397	16,759
Total administration	<u>560,820</u>	<u>565,228</u>	<u>(4,408)</u>
Public Safety			
Fire Department:			
Personnel	2,008	2,008	-
Supplies and materials	14,255	9,975	4,280
Maintenance and repairs	10,805	8,040	2,765
Contractual services	8,218	7,952	266
Capital outlay	15,000	12,020	2,980
Miscellaneous	10,238	8,832	1,406
Total fire department	<u>60,524</u>	<u>48,827</u>	<u>11,697</u>
Police department:			
Personnel	270,565	273,006	(2,441)
Supplies and materials	15,830	17,431	(1,601)
Maintenance and repairs	13,331	9,443	3,888
Contractual services	5,748	4,614	1,134
Capital outlay	-	-	-
Miscellaneous	(2,849)	1,904	(4,753)
Total police department	<u>302,625</u>	<u>306,398</u>	<u>(3,773)</u>
Total public safety	<u>363,149</u>	<u>355,225</u>	<u>7,924</u>
Sanitation			
Personnel	2,039	2,043	(4)
Supplies and materials	2,109	6,969	(4,860)
Maintenance and repairs	2,526	4,558	(2,032)
Contractual services	248,427	245,667	2,760
Miscellaneous	-	-	-
Total sanitation	<u>255,101</u>	<u>259,237</u>	<u>(4,136)</u>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS
GENERAL FUND
SCHEDULE OF CURRENT EXPENDITURES BY DEPARTMENT (CONTINUED)
BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budget</u>	<u>Actual</u>	Variance favorable (unfavorable)
Streets			
Personnel	79,698	56,120	23,578
Supplies and materials	14,778	14,385	393
Maintenance and repairs	1,326	152	1,174
Contractual services	5,802	3,123	2,679
Miscellaneous	-	-	-
Total streets	<u>101,604</u>	<u>73,780</u>	<u>27,824</u>
Parks and recreation			
Personnel	1,915	1,933	(18)
Supplies and materials	1,169	1,348	(179)
Maintenance and repairs	11,802	400	11,402
Contractual services	936	344	592
Miscellaneous	3,298	2,574	724
Total parks and recreation	<u>19,120</u>	<u>6,599</u>	<u>12,521</u>
Health and welfare			
Personnel	21,162	21,012	150
Supplies and materials	827	515	312
Maintenance and repairs	280	-	280
Contractual services	-	-	-
Miscellaneous	1,363	170	1,193
Total health and welfare	<u>23,632</u>	<u>21,697</u>	<u>1,935</u>
Cemetery			
Supplies and materials	600	-	600
Maintenance and repairs	150	-	150
Contractual services	1,200	-	1,200
Miscellaneous	-	-	-
Total cemetery	<u>1,950</u>	<u>-</u>	<u>1,950</u>
Total current expenditures	<u><u>1,325,376</u></u>	<u><u>1,281,766</u></u>	<u><u>43,610</u></u>

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, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
Electric Department			
Personnel	245,046	188,176	56,870
Supplies and materials	92,629	99,398	(6,769)
Maintenance and repairs	7,829	12,889	(5,060)
Contractual services	9,024	5,360	3,664
Cost of services	1,686,859	1,467,428	219,431
Depreciation	50,743	43,739	7,004
Other operating expenses	13,942	1,801	12,141
	<u>2,106,072</u>	<u>1,818,791</u>	<u>287,281</u>
Gas department			
Personnel	57,890	41,325	16,565
Supplies and materials	6,296	7,250	(954)
Maintenance and repairs	125	541	(416)
Contractual services	4,278	4,884	(606)
Cost of services	79,671	77,147	2,524
Depreciation	3,194	3,194	-
Other operating expenses	3,392	2,479	913
	<u>154,846</u>	<u>136,820</u>	<u>18,026</u>
Water department			
Supplies and materials	27,147	20,347	6,800
Maintenance and repairs	300	125	175
Contractual services	4,972	2,018	2,954
Depreciation	26,283	18,017	8,266
Other operating expenses	2,127	460	1,667
	<u>60,829</u>	<u>40,967</u>	<u>19,862</u>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS
UTILITY FUND
SCHEDULE OF EXPENDITURES BY DEPARTMENT (CONTINUED)
BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budget</u>	<u>Actual</u>	Variance favorable (unfavorable)
Sewer department			
Personnel	58,514	70,233	(11,719)
Supplies and materials	67,634	67,186	448
Maintenance and repairs	23,282	12,921	10,361
Contractual services	21,498	16,177	5,321
Depreciation	96,090	93,393	2,697
Other operating expenses	25,088	4,704	20,384
	<u>292,106</u>	<u>264,614</u>	<u>27,492</u>
Warehouse			
Personnel	411,869	482,509	(70,640)
Supplies and materials	43,350	48,112	(4,762)
Maintenance and repairs	15,537	14,505	1,032
Contractual services	4,828	12,370	(7,542)
Depreciation	23,345	11,951	11,394
Miscellaneous	38,383	22,298	16,085
	<u>537,312</u>	<u>591,745</u>	<u>(54,433)</u>
Water plant			
Personnel	171,605	165,392	6,213
Supplies and materials	73,910	71,394	2,516
Maintenance and repairs	11,715	10,297	1,418
Contractual services	22,643	86,780	(64,137)
Cost of services	26,526	1,142	25,384
Depreciation	152,886	120,667	32,219
Other operating expenses	11,396	9,842	1,554
	<u>470,681</u>	<u>465,514</u>	<u>5,167</u>
Total expenditures	<u><u>3,621,846</u></u>	<u><u>3,318,451</u></u>	<u><u>303,395</u></u>

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, 2018

Insurer	Amount of Coverage	Risk Covered	Expiration Date
Texas Municipal League Intergovernmental Risk Pool	\$2,000,000	Comprehensive General liability	10-01-18
	\$2,000,000	Sudden events - Pollution	10-01-18
	\$2,000,000	Automobile liability	10-01-18
	\$2,000,000	Law enforcement liability	10-01-18
	\$2,000,000	Errors and omissions	10-01-18
	\$7,894,142	Real and personal property	10-01-18
	\$500,000	Boiler and machinery accident	10-01-18
	As scheduled	Automobile physical damage	10-01-18
	\$231,218	Mobile equipment	10-01-18
	Statutory	Workers compensation	10-01-18

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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, 2018, 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, 2018.

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, 2018

**CITY OF HEMPHILL, TEXAS
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

None

**CITY OF HEMPHILL, TEXAS
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

No prior audit findings reported.

**CITY OF HEMPHILL, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2018**

None required.

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