

City of Hemphill, Texas
Unit Cost per Thousand Gallons of Treated Water Produced
For the Year Ended August 31, 2010



Pipes & Associates

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Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying schedule of unit cost per thousand gallons of treated water produced (as defined in the operating agreement dated July 1, 1996 between the Sabine River Authority and the City of Hemphill, Texas), for the year ended August 31, 2010. This schedule is the responsibility of the City of Hemphill's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of unit cost per thousand gallons of treated water produced is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of unit cost per thousand gallons of treated water produced referred to above presents fairly, in all material respects, the unit cost per thousand gallons of treated water produced by the City of Hemphill, Texas, for the year ended August 31, 2010, as defined in the operating agreement referred to in the first paragraph.

This report is intended solely for the information and use of the board of directors of the Sabine River Authority and the City Council of the City of Hemphill and should not be used for any other purpose.

Pipes & Associates

PIPES & ASSOCIATES

September 24, 2010

City of Hemphill, Texas
Unit Cost per Thousand Gallons of Treated Water Produced
For the Year Ended August 31, 2010

| | |
|---|-------------|
| Operating Costs: | |
| Salaries and Wages | 109,057 |
| Payroll Taxes | 7,965 |
| Group Health/Life Insurance | 19,092 |
| Workers Compensation | 3,184 |
| Retirement Expense | 4,150 |
| Electricity | 48,940 |
| Supplies and Chemicals | 64,662 |
| Gasoline | 3,059 |
| Purchased Raw Water | 31,914 |
| Maintenance and Repairs | 13,571 |
| Professional Services | 20,705 |
| Insurance | 4,186 |
| Other Operating | 5,015 |
| | 335,500 |
| Indirect Costs: | |
| City Overhead Allocation | 53,187 |
| SRA Overhead Charge | 6,000 |
| | 59,187 |
| Debt Service: | |
| Series 1995 Principal and Interest | 49,687 |
| SRA - 1998 Base Facilities Charge | 16,635 |
| | 66,322 |
| Capital Outlay: | |
| Current Year Expense - TCEQ required WTP capital expenses | 172,296 |
| Recovery of Ground Storage Tank Cost | 30,482 |
| | 202,778 |
| Total Expenses | 663,787 |
| Gallons Purchased | 208,684,300 |
| Rate Per 1,000 Gallons | 3.1808 |

See accompanying notes to financial statements

CITY OF HEMPHILL, TEXAS

**NOTES TO SCHEDULE OF UNIT COST PER THOUSAND
GALLONS OF TREATED WATER PRODUCED**

FOR THE PERIOD ENDING AUGUST 31, 2010

Basis of Accounting - Operating costs and indirect costs are accounted for using the accrual basis of accounting.

Other Costs - The schedule of unit costs per thousand gallons of treated water includes current year equipment purchases and capital improvements, interest on Series 1995 revenue bonds, interest on a promissory note related to the water treatment plant renovations, plus principal paid on the Series 1995 bonds and promissory note. Additionally, the City is recovering the cost of ground storage tanks completed in 2007 over ten years at a rate of \$30,482 per year.

Certain costs incurred by the City that are allocable to all operating departments have been allocated to and included in the costs of treated water. The allocations are based on the City's estimate of costs incurred that are applicable to each operating department.