

CITY OF HEMPHILL, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2013

CITY OF HEMPHILL, TEXAS
Annual Financial Report
For the Year Ended June 30, 2013

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FINANCIAL SECTION



Certified Public Accountants

Goff & Herrington, P.C.

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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

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, 2013, 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, 2013, 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 and budgetary comparison information on pages 4-11 and 37 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 introductory section, other schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements.

Independent Auditor's Report

Honorable Mayor and Members of City Council
City of Hemphill, Texas
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The other schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other schedules and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections 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 October 22, 2013, 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

October 22, 2013

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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, 2013. 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 \$6,141,295 as of June 30, 2013. Of this amount, \$913,505 (unrestricted) may be used to meet the City's continuing obligations to citizens, customers and creditors.
- ▶ During the year ended June 30, 2013, the City's net position **increased** by \$626,013.
- ▶ Total long-term debt of the City decreased by \$46,000 to \$528,000 during the current fiscal year.
- ▶ At the end of the current fiscal year, unreserved fund balance for the general fund was \$115,951 or 7.16 percent of total general fund current expenditures.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Fund Financial Statements

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

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

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

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

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

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

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 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 \$6,141,295 at the close of the fiscal year.

By far the largest portion of the City's net position (83.76 percent) reflects its investment in capital assets (land, buildings, utility systems, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these assets to provide services to the citizens, consequently, these assets are not available for future spending. Although the City investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The City's Net Position

	Governmental Activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Current and Other Assets	264,741	110,561	1,327,538	1,753,380	1,592,279	1,863,941
Capital and Non-Current	1,209,870	753,947	4,461,842	3,881,110	5,671,712	4,635,057
Total Assets	1,474,611	864,508	5,789,380	5,634,490	7,263,991	6,498,998
Other Liabilities	174,215	50,672	471,481	359,044	645,696	409,716
Long Term Liabilities	-	-	477,000	574,000	477,000	574,000
Total Liabilities	174,215	50,672	948,481	933,044	1,122,696	983,716
Net Position:						
Investment in Capital Assets,						
Net of Related Debt	1,209,870	753,947	3,933,842	3,332,209	5,143,712	4,086,156
Restricted	4,444	3,273	87,418	79,634	91,862	82,907
Unrestricted	86,082	56,616	819,639	1,289,603	905,721	1,346,219
Total Net Position	<u>1,300,396</u>	<u>813,836</u>	<u>4,840,899</u>	<u>4,701,446</u>	<u>6,141,295</u>	<u>5,515,282</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

A portion of the City's net assets (1.4 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 \$913,505 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 position, both for the City as a whole, as well as for its separate governmental and business-type activities.

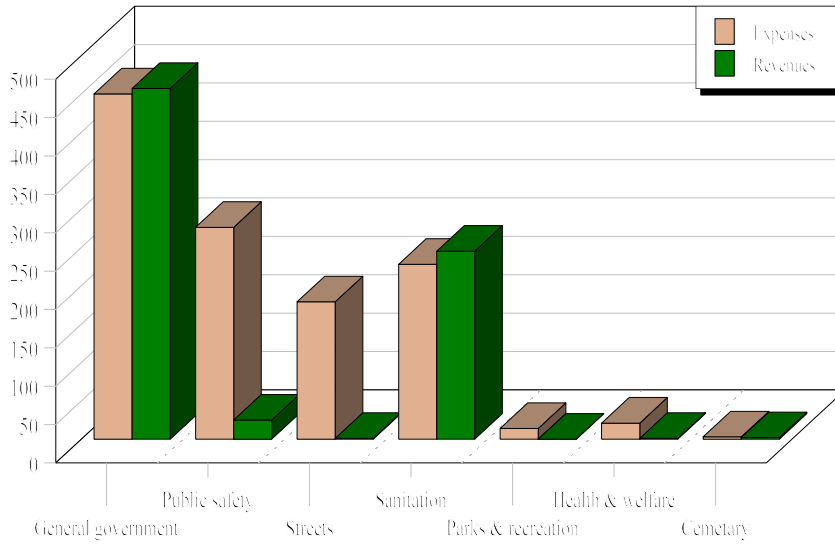
Changes in the City's Net Position

	Governmental Activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues:						
Charges for services	274,956	250,049	3,465,429	3,496,640	3,740,385	3,746,689
Operating grants	9,817	28,904	2,000	23,030	11,817	51,934
Capital grants	527,569	2,944	293,212	-	820,781	2,944
General Revenues:						
Sales taxes	445,326	394,364	-	-	445,326	394,364
Other taxes	11,951	11,967	-	-	11,951	11,967
Other	20,019	17,153	15,880	17,141	35,899	34,294
Total revenues	1,289,638	705,381	3,776,521	3,536,811	5,066,159	4,242,192
Expenses:						
General government	450,004	448,497	-	-	450,004	448,497
Public safety	275,525	286,339	-	-	275,525	286,339
Streets	179,024	121,959	-	-	179,024	121,959
Sanitation	227,653	226,118	-	-	227,653	226,118
Parks and recreation	14,483	12,341	-	-	14,483	12,341
Health and welfare	21,004	23,720	-	-	21,004	23,720
Cemetery	2,885	30,222	-	-	2,885	30,222
Debt service	-	-	-	-	-	-
Electric	-	-	1,967,288	1,951,538	1,967,288	1,951,538
Natural gas	-	-	221,589	246,791	221,589	246,791
Water	-	-	668,678	708,636	668,678	708,636
Sewer	-	-	412,013	415,534	412,013	415,534
Total expenses	1,170,578	1,149,196	3,269,568	3,322,499	4,440,146	4,471,695
Transfers	367,500	443,000	(367,500)	(443,000)	-	-
Increase in net position	486,560	(815)	139,453	(228,688)	626,013	(229,503)
Beginning net position	813,836	814,651	4,701,446	4,930,134	5,515,282	5,744,785
Ending net position	<u>1,300,396</u>	<u>813,836</u>	<u>4,840,899</u>	<u>4,701,446</u>	<u>6,141,295</u>	<u>5,515,282</u>

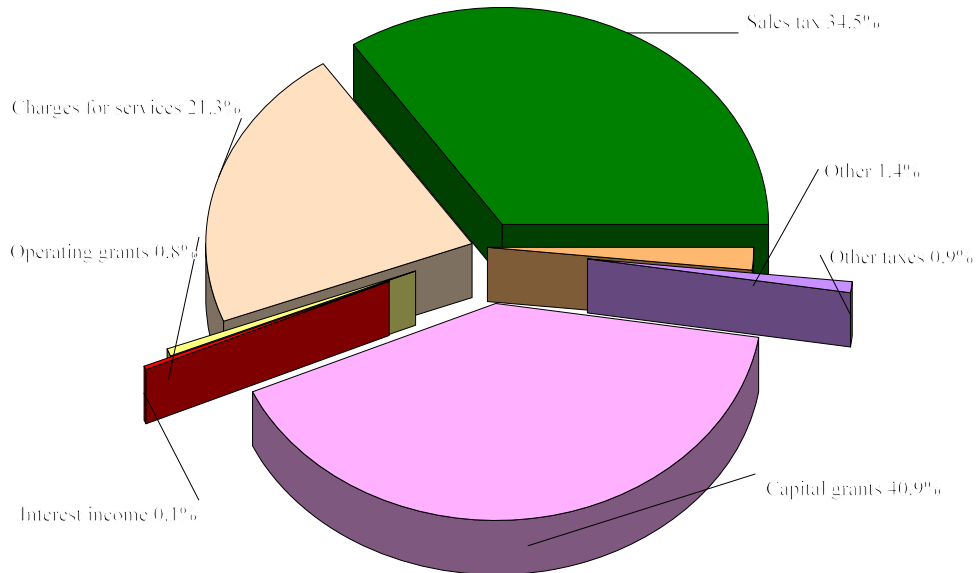
MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities. Governmental activities increased the City's net position by \$486,560 contributing to the overall increase in the City's total net position.

Expenses and Program Revenues - Governmental Activities



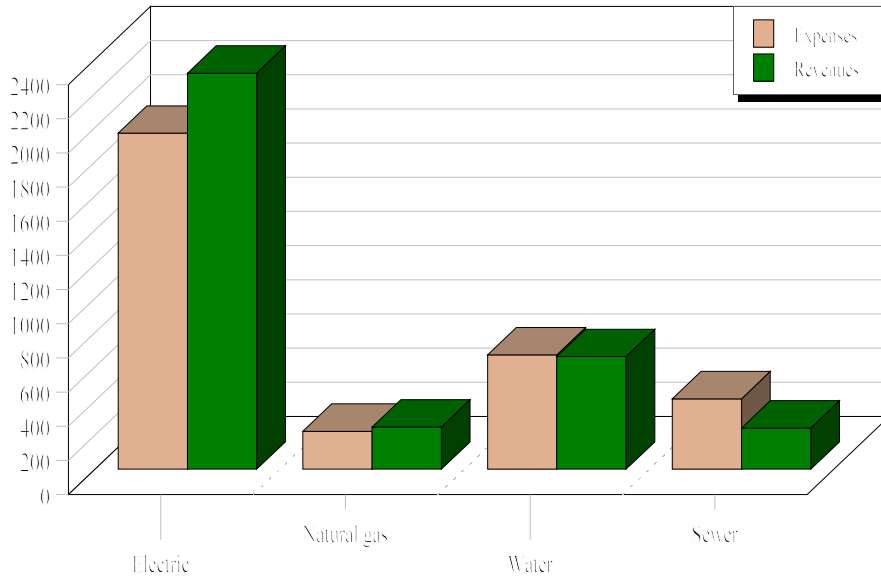
Revenues by Source - Governmental Activities



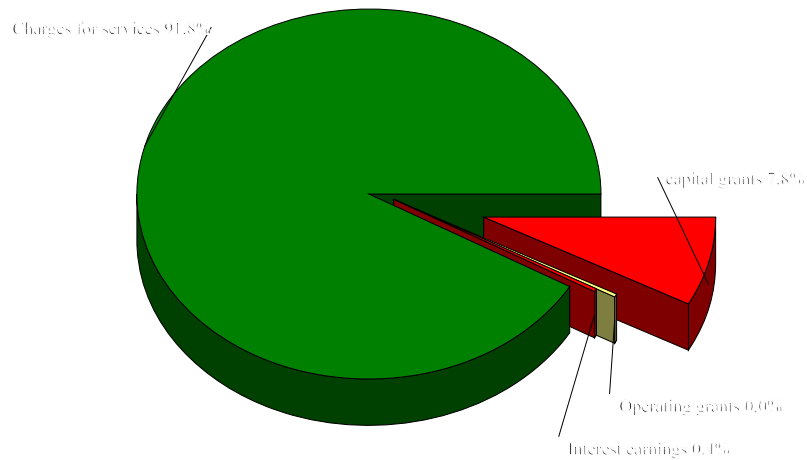
MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-type Activities. Business-type activities increased the City's net position by \$139,453, 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 \$120,395, an increase of \$37,533 compared with the prior year. Of this balance, \$115,951 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 position of the proprietary fund at the end of the year amounted to \$827,423.

General Fund Budgetary Highlights

During the year, the City monitored its budget as its actual results were analyzed. Actual expenditures were \$197,483 over the final budget amounts. The most significant negative variance was in the capital outlay function.

There was a negative budget variance of \$42,558 in overall revenues. The most significant negative variance was in the intergovernmental revenues.

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 \$5,671,712 (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		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Land	118,389	118,389	79,523	79,523	197,912	197,912
Buildings & improvements	644,265	483,927	-	-	644,265	483,927
Utility systems	-	-	3,426,752	3,504,547	3,426,752	3,504,547
Property - capital lease	-	-	-	-	-	-
Vehicles and equipment	151,551	141,321	182,398	230,681	333,949	372,002
Construction in progress	295,665	10,310	773,169	66,359	1,068,834	76,669
Net capital assets	1,209,870	753,947	4,461,842	3,881,110	5,671,712	4,635,057

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 \$528,000.

	City's Outstanding Debt					
	Governmental Activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Revenue bonds	-	-	528,000	574,000	528,000	574,000
Net capital assets	-	-	528,000	574,000	528,000	574,000

The City's total long term debt decreased by \$46,000 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 2013-2014 budget, including estimated sales tax receipts and fees that will be charged for business-type activities. The City estimates revenues and operating transfers in the General Fund will provide resources to fund the necessary operating expenses of the General Fund. The other ongoing general fund revenue items (charges for services, etc.) should generate similar revenues as the prior year. The City's business-type activities budget reflect no increases in utility rates. Major capital expenditures estimated at \$250,000 are expected for the street paving project, with funds to be provided by short term debt.

Additionally, the City anticipates spending \$87,700 in other capital improvements during fiscal year 2013-2014. These include purchasing a new police car, improvements to city parks, and updating the phone system.

If these estimates are realized, the City's budgetary general fund balance and utility reserves are expected to increase by the close of 2014.

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, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	79,504	891,431	970,935
Sales tax receivable	66,563	-	66,563
Intergovernmental receivables	114,230	-	114,230
Accounts receivable, net	-	337,775	337,775
Inventories	-	10,914	10,914
Restricted assets:			
Cash and cash equivalents	4,444	87,418	91,862
Capital Assets (net of accumulated depreciation):			
Land	118,389	79,523	197,912
Other capital assets, net of depreciation	1,091,481	4,382,319	5,473,800
Total assets	1,474,611	5,789,380	7,263,991
LIABILITIES			
Accounts payable	136,072	265,108	401,180
Accrued expenses	38,143	41,601	79,744
Accrued interest payable	-	6,831	6,831
Customer meter deposits	-	106,941	106,941
Long Term Liabilities:			
Due within one year	-	51,000	51,000
Due after one year	-	477,000	477,000
Total liabilities	174,215	948,481	1,122,696
NET POSITION			
Invested in capital assets, net of related debt	1,209,870	3,933,842	5,143,712
Restricted for other purposes	4,444	87,418	91,862
Unrestricted	86,082	819,639	905,721
Total net position	1,300,396	4,840,899	6,141,295

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

<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	450,004	938	-
Public safety	275,525	25,481	9,817
Streets	179,024	967	-
Sanitation	227,653	244,790	-
Parks and recreation	14,483	-	-
Health and welfare	21,004	1,045	-
Cemetery	2,885	1,735	-
Interest on long term debt	-	-	-
Total governmental activities	<u>1,170,578</u>	<u>274,956</u>	<u>9,817</u>
Business-type activities:			
Electric	1,967,288	2,318,070	2,000
Natural gas	221,589	246,946	-
Water	668,678	659,054	-
Sewer	412,013	241,358	-
Total business-type activities	<u>3,269,568</u>	<u>3,465,429</u>	<u>2,000</u>
	<u>4,440,146</u>	<u>3,740,385</u>	<u>11,817</u>

General revenues:

Sales taxes
Franchise taxes
Miscellaneous
Investment earnings
Transfers

Total general revenues and transfers

Change in net position
Net position, beginning
Net position, ending

See accompanying notes to the financial statements

Program Revenues	Net (Expense) Revenues and Changes in Net Position		
Capital Grants and Contributions	Governmental Activities	Business Activities	Total
285,355	(163,711)	-	(163,711)
-	(240,227)	-	(240,227)
-	(178,057)	-	(178,057)
242,214	259,351	-	259,351
-	(14,483)	-	(14,483)
-	(19,959)	-	(19,959)
-	(1,150)	-	(1,150)
-	-	-	-
527,569	(358,236)	-	(358,236)
-	-	352,783	352,783
-	-	25,358	25,358
293,212	-	283,588	283,588
-	-	(170,655)	(170,655)
293,212	-	491,073	491,073
820,781	(358,236)	491,073	132,837
	445,326	-	445,326
	11,951	-	11,951
	18,450	-	18,450
	1,569	15,880	17,449
	367,500	(367,500)	-
	844,796	(351,620)	493,176
	486,560	139,453	626,013
	813,836	4,701,446	5,515,282
	1,300,396	4,840,899	6,141,295

See accompanying notes to the financial statements

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Fund Financial Statements

**CITY OF HEMPHILL, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	79,504	-	79,504
Sales tax receivable	66,563	-	66,563
Intergovernmental receivables	114,230	-	114,230
Cash and cash equivalents - restricted	4,444	-	4,444
Total assets	264,741	-	264,741
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	136,072	-	136,072
Accrued liabilities	8,274	-	8,274
Total liabilities	144,346	-	144,346
Fund balances:			
Restricted fund balance	4,444		4,444
Unassigned fund balance	115,951	-	115,951
Total fund balances	120,395	-	120,395
Total liabilities and fund balances	264,741	-	264,741

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, 2013**

Total fund balances - governmental funds	120,395
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 \$1,458,802 and the accumulated depreciation was \$704,855. The effect of including beginning balances for capital assets (net of depreciation) in the governmental activities is to increase (decrease) net position.	753,947
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 position.	455,921
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(29,867)</u>
Net position of governmental activities	<u><u>1,300,396</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, 2013

REVENUES	General Fund	Other Governmental Funds	Total Governmental Funds
Taxes:			
Sales taxes	445,326	-	445,326
Franchise taxes	4,477	-	4,477
Permits, fees and assessments	7,474	-	7,474
Fines	27,276	-	27,276
Charges for services	244,790	-	244,790
Interest income	1,569	-	1,569
Intergovernmental	537,393	-	537,393
Contributions and donations	1,735	-	1,735
Other	19,599	-	19,599
Total revenues	1,289,639	-	1,289,639
EXPENDITURES			
Current:			
General government:			
Finance and administration	408,735	-	408,735
Municipal court	26,590	-	26,590
Public safety:			
Fire	48,627	-	48,627
Police	197,388	-	197,388
Streets	119,099	-	119,099
Sanitation	222,098	-	222,098
Parks and recreation	5,294	-	5,294
Health and welfare	21,321	-	21,321
Cemetery	2,885	-	2,885
Debt service	-	-	-
Capital outlay	567,569	-	567,569
Total expenditures	1,619,606	-	1,619,606
Excess (deficiency) of revenues over expenditures	(329,967)	-	(329,967)
OTHER FINANCING SOURCES (USES)			
Transfers in	367,500	-	367,500
Total other financing sources and uses	367,500	-	367,500
Net change in fund balance	37,533	-	37,533
Fund balance - beginning	82,862	-	82,862
Fund balance - ending	120,395	-	120,395

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, 2013

Net change in fund balances - governmental funds	37,533
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.	567,569
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.	(111,648)
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>(6,894)</u>
Change in net position of governmental activities	<u><u>486,560</u></u>

See accompanying notes to the financial statements

**CITY OF HEMPHILL, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2013**

ASSETS

Current assets:	
Cash and cash equivalents	891,431
Accounts receivable, net	337,775
Inventories	10,914
Total current assets	1,240,120
Noncurrent assets:	
Restricted cash and cash equivalents	87,418
Capital assets:	
Land	79,523
Other capital assets, net of depreciation	4,382,319
Total noncurrent assets	4,549,260
 Total assets	 5,789,380

LIABILITIES

Current liabilities:	
Accounts payable	265,108
Accrued expenses	41,601
Accrued interest payable	6,831
Current portion of:	
Revenue bonds payable	51,000
Total current liabilities	364,540
Noncurrent liabilities:	
Revenue bonds payable	477,000
Customer deposits	106,941
Total noncurrent liabilities	583,941
 Total liabilities	 948,481

NET ASSETS

Invested in capital assets, net of related debt	3,933,842
Restricted for debt service	87,418
Unrestricted	819,639
Total net position	4,840,899
 Total liabilities and net position	 5,789,380

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, 2013

Operating revenues:	
Water sales	644,103
Sewer charges	226,407
Electric sales	2,303,119
Gas sales	231,995
Other services	<u>59,805</u>
Total operating revenues	<u>3,465,429</u>
Operating expenses:	
Personnel	734,075
Supplies and materials	415,475
Maintenance and repairs	30,487
Contractual services	84,506
Cost of services	1,584,103
Depreciation	327,109
Other operating	<u>38,729</u>
Total operating expenses	<u>3,214,484</u>
Operating income	250,945
Nonoperating revenues (expenses):	
Capital grants	293,212
Contributions & donations	2,000
Interest income	15,880
Interest expense	<u>(55,084)</u>
Total nonoperating revenue (expenses)	256,008
Income before transfers	506,953
Transfers to other funds	<u>(367,500)</u>
Change in net position	139,453
Total net position - beginning	<u>4,701,446</u>
Total net position - ending	<u><u>4,840,899</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, 2013**

Cash flows from operating activities:	
Receipts from customers	3,458,505
Payments to suppliers and contractors	(2,090,281)
Payments to employees	(734,075)
Net cash provided by (used for) operating activities	<u>634,149</u>
Cash flows from noncapital financing activities:	
Operating transfers	(367,500)
Contributions received	2,000
Net cash provided by (used for) noncapital activities	<u>(365,500)</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(907,841)
Principal paid on capital debt	(46,000)
Interest paid on capital debt	(29,985)
Capital grants received	293,212
Net cash provided by (used for) capital activities	<u>(690,614)</u>
Cash flows from investing activities:	
Interest received	15,880
Net cash provided by (used for) investing activities	<u>15,880</u>
Net increase (decrease) in cash and cash equivalents	(406,085)
Cash and cash equivalents, beginning	<u>1,384,934</u>
Cash and cash equivalents, ending	<u><u>978,849</u></u>
Reconciliation of operating income to net cash used by operating activities:	
Operating income	250,945
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	327,109
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(6,924)
(Increase) decrease in supply inventory	1,582
Increase (decrease) in accounts payable	56,368
Increase (decrease) in accrued liabilities	2,493
Increase (decrease) in customer meter deposits	2,576
Net cash provided by operating activities	<u><u>634,149</u></u>

See accompanying notes to the financial statements

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CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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.

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

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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.

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

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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, 2013

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 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 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.

Interfund Transactions - Transactions that constitute reimbursements to a fund for expenditures

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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 22, 2013, 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 failure, the City's deposits may not be returned to it. The City's policy regarding types of deposits

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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, 2013 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, 2013, the bank balances of the City's deposits (demand and certificates) were \$1,186,299, 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, 2013 as follows:

FDIC Insurance	750,000
Market value of securities pledged	<u>1,710,029</u>
Total coverage	<u>2,460,029</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, 2013.

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, 2013.

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, 2013.

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, 2013.

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, 2013.

The City's investments, which are reported as cash or cash equivalents, as of June 30, 2013 are with the depository bank in certificates of deposit in the amount of \$622,340.

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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, 2013, the City's business type activities restricted assets consisted of \$87,418 for debt service. The governmental activities restricted assets consisted of \$2,067 for cemetery operations and \$2,377 for other purposes.

PROPERTY TAXES

The City did not levy property taxes in October, 2012. 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, 2013 are \$66,563 for sales tax due from the State of Texas, and \$114,230 capital grant receivable due from State of Texas.

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions	Retirements/ Adjustments	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	118,389	-	-	118,389
Capital assets, being depreciated:				
Buildings and improvements	771,298	242,214	-	1,013,512
Vehicles and equipment	558,806	40,000	-	598,806
Construction in progress	10,310	285,355	-	295,665
Total capital assets being depreciated	1,340,414	567,569	0	1,907,983
Less accumulated depreciation for:				
Buildings and improvements	287,370	81,877	-	369,247
Vehicles and equipment	417,486	29,769	-	447,255
Total accumulated depreciation	704,856	111,646	0	816,502
Total capital assets, being depreciated, net	635,558	455,923	0	1,091,481
Governmental activities capital assets, net	753,947	455,923	0	1,209,870

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Business-type activities:

Capital assets, not being depreciated:

Land	79,523	-	-	79,523
Construction in progress	66,359	727,169	(20,359)	773,169

Capital assets, being depreciated:

Buildings and improvements	28,850	-	-	28,850
Utility systems	8,376,909	201,030	-	8,577,939
Vehicles and equipment	834,527	-	-	834,527

Totals at cost	<u>9,240,286</u>	<u>201,030</u>	<u>0</u>	<u>9,441,316</u>
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Less accumulated depreciation:

Buildings and improvements	28,850	-	-	28,850
Utility system	4,872,177	279,010	-	5,151,187
Vehicles and equipment	604,031	48,098	-	652,129

Total accumulated depreciation	<u>5,505,058</u>	<u>327,108</u>	<u>0</u>	<u>5,832,166</u>
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Total capital assets, being depreciated, net	<u>3,735,228</u>	<u>(126,078)</u>	<u>0</u>	<u>3,609,150</u>
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Business-type activities capital assets, net	<u><u>3,814,751</u></u>	<u><u>601,091</u></u>	<u><u>0</u></u>	<u><u>4,461,842</u></u>
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Depreciation expense was charged to functions of the City as follows:

Governmental activities:

General government	7,857
Public safety	25,597
Streets	63,009
Sanitation	5,555
Health and welfare	440
Parks and recreation	<u>9,188</u>
Total depreciation expense - governmental activities	<u><u>111,646</u></u>

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Business-type activities:	
Overhead	48,098
Water	23,098
Sewer	102,462
Natural Gas	553
Electric	26,581
Water Plant	<u>126,316</u>
Total depreciation expense - business-type activities	<u><u>327,108</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, 2013, the City had 685 water connections and 582 sewer connections.

The City's compliance with the balances required as of June 30, 2013 in each account is as follows:

	<u>Balance Required</u>	<u>Balance Available</u>	<u>Excess (Deficiency)</u>
Series 1995 Revenue Bonds:			
Interest & Sinking Fund	12,669	14,802	2,133
Reserve Fund	50,560	50,560	0

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.

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

The City's compliance with the balances required as of June 30, 2013 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	6,371	6,925	554
Reserve Fund	15,000	15,130	130

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, 2013, is as follows:

<u>Year ending June 30,</u>	
2014	79,323
2015	80,295
2016	26,855
2017	26,495
2018	26,135
2019-2023	131,780
2024-2028	129,530
2029-2033	131,490
2034-2038	124,300
2039-2043	120,410
2044-2046	<u>42,700</u>
Total principal and interest	919,313
Less interest	<u>391,313</u>
Total debt at June 30, 2013	<u><u>528,000</u></u>

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Change in Long-Term Liabilities

Long term liability activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Issued	Retired	Ending Balance	Due in One Year
Business-type activities:					
Revenue bonds	574,000	-	46,000	528,000	51,000

AGREEMENT TO PURCHASE WATER

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

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

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, 2013.

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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.

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 2012	Plan year 2013
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

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.

CITY OF HEMPHILL, TEXAS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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)	44,023
Interest on Net Pension Obligation	0
Adjustment to the ARC	0
Annual Pension Cost (APC)	44,023
Contributions Made	44,023
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
6/30/13	44,023	100%	---
6/30/12	37,288	100%	---
6/30/11	31,963	100%	---

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Valuation Date	12/31/10	12/31/11	12/31/12
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	24.7 years; closed period	25.1 years; closed period	24.3 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
12/31/10	\$1,506,566	\$1,462,401	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%)
12/31/12	\$1,809,485	\$1,772,547	102.1%	\$(36,938)	\$944,918	(3.9%)

CITY OF HEMPHILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the 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 2013, 2012, and 2011 were \$2,510, \$2,589, and \$2,381, respectively, which equaled the required contributions each year.

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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, 2013

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Sales taxes	414,373	414,373	445,326	30,953
Franchise taxes	4,611	4,611	4,477	(134)
Permits, fees & assessments	27,022	27,022	7,474	(19,548)
Fines	12,679	12,679	27,276	14,597
Charges for services	234,252	234,252	244,790	10,538
Interest income	1,697	1,697	1,569	(128)
Intergovernmental	616,876	616,876	537,393	(79,483)
Contributions and donations	-	-	1,735	1,735
Other	20,687	20,687	19,599	(1,088)
Total revenues	1,332,197	1,332,197	1,289,639	(42,558)
EXPENDITURES				
Current:				
General government:				
Finance and administration	402,585	402,585	408,735	(6,150)
Municipal court	27,822	27,822	26,590	1,232
Public safety:				
Fire	30,803	30,803	48,627	(17,824)
Police	206,599	206,599	197,388	9,211
Streets	114,890	114,890	119,099	(4,209)
Sanitation	214,539	214,539	222,098	(7,559)
Parks and recreation	9,915	9,915	5,294	4,621
Health and welfare	24,520	24,520	21,321	3,199
Cemetary	10,450	5,450	2,885	2,565
Debt service	-	-	-	-
Capital outlay	385,000	385,000	567,569	(182,569)
Total expenditures	1,427,123	1,422,123	1,619,606	(197,483)
Excess (deficiency) of revenues over expenditures	(94,926)	(89,926)	(329,967)	(240,041)
OTHER FINANCING SOURCES (USES)				
Transfers in	345,936	345,936	367,500	21,564
Total other financing sources (uses)	345,936	345,936	367,500	21,564
Net change in fund balance	251,010	256,010	37,533	(218,477)
Fund balance - beginning	82,862	82,862	82,862	-
Fund balance - ending	333,872	338,872	120,395	(218,477)

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, 2013**

General Government	Budget	Actual	Variance favorable (unfavorable)
Administration:			
Personnel	268,706	308,029	(39,323)
Supplies and materials	44,773	42,082	2,691
Maintenance and repairs	19,246	25,187	(5,941)
Contractual services	19,697	16,449	3,248
Miscellaneous	55,163	43,578	11,585
Total administration	407,585	435,325	(27,740)
Public Safety			
Fire Department:			
Personnel	300	275	25
Supplies and materials	17,291	25,127	(7,836)
Maintenance and repairs	6,909	8,898	(1,989)
Contractual services	1,621	1,986	(365)
Miscellaneous	4,682	12,341	(7,659)
Total fire department	30,803	48,627	(17,824)
Police department:			
Personnel	178,287	176,481	1,806
Supplies and materials	20,666	17,403	3,263
Maintenance and repairs	3,644	2,535	1,109
Contractual services	1,069	421	648
Miscellaneous	2,933	548	2,385
Total police department	206,599	197,388	9,211
Total public safety	237,402	246,015	(8,613)
Sanitation			
Personnel	2,484	4,436	(1,952)
Supplies and materials	5,972	67	5,905
Maintenance and repairs	1,611	3,567	(1,956)
Contractual services	204,422	214,028	(9,606)
Miscellaneous	50	-	50
Total sanitation	214,539	222,098	(7,559)

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, 2013**

	Budget	Actual	Variance favorable (unfavorable)
Streets			
Personnel	88,062	84,398	3,664
Supplies and materials	23,789	31,361	(7,572)
Maintenance and repairs	1,539	1,310	229
Contractual services	1,500	2,030	(530)
Miscellaneous	-	-	-
Total streets	114,890	119,099	(4,209)
Parks and recreation			
Personnel	-	-	-
Supplies and materials	7,233	3,477	3,756
Maintenance and repairs	2,182	815	1,367
Contractual services	400	1,000	(600)
Miscellaneous	100	2	98
Total parks and recreation	9,915	5,294	4,621
Health and welfare			
Personnel	20,126	19,356	770
Supplies and materials	2,379	828	1,551
Maintenance and repairs	400	-	400
Contractual services	1,032	265	767
Miscellaneous	583	872	(289)
Total health and welfare	24,520	21,321	3,199
Cemetery			
Supplies and materials	450	-	450
Maintenance and repairs	1,000	385	615
Contractual services	4,000	2,500	1,500
Miscellaneous	-	-	-
Total cemetery	5,450	2,885	2,565
Total current expenditures	1,014,301	1,052,037	(37,736)

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, 2013**

	Budget	Actual	Variance favorable (unfavorable)
Electric Department			
Personnel	174,577	167,078	7,499
Supplies and materials	93,764	115,901	(22,137)
Maintenance and repairs	5,189	3,588	1,601
Contractual services	4,475	7,749	(3,274)
Cost of services	1,634,770	1,493,631	141,139
Depreciation	46,103	46,372	(269)
Other operating expenses	2,401	936	1,465
Total electric department	1,961,279	1,835,255	126,024
Gas department			
Supplies and materials	12,338	17,218	(4,880)
Maintenance and repairs	502	-	502
Contractual services	3,914	3,093	821
Cost of services	85,012	67,037	17,975
Depreciation	25,246	553	24,693
Other operating expenses	2,342	1,655	687
Total gas department	129,354	89,556	39,798
Water department			
Supplies and materials	18,650	35,134	(16,484)
Maintenance and repairs	905	69	836
Contractual services	336	1,959	(1,623)
Depreciation	20,956	23,098	(2,142)
Other operating expenses	2,562	1,009	1,553
Total water department	43,409	61,269	(17,860)

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, 2013**

	Budget	Actual	Variance favorable (unfavorable)
Sewer department			
Personnel	48,918	46,952	1,966
Supplies and materials	57,987	63,517	(5,530)
Maintenance and repairs	13,954	3,912	10,042
Contractual services	12,563	14,088	(1,525)
Depreciation	99,297	104,622	(5,325)
Other operating expenses	7,263	4,431	2,832
Total sewer department	239,982	237,522	2,460
Warehouse			
Personnel	382,081	367,251	14,830
Supplies and materials	53,716	65,486	(11,770)
Maintenance and repairs	15,129	12,747	2,382
Contractual services	37,677	37,563	114
Depreciation	20,695	23,433	(2,738)
Miscellaneous	17,794	21,651	(3,857)
Total warehouse	527,092	528,131	(1,039)
Water plant			
Personnel	162,325	152,794	9,531
Supplies and materials	129,585	118,219	11,366
Maintenance and repairs	17,711	10,171	7,540
Contractual services	19,401	20,054	(653)
Cost of services	83,891	23,435	60,456
Depreciation	124,695	129,031	(4,336)
Other operating expenses	6,955	9,047	(2,092)
Total water plant	544,563	462,751	81,812
Total expenditures	3,445,679	3,214,484	231,195

See accompanying notes to the financial statements

Statistical Tables

CITY OF HEMPHILL, TEXAS

SCHEDULE OF INSURANCE POLICIES IN FORCE

JUNE 30, 2013

Insurer	Amount of Coverage	Risk Covered	Expiration Date
Texas Municipal League	\$2,000,000	Comprehensive General liability	10-01-13
Intergovernmental Risk Pool	\$2,000,000	Sudden events - Pollution	10-01-13
	\$2,000,000	Automobile liability	10-01-13
	\$2,000,000	Law enforcement liability	10-01-13
	\$2,000,000	Errors and omissions	10-01-13
	\$7,592,700	Real and personal property	10-01-13
	\$500,000	Boiler and machinery accident	10-01-13
	As scheduled	Automobile physical damage	10-01-13
	\$211,218	Mobile equipment	10-01-13
	Statutory	Workers compensation	10-01-13

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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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**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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 22, 2013.

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

October 22, 2013



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Hemphill, Texas' (City) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Goff & Herrington, P.C.

GOFF & HERRINGTON
Certified Public Accountants

October 22, 2013

**CITY OF HEMPHILL, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	___yes <u>X</u> no
Significant Deficiencies identified that are not considered to be material weaknesses?	___yes <u>X</u> no
Noncompliance material to financial statements noted?	___yes <u>X</u> no

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	___yes <u>X</u> no
Significant Deficiencies identified that are not considered to be material weaknesses?	___yes <u>X</u> none reported
Type of auditor's report on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in compliance with section 510(a) of OMB Circular A-133?	___yes <u>X</u> no

Identification of Major Programs

CFDA 14.228	Community Development Block Grant - Disaster Recovery Program
-------------	---

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
---	-----------

Auditee qualified as a low risk auditee?	___yes <u>X</u> no
--	--------------------

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

**CITY OF HEMPHILL, TEXAS
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

No prior audit findings reported.

**CITY OF HEMPHILL, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2013**

None required.

**CITY OF HEMPHILL, TEXAS
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

**CITY OF HEMPHILL, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditure</u>
U. S. Department Housing and Urban Development:			
<i>Passed through State of Texas Office of Rural and Community Affairs</i>			
Community Development Block Grant - Disaster Recovery Program	14.228	12-519-000-6746	67,472
Community Development Block Grant - Disaster Recovery Program	14.228	10-5064-000-5041	285,355
Community Development Block Grant - Disaster Recovery Program	14.228	12-288-000-5636	<u>242,214</u>
Total U. S. Department Housing and Urban Development			595,041
Total expenditures of federal awards			<u><u>595,041</u></u>

See accompanying notes to supplementary schedule of expenditures of federal awards

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