

CITY OF HEMPHILL, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2019

CITY OF HEMPHILL, TEXAS
Annual Financial Report
For the Year Ended June 30, 2019

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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, 2019, 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, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (page 4-11), the budgetary comparison information (page 43), and the TMRS pension and OPEB schedules (pages 44-49) 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.

Other Information

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

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

Independent Auditor's Report

Honorable Mayor and Members of City Council.

City of Hemphill, Texas

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In our opinion, the other schedules are fairly stated in all material respects in relation to the basic financial statements as a whole. The statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2019, 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, 2019

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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, 2019. 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 \$4,571,324 as of June 30, 2019. Of this amount, \$636,354 (unrestricted) may be used to meet the City's continuing obligations to citizens, customers and creditors.
- ▶ During the year ended June 30, 2019, the City's net position decreased by \$69,756 from operations.
- ▶ Total City's long-term debt decreased by \$16,000 to \$529,000 during the current fiscal year.
- ▶ At the end of the current fiscal year, unassigned fund balance for the general fund was \$78,856 or 5.96 percent of total general fund current expenditures.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Fund Financial Statements

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

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

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

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

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

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

Other information - In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information which includes detail expenditures by fund and department. Supplementary information follows the notes to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-wide Financial Analysis

Net Position. As noted earlier, net position may serve over time as a useful indicator of the City's financial position. The City's net position was \$4,571,324 at the close of the fiscal year.

By far the largest portion of the City's net position (80.96 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	
	2019	2018	2019	2018	2019	2018
Current and Other Assets	126,761	126,342	1,400,044	1,510,943	1,526,805	1,637,285
Capital and Non-Current	1,333,149	1,177,227	3,130,820	3,189,980	4,463,969	4,367,207
Total Assets	1,459,910	1,303,569	4,530,864	4,700,923	5,990,774	6,004,492
Deferred outflows - TMRS	101,357	68,310	143,013	65,399	244,370	133,709
Total Deferred Outflows	101,357	68,310	143,013	65,399	244,370	133,709
Other Liabilities	60,601	63,327	307,851	317,821	368,452	381,148
Long Term Liabilities	463,969	433,350	791,583	597,822	1,255,552	1,031,172
Total Liabilities	524,570	496,677	1,099,434	915,643	1,624,004	1,412,320
Deferred inflows - TMRS	12,242	10,929	27,575	73,872	39,817	84,801
Total Liabilities	12,242	10,929	27,575	73,872	39,817	84,801
Net Position:						
Net Investment in						
Capital Assets	990,532	998,049	2,710,330	2,758,211	3,700,862	3,756,260
Restricted	199,617	29,178	34,491	36,769	234,108	65,947
Unrestricted	(165,694)	(162,954)	802,048	981,827	636,354	818,873
Total Net Position	1,024,455	864,273	3,546,869	3,776,807	4,571,324	4,641,080

MANAGEMENT'S DISCUSSION AND ANALYSIS

A portion of the City's net assets (5.12 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 \$636,354 may be used to meet the City's ongoing obligations to citizens and creditors.

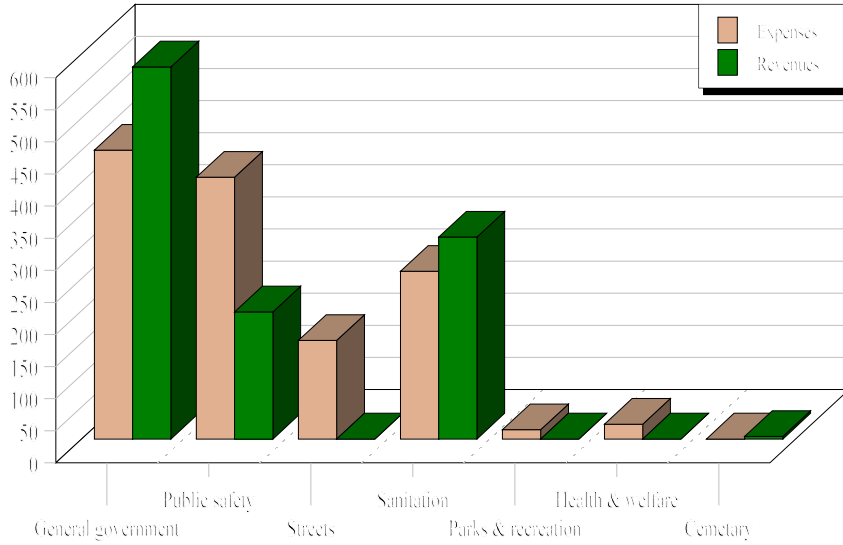
Changes in the City's Net Position

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program Revenues:						
Charges for services	366,261	369,660	3,606,940	3,622,481	3,973,201	3,992,141
Operating grants	198,253	100	-	-	198,253	100
Capital grants	-	-	19,013	-	-	-
General Revenues:						
Sales taxes	486,514	503,152	-	-	486,514	503,152
Other taxes and fees	34,758	17,405	-	-	34,758	17,405
Other	10,618	9,532	16,417	11,194	27,035	20,726
Total revenues	1,096,404	899,849	3,642,370	3,633,675	4,719,761	4,533,524
Expenses:						
General government	450,035	554,051	-	-	450,035	554,051
Public safety	407,832	375,502	-	-	407,832	375,502
Streets	153,698	81,409	-	-	153,698	81,409
Sanitation	261,138	259,237	-	-	261,138	259,237
Parks and recreation	14,258	7,039	-	-	14,258	7,039
Health and welfare	23,092	35,756	-	-	23,092	35,756
Cemetery	-	-	-	-	-	-
Debt service	6,169	4,417	-	-	6,169	4,417
Electric	-	-	2,097,090	2,056,433	2,097,090	2,056,433
Natural gas	-	-	270,516	238,666	270,516	238,666
Water	-	-	652,462	694,633	652,462	694,633
Sewer	-	-	472,240	434,358	472,240	434,358
Total expenses	1,316,222	1,317,411	3,492,308	3,424,090	4,808,530	4,741,501
Transfers	380,000	450,000	(380,000)	(450,000)	-	-
Change in net position	160,182	32,438	(229,938)	(240,415)	(69,756)	(207,977)
Beginning net position	864,273	860,314	3,776,807	4,062,514	4,641,080	4,922,828
Prior period adjustment	-	(28,479)	-	(45,292)	-	(73,771)
Ending net position	1,024,455	864,273	3,546,869	3,776,807	4,571,324	4,641,080

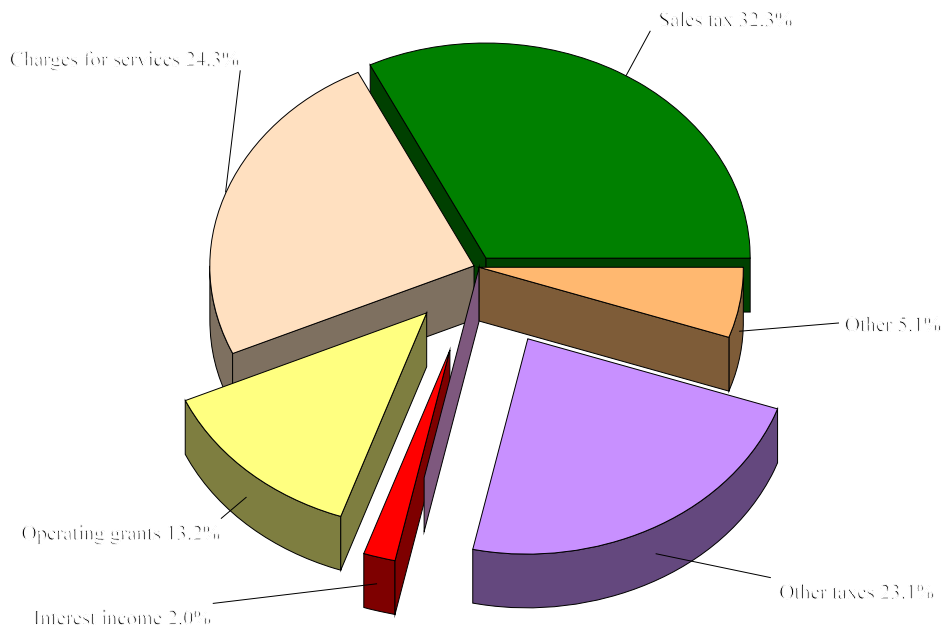
MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities. Governmental activities increased the City's net position by \$160,182, reducing the overall decrease in the City's total net position.

Expenses and Program Revenues - Governmental Activities



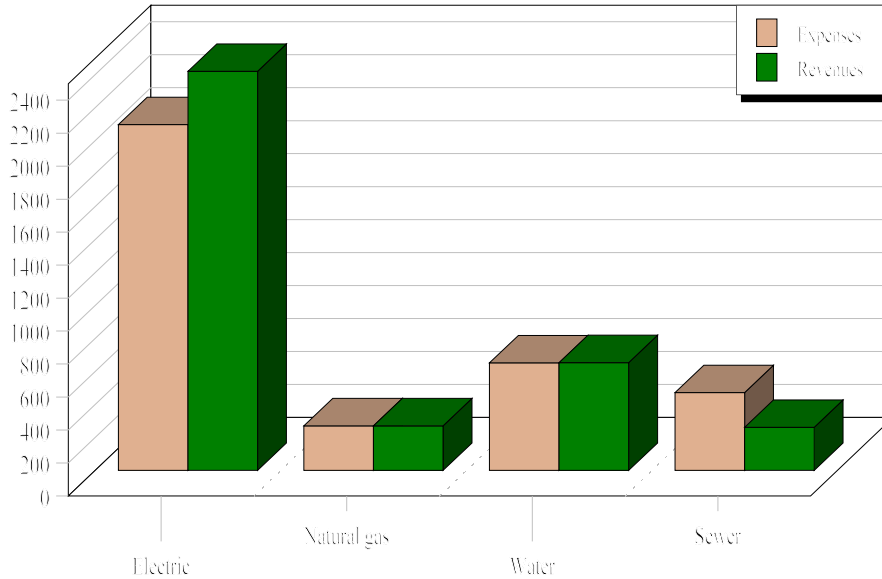
Revenues by Source - Governmental Activities



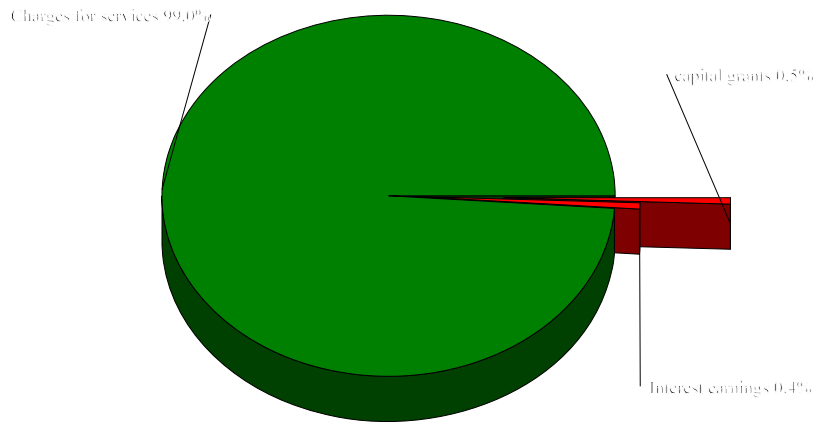
MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-type Activities. Business-type activities decreased the City's net position by 229,938, contributing to the overall decrease in the City's total net position.

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Business-Type Activities



Financial Analysis of the City's Funds

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

MANAGEMENT DISCUSSION AND ANALYSIS

As of the end of the current fiscal year, the City’s governmental funds reported an ending fund balance of \$278,473, an increase of \$168,044 from the prior year. Of this balance, \$78,856 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 \$802,048.

General Fund Budgetary Highlights

During the year, the City monitored it’s budget as its actual results were analyzed. Actual expenditures were \$503,691 below the final budget amounts. The most significant positive variance was in the capital outlay function, as expenditures were less than anticipated.

There was a negative budget variance of \$262,768 in overall revenues. The most significant negative variance was in contributions and donations, as the city received less contributions and donations 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 \$4,229,862 (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	
	2019	2018	2019	2018	2019	2018
Land	319,468	319,468	79,523	79,523	398,991	398,991
Buildings & improvements	659,097	712,749	6,785	7,803	665,882	720,552
Utility systems	-	-	2,713,619	2,938,095	2,713,619	2,938,095
Vehicles and equipment	109,030	115,832	208,254	103,584	317,284	219,416
Construction in progress	45,937	-	88,149	24,206	134,086	24,206
Net capital assets	<u>1,133,532</u>	<u>1,148,049</u>	<u>3,096,330</u>	<u>3,153,211</u>	<u>4,229,862</u>	<u>4,301,260</u>

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 \$529,000.

	City's Outstanding Debt					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenue bonds	-	-	386,000	395,000	386,000	395,000
Loans	143,000	150,000	-	-	143,000	150,000
Net capital assets	<u>143,000</u>	<u>150,000</u>	<u>386,000</u>	<u>395,000</u>	<u>529,000</u>	<u>545,000</u>

The City's total long term debt decreased by \$16,000 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 2019-2020 budget, including estimated sales tax receipts and fees that will be charged for business-type activities. The City estimates revenues and operating transfers in the General Fund will provide resources to fund the necessary operating expenses of the General Fund. The other ongoing general fund revenue items (charges for services, etc.) should generate similar revenues as the prior year. The City's business-type activities budget reflect increases in utility rates for fiscal year 2019-2020.

Additionally, the City anticipates spending \$1,504,037 in capital improvements during fiscal year 2019-2020. These include significant electric system upgrades, street paving and improvements, purchasing a skid steer, trailer, and utility truck, major improvements to the water plant, including tank coating and pond cleaning, and other significant economic development capital improvements. The City will fund these capital expenditures with grant funds of approximately \$1,256,000, and the remaining amount from fund balance.

If these estimates are realized, the City's budgetary general fund balance and utility reserves are expected to decrease by the close of 2020.

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, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	94,397	1,031,712	1,126,109
Sales tax receivable	32,364	-	32,364
Accounts receivable, net	-	344,398	344,398
Inventories	-	23,934	23,934
Restricted assets:			
Cash and cash equivalents	199,617	34,491	234,108
Capital Assets (net of accumulated depreciation):			
Land	319,468	79,523	398,991
Other capital assets, net of depreciation	814,064	3,016,807	3,830,871
Total assets	<u>1,459,910</u>	<u>4,530,865</u>	<u>5,990,775</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to TMRS - Pension	99,186	139,614	238,800
Deferred outflows related to TMRS - OPEB	2,171	3,399	5,570
Total deferred outflows of resources	<u>101,357</u>	<u>143,013</u>	<u>244,370</u>
LIABILITIES			
Accounts payable	33,102	168,474	201,576
Accrued expenses	27,499	1,074	28,573
Accrued interest payable	-	4,990	4,990
Customer meter deposits	-	133,313	133,313
Long Term Liabilities:			
Due within one year	143,000	9,000	152,000
Due after one year	-	377,000	377,000
Net pension liability	287,609	352,478	640,087
Net OPEB Liability	33,360	53,105	86,465
Total liabilities	<u>524,570</u>	<u>1,099,434</u>	<u>1,624,004</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to TMRS - Pension	10,700	24,886	35,586
Deferred inflows related to TMRS - OPEB	1,542	2,689	4,231
Total deferred inflows of resources	<u>12,242</u>	<u>27,575</u>	<u>39,817</u>
NET POSITION			
Net investment in capital assets	990,532	2,710,330	3,700,862
Restricted for other purposes	199,617	34,491	234,108
Unrestricted	(165,694)	802,048	636,354
Total net position	<u>1,024,455</u>	<u>3,546,869</u>	<u>4,571,324</u>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Governmental activities:			
General government	450,035	47,856	-
Public safety	407,832	-	198,103
Streets	153,698	-	-
Sanitation	261,138	314,505	-
Parks and recreation	14,258	-	-
Health and welfare	23,092	-	-
Cemetery	-	3,900	150
Interest on long term debt	6,169	-	-
Total governmental activities	1,316,222	366,261	198,253
Business-type activities:			
Electric	2,097,090	2,420,273	-
Natural gas	270,516	271,035	-
Water	652,462	654,371	-
Sewer	472,240	261,263	-
Total business-type activities	3,492,308	3,606,940	-
	4,808,530	3,973,201	198,253
General revenues:			
Sales taxes			
Franchise taxes			
Fines and penalties			
Miscellaneous			
Investment earnings			
Transfers			
Total general revenues and transfers			
Change in net position			
Net position, beginning			
Net position, ending			

See accompanying notes to the financial statements

Program Revenues Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position		
	Governmental Activities	Business Activities	Total
-	(402,179)	-	(402,179)
-	(209,729)	-	(209,729)
-	(153,698)	-	(153,698)
-	53,367	-	53,367
-	(14,258)	-	(14,258)
-	(23,092)	-	(23,092)
-	4,050	-	4,050
-	(6,169)	-	(6,169)
<u>-</u>	<u>(751,708)</u>	<u>-</u>	<u>(751,708)</u>
-	-	323,182	323,182
-	-	518	518
19,013	-	20,922	20,922
-	-	(210,977)	(210,977)
<u>19,013</u>	<u>-</u>	<u>133,645</u>	<u>133,645</u>
<u>19,013</u>	<u>(751,708)</u>	<u>133,645</u>	<u>(618,063)</u>
	486,514	-	486,514
	3,740	-	3,740
	31,018	-	31,018
	7,656	-	7,656
	2,962	16,417	19,379
	<u>380,000</u>	<u>(380,000)</u>	<u>-</u>
	<u>911,890</u>	<u>(363,583)</u>	<u>548,307</u>
	160,182	(229,938)	(69,756)
	864,273	3,776,807	4,641,080
	<u>1,024,455</u>	<u>3,546,869</u>	<u>4,571,324</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, 2019**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	94,397	-	94,397
Sales tax receivable	32,364	-	32,364
Intergovernmental receivables	-	-	-
Cash and cash equivalents - restricted	199,617	-	199,617
Total assets	326,378	-	326,378
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	33,102	-	33,102
Accrued liabilities	14,803	-	14,803
Total liabilities	47,905	-	47,905
Fund balances:			
Restricted fund balance	199,617	-	199,617
Unassigned fund balance	78,856	-	78,856
Total fund balances	278,473	-	278,473
Total liabilities and fund balances	326,378	-	326,378

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, 2019

Total fund balances - governmental funds	278,473
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 \$2,759,099 and the accumulated depreciation was \$1,611,050. The effect of including beginning balances for capital assets (net of depreciation) in the governmental activities is to increase (decrease) net position.	1,148,049
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.	(14,517)
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 \$287,609, a Deferred Resource Inflow related to TMRS in the amount of \$10,700, and a Deferred Resource Outflow related to TMRS in the amount of \$99,186. This amounted to a decrease in Net Position in the amount of \$199,123.	(199,123)
Included in the items related to debt is the recognition of the City's proportionate share of the net OPEB liability required by GASB 75 in the amount of \$33,360, a Deferred Resource Inflow related to TMRS in the amount of \$1,542, and a Deferred Resource Outflow related to TMRS in the amount of \$2,171. This amounted to a decrease in Net Position in the amount of \$32,731.	(32,731)
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(155,696)</u>
Net position of governmental activities	<u><u>1,024,455</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, 2019

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes:			
Sales taxes	486,514	-	486,514
Franchise taxes	3,740	-	3,740
Permits, fees and assessments	47,856	-	47,856
Fines	31,018	-	31,018
Charges for services	318,405	-	318,405
Interest income	2,963	-	2,963
Contributions and donations	198,253	-	198,253
Other	7,657	-	7,657
Total revenues	<u>1,096,406</u>	<u>-</u>	<u>1,096,406</u>
EXPENDITURES			
Current:			
General government:			
Finance and administration	401,812	-	401,812
Municipal court	33,481	-	33,481
Public safety:			
Fire	38,223	-	38,223
Police	324,014	-	324,014
Streets	75,439	-	75,439
Sanitation	255,288	-	255,288
Parks and recreation	5,756	-	5,756
Health and welfare	22,543	-	22,543
Cemetery	-	-	-
Debt service	27,844	-	27,844
Capital outlay	138,637	-	138,637
Total expenditures	<u>1,323,037</u>	<u>-</u>	<u>1,323,037</u>
Excess (deficiency) of revenues over expenditures	(226,631)	-	(226,631)
OTHER FINANCING SOURCES (USES)			
Interest Expense	(5,325)	-	(5,325)
Loan proceeds	20,000	-	20,000
Transfers in	380,000	-	380,000
Total other financing sources and uses	<u>394,675</u>	<u>-</u>	<u>394,675</u>
Net change in fund balance	168,044	-	168,044
Fund balance - beginning	<u>110,429</u>	<u>-</u>	<u>110,429</u>
Fund balance - ending	<u><u>278,473</u></u>	<u><u>-</u></u>	<u><u>278,473</u></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, 2019

Net change in fund balances - governmental funds	168,044
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.	138,636
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.	(153,153)
Current year debt proceeds/payments are revenues/expenditures in governmental fund financial statements but they should be shown as additions/reductions of long-term debt in the government-wide financial statements. The effect of removing the current year debt proceed/payments is to increase net position.	7,000
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 postion.	(3,663)
The City recorded their share of the OPEB expense as part of GASB 75 requirement to record the net OPEB liability. The effect of recording the current year pension expense decreased the net postion.	(2,223)
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>5,541</u>
Change in net position of governmental activities	<u><u>160,182</u></u>

See accompanying notes to the financial statements

CITY OF HEMPHILL, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2019

ASSETS

Current assets:

Cash and cash equivalents	1,031,712
Accounts receivable, net	344,398
Inventories	23,934
Total current assets	1,400,044

Noncurrent assets:

Restricted cash and cash equivalents	34,491
Capital assets:	
Land	79,523
Other capital assets, net of depreciation	3,016,807
Total noncurrent assets	3,130,821

Total assets	4,530,865
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DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to TMRS Pension	139,614
Deferred outflows related to TMRS OPEB	3,399
Total deferred outflows of resources	143,013
Total assets and deferred outflows	4,673,878

LIABILITIES

Current liabilities:

Accounts payable	168,474
Accrued expenses	1,074
Accrued interest payable	4,990
Revenue bonds payable - current portion	9,000
Total current liabilities	183,538

Noncurrent liabilities:

Revenue bonds payable	377,000
Customer deposits	133,313
Net pension liability	352,478
Net OPEB liability	53,105
Total noncurrent liabilities	915,896

Total liabilities	1,099,434
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DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to TMRS Pension	24,886
Deferred inflows related to TMRS OPEB	2,689
Total deferred inflows of resources	27,575

NET ASSETS

Invested in capital assets, net of related debt	2,710,330
Restricted for debt service	34,491
Unrestricted	802,048
Total net position	3,546,869
Total liabilities, deferred inflows, and net position	4,673,878

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, 2019

Operating revenues:	
Water sales	641,606
Sewer charges	248,498
Electric sales	2,407,508
Gas sales	258,270
Other services	<u>51,058</u>
 Total operating revenues	 <u>3,606,940</u>
Operating expenses:	
Personnel	1,011,984
Supplies and materials	310,430
Maintenance and repairs	89,723
Contractual services	86,899
Cost of services	1,500,736
Depreciation	273,281
Other operating	<u>61,664</u>
 Total operating expenses	 <u>3,334,717</u>
 Operating income	 <u>272,223</u>
Nonoperating revenues (expenses):	
Pension benefit (expense)	(135,420)
OPEB benefit (expense)	(4,396)
Capital grants	19,013
Interest income	16,417
Interest expense	<u>(17,775)</u>
 Total nonoperating revenue (expenses)	 <u>(122,161)</u>
 Income before transfers	 150,062
 Transfers to other funds	 <u>(380,000)</u>
 Change in net position	 (229,938)
 Total net position - beginning	 <u>3,776,807</u>
 Total net position - ending	 <u><u>3,546,869</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, 2019**

Cash flows from operating activities:	
Receipts from customers	3,655,943
Payments to suppliers and contractors	(2,049,042)
Payments to employees	(1,086,126)
Net cash provided by (used for) operating activities	<u>520,775</u>
Cash flows from noncapital financing activities:	
Operating transfers	(380,000)
Net cash provided by (used for) noncapital activities	<u>(380,000)</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(216,400)
Principal paid on capital debt	(9,000)
Capital contributions	19,013
Interest paid on capital debt	(17,775)
Net cash provided by (used for) capital activities	<u>(224,162)</u>
Cash flows from investing activities:	
Interest received	16,417
Net cash provided by (used for) investing activities	<u>16,417</u>
Net increase (decrease) in cash and cash equivalents	(66,970)
Cash and cash equivalents, beginning	<u>1,133,173</u>
Cash and cash equivalents, ending	<u><u>1,066,203</u></u>
Reconciliation of operating income to	
net cash used by operating activities:	
Operating income	272,223
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	273,281
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	44,439
(Increase) decrease in supply inventory	1,768
Increase (decrease) in accounts payable	(1,358)
Increase (decrease) in accrued liabilities	(74,142)
Increase (decrease) in customer meter deposits	<u>4,564</u>
Net cash provided by operating activities	<u>520,775</u>

See accompanying notes to the financial statements

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CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2019

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

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

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

The City reports the following major governmental funds:

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

The City reports the following major proprietary funds:

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

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

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

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

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

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

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

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

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

Restricted Assets - Certain resources set aside for repayment of utility fund revenue bonds and tax anticipation notes are classified as restricted assets on the balance sheet, since use is limited by bond covenants or City Council authorization.

Capital assets - Capital assets, which include property, utility systems, buildings, vehicles and equipment, are reported in the applicable governmental or business-types activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

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

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

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

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

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

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

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

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 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, 2019, which is the date that these financial statements were available to be issued.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments. The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market saving accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. The policy addresses the following risks:

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, 2019 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

As of June 30, 2019, the bank balances of the City's deposits (demand and certificates) were \$1,360,897, 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, 2019 as follows:

FDIC Insurance	250,000
Market value of securities pledged	<u>1,807,892</u>
Total coverage	<u><u>2,057,892</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, 2019.

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, 2019.

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, 2019.

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, 2019.

The City's investments, which are reported as cash or cash equivalents, as of June 30, 2019 are with the depository bank in certificates of deposit in the amount of \$691,271.

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, 2019, the City's business type activities restricted assets consisted of \$34,491 for debt service. The governmental activities restricted assets consisted of \$169,094 for FEMA repairs and maintenance expenses related to Hurricane Harvey, \$25,567 for cemetery operations and \$4,956 for other purposes.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

PROPERTY TAXES

The City did not levy property taxes in October, 2018. 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, 2019 are \$32,364 for sales tax due from the State of Texas.

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 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	319,468	-	-	319,468
Capital assets, being depreciated:				
Buildings and improvements	1,679,833	50,500	-	1,730,333
Vehicles and equipment	759,798	42,199	-	801,997
Construction in progress	-	45,937	-	45,937
Total capital assets being depreciated	<u>2,439,631</u>	<u>138,636</u>	<u>-</u>	<u>2,578,267</u>
Less accumulated depreciation for:				
Buildings and improvements	967,084	104,152	-	1,071,236
Vehicles and equipment	643,966	49,001	-	692,967
Total accumulated depreciation	<u>1,611,050</u>	<u>153,153</u>	<u>-</u>	<u>1,764,203</u>
Total capital assets, being depreciated, net	<u>828,581</u>	<u>(14,517)</u>	<u>-</u>	<u>814,064</u>
Governmental activities capital assets, net	<u><u>1,148,049</u></u>	<u><u>(14,517)</u></u>	<u><u>-</u></u>	<u><u>1,133,532</u></u>

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</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	14,095	-	9,624,378
Vehicles and equipment	934,105	138,362	-	1,072,467
Construction in progress	24,206	63,943	-	88,149
Totals at cost	<u>10,611,014</u>	<u>216,400</u>	<u>-</u>	<u>10,827,414</u>
Less accumulated depreciation:				
Buildings and improvements	34,617	1,018	-	35,635
Utility system	6,673,016	237,743	-	6,910,759
Vehicles and equipment	829,693	34,520	-	864,213
Total accumulated depreciation	<u>7,537,326</u>	<u>273,281</u>	<u>-</u>	<u>7,810,607</u>
Total capital assets, being depreciated, net	<u>3,073,688</u>	<u>(56,881)</u>	<u>-</u>	<u>3,016,807</u>
Business-type activities capital assets, net	<u>3,153,211</u>	<u>(56,881)</u>	<u>-</u>	<u>3,096,330</u>

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

Governmental activities:	
General government	13,212
Public safety	42,797
Streets	82,452
Sanitation	5,850
Health and welfare	340
Parks and recreation	<u>8,502</u>
Total depreciation expense - governmental activities	<u>153,153</u>
Business-type activities:	
Overhead	13,998
Water	17,687
Sewer	88,546
Natural Gas	3,188
Electric	45,721
Water Plant	<u>104,141</u>
Total depreciation expense - business-type activities	<u>273,281</u>

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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.

During the year ended June 30, 2014, the City borrowed \$250,000 from First State Bank to finance the street paving project. The amount due related to this note at June 30, 2019 was \$123,000. The balance is due in one installment of \$123,000 in June 2020 and interest is payable monthly until the loan is paid in full. The loan has an interest rate of 3.79%.

During the year ended June 30, 2019, the City borrowed \$20,000 from First State Bank to finance a project for the Hemphill volunteer fires department. The amount due related to this note at June 30, 2019 was \$20,000. The balance is due in one installment of \$20,000 in June 2020 and interest is payable monthly until the loan is paid in full. The loan has an interest rate of 3.79%.

The City's compliance with the balances required as of June 30, 2019 in each account is as follows:

	<u>Balance Required</u>	<u>Balance Available</u>	<u>Excess (Deficiency)</u>
Series 2005 Revenue Bonds:			
Interest & Sinking Fund	25,000	25,335	335
Reserve Fund	6,593	9,156	2,563

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

The annual debt service requirements to maturity, including principal and interest, for the City's long term debt as of June 30, 2019, is as follows:

Year ending August 31,	Revenue Bonds Payable		Bank Notes Payable		Total
	Principle	Interest	Principle	Interest	
2020	9,000	17,370	143,000	5,419	174,789
2021	9,000	16,965	-	-	25,965
2022	10,000	16,560	-	-	26,560
2023	10,000	16,110	-	-	26,110
2024	10,000	15,660	-	-	25,660
2025-2029	58,000	71,010	-	-	129,010
2030-2034	76,000	56,250	-	-	132,250
2035-2039	84,000	38,610	-	-	122,610
2040-2044	100,000	18,000	-	-	118,000
2045	20,000	900	-	-	20,900
Totals	386,000	267,435	143,000	5,419	801,854

Change in Long-Term Liabilities

Long term liability activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Issued	Retired	Ending Balance	Due in One Year
Government-type activities:					
Street paving loan	150,000	20,000	27,000	143,000	143,000
Business-type activities:					
Revenue bonds	395,000	-	9,000	386,000	9,000
Total	545,000	20,000	36,000	529,000	152,000

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.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2019.

INTERFUND TRANSFERS

During the year ended June 30, 2019, the City had \$380,000 of interfund transfers from the utility fund to the general fund.

DEFINED BENEFIT PENSION PLAN

Plan Description

The City participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained www.tmrs.com.

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

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	12
Inactive employees entitled to but not yet receiving benefits	11
Active employees	<u>24</u>
	47

Contributions

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

Employees for the City were required to contribute 5.0% of their annual gross earnings during the fiscal year. The contribution rates for the City were 7.78% and 7.99% in calendar years 2019 and 2018, respectively. The city's contributions to TMRS's pension plan for the year ended June 30, 2019 was \$95,119, which equated the required contributions.

Net Pension Asset/Liability

The city's Net Pension Asset/Liability (NPL) was measured as of December 31, 2018, 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, 2018 actuarial valuation was determined using the following actuarial assumptions:

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Inflation	2.50% per year
Overall Payroll Growth	3.50% to 10.50%, including inflation
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality 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).

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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%	4.30%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.39%
Real Return	10.00%	3.78%
Real Estate	10.00%	4.44%
Absolute Return	10.00%	3.56%
Private Equity	5.00%	7.75%
Total	100.00%	

Discount Rate

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

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 12/31/2017	\$ 3,375,086	\$ 2,974,463	\$ 400,623
Changes for the year:			
Service cost	114,306	-	114,306
Interest	228,964	-	228,964
Change in benefit terms			
Difference between expected and actual expense	(45,086)	-	(45,086)
Changes of assumptions	-	-	0
Contributions - employer	-	92,253	(92,253)
Contributions - employee	-	57,731	(57,731)
Net investment income	-	(89,452)	89,452
Benefit payments, including refunds of employee			
Contributions	(80,372)	(80,372)	0
Administrative expense	-	(1,722)	1,722
Other charges	-	(90)	90
Net Changes	<u>217,812</u>	<u>(21,652)</u>	<u>239,464</u>
Balance at 12/31/2018	<u>\$ 3,592,898</u>	<u>\$ 2,952,811</u>	<u>\$ 640,087</u>

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

The following presents the net pension (asset)liability of the City, calculated using the discount rate of 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	\$ 1,035,017	\$ 640,087	\$ 306,112

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2019, the City recognized pension expense of \$173,754.

At June 30, 2019 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	26,301	35,586
Changes in actuarial assumptions	12,854	-
Difference between projected and actual investment earnings	153,063	-
Contributions subsequent to measurement date	46,582	-
Total	\$ 238,800	\$ 35,586

The amount of \$46,582 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, 2020. 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,	
2020	75,298
2021	14,866
2022	10,261
2023	56,206
Thereafter	-
	156,631

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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.

Employees covered by benefit terms

At June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	2
Active employees	<u>24</u>
	39

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 0.38% and 0.35% in calendar years 2019 and 2018, respectively. The city's contributions to TMRS's SDD plan for the year ended June 30, 2019, was \$4,401, which equated the required contributions.

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Net OPEB Liability

The City’s net OPEB liability was measured as of December 31, 2018, 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, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50% per year
Overall Payroll Growth	3.50% to 10.50% , including inflation
Discount Rate*	3.71%

**The discount rate was based on the Fidelity Index’s “20-Year Municipal GO AA Index” rate as of December 31, 2018.*

Discount rate

The discount rate used to measure the total OPEB liability was 3.71 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, 2019

Changes in the Net OPEB Asset/Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB (Asset) Liability (a) - (b)
Balance at 12/31/2017	\$ 85,549	\$-	\$ 85,549
Changes for the year:			
Service cost	3,926	-	3,926
Interest	2,889	-	2,889
Change in benefit terms	-	-	
Difference between expected and actual expense	(7)	-	(7)
Changes of assumptions	(5,430)	-	(5,430)
Contributions - employer	-	462	(462)
Contributions - employee	-	-	0
Net investment income	-	-	0
Benefit payments, including refunds of employee			
Contributions	(462)	(462)	0
Administrative expense	-	-	0
Other charges	-	-	0
Net Changes	916	0	916
Balance at 12/31/2018	\$ 86,465	\$ 0	\$ 86,465

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, 2019

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	\$ 100,943	\$ 86,465	\$ 74,751

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

For the year ended June 30, 2019, the City recognized OPEB expense of \$6,922. At June 30, 2019, 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	-	5
Changes in actuarial assumptions	3,295	4,226
Difference between projected and actual investment earnings	-	-
Contributions subsequent to measurement date	2,275	-
Total	5,570	4,231

The amount of \$2,275 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, 2020. 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
2020	107
2021	107
2022	(536)
2023	(614)
2024	-
Thereafter	-
Total	(936)

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REQUIRED SUPPLEMENTARY SCHEDULES

CITY OF HEMPHILL, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Sales taxes	508,654	508,654	486,514	(22,140)
Franchise taxes	6,061	6,061	3,740	(2,321)
Permits, fees & assessments	52,847	52,847	47,856	(4,991)
Fines	1,101	1,101	31,018	29,917
Charges for services	301,780	301,780	318,405	16,625
Interest income	1,793	1,793	2,963	1,170
Contributions and donations	480,000	480,000	198,253	(281,747)
Other	6,938	6,938	7,657	719
Total revenues	<u>1,359,174</u>	<u>1,359,174</u>	<u>1,096,406</u>	<u>(262,768)</u>
EXPENDITURES				
General government:				
Finance and administration	445,442	445,442	401,812	43,630
Municipal court	39,939	39,939	33,481	6,458
Public safety:				
Fire	43,163	43,163	38,223	4,940
Police	317,844	317,844	324,014	(6,170)
Streets	77,980	77,980	75,439	2,541
Sanitation	253,031	253,031	255,288	(2,257)
Parks and recreation	20,993	20,993	5,756	15,237
Health and welfare	13,186	13,186	22,543	(9,357)
Cemetery	1,350	1,350	-	1,350
Debt service	4,125	4,125	33,169	(29,044)
Capital outlay	615,000	615,000	138,637	476,363
Total expenditures	<u>1,832,053</u>	<u>1,832,053</u>	<u>1,328,362</u>	<u>503,691</u>
Excess (deficiency) of revenues over exp	(472,879)	(472,879)	(231,956)	240,923
OTHER FINANCING SOURCES (USES)				
Loan proceeds	20,000	20,000	20,000	-
Transfers in	365,115	365,115	380,000	14,885
Total other financing sources (uses)	<u>385,115</u>	<u>385,115</u>	<u>400,000</u>	<u>14,885</u>
Net change in fund balance	(87,764)	(87,764)	168,044	255,808
Fund balance - beginning	<u>110,429</u>	<u>110,429</u>	<u>110,429</u>	<u>-</u>
Fund balance - ending	<u><u>22,665</u></u>	<u><u>22,665</u></u>	<u><u>278,473</u></u>	<u><u>255,808</u></u>

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 2019	FY 2018	FY 2017	FY 2016	FY 2015
	Plan Yr 2018	Plan Yr 2017	Plan Yr 2016	Plan Yr 2015	Plan Yr 2014
TOTAL PENSION LIABILITY					
Service cost	114,306	111,009	114,286	90,088	76,685
Interest (on the Total Pension Liability)	228,964	212,775	193,615	174,273	143,886
Changes of benefit terms	-	-	-	281,065	-
Difference between expected and actual experience	(45,086)	(2,159)	52,548	64,580	(26,977)
Changes in assumptions	-	-	-	87,370	-
Benefit payments, including refunds of employee contributions	(80,372)	(86,509)	(63,427)	(35,868)	(58,639)
Net Change in Total Pension Liability	<u>217,812</u>	<u>235,116</u>	<u>297,022</u>	<u>661,508</u>	<u>134,955</u>
Total Pension Liability - Beginning	<u>3,375,086</u>	<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>3,592,898</u></u>	<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	92,253	87,580	74,016	54,897	48,602
Employee	57,731	55,784	56,243	54,139	50,207
Net investment income	(89,452)	356,608	158,204	3,343	120,494
Benefit payments, including refund of employee contributions	(80,372)	(86,509)	(63,427)	(35,868)	(58,639)
Administrative expense	(1,722)	(1,841)	(1,786)	(2,036)	(1,258)
Other	(90)	(93)	(96)	(100)	(103)
Net Change in Plan Fiduciary Net Position	<u>(21,652)</u>	<u>411,529</u>	<u>223,154</u>	<u>74,375</u>	<u>159,303</u>
Plan Fiduciary Net Position- Beginning	<u>2,974,463</u>	<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>2,952,811</u></u>	<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)Liabilty - Ending (a) - (b)	640,087	400,623	577,036	503,168	(83,965)
Plan Fiduciary Net Position as a Percentage of Total Pension Asset/Liability	82.18%	88.13%	81.62%	82.30%	103.85%
Covered Payroll	1,118,083	1,115,670	1,124,858	1,082,784	1,004,144
Net Pension Asset/Liability as a Percentage of Covered Payroll	57.25%	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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarial Determined Contributions	95,119	88,536	80,906	64,307	55,633
Contributions in relation to the actuarially determined contribution	<u>(95,119)</u>	<u>(88,536)</u>	<u>(80,906)</u>	<u>(64,307)</u>	<u>(55,633)</u>
Contribution Deficiency (Excess)	-	-	-	-	-
Covered Payroll	1,225,236	1,118,083	1,115,670	1,124,858	1,082,784
Contributions as a Percentage of Covered Payroll	7.76%	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 2019	FY 2018
	Plan Yr 2018	Plan Yr 2017
TOTAL OPEB LIABILITY		
Service cost	3,926	3,347
Interest (on the Total OPEB Liability)	2,889	2,845
Changes of benefit terms	-	-
Difference between expected and actual experience	(7)	-
Changes in assumptions	(5,430)	5,921
Benefit payments, including refunds of employee contributions	(462)	(335)
Net Change in Total OPEB Liability	<u>916</u>	<u>11,778</u>
Total OPEB Liability - Beginning	85,549	73,771
Total OPEB Liability - Ending (a)	<u><u>86,465</u></u>	<u><u>85,549</u></u>
PLAN FIDUCIARY NET POSITION		
Contributions:		
Employer	-	-
Employee	462	335
Net investment income	-	-
Benefit payments, including refund of employee contributions	(462)	(335)
Administrative expense	-	-
Other	-	-
Net Change in Plan Fiduciary Net Position	<u>-</u>	<u>-</u>
Plan Fiduciary Net Position- Beginning	-	-
Plan Fiduciary Net Position- Ending (b)	<u><u>-</u></u>	<u><u>-</u></u>
Net OPEB (Asset)Liabilty - Ending (a) - (b)	86,465	85,549
Plan Fiduciary Net Position as a Percentage of Total OPEB Asset/Liability	0.00%	0.00%
Covered Payroll	1,118,083	1,115,670
Net OPEB Asset/Liability as a Percentage of Covered Payroll	7.73%	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,**

	2019	2018
Actuarial Determined Contributions	4,401	3,913
Contributions in relation to the actuarially determined contribution	(4,401)	(3,913)
Contribution Deficiency (Excess)	-	-
Covered Payroll	1,225,236	1,118,083
Contributions as a Percentage of Covered Payroll	0.36%	0.35%

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS
NOTES TO THE SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2019**

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*	3.71%
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, 2019

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, 2018.

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OTHER SUPPLEMENTAL SCHEDULES

**CITY OF HEMPHILL, TEXAS
GENERAL FUND
SCHEDULE OF CURRENT EXPENDITURES BY DEPARTMENT
BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2019**

General Government	Budget	Actual	Variance favorable (unfavorable)
Administration:			
Personnel	302,661	259,361	43,300
Supplies and materials	33,398	26,544	6,854
Maintenance and repairs	45,842	47,163	(1,321)
Contractual services	50,371	42,816	7,555
Capital outlay	5,400	6,585	(1,185)
Miscellaneous	53,109	59,409	(6,300)
Total administration	<u>490,781</u>	<u>441,878</u>	<u>48,903</u>
Public Safety			
Fire department:			
Personnel	-	3,263	(3,263)
Supplies and materials	13,216	11,066	2,150
Maintenance and repairs	9,302	4,504	4,798
Contractual services	9,014	8,275	739
Capital outlay	50,000	39,352	10,648
Miscellaneous	11,631	11,115	516
Total fire department	<u>93,163</u>	<u>77,575</u>	<u>15,588</u>
Police department:			
Personnel	279,450	279,625	(175)
Supplies and materials	20,917	20,989	(72)
Maintenance and repairs	2,239	15,256	(13,017)
Contractual services	7,327	4,654	2,673
Capital outlay	-	42,200	(42,200)
Miscellaneous	7,911	3,490	4,421
Total police department	<u>317,844</u>	<u>366,214</u>	<u>(48,370)</u>
Total public safety	<u>411,007</u>	<u>443,789</u>	<u>(32,782)</u>
Sanitation			
Personnel	-	2,124	(2,124)
Supplies and materials	1,586	1,204	382
Maintenance and repairs	752	266	486
Contractual services	250,693	251,694	(1,001)
Miscellaneous	-	-	-
Total sanitation	<u>253,031</u>	<u>255,288</u>	<u>(2,257)</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, 2019

	<u>Budget</u>	<u>Actual</u>	Variance favorable (unfavorable)
Streets			
Personnel	60,712	50,990	9,722
Supplies and materials	13,017	13,764	(747)
Maintenance and repairs	416	7,303	(6,887)
Contractual services	3,555	3,380	175
Capital outlay	547,000	50,500	496,500
Miscellaneous	4,405	33,171	(28,766)
	<u>629,105</u>	<u>159,108</u>	<u>469,997</u>
Parks and recreation			
Personnel	-	2,338	(2,338)
Supplies and materials	1,015	639	376
Maintenance and repairs	750	16	734
Contractual services	970	372	598
Capital outlay	12,600	-	12,600
Miscellaneous	5,658	2,391	3,267
	<u>20,993</u>	<u>5,756</u>	<u>15,237</u>
Health and welfare			
Personnel	24,090	21,656	2,434
Supplies and materials	646	597	49
Maintenance and repairs	500	-	500
Contractual services	150	-	150
Miscellaneous	400	290	110
	<u>25,786</u>	<u>22,543</u>	<u>3,243</u>
Cemetery			
Supplies and materials	600	-	600
Maintenance and repairs	150	-	150
Contractual services	600	-	600
Miscellaneous	-	-	-
	<u>1,350</u>	<u>-</u>	<u>1,350</u>
Total current expenditures	<u>1,832,053</u>	<u>1,328,362</u>	<u>503,691</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, 2019**

	<u>Budget</u>	<u>Actual</u>	Variance favorable (unfavorable)
Electric department			
Personnel	232,760	218,819	13,941
Supplies and materials	81,923	86,294	(4,371)
Maintenance and repairs	10,577	19,950	(9,373)
Contractual services	20,578	15,426	5,152
Cost of services	1,625,730	1,416,189	209,541
Depreciation	46,572	45,721	851
Other operating expenses	3,959	8,578	(4,619)
	<u>2,022,099</u>	<u>1,810,977</u>	<u>211,122</u>
Gas department			
Personnel	82,444	43,249	39,195
Supplies and materials	6,034	8,750	(2,716)
Maintenance and repairs	75	963	(888)
Contractual services	5,036	5,070	(34)
Cost of services	76,854	81,760	(4,906)
Depreciation	3,194	3,188	6
Other operating expenses	3,072	4,916	(1,844)
	<u>176,709</u>	<u>147,896</u>	<u>28,813</u>
Water department			
Supplies and materials	22,593	21,030	1,563
Maintenance and repairs	275	461	(186)
Contractual services	4,947	1,988	2,959
Depreciation	25,303	17,687	7,616
Other operating expenses	970	719	251
	<u>54,088</u>	<u>41,885</u>	<u>12,203</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, 2019

	<u>Budget</u>	<u>Actual</u>	Variance favorable (unfavorable)
Sewer department			
Personnel	59,228	37,648	21,580
Supplies and materials	75,907	74,981	926
Maintenance and repairs	19,110	38,428	(19,318)
Contractual services	19,447	22,551	(3,104)
Depreciation	96,904	88,546	8,358
Other operating expenses	26,629	5,719	20,910
	<u>297,225</u>	<u>267,873</u>	<u>29,352</u>
Warehouse			
Personnel	469,401	556,670	(87,269)
Supplies and materials	46,727	45,039	1,688
Maintenance and repairs	28,719	23,904	4,815
Contractual services	18,575	12,021	6,554
Depreciation	15,491	13,998	1,493
Miscellaneous	13,188	26,019	(12,831)
	<u>592,101</u>	<u>677,651</u>	<u>(85,550)</u>
Water plant			
Personnel	177,893	155,598	22,295
Supplies and materials	68,505	74,336	(5,831)
Maintenance and repairs	12,330	6,017	6,313
Contractual services	23,230	29,843	(6,613)
Cost of services	32,945	2,787	30,158
Depreciation	154,833	104,141	50,692
Other operating expenses	9,525	15,713	(6,188)
	<u>479,261</u>	<u>388,435</u>	<u>90,826</u>
Total expenditures	<u><u>3,621,483</u></u>	<u><u>3,334,717</u></u>	<u><u>286,766</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, 2019

Insurer	Amount of Coverage	Risk Covered	Expiration Date
Texas Municipal League Intergovernmental Risk Pool	\$2,000,000	Comprehensive General liability	10-01-19
	\$2,000,000	Sudden events - Pollution	10-01-19
	\$2,000,000	Automobile liability	10-01-19
	\$2,000,000	Law enforcement liability	10-01-19
	\$2,000,000	Errors and omissions	10-01-19
	\$7,894,142	Real and personal property	10-01-19
	\$500,000	Boiler and machinery accident	10-01-19
	As scheduled	Automobile physical damage	10-01-19
	\$231,218	Mobile equipment	10-01-19
	Statutory	Workers compensation	10-01-19

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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, 2019, 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, 2019.

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, 2019

**CITY OF HEMPHILL, TEXAS
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

None

**CITY OF HEMPHILL, TEXAS
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

No prior audit findings reported.

**CITY OF HEMPHILL, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2019**

None required.

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