

**CITY OF HEMPHILL, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2020**



**CITY OF HEMPHILL, TEXAS**  
**Annual Financial Report**  
**For the Year Ended June 30, 2020**

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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, 2020, 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, 2020, 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 January 10, 2021, 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

January 10, 2021

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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, 2020. 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 \$4,855,627 as of June 30, 2020. Of this amount, \$764,641 (unrestricted) may be used to meet the City's continuing obligations to citizens, customers and creditors.
- ▶ During the year ended June 30, 2020, the City's net position increased by \$284,303 from operations.
- ▶ Total City's long-term debt decreased by \$56,000 to \$473,000 during the current fiscal year.
- ▶ At the end of the current fiscal year, unassigned fund balance for the general fund was \$130,668 or 11.19 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 \$4,855,627 at the close of the fiscal year.

By far the largest portion of the City's net position (78.08 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	
	2020	2019	2020	2019	2020	2019
Current and Other Assets	154,790	126,761	1,519,922	1,400,044	1,674,712	1,526,805
Capital and Non-Current	1,281,359	1,333,149	3,248,193	3,130,820	4,529,552	4,463,969
<b>Total Assets</b>	1,436,149	1,459,910	4,768,115	4,530,864	6,204,264	5,990,774
Deferred outflows - TMRS	49,956	101,357	41,586	143,013	91,542	244,370
<b>Total Deferred Outflows</b>	49,956	101,357	41,586	143,013	91,542	244,370
Other Liabilities	24,123	60,601	288,018	307,851	312,141	368,452
Long Term Liabilities	350,430	463,969	642,283	791,583	992,713	1,255,552
<b>Total Liabilities</b>	374,553	524,570	930,301	1,099,434	1,304,854	1,624,004
Deferred inflows - TMRS	44,364	12,242	90,961	27,575	135,325	39,817
<b>Total Liabilities</b>	44,364	12,242	90,961	27,575	135,325	39,817
Net Position:						
Net Investment in						
Capital Assets	919,962	990,532	2,871,193	2,710,330	3,791,155	3,700,862
Restricted	265,397	199,617	34,434	34,491	299,831	234,108
Unrestricted	(118,171)	(165,694)	882,812	802,048	764,641	636,354
<b>Total Net Position</b>	1,067,188	1,024,455	3,788,439	3,546,869	4,855,627	4,571,324

## MANAGEMENT'S DISCUSSION AND ANALYSIS

A portion of the City's net assets (6.17 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 \$764,641 may be used to meet the City's ongoing obligations to citizens and creditors.

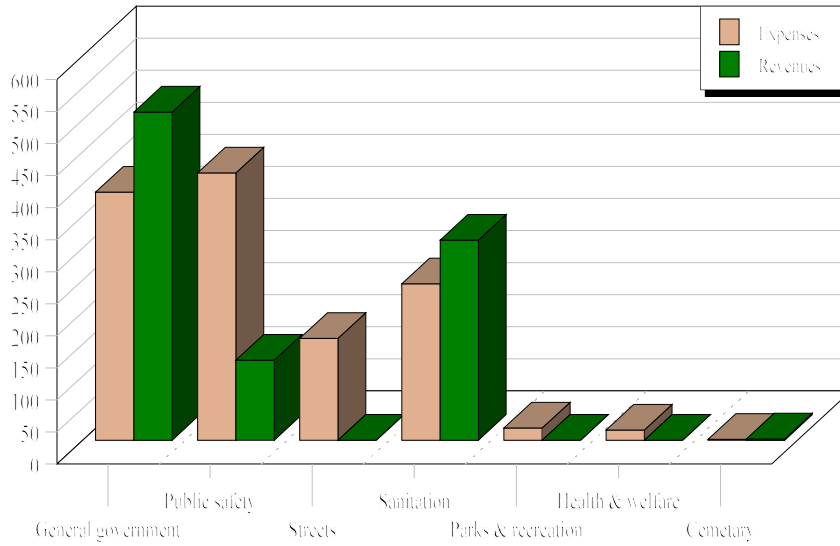
### Changes in the City's Net Position

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
<b>Revenues:</b>						
Program Revenues:						
Charges for services	390,399	366,261	3,497,516	3,606,940	3,887,915	3,973,201
Operating grants	118,456	198,253	-	-	118,456	198,253
Capital grants	-	-	232,809	19,013	232,809	19,013
General Revenues:						
Sales taxes	464,789	486,514	-	-	464,789	486,514
Other taxes and fees	27,204	34,758	-	-	27,204	34,758
Other	40,842	10,618	16,232	16,417	57,074	27,035
<b>Total revenues</b>	1,041,690	1,096,404	3,746,557	3,642,370	4,788,247	4,738,774
<b>Expenses:</b>						
General government	386,546	450,035	-	-	386,546	450,035
Public safety	416,798	407,832	-	-	416,798	407,832
Streets	159,058	153,698	-	-	159,058	153,698
Sanitation	243,955	261,138	-	-	243,955	261,138
Parks and recreation	18,842	14,258	-	-	18,842	14,258
Health and welfare	15,748	23,092	-	-	15,748	23,092
Cemetery	1,259	-	-	-	1,259	-
Debt service	4,794	6,169	-	-	4,794	6,169
Electric	-	-	1,928,731	2,097,090	1,928,731	2,097,090
Natural gas	-	-	249,142	270,516	249,142	270,516
Water	-	-	637,116	652,462	637,116	652,462
Sewer	-	-	441,955	472,240	441,955	472,240
<b>Total expenses</b>	1,247,000	1,316,222	3,256,944	3,492,308	4,503,944	4,808,530
Transfers	248,043	380,000	(248,043)	(380,000)	-	-
Change in net position	42,733	160,182	241,570	(229,938)	284,303	(69,756)
Beginning net position	1,024,455	864,273	3,776,807	3,776,807	4,801,262	4,641,080
Ending net position	1,067,188	1,024,455	4,018,377	3,546,869	5,085,565	4,571,324

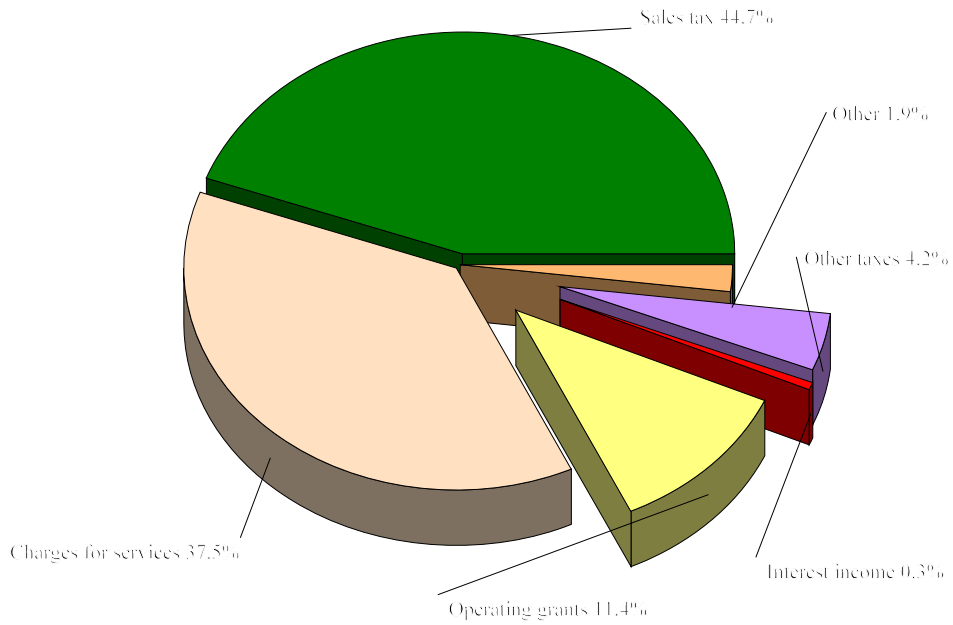
## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Governmental Activities.** Governmental activities increased the City's net position by \$42,733, contributing to the overall increase in the City's total net position.

**Expenses and Program Revenues - Governmental Activities**



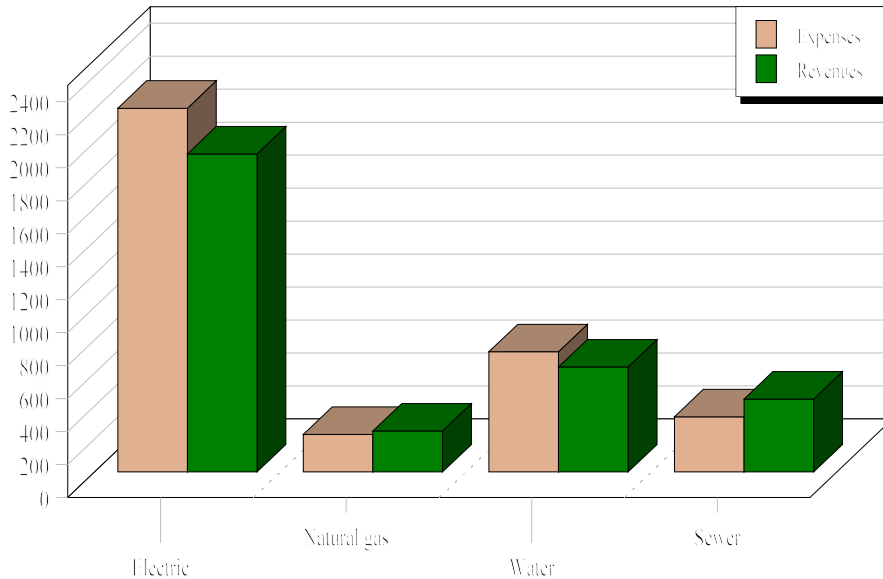
**Revenues by Source - Governmental Activities**



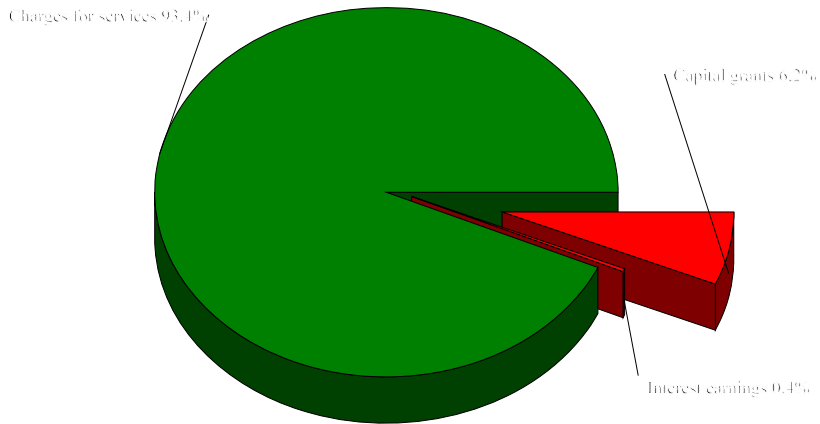
## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Business-type Activities.** Business-type activities decreased the City's net position by \$241,570, contributing to the overall increase 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 \$396,065, an increase of \$117,592 from the prior year. Of this balance, \$130,668 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 \$882,812.

### General Fund Budgetary Highlights

During the year, the City monitored it’s budget as its actual results were analyzed. Actual expenditures were \$2,827 below the final budget amounts. The most significant positive variance was in the finance and administration function, as expenditures were less than anticipated.

There was a negative budget variance of \$311,327 in overall revenues. The most significant negative variance was in contributions and donations, as the city received less grant monies 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 \$4,264,155 (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	
	2020	2019	2020	2019	2020	2019
Land	319,468	319,468	79,523	79,523	398,991	398,991
Buildings & improvements	600,882	659,097	5,428	6,785	606,310	665,882
Utility systems	-	-	2,537,165	2,713,619	2,537,165	2,713,619
Vehicles and equipment	95,612	109,030	302,186	208,254	397,798	317,284
Construction in progress	-	45,937	323,891	88,149	323,891	134,086
Net capital assets	1,015,962	1,133,532	3,248,193	3,096,330	4,264,155	4,229,862

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 \$473,000.

	<b>City's Outstanding Debt</b>					
	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenue bonds	-	-	377,000	386,000	377,000	386,000
Loans	96,000	143,000	-	-	96,000	143,000
Net capital assets	96,000	143,000	377,000	386,000	473,000	529,000

The City's total long term debt decreased by \$56,000 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 2020-2021 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 2020-2021.

Additionally, the City anticipates spending \$103,387 in capital improvements during fiscal year 2020-2021. These include significant electric system upgrades, and improvements to the water plant, including replacing generator transfer switches and raw water flow meters. The City will fund these capital expenditures with 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 2021.

### **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, 2020**

	<b>Primary Government</b>		<b>Total</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	
<b>ASSETS</b>			
Cash and cash equivalents	114,383	1,158,226	1,272,609
Sales tax receivable	40,407	-	40,407
Accounts receivable, net	-	303,859	303,859
Inventories	-	23,403	23,403
Restricted assets:			
Cash and cash equivalents	265,397	34,434	299,831
Capital Assets (net of accumulated depreciation):			
Land	319,468	79,523	398,991
Other capital assets, net of depreciation	696,494	3,168,670	3,865,164
Total assets	<u>1,436,149</u>	<u>4,768,115</u>	<u>6,204,264</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to TMRS - Pension	43,699	30,123	73,822
Deferred outflows related to TMRS - OPEB	6,257	11,463	17,720
Total deferred outflows of resources	<u>49,956</u>	<u>41,586</u>	<u>91,542</u>
<b>LIABILITIES</b>			
Accounts payable	18,606	125,780	144,386
Accrued expenses	5,517	4,519	10,036
Accrued interest payable	-	4,990	4,990
Customer meter deposits	-	143,729	143,729
Long Term Liabilities:			
Due within one year	96,000	9,000	105,000
Due after one year	-	368,000	368,000
Net pension liability	213,098	205,447	418,545
Net OPEB Liability	41,332	68,836	110,168
Total liabilities	<u>374,553</u>	<u>930,301</u>	<u>1,304,854</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to TMRS - Pension	43,229	89,075	132,304
Deferred inflows related to TMRS - OPEB	1,135	1,886	3,021
Total deferred inflows of resources	<u>44,364</u>	<u>90,961</u>	<u>135,325</u>
<b>NET POSITION</b>			
Net investment in capital assets	919,962	2,871,193	3,791,155
Restricted for other purposes	265,397	34,434	299,831
Unrestricted	(118,171)	882,812	764,641
Total net position	<u>1,067,188</u>	<u>3,788,439</u>	<u>4,855,627</u>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2020**

<u>Functions/Programs</u>	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
<b>Governmental activities:</b>			
General government	386,546	76,915	-
Public safety	416,798	-	118,256
Streets	159,058	-	-
Sanitation	243,955	311,684	-
Parks and recreation	18,842	-	-
Health and welfare	15,748	-	-
Cemetary	1,259	1,800	200
Interest on long term debt	4,794	-	-
Total governmental activities	<u>1,247,000</u>	<u>390,399</u>	<u>118,456</u>
<b>Business-type activities:</b>			
Electric	1,928,731	2,206,037	-
Natural gas	249,142	227,841	-
Water	637,116	728,664	-
Sewer	441,955	334,973	-
Total business-type activities	<u>3,256,944</u>	<u>3,497,516</u>	<u>-</u>
	<u>4,503,944</u>	<u>3,887,915</u>	<u>118,456</u>

**General revenues:**

Sales taxes

Franchise taxes

Fines and penalties

Miscellaneous

Investment earnings

Transfers

Total general revenues and transfers

Change in net position

Net position, beginning

Net position, ending

See accompanying notes to the financial statements

<b>Program Revenues Capital Grants and Contributions</b>	<b>Net (Expense) Revenues and Changes in Net Position</b>		
	<b>Governmental Activities</b>	<b>Business Activities</b>	<b>Total</b>
-	(309,631)	-	(309,631)
-	(298,542)	-	(298,542)
-	(159,058)	-	(159,058)
-	67,729	-	67,729
-	(18,842)	-	(18,842)
-	(15,748)	-	(15,748)
-	741	-	741
-	(4,794)	-	(4,794)
<u>-</u>	<u>(738,145)</u>	<u>-</u>	<u>(738,145)</u>
-	-	277,307	277,307
-	-	(21,301)	(21,301)
232,809	-	324,357	324,357
-	-	(106,982)	(106,982)
<u>232,809</u>	<u>-</u>	<u>473,381</u>	<u>473,381</u>
<u>232,809</u>	<u>(738,145)</u>	<u>473,381</u>	<u>(264,764)</u>
	464,789	-	464,789
	6,602	-	6,602
	20,602	-	20,602
	37,656	-	37,656
	3,186	16,232	19,418
	<u>248,043</u>	<u>(248,043)</u>	<u>-</u>
	<u>780,878</u>	<u>(231,811)</u>	<u>549,067</u>
	42,733	241,570	284,303
	<u>1,024,455</u>	<u>3,546,869</u>	<u>4,571,324</u>
	<u><u>1,067,188</u></u>	<u><u>3,788,439</u></u>	<u><u>4,855,627</u></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, 2020**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	114,383	-	114,383
Sales tax receivable	40,407	-	40,407
Cash and cash equivalents - restricted	265,397	-	265,397
<b>Total assets</b>	<b>420,187</b>	<b>-</b>	<b>420,187</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	18,606	-	18,606
Accrued liabilities	5,516	-	5,516
<b>Total liabilities</b>	<b>24,122</b>	<b>-</b>	<b>24,122</b>
<b>Fund balances:</b>			
Restricted fund balance	265,397	-	265,397
Unassigned fund balance	130,668	-	130,668
<b>Total fund balances</b>	<b>396,065</b>	<b>-</b>	<b>396,065</b>
<b>Total liabilities and fund balances</b>	<b>420,187</b>	<b>-</b>	<b>420,187</b>

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, 2020**

Total fund balances - governmental funds	396,065
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 \$2,897,735 and the accumulated depreciation was \$1,764,203. The effect of including beginning balances for capital assets (net of depreciation) in the governmental activities is to increase (decrease) net position.	1,133,532
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.	(117,570)
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 \$213,098, a Deferred Resource Inflow related to TMRS in the amount of \$43,229, and a Deferred Resource Outflow related to TMRS in the amount of \$43,699. This amounted to a decrease in Net Position in the amount of \$212,629.	(212,629)
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 \$41,332, a Deferred Resource Inflow related to TMRS in the amount of \$1,135, and a Deferred Resource Outflow related to TMRS in the amount of \$6,257. This amounted to a decrease in Net Position in the amount of \$36,210.	(36,210)
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(96,000)</u>
Net position of governmental activities	<u><u>1,067,188</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, 2020**

<b>REVENUES</b>	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
Taxes:			
Sales taxes	464,789	-	464,789
Franchise taxes	6,602	-	6,602
Permits, fees and assessments	76,915	-	76,915
Fines	20,602	-	20,602
Charges for services	313,484	-	313,484
Interest income	3,186	-	3,186
Contributions and donations	118,456	-	118,456
Other	7,656	-	7,656
Total revenues	<u>1,011,690</u>	<u>-</u>	<u>1,011,690</u>
 <b>EXPENDITURES</b>			
Current:			
General government:			
Finance and administration	342,831	-	342,831
Municipal court	33,346	-	33,346
Public safety:			
Fire	52,458	-	52,458
Police	306,623	-	306,623
Streets	30,983	-	30,983
Sanitation	241,315	-	241,315
Parks and recreation	10,706	-	10,706
Health and welfare	14,788	-	14,788
Cemetery	1,259	-	1,259
Debt service	51,669	-	51,669
Capital outlay	86,163	-	86,163
Total expenditures	<u>1,172,141</u>	<u>-</u>	<u>1,172,141</u>
 Excess (deficiency) of revenues over expenditures	 (160,451)	 -	 (160,451)
 <b>OTHER FINANCING SOURCES (USES)</b>			
Gain on sale of assets	30,000	-	30,000
Transfers in	248,043	-	248,043
Total other financing sources and uses	<u>278,043</u>	<u>-</u>	<u>278,043</u>
 Net change in fund balance	 117,592	 -	 117,592
Fund balance - beginning	278,473	-	278,473
 Fund balance - ending	 <u>396,065</u>	 <u>-</u>	 <u>396,065</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, 2020**

Net change in fund balances - governmental funds	117,592
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.	41,163
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.	(158,734)
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.	47,000
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.	(13,505)
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.	(3,479)
Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, they are not reported as expenditures in governmental funds. This amount reflects the changes in the accrued liability for compensated absences.	<u>12,696</u>
Change in net position of governmental activities	<u><u>42,733</u></u>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**JUNE 30, 2020**

**ASSETS**

Current assets:	
Cash and cash equivalents	1,158,226
Accounts receivable, net	303,859
Inventories	23,403
Total current assets	1,485,488
Noncurrent assets:	
Restricted cash and cash equivalents	34,434
Capital assets:	
Land	79,523
Other capital assets, net of depreciation	3,168,670
Total noncurrent assets	3,282,627
Total assets	4,768,115

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows related to TMRS Pension	30,123
Deferred outflows related to TMRS OPEB	11,463
Total deferred outflows of resources	41,586
Total assets and deferred outflows	4,809,701

**LIABILITIES**

Current liabilities:	
Accounts payable	125,780
Accrued expenses	4,519
Accrued interest payable	4,990
Revenue bonds payable - current portion	9,000
Total current liabilities	144,289
Noncurrent liabilities:	
Revenue bonds payable	368,000
Customer deposits	143,729
Net pension liability	205,447
Net OPEB liability	68,836
Total noncurrent liabilities	786,012
Total liabilities	930,301

**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows related to TMRS Pension	89,075
Deferred inflows related to TMRS OPEB	1,886
Total deferred inflows of resources	90,961

**NET ASSETS**

Invested in capital assets, net of related debt	2,871,193
Restricted for debt service	34,434
Unrestricted	882,812
Total net position	3,788,439
Total liabilities, deferred inflows, and net position	4,809,701

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, 2020**

<b>Operating revenues:</b>	
Water sales	713,828
Sewer charges	320,137
Electric sales	2,191,201
Gas sales	213,005
Other services	<u>59,345</u>
Total operating revenues	<u>3,497,516</u>
<b>Operating expenses:</b>	
Personnel	1,062,282
Supplies and materials	271,907
Maintenance and repairs	42,785
Contractual services	69,320
Cost of services	1,347,994
Depreciation	296,260
Other operating	<u>53,750</u>
Total operating expenses	<u>3,144,298</u>
Operating income	<u>353,218</u>
<b>Nonoperating revenues (expenses):</b>	
Pension benefit (expense)	(88,136)
OPEB benefit (expense)	(7,140)
Capital grants	232,809
Interest income	16,232
Interest expense	<u>(17,370)</u>
Total nonoperating revenue (expenses)	<u>136,395</u>
Income before transfers	489,613
Transfers to other funds	<u>(248,043)</u>
Change in net position	241,570
Total net position - beginning	<u>3,546,869</u>
Total net position - ending	<u><u>3,788,439</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, 2020**

<b>Cash flows from operating activities:</b>	
Receipts from customers	3,548,471
Payments to suppliers and contractors	(1,827,919)
Payments to employees	(1,120,600)
Net cash provided by (used for) operating activities	<u>599,952</u>
<b>Cash flows from noncapital financing activities:</b>	
Operating transfers	<u>(248,043)</u>
Net cash provided by (used for) noncapital activities	<u>(248,043)</u>
<b>Cash flows from capital and related financing activities:</b>	
Purchases of capital assets	(448,123)
Principal paid on capital debt	(9,000)
Capital contributions	232,809
Interest paid on capital debt	(17,370)
Net cash provided by (used for) capital activities	<u>(241,684)</u>
<b>Cash flows from investing activities:</b>	
Interest received	<u>16,232</u>
Net cash provided by (used for) investing activities	<u>16,232</u>
Net increase (decrease) in cash and cash equivalents	126,457
Cash and cash equivalents, beginning	<u>1,066,203</u>
Cash and cash equivalents, ending	<u><u>1,192,660</u></u>
<b>Reconciliation of operating income to net cash used by operating activities:</b>	
Operating income	353,218
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	296,260
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	40,539
(Increase) decrease in supply inventory	531
Increase (decrease) in accounts payable	(42,694)
Increase (decrease) in accrued liabilities	(58,318)
Increase (decrease) in customer meter deposits	<u>10,416</u>
Net cash provided by operating activities	<u>599,952</u>

See accompanying notes to the financial statements

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## CITY OF HEMPHILL, TEXAS

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

#### 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, 2020

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, 2020

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, 2020

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 fund financial statements.

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**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 January 10, 2021, which is the date that these financial statements were available to be issued.

## CITY OF HEMPHILL, TEXAS

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

#### 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, 2020 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, 2020**

As of June 30, 2020, the bank balances of the City’s deposits (demand and certificates) were \$1,640,201, 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, 2020 as follows:

FDIC Insurance	250,000
Market value of securities pledged	<u>1,600,000</u>
Total coverage	<u><u>1,850,000</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, 2020.

**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, 2020.

**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, 2020.

**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, 2020.

The City’s investments , which are reported as cash as cash equivalents, as of June 30, 2020 are with the depository bank in certificates of deposit in the amount of \$708,142.

**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, 2020, the City’s business type activities restricted assets consisted of \$34,434 for debt service. The governmental activities restricted assets consisted of \$234,869 for FEMA repairs and maintenance expenses related to Hurricane Harvey, \$24,896 for cemetery operations and \$5,632 for other purposes.

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**PROPERTY TAXES**

The City did not levy property taxes in October, 2019. 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, 2020 are \$40,407 for sales tax due from the State of Texas.

**CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	319,468	-	-	319,468
Capital assets, being depreciated:				
Buildings and improvements	1,730,333	-	45,937	1,776,270
Vehicles and equipment	801,997	41,163	(118,211)	724,949
Construction in progress	45,937	-	(45,937)	0
Total capital assets being depreciated	<u>2,578,267</u>	<u>41,163</u>	<u>(118,211)</u>	<u>2,501,219</u>
Less accumulated depreciation for:				
Buildings and improvements	1,071,236	104,152	-	1,175,388
Vehicles and equipment	692,967	54,582	(118,212)	629,337
Total accumulated depreciation	<u>1,764,203</u>	<u>158,734</u>	<u>-</u>	<u>1,804,725</u>
Total capital assets, being depreciated, net	<u>814,064</u>	<u>(117,571)</u>	<u>-</u>	<u>696,494</u>
Governmental activities capital assets, net	<u><u>1,133,532</u></u>	<u><u>(117,571)</u></u>	<u><u>-</u></u>	<u><u>1,015,962</u></u>

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	79,523	-	-	79,523
Capital assets, being depreciated:				
Buildings and improvements	42,420	-	-	42,420
Utility systems	9,624,378	59,953	-	9,684,331
Vehicles and equipment	1,072,467	152,425	-	1,224,892
Construction in progress	88,149	235,742	-	323,891
Totals at cost	<u>10,827,414</u>	<u>448,120</u>	<u>-</u>	<u>11,275,534</u>
Less accumulated depreciation:				
Buildings and improvements	35,635	1,357	-	36,992
Utility system	6,910,759	236,407	-	7,147,166
Vehicles and equipment	864,213	58,493	-	922,706
Total accumulated depreciation	<u>7,810,607</u>	<u>296,257</u>	<u>-</u>	<u>8,106,864</u>
Total capital assets, being depreciated, net	<u>3,016,807</u>	<u>151,863</u>	<u>-</u>	<u>3,168,670</u>
Business-type activities capital assets, net	<u>3,096,330</u>	<u>151,863</u>	<u>-</u>	<u>3,248,193</u>

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

Governmental activities:	
General government	15,924
Public safety	49,240
Streets	82,452
Sanitation	341
Health and welfare	8,137
Parks and recreation	<u>2,640</u>
Total depreciation expense - governmental activities	<u>158,734</u>
Business-type activities:	
Overhead	59,850
Water	17,725
Sewer	91,222
Natural Gas	3,161
Electric	20,895
Water Plant	<u>103,404</u>
Total depreciation expense - business-type activities	<u>296,257</u>

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

**JUNE 30, 2020**

**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, 2020 was \$96,000. The balance is due in one installment of \$123,000 in June 2021 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 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 balance was paid in full during the year ended June 30,2020.

The City’s compliance with the balances required as of June 30, 2020 in each account is as follows:

	<u>Balance Required</u>	<u>Balance Available</u>	<u>Excess (Deficiency)</u>
Series 2005 Revenue Bonds:			
Interest & Sinking Fund	6,491	9,028	2,537
Reserve Fund	25,000	25,392	392

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020**

The annual debt service requirements to maturity, including principal and interest, for the City’s long term debt as of June 30, 2020, is as follows:

Year ending August 31,	Revenue Bonds Payable		Bank Notes Payable		Total
	Principle	Interest	Principle	Interest	
2021	9,000	16,965	96,000	8,483	130,448
2022	10,000	16,560	-	-	26,560
2023	10,000	16,110	-	-	26,110
2024	10,000	15,660	-	-	25,660
2025	10,000	15,210	-	-	25,210
2026-2030	63,000	68,400	-	-	131,400
2031-2035	77,000	52,830	-	-	129,830
2036-2040	88,000	34,830	-	-	122,830
2041-2045	100,000	13,500	-	-	113,500
Totals	<u>377,000</u>	<u>250,065</u>	<u>96,000</u>	<u>8,483</u>	<u>731,548</u>

**Change in Long-Term Liabilities**

Long term liability activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Issued	Retired	Ending Balance	Due in One Year
<b>Government-type activities:</b>					
Street paving loan	143,000	-	47,000	96,000	96,000
<b>Business-type activities:</b>					
Revenue bonds	386,000	-	9,000	377,000	9,000
Total	<u>529,000</u>	<u>-</u>	<u>56,000</u>	<u>473,000</u>	<u>105,000</u>

**AGREEMENT TO PURCHASE WATER**

On July 1, 2011, the City entered into a long term water supply contract with the Sabine River Authority of Texas (Authority) to purchase raw untreated water. The agreement initially requires the City to take and pay for a minimum of 500,000 gallons per day of untreated raw water. The City will pay the Authority a monthly fee based on the contractual rate for raw water.

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**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, 2020.

**INTERFUND TRANSFERS**

During the year ended June 30, 2020, the City had \$248,043 of interfund transfers from the utility fund to the general fund.

**DEFINED BENEFIT PENSION PLAN**

**Plan Description**

The City participates as one of 888 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained [www.tmr.com](http://www.tmr.com).

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

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

**JUNE 30, 2020**

**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, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	15
Inactive employees entitled to but not yet receiving benefits	11
Active employees	<u>26</u>
	52

**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 7.33% and 7.78% in calendar years 2020 and 2019, respectively. The city's contributions to TMRS's pension plan for the year ended June 30, 2020 was \$92,647, which equated the required contributions.

**Net Pension Asset/Liability**

The city's Net Pension Asset/Liability (NPL) was measured as of December 31, 2019, 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:*

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020**

Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall Payroll Growth	3.50% to 11.50%, 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.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. 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, 2020**

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)
Global Equity	30.00%	5.30%
Core Fixed Income	10.00%	1.25%
Non-Core Fixed Income	20.00%	4.14%
Real Return	10.00%	3.85%
Real Estate	10.00%	4.00%
Absolute Return	10.00%	3.48%
Private Equity	10.00%	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, 2020**

*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 12/31/2018	\$ 3,592,898	\$ 2,952,811	\$ 640,087
Changes for the year:			
Service cost	118,227	-	118,227
Interest	240,152	-	240,152
Change in benefit terms			
Difference between expected and actual expense	35,258	-	35,258
Changes of assumptions	(2,018)	-	(2,018)
Contributions - employer	-	95,811	(95,811)
Contributions - employee	-	61,576	(61,576)
Net investment income	-	458,430	(458,430)
Benefit payments, including refunds of employee			
Contributions	(188,422)	(188,422)	0
Administrative expense	-	(2,579)	2,579
Other charges	-	(77)	77
Net Changes	<u>203,197</u>	<u>424,739</u>	<u>(221,542)</u>
<b>Balance at 12/31/2019</b>	<b><u>\$ 3,796,095</u></b>	<b><u>\$ 3,377,550</u></b>	<b><u>\$ 418,545</u></b>

*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.

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020**

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension (Asset)Liability	\$ 822,740	\$ 418,545	\$ 75,781

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at [www.tmr.com](http://www.tmr.com).

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

For the year ended June 30, 2020, the City recognized pension expense of \$132,801.

At June 30, 2020 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	30,404	24,244
Changes in actuarial assumptions	-	1,460
Difference between projected and actual investment earnings	-	106,600
Contributions subsequent to measurement date	43,418	-
Total	\$ 73,822	\$ 132,304

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020**

The amount of \$43,418 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	(27,774)
2021	(32,379)
2022	10,074
2023	(51,821)
Thereafter	<u>-</u>
	<u>(101,900)</u>

**POST EMPLOYMENT-BENEFIT OTHER THAN PENSIONS (OPEB)**

**Plan description**

Texas Municipal Retirement System ("TMRS") administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund ("SDBF"). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered another postemployment benefit ("OPEB") and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

**Benefits provided**

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

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

**JUNE 30, 2020**

**Employees covered by benefit terms**

At June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	16
Inactive employees entitled to but not yet receiving benefits	2
Active employees	<u>26</u>
	44

**Contributions**

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

Employees for the City were required to contribute 5.0% of their annual gross earnings during the fiscal year. The contribution rates for the City was 0.35% and 0.38% in calendar years 2020 and 2019, respectively. The city's contributions to TMRS's SDD plan for the year ended June 30, 2020, was \$4,478, which equated the required contributions.

**Net OPEB Liability**

The City's net OPEB liability was measured as of December 31, 2019, 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 December 31, 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 11.50% , including inflation
Discount Rate*	2.75%

*\*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019.*

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

**JUNE 30, 2020**

*Discount rate*

The discount rate used to measure the total OPEB liability was 2.75 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.

*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 12/31/2018	\$ 86,465	\$-	\$ 86,465
Changes for the year:			
Service cost	3,325	-	3,325
Interest	3,258	-	3,258
Change in benefit terms	-	-	
Difference between expected and actual expense	1,441	-	1,441
Changes of assumptions	16,295	-	16,295
Contributions - employer	-	616	(616)
Contributions - employee	-	-	0
Net investment income	-	-	0
Benefit payments, including refunds of employee			
Contributions	(616)	(616)	0
Administrative expense	-	-	0
Other charges	-	-	0
Net Changes	23,703	0	23,703
<b>Balance at 12/31/2019</b>	<b>\$ 110,168</b>	<b>\$ 0</b>	<b>\$ 110,168</b>

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020**

*Sensitivity of the net OPEB liability to changes in the discount rate and health-care cost trend rates*  
 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 (1.75 percent) or 1-percentage- point higher (3.75 percent) than the current discount rate:

	1% Decrease in Discount Rate (1.75%)	Discount Rate (2.75%)	1% Increase in Discount Rate (3.75%)
City’s Net OPEB (Asset)Liability	\$ 130,237	\$ 110,168	\$ 94,233

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

For the year ended June 30, 2020, the City recognized OPEB expense of \$10,758. At June 30, 2020, 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	1,107	
Changes in actuarial assumptions	14,540	3,021
Difference between projected and actual investment earnings	-	-
Contributions subsequent to measurement date	2,073	-
Total	17,720	3,021

The amount of \$2,073 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	4,175
2021	3,532
2022	3,454
2023	1,465
2024	-
Thereafter	-
Total	12,626

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**UNCERTAINTY DUE TO COVID-19**

The outbreak of coronavirus (COVID-19) in early 2020 was declared a pandemic by the World Health Organization. On March 13, 2020, the governor of Texas declared a state of emergency for all Texas counties. The total impact of COVID-19 on the City's operational and financial performance is unknown, but may result in decreased revenues due to property valuation declines, reduced state aid, or combinations thereof. Management will continue to monitor COVID-19 and its impact on the City and the community.



**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, 2020**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance With Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes:				
Sales taxes	429,317	429,317	464,789	35,472
Franchise taxes	3,688	3,688	6,602	2,914
Permits, fees & assessments	612	612	76,915	76,303
Fines	18,806	18,806	20,602	1,796
Charges for services	361,945	361,945	313,484	(48,461)
Interest income	2,646	2,646	3,186	540
Contributions and donations	533,650	533,650	118,456	(415,194)
Other	2,353	2,353	7,656	5,303
Total revenues	<u>1,353,017</u>	<u>1,353,017</u>	<u>1,011,690</u>	<u>(341,327)</u>
<b>EXPENDITURES</b>				
General government:				
Finance and administration	368,645	368,645	342,831	25,814
Municipal court	39,939	39,939	33,346	6,593
Public safety:				
Fire	33,210	33,210	52,458	(19,248)
Police	364,033	364,033	306,623	57,410
Streets	65,048	65,048	30,983	34,065
Sanitation	252,756	252,756	241,315	11,441
Parks and recreation	14,830	14,830	10,706	4,124
Health and welfare	14,782	14,782	14,788	(6)
Cemetery	500	500	1,259	(759)
Debt service	4,125	4,125	51,669	(47,544)
Capital outlay	17,100	17,100	86,163	(69,063)
Total expenditures	<u>1,174,968</u>	<u>1,174,968</u>	<u>1,172,141</u>	<u>2,827</u>
Excess (deficiency) of revenues over expenditures	178,049	178,049	(160,451)	(338,500)
<b>OTHER FINANCING SOURCES (USES)</b>				
Gain on sale of asset	-	-	30,000	30,000
Transfers in	-	-	248,043	248,043
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>278,043</u>	<u>278,043</u>
Net change in fund balance	178,049	178,049	117,592	(60,457)
Fund balance - beginning	<u>278,473</u>	<u>278,473</u>	<u>278,473</u>	<u>-</u>
Fund balance - ending	<u><u>456,522</u></u>	<u><u>456,522</u></u>	<u><u>396,065</u></u>	<u><u>(60,457)</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,**

	<u>FY 2020</u> <u>Plan Yr 2019</u>	<u>FY 2019</u> <u>Plan Yr 2018</u>	<u>FY 2018</u> <u>Plan Yr 2017</u>	<u>FY 2017</u> <u>Plan Yr 2016</u>	<u>FY 2016</u> <u>Plan Yr 2015</u>	<u>FY 2015</u> <u>Plan Yr 2014</u>
<b>TOTAL PENSION LIABILITY</b>						
Service cost	118,227	114,306	111,009	114,286	90,088	76,685
Interest (on the Total Pension Liability)	240,152	228,964	212,775	193,615	174,273	143,886
Changes of benefit terms	-	-	-	-	281,065	-
Difference between expected and actual experience	35,258	(45,086)	(2,159)	52,548	64,580	(26,977)
Changes in assumptions	(2,018)	-	-	-	87,370	-
Benefit payments, including refunds of employee contributions	(188,422)	(80,372)	(86,509)	(63,427)	(35,868)	(58,639)
Net Change in Total Pension Liability	<u>203,197</u>	<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>3,592,898</u>	<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>3,796,095</u></u>	<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>
<b>PLAN FIDUCIARY NET POSITION</b>						
Contributions:						
Employer	95,811	92,253	87,580	74,016	54,897	48,602
Employee	61,576	57,731	55,784	56,243	54,139	50,207
Net investment income	458,430	(89,452)	356,608	158,204	3,343	120,494
Benefit payments, including refund of employee contributions	(188,422)	(80,372)	(86,509)	(63,427)	(35,868)	(58,639)
Administrative expense	(2,579)	(1,722)	(1,841)	(1,786)	(2,036)	(1,258)
Other	(77)	(90)	(93)	(96)	(100)	(103)
Net Change in Plan Fiduciary Net Position	<u>424,739</u>	<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>2,952,811</u>	<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>3,377,550</u></u>	<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)	418,545	640,087	400,623	577,036	503,168	(83,965)
Plan Fiduciary Net Position as a Percentage of Total Pension Asset/Liability	88.97%	82.18%	88.13%	81.62%	82.30%	103.85%
Covered Payroll	1,225,236	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	34.16%	57.25%	35.91%	51.30%	46.47%	8.36%

NOTE: GASB 68, Paragraph 81 requires that the data in this schedule be data from the period corresponding with the periods covered as of the measurement dates of December 31, 2019 for fiscal year 2020, December 31, 2018 for fiscal year 2019, December 31, 2017 for fiscal year 2018, December 31, 2016 for fiscal year 2017, December 31, 2015 for the fiscal year 2016, and December 31, 2014 for the fiscal year 2015

NOTE: In accordance with GASB 68, Paragraph 138, only five years of data are presented this reporting period. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

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>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarial Determined Contributions	92,647	95,119	88,536	80,906	64,307	55,633
Contributions in relation to the actuarially determined contribution	<u>(92,647)</u>	<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	1,231,518	1,225,236	1,118,083	1,115,670	1,124,858	1,082,784
Contributions as a Percentage of Covered Payroll	7.52%	7.76%	7.92%	7.25%	5.72%	5.14%

NOTE: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending December 31 for the respective fiscal years.

NOTE: In accordance with GASB 68, Paragraph 138, the years of data presented this reporting period are those for which data is available. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

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,**

	<b>FY 2020</b> <b>Plan Yr 2019</b>	<b>FY 2019</b> <b>Plan Yr 2018</b>	<b>FY 2018</b> <b>Plan Yr 2017</b>
<b>TOTAL OPEB LIABILITY</b>			
Service cost	3,325	3,926	3,347
Interest (on the Total OPEB Liability)	3,258	2,889	2,845
Changes of benefit terms	-	-	-
Difference between expected and actual experience	1,441	(7)	-
Changes in assumptions	16,295	(5,430)	5,921
Benefit payments, including refunds of employee contributions	(616)	(462)	(335)
Net Change in Total OPEB Liability	<u>23,703</u>	<u>916</u>	<u>11,778</u>
Total OPEB Liability - Beginning	<u>86,465</u>	<u>85,549</u>	<u>73,771</u>
Total OPEB Liability - Ending (a)	<u><u>110,168</u></u>	<u><u>86,465</u></u>	<u><u>85,549</u></u>
<b>PLAN FIDUCIARY NET POSITION</b>			
Contributions:			
Employer	-	-	-
Employee	616	462	335
Net investment income	-	-	-
Benefit payments, including refund of employee contributions*	(616)	(462)	(335)
Administrative expense	-	-	-
Other	-	-	-
Net Change in Plan Fiduciary Net Position	<u>-</u>	<u>-</u>	<u>-</u>
Plan Fiduciary Net Position- Beginning	<u>-</u>	<u>-</u>	<u>-</u>
Plan Fiduciary Net Position- Ending (b)	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Net OPEB (Asset)Liabilty - Ending (a) - (b)	110,168	86,465	85,549
Plan Fiduciary Net Position as a Percentage of Total OPEB Asset/Liability	0.00%	0.00%	0.00%
Covered Payroll	1,225,236	1,118,083	1,115,670
Net OPEB Asset/Liability as a Percentage of Covered Payroll	8.99%	7.73%	7.67%

*\*Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.*

NOTE: GASB Codification, Vol. 2, P50.238 states that the information on this schedule should be determined as of the measurement date. Therefore the amounts reported for FY 2020, 2019 and 2018 are based on the August 31, 2019, 2018 and 2017 measurement dates, respectively.

This schedule shows only the three years for which this information is available. Additional information will be added until 10 years of data are available and reported.

See accompanying notes to the financial statements

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarial Determined Contributions	4,478	4,401	3,913
Contributions in relation to the actuarially determined contribution	<u>(4,478)</u>	<u>(4,401)</u>	<u>(3,913)</u>
Contribution Deficiency (Excess)	-	-	-
Covered Payroll	1,231,518	1,225,236	1,118,083
Contributions as a Percentage of Covered Payroll	0.36%	0.36%	0.35%

NOTE: GASB Codification, Vol. 2 P50.238 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending December 31 of the preceding year.

NOTE: Information in this schedule should be provided for the years where data is available. Eventually, 10 years of data should be presented.

See accompanying notes to the financial statements

**CITY OF HEMPHILL  
NOTES TO THE REQUIRED SUPPLEMENTARY SCHEDULES  
FOR THE YEAR ENDED JUNE 30, 2020**

**NOTE A: NOTES TO THE PENSION SCHEDULES**

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; 12% 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 2019 valuation pursuant to an experience study of the period 2014 - 2018
Mortality	Post-retirement: 2019 Municipal retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-Retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information:

There were no benefit changes during the year.

**NOTE B: NOTES TO THE OPEB SCHEDULES**

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later. The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

Methods and Assumptions Used to Determine Contribution Rates:

Inflation	2.50%
Salary Increases	3.50% to 11.5% including inflation
Discount rate*	2.75%
Retirees' share of benefit-related costs	\$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 REQUIRED SUPPLEMENTARY SCHEDULES (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2020**

Mortality rates - service retirees            2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.

Mortality rates - disabled retirees            2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In

**Other Information:**

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

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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, 2020**

<b>General Government</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance favorable (unfavorable)</b>
<b>Administration:</b>			
Personnel	250,207	236,576	13,631
Supplies and materials	14,410	16,628	(2,218)
Maintenance and repairs	35,821	32,002	3,819
Contractual services	27,990	26,925	1,065
Capital outlay	17,100	4,600	12,500
Miscellaneous	80,156	64,046	16,110
Total administration	<u>425,684</u>	<u>380,777</u>	<u>44,907</u>
<b>Public Safety</b>			
<b>Fire department:</b>			
Personnel	3,287	3,292	(5)
Supplies and materials	6,689	25,697	(19,008)
Maintenance and repairs	5,000	3,427	1,573
Contractual services	2,200	12,837	(10,637)
Capital outlay	-	-	-
Miscellaneous	16,034	27,205	(11,171)
Total fire department	<u>33,210</u>	<u>72,458</u>	<u>(39,248)</u>
<b>Police department:</b>			
Personnel	289,762	279,304	10,458
Supplies and materials	29,560	18,498	11,062
Maintenance and repairs	4,980	7,468	(2,488)
Contractual services	4,093	6,067	(1,974)
Capital outlay	-	36,563	(36,563)
Miscellaneous	35,638	(4,714)	40,352
Total police department	<u>364,033</u>	<u>343,186</u>	<u>20,847</u>
Total public safety	<u>397,243</u>	<u>415,644</u>	<u>(18,401)</u>
<b>Sanitation</b>			
Personnel	-	-	-
Supplies and materials	2,580	1,149	1,431
Maintenance and repairs	250	2,480	(2,230)
Contractual services	248,232	237,686	10,546
Miscellaneous	1,694	-	1,694
Total sanitation	<u>252,756</u>	<u>241,315</u>	<u>11,441</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, 2020**

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>Streets</b>			
Personnel	35,611	21,020	14,591
Supplies and materials	23,597	7,578	16,019
Maintenance and repairs	865	-	865
Contractual services	500	2,307	(1,807)
Capital outlay	-	45,000	(45,000)
Miscellaneous	8,600	27,078	(18,478)
Total streets	<u>69,173</u>	<u>102,983</u>	<u>(33,810)</u>
<b>Parks and recreation</b>			
Personnel	10,408	7,736	2,672
Supplies and materials	1,270	448	822
Maintenance and repairs	500	-	500
Contractual services	-	487	(487)
Capital outlay	-	-	-
Miscellaneous	2,652	2,035	617
Total parks and recreation	<u>14,830</u>	<u>10,706</u>	<u>4,124</u>
<b>Health and welfare</b>			
Personnel	14,178	14,450	(272)
Supplies and materials	252	125	127
Maintenance and repairs	-	-	-
Contractual services	-	-	-
Miscellaneous	352	213	139
Total health and welfare	<u>14,782</u>	<u>14,788</u>	<u>(6)</u>
<b>Cemetery</b>			
Supplies and materials	-	-	-
Maintenance and repairs	500	-	500
Contractual services	-	1,259	(1,259)
Miscellaneous	-	-	-
Total cemetery	<u>500</u>	<u>1,259</u>	<u>(759)</u>
Total current expenditures	<u><u>1,174,968</u></u>	<u><u>1,167,472</u></u>	<u><u>7,496</u></u>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS**  
**UTILITY FUND**  
**SCHEDULE OF EXPENDITURES BY DEPARTMENT**  
**BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>Electric department</b>			
Personnel	278,281	228,635	49,646
Supplies and materials	97,865	81,412	16,453
Maintenance and repairs	18,400	5,870	12,530
Contractual services	12,020	16,650	(4,630)
Cost of services	1,448,253	1,267,379	180,874
Depreciation	66,739	54,612	12,127
Other operating expenses	20,445	7,195	13,250
Total electric department	<u>1,942,003</u>	<u>1,661,753</u>	<u>280,250</u>
<b>Gas department</b>			
Personnel	64,429	59,853	4,576
Supplies and materials	7,000	5,346	1,654
Maintenance and repairs	550	2,807	(2,257)
Contractual services	3,639	5,311	(1,672)
Cost of services	78,687	50,366	28,321
Depreciation	3,194	3,161	33
Other operating expenses	7,892	7,879	13
Total gas department	<u>165,391</u>	<u>134,723</u>	<u>30,668</u>
<b>Water department</b>			
Supplies and materials	20,672	20,424	248
Maintenance and repairs	125	-	125
Contractual services	460	2,241	(1,781)
Depreciation	18,017	17,728	289
Other operating expenses	5,570	5,489	81
Total water department	<u>44,844</u>	<u>45,882</u>	<u>(1,038)</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, 2020**

	<u>Budget</u>	<u>Actual</u>	<b>Variance favorable (unfavorable)</b>
<b>Sewer department</b>			
Personnel	69,143	56,941	12,202
Supplies and materials	25,387	71,557	(46,170)
Maintenance and repairs	32,350	11,148	21,202
Contractual services	9,804	11,936	(2,132)
Depreciation	93,393	87,779	5,614
Other operating expenses	87,217	11,896	75,321
	<u>317,294</u>	<u>251,257</u>	<u>66,037</u>
<b>Warehouse</b>			
Personnel	651,027	571,268	79,759
Supplies and materials	51,392	26,740	24,652
Maintenance and repairs	13,585	14,153	(568)
Contractual services	400	13,483	(13,083)
Depreciation	16,951	29,576	(12,625)
Other operating expenses	29,694	12,297	17,397
	<u>763,049</u>	<u>667,517</u>	<u>95,532</u>
<b>Water plant</b>			
Personnel	148,628	145,585	3,043
Supplies and materials	39,320	66,428	(27,108)
Maintenance and repairs	16,300	8,807	7,493
Contractual services	25,988	19,699	6,289
Cost of services	63,694	30,249	33,445
Depreciation	120,667	103,404	17,263
Other operating expenses	22,867	8,994	13,873
	<u>437,464</u>	<u>383,166</u>	<u>54,298</u>
<b>Total expenditures</b>	<u><u>3,670,045</u></u>	<u><u>3,144,298</u></u>	<u><u>525,747</u></u>

See accompanying notes to the financial statements



## **Statistical Tables**



**CITY OF HEMPHILL, TEXAS  
SCHEDULE OF INSURANCE POLICIES IN FORCE  
JUNE 30, 2020**

Insurer	Amount of Coverage	Risk Covered	Expiration Date
Texas Municipal League Intergovernmental Risk Pool	\$2,000,000	Comprehensive General liability	10-01-20
	\$2,000,000	Sudden events - Pollution	10-01-20
	\$2,000,000	Automobile liability	10-01-20
	\$2,000,000	Law enforcement liability	10-01-20
	\$2,000,000	Errors and omissions	10-01-20
	\$8,117,450	Real and personal property	10-01-20
	\$500,000	Boiler and machinery accident	10-01-20
	As scheduled	Automobile physical damage	10-01-20
	\$261,218	Mobile equipment	10-01-20
	Statutory	Workers compensation	10-01-20

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**FEDERAL AWARDS SECTION**





Certified Public Accountants

Goff & Herrington, P.C.

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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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 10, 2021.

**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

January 10, 2021



**CITY OF HEMPHILL, TEXAS  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2020**

None

**CITY OF HEMPHILL, TEXAS  
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2020**

No prior audit findings reported.

**CITY OF HEMPHILL, TEXAS  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2020**

None required.

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