

**CITY OF HEMPHILL, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2012**



**CITY OF HEMPHILL, TEXAS**  
**Annual Financial Report**  
**For the Year Ended June 30, 2012**

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**Annual Financial Report**  
**For the Year Ended June 30, 2012**

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## **FINANCIAL SECTION**





Certified Public Accountants

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A.J. Goff, CPA  
Ronnie Herrington, CPA

### **Independent Auditor's Report**

Honorable Mayor and Members of the City Council  
City of Hemphill, Texas

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 the City of Hemphill, Texas as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 25, 2012, on our consideration of the City's 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

## **Independent Auditor's Report**

Honorable Mayor and Members of City Council  
City of Hemphill, Texas  
Page 2

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and page 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of the 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 the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The other schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the financial statements. The other schedules are responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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 it.

*Goff & Herrington, P.C.*

GOFF & HERRINGTON, P. C.  
Certified Public Accountants

October 25, 2012



## 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, 2012. Please read it in conjunction with the City's financial statements, which immediately follow this section.

### Financial Highlights

- ▶ The City's total net assets were \$5,515,282 as of June 30, 2012. Of this amount, \$1,371,319 (unrestricted net assets) may be used to meet the City's continuing obligations to citizens, customers and creditors.
- ▶ During the year ended June 30, 2012, the City's net assets **decreased** by \$229,503.
- ▶ Total long-term debt of the City decreased by \$41,000 to \$574,000 during the current fiscal year.
- ▶ At the end of the current fiscal year, unreserved fund balance for the general fund was \$79,589 or 7.5 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 Assets**. This is the City wide statement of financial position presenting information that includes all of the City's assets and liabilities, with the difference reported as **net assets**. Over time, increases or decreases in net assets 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 assets changed during the current year. All current revenues and expenses are included regardless of when the cash is received or paid.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### **Fund Financial Statements**

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

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

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

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

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**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.

### Government-wide Financial Analysis

**Net Assets.** As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. The City's assets exceed liabilities by \$5,515,282 at the close of the fiscal year.

By far the largest portion of the City's net assets (74.1 percent) reflects its investment in capital assets (land, buildings, utility systems, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these assets to provide services to the citizens, consequently, these assets are not available for future spending. Although the City investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

#### The City's Net Assets

	Governmental Activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	110,561	107,661	1,753,380	1,995,926	1,863,941	2,103,587
Capital and Non-Current	753,947	753,144	3,881,110	4,015,432	4,635,057	4,768,576
<b>Total Assets</b>	864,508	860,805	5,634,490	6,011,358	6,498,998	6,872,163
Other Liabilities	50,672	46,154	359,044	466,224	409,716	512,378
Long Term Liabilities	-	-	574,000	615,000	574,000	615,000
<b>Total Liabilities</b>	50,672	46,154	933,044	1,081,224	983,716	1,127,378
Net Assets:						
Investment in Capital Assets, Net of						
Net of Related Debt	753,947	753,144	3,332,209	3,426,861	4,086,156	4,180,005
Restricted	3,273	3,650	79,634	81,301	82,907	84,951
Unrestricted	56,616	57,857	1,289,603	1,421,972	1,346,219	1,479,829
<b>Total Net Assets</b>	<u>813,836</u>	<u>814,651</u>	<u>4,701,446</u>	<u>4,930,134</u>	<u>5,515,282</u>	<u>5,744,785</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

A portion of the City's net assets (1.5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets in the amount of \$1,346,219 may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities.

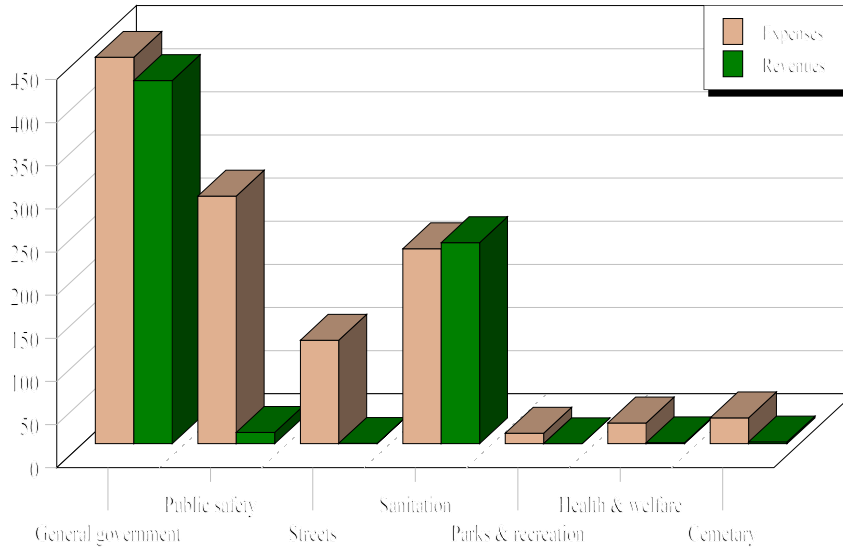
### Changes in the City's Net Assets

	Governmental Activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues:</b>						
Program Revenues:						
Charges for services	250,049	237,416	3,496,640	4,367,402	3,746,689	4,604,818
Operating grants	28,904	34,267	23,030	-	51,934	34,267
Capital grants	2,944	198,867	-	-	2,944	198,867
General Revenues:						
Sales taxes	394,364	407,814	-	-	394,364	407,814
Other taxes	11,967	11,718	-	-	11,967	11,718
Other	17,153	17,446	17,141	392,100	34,294	409,546
<b>Total revenues</b>	<b>705,381</b>	<b>907,528</b>	<b>3,536,811</b>	<b>4,759,502</b>	<b>4,242,192</b>	<b>5,667,030</b>
<b>Expenses:</b>						
General government	448,497	411,957	-	-	448,497	411,957
Public safety	286,339	245,531	-	-	286,339	245,531
Streets	121,959	130,780	-	-	121,959	130,780
Sanitation	226,118	211,503	-	-	226,118	211,503
Parks and recreation	12,341	36,044	-	-	12,341	36,044
Health and welfare	23,720	22,299	-	-	23,720	22,299
Cemetery	30,222	3,460	-	-	30,222	3,460
Debt service	-	-	-	-	-	-
Electric	-	-	1,951,538	1,836,529	1,951,538	1,836,529
Natural gas	-	-	246,791	280,666	246,791	280,666
Water	-	-	708,636	1,458,174	708,636	1,458,174
Sewer	-	-	415,534	393,334	415,534	393,334
<b>Total expenses</b>	<b>1,149,196</b>	<b>1,061,574</b>	<b>3,322,499</b>	<b>3,968,703</b>	<b>4,471,695</b>	<b>5,030,277</b>
Transfers	443,000	241,098	(443,000)	(241,098)	-	-
Increase in net assets	(815)	87,052	(228,688)	549,701	(229,503)	636,753
Beginning net assets	814,651	727,599	4,930,134	4,380,433	5,744,785	5,108,032
Ending net assets	<u>813,836</u>	<u>814,651</u>	<u>4,701,446</u>	<u>4,930,134</u>	<u>5,515,282</u>	<u>5,744,785</u>

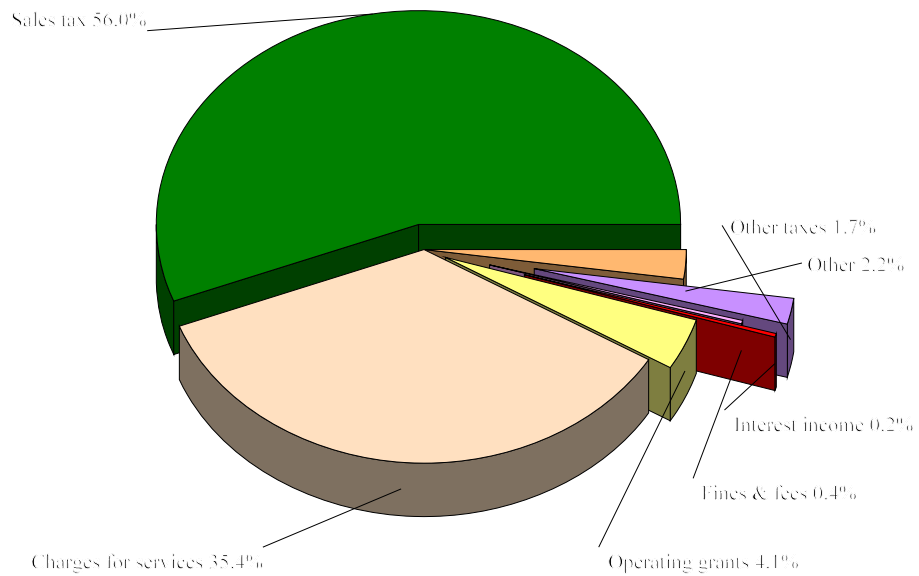
## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Governmental Activities.** Governmental activities decreased the City's net assets by \$815 contributing to the overall decrease in the City's total net assets.

**Expenses and Program Revenues - Governmental Activities**



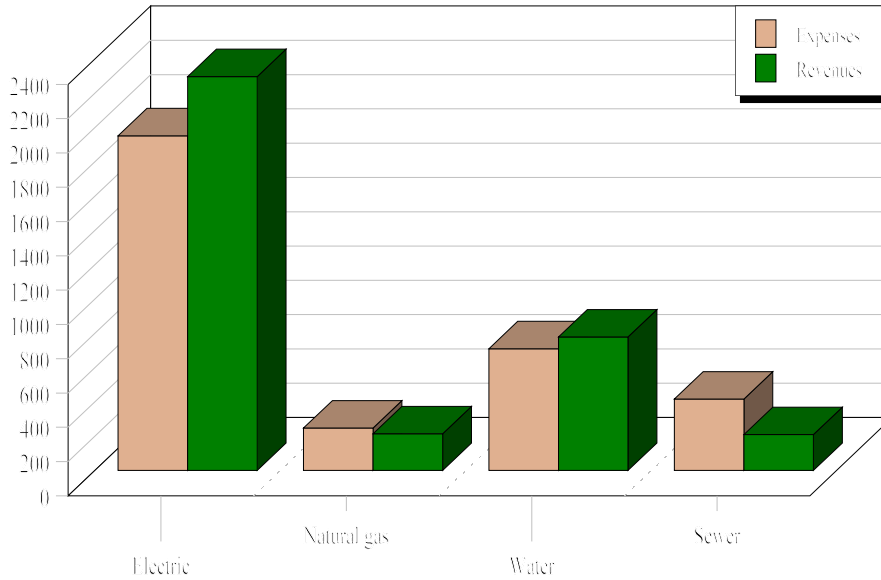
**Revenues by Source - Governmental Activities**



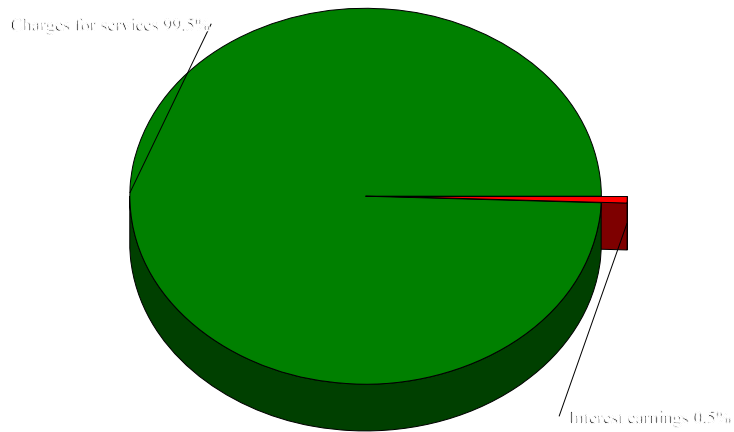
## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Business-type Activities.** Business-type activities decreased the City's net assets by \$228,688, contributing to the overall decrease in the City's total net assets.

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 \$82,862, an increase of \$1,031 compared with the prior year. This balance is unreserved, 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 assets of the proprietary fund at the end of the year amounted to \$1,289,603.

### General Fund Budgetary Highlights

During the year, the City Council approved an increase in appropriations between the original and final amended budget. The following are components of amounts amended:

- ▶ \$75,000 decrease in water plant capital outlay
- ▶ \$75,000 increase in electric system capital outlay

### 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 \$4,635,057 (net of accumulated depreciation). This investment in capital assets included land, buildings, utility system improvements, machinery, equipment, and park facilities.

	<b>City’s Capital Assets (net of depreciation)</b>					
	Governmental		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Land	118,389	92,641	79,523	79,523	197,912	172,164
Buildings & improvements	483,927	531,246	-	-	483,927	531,246
Utility systems	-	-	3,504,547	3,636,909	3,504,547	3,636,909
Property - capital lease	-	-	-	-	-	-
Vehicles and equipment	141,321	129,257	230,681	253,000	372,002	382,257
Construction in progress	10,310	-	66,359	46,000	76,669	46,000
Net capital assets	<u>753,947</u>	<u>753,144</u>	<u>3,881,110</u>	<u>4,015,432</u>	<u>4,635,057</u>	<u>4,768,576</u>

More detailed information about the City’s capital assets is presented in the notes to the financial statements.

## MANAGEMENT DISCUSSION AND ANALYSIS

**Long-term debt.** At the end of the current fiscal year, the City had total long term debt of \$574,000.

	<b>City's Outstanding Debt</b>					
	Governmental Activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Revenue bonds	-	-	574,000	615,000	574,000	615,000
Net capital assets	-	-	574,000	615,000	574,000	615,000

The City's total long term debt decreased by \$41,000 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 2012-2013 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 a one percent increase in utility rates. Major capital expenditures estimated at \$669,950 are expected at the water treatment plant to comply with Texas Commission on Environmental Quality mandates.

Additionally, the City anticipates spending \$331,820 in capital improvements during fiscal year 2012-2013. These include purchasing a pumper truck for the fire department, facility improvements, technology equipment purchases, shelter/work center completion.

If these estimates are realized, the City's budgetary general fund balance and utility reserves are expected to increase by the close of 2013.

### **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 ASSETS  
JUNE 30, 2012**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	77,821	1,303,196	1,381,017
Sales tax receivable	29,467	-	29,467
Accounts receivable, net	-	330,851	330,851
Inventories	-	12,496	12,496
Deferred charges	-	25,099	25,099
Restricted assets:			
Cash and cash equivalents	3,273	81,738	85,011
Capital Assets (net of accumulated depreciation):			
Land	118,389	79,523	197,912
Other capital assets, net of depreciation	635,558	3,801,587	4,437,145
<b>Total assets</b>	<b>864,508</b>	<b>5,634,490</b>	<b>6,498,998</b>
<b>LIABILITIES</b>			
Accounts payable	24,210	208,740	232,950
Accrued expenses	26,462	38,221	64,683
Accrued interest payable	-	7,718	7,718
Customer meter deposits	-	104,365	104,365
Long Term Liabilities:			
Due within one year	-	46,000	46,000
Due after one year	-	528,000	528,000
<b>Total liabilities</b>	<b>50,672</b>	<b>933,044</b>	<b>983,716</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	753,947	3,332,209	4,086,156
Restricted for other purposes	3,273	79,634	82,907
Unrestricted net assets	56,616	1,289,603	1,346,219
<b>Total net assets</b>	<b>813,836</b>	<b>4,701,446</b>	<b>5,515,282</b>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Functions/Programs</u>	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental activities:			
General government	448,497	315	-
Public safety	286,339	13,642	28,154
Streets	121,959	323	-
Sanitation	226,118	232,900	-
Parks and recreation	12,341	-	-
Health and welfare	23,720	1,120	-
Cemetery	30,222	1,749	750
Interest on long term debt	-	-	-
Total governmental activities	<u>1,149,196</u>	<u>250,049</u>	<u>28,904</u>
Business-type activities:			
Electric	1,951,538	2,296,594	23,030
Natural gas	246,791	213,106	-
Water	708,636	778,256	-
Sewer	415,534	208,684	-
Total business-type activities	<u>3,322,499</u>	<u>3,496,640</u>	<u>23,030</u>
	<u>4,471,695</u>	<u>3,746,689</u>	<u>51,934</u>

General revenues:

Sales taxes  
Franchise taxes  
Miscellaneous  
Investment earnings  
Transfers

Total general revenues and transfers

Change in net assets  
Net assets, beginning

Net assets, ending

See accompanying notes to the financial statements

<b>Program Revenues</b>	<b>Net (Expense) Revenues and Changes in Net Assets</b>		
<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business Activities</b>	<b>Total</b>
-	(448,182)	-	(448,182)
-	(244,543)	-	(244,543)
2,944	(118,692)	-	(118,692)
-	6,782	-	6,782
-	(12,341)	-	(12,341)
-	(22,600)	-	(22,600)
-	(27,723)	-	(27,723)
-	-	-	-
2,944	(867,299)	-	(867,299)
-	-	368,086	368,086
-	-	(33,685)	(33,685)
-	-	69,620	69,620
-	-	(206,850)	(206,850)
-	-	197,171	197,171
2,944	(867,299)	197,171	(670,128)
	394,364	-	394,364
	11,967	-	11,967
	15,486	-	15,486
	1,667	17,141	18,808
	443,000	(443,000)	-
	866,484	(425,859)	440,625
	(815)	(228,688)	(229,503)
	814,651	4,930,134	5,744,785
	-	-	-
	813,836	4,701,446	5,515,282

See accompanying notes to the financial statements

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## **Fund Financial Statements**





**CITY OF HEMPHILL, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	77,821	-	77,821
Sales tax receivable	29,467	-	29,467
Cash and cash equivalents - restricted	3,273	-	3,273
Total assets	<u>110,561</u>	-	<u>110,561</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	24,210	-	24,210
Accrued liabilities	3,489	-	3,489
Total liabilities	<u>27,699</u>	-	<u>27,699</u>
<b>Fund balances:</b>			
Restricted fund balance	3,273		3,273
Unassigned fund balance	79,589	-	79,589
Total fund balances	<u>82,862</u>	-	<u>82,862</u>
Total liabilities and fund balances	<u>110,561</u>	-	<u>110,561</u>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2012**

Total fund balances - governmental funds	82,862
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 \$1,389,217 and the accumulated depreciation was \$636,073. The effect of including beginning balances for capital assets (net of depreciation) in the governmental activities is to increase (decrease) net assets.	753,144
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 increase net assets.	803
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(22,973)</u>
Net assets of governmental activities	<u><u>813,836</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, 2012**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Taxes:			
Sales taxes	394,364	-	394,364
Franchise taxes	4,391	-	4,391
Permits, fees and assessments	7,675	-	7,675
Fines	14,652	-	14,652
Charges for services	232,901	-	232,901
Interest income	1,667	-	1,667
Intergovernmental	31,148	-	31,148
Contributions and donations	1,748	-	1,748
Other	17,032	-	17,032
<b>Total revenues</b>	<b>705,578</b>	<b>-</b>	<b>705,578</b>
<b>EXPENDITURES</b>			
Current:			
General government:			
Finance and administration	393,794	-	393,794
Municipal court	21,430	-	21,430
Public safety:			
Fire	54,884	-	54,884
Police	202,408	-	202,408
Streets	117,105	-	117,105
Sanitation	225,415	-	225,415
Parks and recreation	12,341	-	12,341
Health and welfare	23,720	-	23,720
Cemetery	5,474	-	5,474
Debt service	-	-	-
Capital outlay	90,976	-	90,976
<b>Total expenditures</b>	<b>1,147,547</b>	<b>-</b>	<b>1,147,547</b>
Excess (deficiency) of revenues over expenditures	(441,969)	-	(441,969)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	443,000	-	443,000
<b>Total other financing sources and uses</b>	<b>443,000</b>	<b>-</b>	<b>443,000</b>
Net change in fund balance	1,031	-	1,031
Fund balance - beginning	81,831	-	81,831
Fund balance - ending	82,862	-	82,862

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, 2012**

Net change in fund balances - governmental funds	1,031
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 assets.	90,976
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 assets.	(90,173)
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>(2,649)</u>
Change in net assets of governmental activities	<u><u>(815)</u></u>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2012**

**ASSETS**

Current assets:	
Cash and cash equivalents	1,303,196
Accounts receivable	330,851
Inventories	12,496
Total current assets	1,646,543
Noncurrent assets:	
Restricted cash and cash equivalents	81,738
Deferred charges	25,099
Capital assets:	
Land	79,523
Other capital assets, net of depreciation	3,801,587
Total noncurrent assets	3,987,947
Total assets	5,634,490

**LIABILITIES**

Current liabilities:	
Accounts payable	208,740
Accrued expenses	38,221
Accrued interest payable	7,718
Current portion of:	
Capital leases	-
Promissory note	-
Revenue bonds payable	46,000
Total current liabilities	300,679
Noncurrent liabilities:	
Capital leases	-
Promissory note	-
Revenue bonds payable	528,000
Customer deposits	104,365
Total noncurrent liabilities	632,365
Total liabilities	933,044

**NET ASSETS**

Invested in capital assets, net of related debt	3,332,209
Restricted for debt service	79,634
Unrestricted	1,289,603
Total net assets	4,701,446
Total liabilities and net assets	5,634,490

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2012**

<b>Operating revenues:</b>	
Water sales	768,506
Sewer charges	198,934
Electric sales	2,286,844
Gas sales	203,356
Other services	39,001
	<hr/>
Total operating revenues	3,496,641
<b>Operating expenses:</b>	
Personnel	738,732
Supplies and materials	378,838
Maintenance and repairs	75,377
Contractual services	119,710
Cost of services	1,591,615
Depreciation	332,333
Other operating	50,697
	<hr/>
Total operating expenses	3,287,302
Operating income	209,339
<b>Nonoperating revenues (expenses):</b>	
Contributions & donations	23,030
Interest income	17,141
Interest expense	(35,198)
	<hr/>
Total nonoperating revenue (expenses)	4,973
Income before transfers	214,312
Transfers to other funds	(443,000)
	<hr/>
Change in net assets	(228,688)
Total net assets - beginning	4,930,134
	<hr/>
Total net assets - ending	4,701,446
	<hr/> <hr/>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2012**

<b>Cash flows from operating activities:</b>	
Receipts from customers	3,603,555
Payments to suppliers and contractors	(2,343,974)
Payments to employees	(738,732)
Net cash provided by (used for) operating activities	<u>520,849</u>
<b>Cash flows from noncapital financing activities:</b>	
Operating transfers	(443,000)
Net cash provided by (used for) noncapital activities	<u>(443,000)</u>
<b>Cash flows from capital and related financing activities:</b>	
Purchases of capital assets	(177,652)
Principal paid on capital debt	(41,000)
Interest paid on capital debt	(33,869)
Contributions and donations	23,030
Net cash provided by (used for) capital activities	<u>(229,491)</u>
<b>Cash flows from investing activities:</b>	
Interest received	17,141
Net cash provided by (used for) investing activities	<u>17,141</u>
Net increase (decrease) in cash and cash equivalents	(134,501)
Cash and cash equivalents, beginning	<u>1,519,435</u>
Cash and cash equivalents, ending	<u><u>1,384,934</u></u>
<b>Reconciliation of operating income to net cash used by operating activities:</b>	
Operating income	209,339
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	332,333
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	106,914
(Increase) decrease in supply inventory	(199)
Increase (decrease) in accounts payable	(110,231)
Increase (decrease) in accrued liabilities	(16,428)
Increase (decrease) in customer meter deposits	(879)
Net cash provided by operating activities	<u><u>520,849</u></u>

See accompanying notes to the financial statements

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## CITY OF HEMPHILL, TEXAS

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

#### 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 assets 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, 2012

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, 2012

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, 2012**

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

**Net Assets and Fund Balance** - Net assets in the statement of net assets 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 and security.

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

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

## CITY OF HEMPHILL, TEXAS

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

**Interfund Transactions** - Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. All other interfund transactions are reported as operating transfers.

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

**Statement of Cash Flows** - For the purposes of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

**Subsequent Events** - Management has evaluated subsequent events through October 25, 2012, which is the date that these financial statements were available to be issued.

### DEPOSITS AND INVESTMENTS

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

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

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, 2012 were entirely covered by FDIC insurance or by pledged collateral held by the City’s agent bank in the City’s name.

As of June 30, 2012, the bank balances of the City’s deposits (demand and certificates) were \$1,531,325. The City 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, 2012 as follows:

FDIC Insurance	750,000
Market value of securities pledged	<u>2,169,313</u>
Total coverage	<u>2,919,313</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, 2012.

**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, 2012.

**Interest Rate Risk.** - This is the risk that changes in interest rates will adversely affect the fair value of an investment. The City was not exposed to interest rate risk at June 30, 2012.

**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, 2012.

**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, 2012.

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

The City's investments, which are reported as cash or cash equivalents, as of June 30, 2012 are with the depository bank in certificates of deposit in the amount of \$993,087.

**Restricted deposits** - Resources set aside for repayment of revenue bonds are classified as restricted assets in the statement of net assets since their use is limited by bond covenants. At June 30, 2012, the City's business type activities restricted assets consisted of \$79,634 for debt service. The governmental activities restricted assets consisted of \$1,893 for cemetery operations and \$1,380 for other purposes.

**PROPERTY TAXES**

The City did not levy property taxes in October, 2011. 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**

Amount due from other governments as of June 30, 2012 is \$29,467 for sales tax due from the State of Texas.

**CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2012 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	92,641	25,748	-	118,389
Capital assets, being depreciated:				
Buildings and improvements	761,314	9,984	-	771,298
Vehicles and equipment	535,262	44,934	(21,390)	558,806
Construction in progress	-	10,310	-	10,310
Total capital assets being depreciated	1,296,576	65,228	(21,390)	1,340,414
Less accumulated depreciation for:				
Buildings and improvements	230,067	57,303	-	287,370
Vehicles and equipment	406,006	32,870	(21,390)	417,486

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
Total accumulated depreciation	636,073	90,173	(21,390)	704,856
Total capital assets, being depreciated, net	660,503	(24,945)	0	635,558
Governmental activities capital assets, net	753,144	803	0	753,947
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	79,523	-	-	79,523
Construction in progress	46,000	20,359	-	66,359
Capital assets, being depreciated:				
Buildings and improvements	28,850	-	-	28,850
Utility systems	8,229,446	147,463	-	8,376,909
Vehicles and equipment	804,338	30,189	-	834,527
Totals at cost	9,062,634	177,652	0	9,240,286
Less accumulated depreciation:				
Buildings and improvements	28,850	-	-	28,850
Utility system	4,592,352	279,825	-	4,872,177
Vehicles and equipment	551,523	52,508	-	604,031
Total accumulated depreciation	5,172,725	332,333	0	5,505,058
Total capital assets, being depreciated, net	3,889,909	(154,681)	0	3,735,228
Business-type activities capital assets, net	3,969,432	(134,322)	0	3,881,110

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

Governmental activities:	
General government	7,537
Public safety	29,016
Streets	38,435
Sanitation	5,555



**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

Health and welfare	440
Parks and recreation	<u>9,190</u>
Total depreciation expense - governmental activities	<u><u>90,173</u></u>
Business-type activities:	
Overhead	52,508
Water	20,956
Sewer	99,460
Natural Gas	13,073
Electric	23,578
Water Plant	<u>122,758</u>
Total depreciation expense - business-type activities	<u><u>332,333</u></u>

**LONG-TERM DEBT**

**Revenue Bonds**

In April 1995, the City Council authorized the issuance of Waterworks and Sewer System Revenue Bonds in the amount of \$495,000. The proceeds were used to make improvements and extensions to the Water and Sewer system, including water supply and treatment facilities. The revenue bonds are scheduled to mature April 1, 2015, with interest rates ranging from 6.65% to 8.25%. The revenue bonds are payable solely from the net revenues derived from the operations of the City's water and sewer system.

The revenue bond ordinance contains significant requirements for annual debt service and reserve funds, in addition to various other requirements. The City is in compliance with all significant requirements of the bond ordinance. As of June 30, 2012, the City had 683 water connections and 581 sewer connections.

The City's compliance with the balances required as of June 30, 2012 in each account is as follows:

	Balance Required	Balance Available	Excess (Deficiency)
Series 1995 Revenue Bonds:			
Interest & Sinking Fund	12,242	14,339	2,097
Reserve Fund	50,560	50,560	-

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

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

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 City was not in compliance with the requirements of this bond ordinance at June 30, 2012. The City made the required deposit in July 2012 to comply with the ordinance.

The City’s compliance with the balances required as of June 30, 2012 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	6,506	6,731	225
Reserve Fund	12,500	10,108	(2,392)

The annual debt service requirements to maturity, including principal and interest, for the City’s business type activities long term debt as of June 30, 2012, is as follows:

	<u>Year ending June 30,</u>
2013	76,873
2014	79,322
2015	80,295
2016	26,855
2017	26,495
2018-2022	131,805
2023-2027	129,960
2028-2032	131,595
2033-2037	124,855
2037-2041	122,730
2043-2044	65,400
Total principal and interest	996,185
Less interest	422,185
Total debt at June 30, 2012	574,000

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**Change in Long-Term Liabilities**

Long term liability activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Issued	Retired	Ending Balance	Due in One Year
<b>Business-type activities:</b>					
Revenue bonds	615,000	-	41,000	574,000	46,000

**AGREEMENT TO PURCHASE WATER**

On July 1, 1996, the City entered into a long term water supply agreement with the Sabine River Authority of Texas (Authority). The agreement requires the City to take and pay for a minimum monthly quantity of treated water of 18,000,000 gallons. The City will pay the Authority a monthly fee based on the unit cost for treated water. The unit cost is recalculated each year based on the total estimated annual cost for the next full contract year. This water supply agreement was terminated in June 2011.

On July 1, 2011, the City entered into a long term water supply contract with the 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.

**WATER TREATMENT AND TRANSMISSION FACILITIES OPERATING AGREEMENT**

On July 1, 1996, the City entered into a long term operating agreement with the Sabine River Authority of Texas (Authority). The agreement stipulates that the City will operate and maintain the treatment and transmission facilities as an independent contractor and shall be paid a monthly fee by the Authority based on the actual quantity of water purchased times the unit cost for treated water. This water treatment and operating agreement was terminated in June 2011.

**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.

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**COMMITMENTS AND CONTINGENCIES**

**Grants**

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, 2012.

**RETIREMENT PLAN**

**Plan Description**

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual report that included financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at [www.TMRS.com](http://www.TMRS.com).

The plan provisions are adopted by City Council, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2011	Plan year 2012
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	1 to 1	1.5 to 1
Years required for vesting	5	5
Service retirement eligibility (expresses as age/years of service)	60/5,0/25	60/5,0/25
Updates Service Credit	100% Repeating	100% Repeating
Annuity Increase (to retirees)	0% of CPI	0% of CPI

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**Contributions**

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member’s projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/asset are as follows:

Annual Required Contribution (ARC)	37,288
Interest on Net Pension Obligation	0
Adjustment to the ARC	0
	0
Annual Pension Cost (APC)	37,288
Contributions Made	37,288
	0
Increase (decrease) in net pension obligation	0
Net Pension Obligation/(Asset) beginning of year	0
Net Pension Obligation/(Asset), end of year	0

**Three-year Trend Information**

Accounting Year End	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/11	31,963	100%	---
6/30/10	30,395	100%	---
6/30/09	29,935	100%	---

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

Valuation Date	12/31/09	12/31/10	12/31/11
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	22.4 years; closed period	24.7 years; closed period	25.1 years; closed period
Amortization Period for new Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10 Year Smoothed Market	10 Year Smoothed Market	10 Year Smoothed Market
Actuarial Assumptions			
Investment Rate of Return*	7.50%	7.00%	7.00%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustment	0.00%	0.00%	0.00%

The funded status as of December 31, 2012, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/09	\$1,122,589	\$1,106,120	101.5%	\$(16,469)	\$878,589	(1.9%)
12/31/10	\$1,506,566	\$1,146,240	103.0%	\$(44,165)	\$871,799	(5.1%)
12/31/11	\$1,637,328	\$1,599,576	102.4%	\$(37,752)	\$906,890	(4.2%)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the

**CITY OF HEMPHILL, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

probability of events far into the future. Actuarial determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented above, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

The City also participates in the cost sharing multiple-employer defined group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post employment benefit" or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree life insurance during employees' entire careers. The City's contribution to the TMRS SDBF for the fiscal years ended 2012, 2011, and 2010 were \$2,589, \$2,381, and \$2,366, respectively, which equaled the required contributions each year.

## **Budgetary Comparison Reporting**





**CITY OF HEMPHILL, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Sales taxes	392,973	392,973	394,364	1,391
Franchise taxes	5,467	5,467	4,391	(1,076)
Permits, fees & assessments	27,012	27,012	7,675	(19,337)
Fines	9,776	9,776	14,652	4,876
Charges for services	218,028	218,028	232,901	14,873
Interest income	2,047	2,047	1,667	(380)
Intergovernmental	305,133	305,133	31,148	(273,985)
Contributions and donations	3,872	3,872	1,748	(2,124)
Other	13,415	13,415	17,032	3,617
Total revenues	977,723	977,723	705,578	(272,145)
<b>EXPENDITURES</b>				
Current:				
General government:				
Finance and administration	363,917	368,917	393,794	(24,877)
Municipal court	25,517	25,517	21,430	4,087
Public safety:				
Fire	24,593	24,593	54,884	(30,291)
Police	197,539	197,539	202,408	(4,869)
Streets	113,340	113,340	117,105	(3,765)
Sanitation	206,073	206,073	225,415	(19,342)
Parks and recreation	11,425	11,425	12,341	(916)
Health and welfare	21,145	21,145	23,720	(2,575)
Cemetery	14,050	9,050	5,474	3,576
Debt service	-	-	-	-
Capital outlay	-	-	90,976	(90,976)
Total expenditures	977,599	977,599	1,147,547	(169,948)
Excess (deficiency) of revenues over expenditures	124	124	(441,969)	(442,093)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	443,000	443,000
Total other financing sources (uses)	-	-	443,000	443,000
Net change in fund balance	124	124	1,031	907
Fund balance - beginning	81,831	81,831	81,831	-
Fund balance - ending	81,955	81,955	82,862	907

See accompanying notes to the financial statements

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## **Other Schedules**



**CITY OF HEMPHILL, TEXAS  
GENERAL FUND  
SCHEDULE OF CURRENT EXPENDITURES BY DEPARTMENT  
BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2012**

<b>General Government</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance favorable (unfavorable)</b>
<b>Administration:</b>			
Personnel	265,625	304,064	(38,439)
Supplies and materials	37,505	38,989	(1,484)
Maintenance and repairs	18,285	23,482	(5,197)
Contractual services	27,448	15,864	11,584
Miscellaneous	45,571	32,825	12,746
<b>Total administration</b>	<b>394,434</b>	<b>415,224</b>	<b>(20,790)</b>
<b>Public Safety</b>			
<b>Fire Department:</b>			
Personnel	-	425	(425)
Supplies and materials	12,511	39,045	(26,534)
Maintenance and repairs	5,387	5,716	(329)
Contractual services	3,681	4,663	(982)
Miscellaneous	3,014	5,035	(2,021)
<b>Total fire department</b>	<b>24,593</b>	<b>54,884</b>	<b>(30,291)</b>
<b>Police department:</b>			
Personnel	169,148	172,055	(2,907)
Supplies and materials	16,966	16,266	700
Maintenance and repairs	4,118	9,595	(5,477)
Contractual services	5,271	3,576	1,695
Miscellaneous	2,036	916	1,120
<b>Total police department</b>	<b>197,539</b>	<b>202,408</b>	<b>(4,869)</b>
<b>Total public safety</b>	<b>222,132</b>	<b>257,292</b>	<b>(35,160)</b>
<b>Sanitation</b>			
Personnel	5,606	3,354	2,252
Supplies and materials	2,610	5,239	(2,629)
Maintenance and repairs	1,535	6,397	(4,862)
Contractual services	196,222	201,481	(5,259)
Miscellaneous	100	8,944	(8,844)
<b>Total sanitation</b>	<b>206,073</b>	<b>225,415</b>	<b>(19,342)</b>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS  
GENERAL FUND  
SCHEDULE OF CURRENT EXPENDITURES BY DEPARTMENT  
BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2012**

	<b>Budget</b>	<b>Actual</b>	<b>Variance favorable (unfavorable)</b>
<b>Streets</b>			
Personnel	82,961	85,453	(2,492)
Supplies and materials	20,784	25,650	(4,866)
Maintenance and repairs	2,026	3,084	(1,058)
Contractual services	7,569	2,918	4,651
Miscellaneous	-	-	-
<b>Total streets</b>	<b>113,340</b>	<b>117,105</b>	<b>(3,765)</b>
<b>Parks and recreation</b>			
Personnel	-	6,497	(6,497)
Supplies and materials	7,291	4,882	2,409
Maintenance and repairs	3,419	951	2,468
Contractual services	465	-	465
Miscellaneous	250	11	239
<b>Total parks and recreation</b>	<b>11,425</b>	<b>12,341</b>	<b>(916)</b>
<b>Health and welfare</b>			
Personnel	18,388	19,486	(1,098)
Supplies and materials	1,533	3,005	(1,472)
Maintenance and repairs	632	-	632
Contractual services	492	1,229	(737)
Miscellaneous	100	-	100
<b>Total health and welfare</b>	<b>21,145</b>	<b>23,720</b>	<b>(2,575)</b>
<b>Cemetery</b>			
Supplies and materials	750	-	750
Maintenance and repairs	6,300	5,024	1,276
Contractual services	2,000	450	1,550
Miscellaneous	-	-	-
<b>Total cemetery</b>	<b>9,050</b>	<b>5,474</b>	<b>3,576</b>
<b>Total current expenditures</b>	<b>977,599</b>	<b>1,056,571</b>	<b>(78,972)</b>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS  
UTILITY FUND  
SCHEDULE OF EXPENDITURES BY DEPARTMENT  
BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2012**

	<b>Budget</b>	<b>Actual</b>	<b>Variance favorable (unfavorable)</b>
<b>Electric Department</b>			
Personnel	164,126	167,971	(3,845)
Supplies and materials	102,372	92,149	10,223
Maintenance and repairs	4,270	4,625	(355)
Contractual services	4,745	23,940	(19,195)
Cost of services	1,498,332	1,482,258	16,074
Depreciation	41,110	47,309	(6,199)
Other operating expenses	1,439	540	899
<b>Total electric department</b>	<b>1,816,394</b>	<b>1,818,792</b>	<b>(2,398)</b>
<b>Gas department</b>			
Supplies and materials	14,795	7,602	7,193
Maintenance and repairs	150	502	(352)
Contractual services	4,117	3,285	832
Cost of services	137,079	85,723	51,356
Depreciation	25,727	13,073	12,654
Other operating expenses	2,089	3,860	(1,771)
<b>Total gas department</b>	<b>183,957</b>	<b>114,045</b>	<b>69,912</b>
<b>Water department</b>			
Supplies and materials	33,417	33,084	333
Maintenance and repairs	1,903	-	1,903
Contractual services	739	280	459
Depreciation	21,055	20,956	99
Other operating expenses	2,526	1,896	630
<b>Total water department</b>	<b>59,640</b>	<b>56,216</b>	<b>3,424</b>

See accompanying notes to the financial statements



**CITY OF HEMPHILL, TEXAS  
UTILITY FUND  
SCHEDULE OF EXPENDITURES BY DEPARTMENT  
BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2012**

	<b>Budget</b>	<b>Actual</b>	<b>Variance favorable (unfavorable)</b>
<b>Sewer department</b>			
Personnel	45,764	48,019	(2,255)
Supplies and materials	85,710	63,630	22,080
Maintenance and repairs	11,176	33,545	(22,369)
Contractual services	17,373	9,539	7,834
Depreciation	96,342	102,129	(5,787)
Other operating expenses	7,866	5,278	2,588
<b>Total sewer department</b>	<b>264,231</b>	<b>262,140</b>	<b>2,091</b>
<b>Warehouse</b>			
Personnel	356,157	366,292	(10,135)
Supplies and materials	50,196	55,178	(4,982)
Maintenance and repairs	3,555	14,748	(11,193)
Contractual services	37,050	42,682	(5,632)
Depreciation	21,573	23,394	(1,821)
Miscellaneous	30,840	28,690	2,150
<b>Total warehouse</b>	<b>499,371</b>	<b>530,984</b>	<b>(31,613)</b>
<b>Water plant</b>			
Personnel	151,629	156,450	(4,821)
Supplies and materials	108,306	127,195	(18,889)
Maintenance and repairs	17,278	21,957	(4,679)
Contractual services	49,782	39,984	9,798
Cost of services	55,270	23,634	31,636
Depreciation	110,531	125,472	(14,941)
Other operating expenses	9,415	10,433	(1,018)
<b>Total water plant</b>	<b>502,211</b>	<b>505,125</b>	<b>(2,914)</b>
<b>Total expenditures</b>	<b>3,325,804</b>	<b>3,287,302</b>	<b>38,502</b>

See accompanying notes to the financial statements

## **Statistical Tables**



**CITY OF HEMPHILL, TEXAS**

**SCHEDULE OF INSURANCE POLICIES IN FORCE**

**JUNE 30, 2012**

<b>Insurer</b>	<b>Amount of Coverage</b>	<b>Risk Covered</b>	<b>Expiration Date</b>
Texas Municipal League	\$2,000,000	Comprehensive General liability	10-01-12
Intergovernmental Risk Pool	\$2,000,000	Sudden events - Pollution	10-01-12
	\$2,000,000	Automobile liability	10-01-12
	\$2,000,000	Law enforcement liability	10-01-12
	\$2,000,000	Errors and omissions	10-01-12
	\$6,417,700	Real and personal property	10-01-12
	\$500,000	Boiler and machinery accident	10-01-12
	As scheduled	Automobile physical damage	10-01-12
	\$306,184	Mobile equipment	10-01-12
	Statutory	Workers compensation	10-01-12

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**FEDERAL AWARDS SECTION**





Certified Public Accountants

Goff & Herrington, P.C.

A.J. Goff, CPA  
Ronnie Herrington, CPA

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**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 AUDIT STANDARDS**

Honorable Mayor and Members of the City Council  
City of Hemphill, Texas

We have audited the 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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 25, 2012. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



**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 AUDIT 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 of 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.

This report is intended solely for the information and use of City management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Goff & Herrington, P.C.*

GOFF & HERRINGTON  
Certified Public Accountants

October 25, 2012

**CITY OF HEMPHILL, TEXAS  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2012**

No findings reported.

**CITY OF HEMPHILL, TEXAS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2012**

No prior audit findings reported.

**CITY OF HEMPHILL, TEXAS  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2012**

None required.

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