

**CITY OF CUMBY, TEXAS
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2012**

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CITY OF [REDACTED], TEXAS
SEPTEMBER 30, 2012

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To the Honorable Mayor and Members of the City Council
City of Cumby, TX

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 Cumby, TX, as of and for the year ended September 30, 2012, 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 opinion on 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.

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 Cumby, TX, as of September 30, 2012, 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 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.

Christopher A Turner, PLLC CPA

Texarkana, TX
August 6, 2013

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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

To the Honorable Mayor and Members of the City Council
City of Cumby, TX

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 City of Cumby, TX, as of and for the year ended September 30, 2012, and the related notes to the financial statements, which collectively comprise City of Cumby, TX's basic financial statements, and have issued our report thereon dated July 13, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Cumby, TX'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 City of Cumby, TX's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Cumby, TX'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cumby, TX'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.

Christopher A Turner, PLLC CPA

Texarkana, TX
June 12, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)

**CITY OF CUMBY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

The Management's Discussion and Analysis (MD&A) for the City of Cumby, Texas (City) is designed to:

1. Assist the reader in focusing on significant financial issues;
2. Provide an overview of the City's financial activities;
3. Identify changes in the City's overall financial position and results of operations and assist the user in determining whether financial position has improved or deteriorated as a result of the year's operations;
4. Identify any significant variations from the original, amended, and final budget amounts and include any currently known reasons for those variations that are expected to have a significant effect on future services or liquidity; and
5. Identify individual fund issues or concerns.

The information contained within this MD&A should be considered only as part of a greater whole. The readers of this statement should take time to read and evaluate all sections of this report, including the footnotes that are provided in addition to this MD&A.

Overview of the Financial Statements

The MD&A requires supplementary information that introduces the reader to the basic financial statements and provides an overview of the City's financial activities. The City's basic financial statements consist of the following components:

1. Government-Wide Financial Statements;
2. Fund Financial Statements;
3. Notes to the Financial Statements.
4. Required Supplementary Information, which includes this Management Discussion and Analysis and Statement of Revenues, Expenses, and Changes in Fund assets for both the General Fund and Proprietary Fund.

A general description of the components of the basic financial statements follows.

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to present the financial operations of the City as a whole in a format similar to private sector companies. All governmental and business-type activities are consolidated into columns which add to a total for the Primary Government. If the City determines that presentation of a component unit (which are other governmental units for which the City can exercise significant influence or for which the Primary Government Financial Statements would be misleading if component unit information is not presented) is necessary to allow the reader to determine the relationship of the component unit and primary government, the component unit information is presented in a separate column of the financial statements or in a separate footnote.

The focus is on the government-wide (entity-wide) Statement of Net Assets and Statement of Activities to give the reader a broad overview of the City's financial position and results of operations.

- a) The Statement of Net assets presents information on the City's assets and liabilities using the accrual basis of accounting, in a manner similar to the accounting used by private business enterprises. The difference between the assets and liabilities is reported as net assets. Over time, the increase or decreases in net assets (and changes in the components of net assets) may serve as a useful indicator of whether the financial position of the City is improving or weakening. Although the focus of this

CITY OF CUMBY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

MD&A will be on the analysis of the overall changes to net assets, the reader should refer to Note 1- Significant Accounting Policies for an explanation of components of net assets.

- b) The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. The format for the Statement of Activities presents the expenses for each function (city, council, police department, other current operating expenses, and water, sewer, and garbage services) reduce by the Program Revenues (charges for services, operating grants and contributions, and capital grants and contributions) directly related to each respective function, to determine net costs of each function. The net costs of each function are normally covered by general revenues.

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 and legal requirements. The City uses two categories of funds to account for financial transactions: governmental funds and proprietary funds.

Governmental funds are used to account for most of the basic services and projects reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of those funds and the balances that are left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The City's governmental funds include the General Fund for accounting for the City's basic services.

The Proprietary Fund accounts for water, sewer, and sanitation services for the city of Cumby, Texas. Enterprise funds are used to account for the same functions as business-type activities presented in the government-wide financial statements, but the fund presentation provides more detail.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, there are differences in the information presented for governmental funds and for governmental activities in the government-wide financial statements. Review of these differences provides the reader of the financial statements insight on the long-term impact of the City's more immediate decisions on the current use of financial resources. We describe the differences between the government-wide financial statements (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

Notes to the Financial Statements

The Notes to the Financial Statements present the changes in presentation and reporting required under the GASB 34 standard and under GASB Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions. When reviewing this MD&A, the reader should also refer to and review the Notes to the Financial Statements, as well as the Government-Wide and Fund Financial Statements.

**CITY OF CUMBY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

City Highlights

At September 30, 2012, the City of Cumby, Texas maintained an Unrestricted Net Assets balance of 606,727. Unrestricted Net Assets represents the net balance accumulated by the City above the amount of Net Assets Invested in Capital Assets, Net of Related Debt and the amount of Restricted Net Assets (restricted as a result of constraints imposed by grantors, contributors, or by laws and regulations).

- (a) At year-end, the total of Net Assets Invested in Capital, Net of Related Debt (after subtracting out debt owed on capital assets) was \$1,622,509. The total of Net Assets Restricted was \$29,052.
- (b) For governmental activities (including the City's General Fund), the City had \$190,584 of long-term debt outstanding at September 30, 2012. For business-type activities (consisting of the City's Utility Fund), the City had long-term debt outstanding of \$39,375 at September 30, 2012.
- (c) The most significant continuing revenue sources for governmental activities of the City for the year ended September 30, 2012 consisted of \$234,721 of property and in sales tax revenues, and \$588,883 in seized cash and citations. Charges for business-type activities of the utility fund (water, sewer, and garbage services) totaled \$354,810.

Government-Wide Financial Analysis

Statement of Net Assets

Included below is a Statement of Net Assets at September 30, 2012 and 2011 for the City of Cumby, Texas. The format allows the reader to view the overall financial position of the City.

	Governmental Activities		Business-Type Activities		Total - Primary Government	
	2012	2011	2012	2011	2012	2011
Current Assets	\$ 671,698	\$ 539,663	\$ 94,056	\$ 92,274	\$ 765,754	\$ 631,937
Capital Assets	326,511	307,934	1,511,760	1,566,575	1,838,271	1,874,509
Total Assets	<u>\$ 998,209</u>	<u>\$ 847,597</u>	<u>\$ 1,605,816</u>	<u>\$ 1,658,849</u>	<u>\$ 2,604,025</u>	<u>\$ 2,506,446</u>
Current Liabilities	\$ 61,534	\$ 52,977	\$ 54,244	\$ 49,263	\$ 115,778	\$ 102,240
Noncurrent Liabilities	190,584	153,860	35,375	24,000	225,959	177,860
Total Liabilities	<u>252,118</u>	<u>206,837</u>	<u>89,619</u>	<u>73,263</u>	<u>341,737</u>	<u>280,100</u>
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	135,925	154,074	1,476,385	1,542,575	1,612,310	1,696,649
Restricted	19,466	-	9,586	7,467	29,052	7,467
Unrestricted	590,700	486,686	30,226	35,544	620,926	522,230
Total Net Assets	<u>\$ 746,091</u>	<u>\$ 640,760</u>	<u>\$ 1,516,197</u>	<u>\$ 1,585,586</u>	<u>\$ 2,262,288</u>	<u>\$ 2,226,346</u>

The composition of net assets and the changes in net assets over time serve as a useful indicator of a government's financial position. The City's assets at September 30, 2011 exceeded liabilities by \$746,091 (net assets). The City's assets are comprised of \$998,209 from governmental activities and \$1,605,816 from business-type activities.

The largest category of the City's net assets, Invested in Capital Assets, Net of Related Debt totals \$1,622,509 as of September 30, 2012. The category reflects the total invested in capital assets (land, buildings,

**CITY OF CUMBY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

equipment, streets and right of ways, water and sewer system improvements, etc.) net of any related debt used to acquire capital assets. These capital assets are used to provide services to citizens and do not represent resources available for future spending. The City's investment in its capital assets is reported net of related debt. It should be noted that the resources needed to repay debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The second category of net assets, Restricted Net Assets, represents net assets that are subject to external restriction on how they may be used. Restricted Net Assets total \$19,466 as of September 30, 2012.

The third category of net assets, Unrestricted Net Assets, represents net assets that are not subject to external restriction on how they may be used. The City's unrestricted net assets are comprised of \$590,700 from governmental activities and \$16,027 from business-type activities.

At the end of the current year, the City was able to report positive balances in net assets, for the government as a whole, as well as for separate governmental activities and business-type activities.

Governmental Activities- Statement of Net Assets

The major component of the Current Assets category consists of cash and accounts receivables \$241,865 and \$429,833, respectively. The balance in this category is comprised of various receivables (amounts due) for property taxes and for other revenues.

Capital Assets totaling \$326,511 (net of accumulated depreciation) represents the City's investment in capital assets necessary to provide services to citizens of the City of Cumby, Texas.

Current Liabilities totaling \$61,534 consist of accounts payable and accrued expenses and other liabilities.

Non-current liabilities are \$190,584 which consists of loans and bonds payables.

Business-Type Activities – Statement of Net Assets

For business-type activities (utility fund) there are two major components of Current and Other Assets. Cash totaling \$68,741 and accounts receivable, net and unbilled receivable balances totaling \$25,315 represent outstanding water, sewer, and sanitation billings.

Capital Assets totaling \$1,511,760 (net of accumulated depreciation) represent the City's investment in land and buildings, machinery and equipment, and the water and sewer systems.

Current Liabilities totaling consist primarily of accounts payable totaling \$6,592, customer deposits payable totaling \$32,086, and due to other funds totaling \$15,566.

Noncurrent Liabilities totally \$35,375 consists of bonds and loans outstanding.

Statement of Activities

A Statement of Activities for the City of Cumby, Texas is presented below listing the major categories of revenues and expenses for the fiscal years ended September 30, 2012 and 2011.

**CITY OF CUMBY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total - Primary Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues						
Program Revenues						
Charges for Services	\$ 588,883	\$ 496,895	\$ 354,810	\$ 314,593	\$ 943,693	\$ 811,488
General Revenues:						
Property Taxes and Related Revenues	234,721	235,409	-	-	234,721	235,409
Grants and Contributions	6,000	38,455	-	-	6,000	38,455
Interest Income	90	284	207	244		
Other Income	29,910	11,042	-	8,433	29,910	19,475
Total Revenues	<u>859,604</u>	<u>782,085</u>	<u>355,017</u>	<u>323,270</u>	<u>1,214,324</u>	<u>1,104,827</u>
Program Expenses						
General Governmental Water, Sewer, and Garbage	755,100	613,685	-	-	755,100	613,685
	-	-	428,238	503,199	428,238	503,199
Total Expenses	<u>755,100</u>	<u>613,685</u>	<u>428,238</u>	<u>503,199</u>	<u>1,183,338</u>	<u>1,116,884</u>
Operating Transfers In/Out Between Funds	<u>826</u>	<u>(85,515)</u>	<u>(825)</u>	<u>85,515</u>	<u>1</u>	<u>-</u>
Increase/Decrease in Net Assets	<u>105,330</u>	<u>82,885</u>	<u>(74,046)</u>	<u>(94,414)</u>	<u>30,987</u>	<u>(12,057)</u>
Beginning Net Assets	<u>640,760</u>	<u>557,875</u>	<u>1,590,243</u>	<u>1,680,000</u>	<u>2,231,003</u>	<u>2,237,875</u>
Ending Net Assets	<u>\$ 746,090</u>	<u>\$ 640,760</u>	<u>\$ 1,516,197</u>	<u>\$ 1,585,586</u>	<u>\$ 2,261,990</u>	<u>\$ 2,225,818</u>

The Statement of Net Assets presents revenues, expenses, and changes in net assets separately for governmental activities and business-type activities. The format allows for presentation of Program Revenues (Changes for Services, Operating Grants and Contributions, and Capital Gains and Contributions) followed by a listing of General Revenues to support the City's overall governmental or business-type activities. Expenses are presented on a functional basis, with depreciation on fixed assets directly allocated to the related expense (City Council, Police Department, etc.).

Governmental Activities – Statement of Activities

As noted above, there are two categories of revenues on the Statement of Activities- Program Revenues and General Revenues. Program Revenues totaling in the amount of \$594,883 are derived directly from the program itself or from parties outside the City's taxpayers or citizenry, as a whole; they reduce the net cost of the function to be financed from the government's General Revenues. Program Revenues are further divided into Charges for Services, Operating Grants and Contributions, and Capital Grants and Contributions.

General Revenues include all revenues not required to be reported as Program Revenues. All taxes are to be reported by the type of tax. For the City of Cumby, Texas, the major revenues are property taxes and sales tax revenues totaling \$234,980.

Other General Revenues reported include licenses and fines and other income totaling \$29,910 and interest income totaling \$90.

**CITY OF CUMBY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Program Expenses are presented in the above Statement of Activities by function and total \$755,100 for the year ended September 30, 2012. Operating transfers in from the Business-Type Activities and Non-major funds total \$826. Revenues less expenses then less operating transfers out presented in this statement totaled to an increase in Net Assets of \$105,330.

Business - Type Activities - Statement of Activities

Business-type Activities provided by the City of Cumby, Texas consist of water, sewer, and sanitation. Program Revenues for the current year in the Changes for Services sub-category consist of billings of \$354,810 for water, sewer, and garbage services.

The City reports the total amount of expenses for operation of the utility system as \$428,238 for the year ended September 30, 2012. Operating transfers out to the Governmental Activities total \$825. Revenues less expenses then plus operating transfers in presented in this statement total an increase of Net Assets of (\$74,046).

Governmental Funds Financial Analysis

At September 30, 2012, the City's governmental funds, consisting of the General Fund, totaled \$203,571. Of the total fund balance, \$19,597 is committed for maintenance and repair of streets and \$33,921 is committed for local services. In addition \$19,466 is reserved for state programs. Under the modified-accrual basis for Fund Financial Statements, the emphasis is on accounting for current financial resources of the City. Assets include primarily \$241,865 in cash; \$10,376 in property tax receivables, net allowance for uncollectible taxes, \$11,573 in sales tax receivables, net allowance for uncollectible taxes; \$400,206 in fees and fines receivables, net of uncollectible amounts, and \$7,678 due from other funds. Liabilities for the City consist primarily of accounts payable and deferred revenues totaling \$57,545 and \$410,582, respectively.

The fund reporting format presents in the Statement of Revenues, Expenditures, and Changes in Fund Balances all revenue types followed by the expenditures of the City, also presented on a functional basis. However, for the Fund Financial Statements, the City reports only current year capital expenditures and does not report depreciation on capital assets as in the Government-Wide Financial Statements. The major revenue sources are similar to the government-wide presentation above. The General Fund reported a surplus of revenues over expenditures of \$130,587. Fund balance at end of the year for the General Fund was \$203,571.

Proprietary Fund Analysis

The total amounts presented for the Proprietary Fund (utility fund for water, sewer and garbage services) are identical to the government-wide presentation. Statement of Revenues, Expenses, and Changes in Net Assets, presents a more detailed listing of expenses than presented in the government-wide statements, pending implementation of financial reporting improvements to report activities of the water, sewer and garbage systems on a functional basis. The major operating expenses of the fund include water and sewer services and garbage services of \$346,153, and \$79,990 for depreciation expense.

General Fund Budgetary Analysis

For the current year, the City had significant variances between budget amounts and actual results for the General Fund.

**CITY OF CUMBY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Capital Assets and Long-Term Debt

Capital Assets

At September 30, 2012, the City had \$1,838,271 invested in a broad range of capital assets including buildings, streets and right of ways, and the water and sewer systems. The City made major additions during the year of \$7,225 for new equipment, \$22,773 in the purchase of a new maintenance truck, and \$82,751 for the installation of a new water distribution system. More detailed information about the City's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At September 30, 2012, the City had \$484,952 in bonds and loans outstanding. More detailed information about the City's long-term debt is presented in Note 7.

Economic Factors and Next Year's Budget and Rates

The annual budget is developed to provide efficient, effective, and economic uses of the City's resources, as well as a means to accomplish the highest priority objectives. Through the budget, the City Council and administration set the direction of the City, allocate its resources, and establish its priorities.

The City annually reviews all of its fees as part of the budget adoption process. Fees for general government as well as user charges are evaluated and, if needed, adjusted to meet the needs of the operations of the systems. The budget is adopted and a tax rate is approved to meet the demands of the budget. For 2012, rates set for fees and taxes are estimated to meet operational demand similar to the current year.

Expenditures and expenses have been estimated to remain constant through the next fiscal year. No additional expenditures or expenses are anticipated beyond those that have been incurred in the current year.

Requests for Information

This financial report is designed to provide a general overview of the City of Cumby, Texas finances and to demonstrate the City's accountability. If you have questions regarding this report or need additional information, contact the City at PO Box 349, Cumby, Texas 75433. The phone number for the City is (903) 994-2272.

CITY OF CUMBY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 241,865	\$ 68,741	\$ 310,606
Receivables, Net of Allowances for Uncollectable Amounts			
Accounts Receivable	-	25,315	25,315
Property Tax Receivable	10,376	-	10,376
Sales Tax Receivable	11,573	-	11,573
Fees and Fines Receivable	400,206	-	400,206
Due from other Funds	7,678	-	7,678
Total Current Assets	<u>671,698</u>	<u>94,056</u>	<u>765,754</u>
Noncurrent Assets			
Capital Assets			
Nondepreciable	-	1,370	1,370
Depreciable	828,428	2,363,530	3,191,958
Accumulated Depreciation	(501,917)	(853,140)	(1,355,057)
Total Noncurrent Assets	<u>326,511</u>	<u>1,511,760</u>	<u>1,838,271</u>
Total Assets	<u>998,209</u>	<u>1,605,816</u>	<u>2,604,025</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	57,545	6,592	64,137
Deposits and Interest Payable	-	32,086	32,086
Interest Payable	3,989	-	3,989
Due to other Funds	-	15,566	15,566
Total Current Liabilities	<u>61,534</u>	<u>54,244</u>	<u>115,778</u>
Noncurrent Liabilities			
Due Within One Year	-	4,000	4,000
Due In More Than One Year	190,584	31,375	221,959
Total Noncurrent Liabilities	<u>190,584</u>	<u>35,375</u>	<u>225,959</u>
Total Liabilities	<u>252,118</u>	<u>89,619</u>	<u>341,737</u>
NET ASSETS			
Investment in General Fixed Assets	135,925	1,476,385	1,612,310
Restricted for:			
Special Education	-	-	-
Loan Repayment	-	9,586	9,586
Other Purposes	19,466	-	19,466
Unrestricted	590,700	30,226	620,926
Total Net Assets	<u>\$ 746,091</u>	<u>\$ 1,516,197</u>	<u>\$ 2,262,288</u>

CITY OF CUMBY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Function / Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Primary Government		Business-type Activities	Total
			Operating Grants and Contributions	Capital Grants and Contributions		
Primary Government						
Governmental Activities:						
General Government	\$ 755,100	\$ 588,883	\$ -	\$ 6,000	\$ (160,217)	\$ (160,217)
Business-type Activities:						
Water and Sewer	428,238	354,810	-	-	(73,428)	(73,428)
Total Business-type Activities	428,238	354,810	-	-	(73,428)	(73,428)
Total Primary Government	1,183,338	943,693	-	6,000	(73,428)	(233,645)
General Revenues:						
Sales Taxes			234,721		-	234,721
Interest Earnings			90		207	(297)
Miscellaneous			29,910		-	29,910
Transfers			826		(825)	1
Total General Revenues, Special Items, and Transfers			265,547		(618)	264,929
Change in Net Assets			105,330		(74,046)	31,284
Net Assets - Beginning			640,761		1,590,243	2,231,004
Net Assets - Ending			\$ 746,091		\$ 1,516,197	\$ 2,262,288

See Independent Auditors' Report and Accompanying Notes to Financial Statements

**CITY OF CUMBY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 188,478	\$ 53,387	\$ 241,865
Receivables, Net of Allowances for Uncollectable Amounts			
Property Tax Receivable	10,376	-	10,376
Sales Tax Receivables	11,573	-	11,573
Fines and Fees Receivables	400,206	-	400,206
Due from other Funds	7,678	-	7,678
Total Assets	<u>\$ 618,311</u>	<u>\$ 53,387</u>	<u>\$ 671,698</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 57,545	\$ -	\$ 57,545
Deferred Revenues	410,582	-	410,582
Total Liabilities	<u>468,127</u>	<u>-</u>	<u>468,127</u>
Fund Balances			
Restricted for:			
State Programs	-	19,466	19,466
Committed for:			
Local Services	-	33,921	33,921
Street Maintenance	19,597	-	19,597
Unassigned, reported in:			
General Fund	130,587	-	130,587
Total Fund Balances	<u>150,184</u>	<u>53,387</u>	<u>203,571</u>
Total Liabilities and Fund Balances	<u>\$ 618,311</u>	<u>\$ 53,387</u>	

**CITY OF CUMBY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

Total Governmental Fund Balances	\$ 203,571
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	326,511
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(190,584)
Interest payable on noncurrent liabilities are not due and payable in the current period and are not reported in the funds.	(3,989)
Deferred revenue in governmental funds is susceptible to full accrual on the entity-wide statements.	<u>410,582</u>
Net assets of governmental activities	<u>\$ 746,091</u>

CITY OF CUMBY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General Funds	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Sales Taxes	\$ 234,980	\$ -	\$ 234,980
Licenses and Permits	100	-	100
Fines and Forfeitures	485,666	-	485,666
Charges for Services	5,014	50,919	55,933
Grants and Entitlements	6,000	-	6,000
Interest Earnings	77	13	90
Other Revenue	28,000	1,910	29,910
Total Revenues	<u>759,837</u>	<u>52,842</u>	<u>812,679</u>
EXPENDITURES			
Current			
Mayor and City Council	61,731	-	61,731
Public Safety	269,412	50	269,462
Administration	104,726	-	104,726
Municipal Court	224,272	12,912	237,184
Public Works	13,466	-	13,466
Debt Service	41,622	-	41,622
Capital Improvements	87,573	-	87,573
Total Expenditures	<u>802,802</u>	<u>12,962</u>	<u>815,764</u>
Excess (deficiency) of Revenues Over Expenditures	<u>(42,965)</u>	<u>39,880</u>	<u>(3,085)</u>
OTHER FINANCING SOURCES (USES)			
Bond Proceeds	78,348	-	78,348
Transfers In	18,354	-	18,354
Transfers Out	<u>(5,985)</u>	<u>(11,543)</u>	<u>(17,528)</u>
Total Other Financing Sources and Uses	<u>90,717</u>	<u>(11,543)</u>	<u>79,174</u>
Net Change in Fund Balance	47,752	28,337	76,089
Fund Balances - Beginning	102,431	25,050	127,481
Fund Balances - Ending	<u>\$ 150,183</u>	<u>\$ 53,387</u>	<u>\$ 203,570</u>

CITY OF CUMBY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Amounts reported for governmental activities in the Statements of Activities are different because:

Net changes in fund balance for Governmental Funds	76,089
Current year 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	87,573
Current year depreciation increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(68,996)
Repayment of debt principal is an expenditure in the funds but the payments reduce liabilities in the statement of net assets.	41,622
Proceeds of debt issued is not recorded as revenues in the Statement of Activities	(78,348)
(Increase) Decrease in accrued interest expense from beginning of period to end of period.	465
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	46,925
Change in Net Assets in Governmental Activities	<u>105,330</u>

CITY OF CUMBY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2012

	<u>Business-type Enterprise Funds</u> <u>Water and Sewer</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 68,741
Receivables, Net of Allowances for Uncollectable Amounts	
Accounts Receivable	<u>25,315</u>
Total Current Assets	<u>94,056</u>
Noncurrent Assets	
Capital Assets	
Land	1,370
Machinery and Equipment	2,180,939
Buildings and Improvements	157,416
Construction In Progress	25,175
Accumulated Depreciation	<u>(853,140)</u>
Total Noncurrent Assets	<u>1,511,760</u>
Total Assets	<u>1,605,816</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	6,592
Deposits and Interest Payable	32,086
Due To Other Funds	15,566
Current Maturity Of Long-term Debt	<u>4,000</u>
Total Current Liabilities	<u>58,244</u>
Noncurrent Liabilities	
Long-Term Debt	<u>31,375</u>
Total Noncurrent Liabilities	<u>31,375</u>
Total Liabilities	<u>89,619</u>
NET ASSETS	
Investment in General Fixed Assets	1,476,385
Restricted for:	
Loan Repayment	9,586
Unrestricted	<u>30,226</u>
Total Net Assets	<u>\$ 1,516,197</u>

CITY OF CUMBY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Business-type Enterprise Funds
	Water and Sewer
Operating Revenues	
Charges for Services	\$ 354,810
Total Operating Revenues	<u>354,810</u>
Operating Expenses	
Payroll	139,908
Maintenance and Supplies	75,195
Operations	62,153
Utilities	58,639
Insurance	10,258
Depreciation	79,990
Total Operating Expenses	<u>426,143</u>
Operating Income (Loss)	<u>(71,333)</u>
Non-Operating Revenues (Expenses)	
Interest Earnings	207
Other Expenses	(895)
Interest Expense	<u>(1,200)</u>
Total Non-Operating Revenues (Expenses)	<u>(1,888)</u>
Income (Loss) Before Contributions and Transfers	<u>(73,221)</u>
Transfers In	4,375
Transfers Out	<u>(5,200)</u>
	<u>(825)</u>
Change in Net Assets	(74,046)
Net Assets - Beginning	<u>1,590,243</u>
Net Assets - Ending	<u>\$ 1,516,197</u>

**CITY OF CUMBY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Business Type Enterprise Funds
	Water and Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 351,282
Payments to Suppliers	(357,634)
Loans to Other Funds	15,566
Net Cash Provided (Used) by Operating Activities	<u>9,214</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers In	4,375
Transfers (Out)	(5,200)
Proceeds received on Bonds, Loans, and Leases	15,375
Net Cash Flows Provided (Used) by Noncapital Financing Activities	<u>14,550</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of Capital Assets	(25,175)
Net Cash (Used) by Capital and Related Financing Activities	<u>(25,175)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and Dividends	207
Net Cash Provided by Investing Activities	<u>207</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,204)
Cash and Cash Equivalents - Beginning of Year	69,945
Cash and Cash Equivalents - End of Year	<u>\$ 68,741</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ (72,229)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities	
Depreciation Expense	79,990
Change in Assets and Liabilities	
Receivables, net	(3,528)
Accounts Payables	(10,683)
Customer Deposits	98
Due From Other Funds	15,566
Net Cash Provided (Used) by Operating Activities	<u>\$ 9,214</u>

See Independent Auditors' Report and Accompanying Notes to Financial Statements

Notes to the Financial Statements

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Note (1) Summary of Significant Accounting Policies

The accounting policies of the City of Cumby, Texas (City) as reflected in the accompanying financial statements for the year ended September 30, 2012 conform with the United States generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are discussed in subsequent subsections of this note.

The financial statements include a "Management Discussion and Analysis" (MD&A) section providing an analysis of the City's overall financial position and results of operations, financial statements prepared using full accrual accounting for all the City's activities, and a change in fund financial statements to focus on the major funds.

Financial Reporting Entity

The City operates under a council-mayor form of government and provides the following services as authorized by its charter: public safety-police, streets, water utility service, sanitation, culture-recreation, public improvements, planning and zoning, and general administrative services.

Government-Wide and Fund Financial Statements

In February 2009, the GASB issued statement No. 54 – Fund Balance Reporting and Governmental Fund Types. This statement establishes fund balance classifications based primarily on the extent to which the government is bound to honor constraints on the use of resources reported in each governmental fund. In addition, this standard requires additional note disclosures regarding the fund balance classification policies and procedures.

The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Certain indirect costs are included in the program expenses of most business-type activities. Program revenues include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

The fund level statements focus on the governmental and proprietary funds. The accounts of the City are organized on the basis of funds. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Major funds are determined by criteria specified by GASB. Major governmental funds are reported as separate columns in the fund financial statements. All other funds are aggregated into governmental fund groupings.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available. Revenues, other than grants, are considered to be available when they are collectible, within the current period or soon enough thereafter to pay liabilities of the current period. Revenues billed under a contractual agreement with another governmental entity, including federal and state grants, are recognized when billed and when all eligibility requirements of the provider have been met and are considered to be available if expected to be collected within on year. Expenditures generally are recorded when a liability is due. However, expenditures related to compensated absences and claims and judgments are recorded to the extent they are normally expected to be liquidated with available financial resources. Debt service expenditures are recognized when payment is matured. The reported fund balance of governmental funds is considered a measure of available spendable resources.

Property taxes, sales taxes, franchise fees, municipal court fines, and interest associated with the current fiscal period are recognized under the susceptible to accrual concept. All other revenue items are considered to be measurable and available only when cash is received by the City.

Governmental Funds

The City reports the following funds which are reported as major funds:

General Fund

The general fund is the general operating fund of the City and always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Capital Projects

These funds are used to account for capital asset acquisition and construction of various City projects including several major capital projects financed by government bonds.

Debt Service

The Debt-Service Fund is used to account for the payment of general obligation long-term debt principal, interest and related costs. Such payments are financed by a portion of the property tax levy and other sinking funds.

The City reports the following non-major governmental funds:

Arson Reward

This fund is used to account for insurance proceeds and the disbursements of funds to repair or demolish arson related damages to City property.

Municipal Court Technology

This fund is used to account for new and improvements to the court technology used by the court clerk and officers.

Municipal Court Security Fund

This fund is used to account for the purchase of and improvements to the security of the City's buildings and equipment.

Police Training Fund

This fund is used to account for the training of police officers through continuing education on police tactics and new technology available for officers to perform his or her job.

Police Seizure Fund

This fund is used to hold police department seizure of cash or other assets at the time of arrest of citizen violating laws and regulations through either drug trafficking or other violations.

Federal Seizure Fund

This fund is used to hold police seizures which are considered federal offenses and to be ready for disbursement once the violator has been either convicted or exonerated for the crime.

The City reports one proprietary fund:

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Water and Sewer Fund

The City is responsible for providing water, sewer, and garbage services to the residents of the City which is operated as a self-sustaining utility service.

Proprietary funds are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon determination of net income. Proprietary Funds are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations, such as providing water and sewer services. The proprietary fund is accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. As allowed by Governmental Accounting Standards, the City has elected to not apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989 in the preparation of the proprietary funds financial statements.

Capital Assets

Capital assets which include land and improvements, buildings and improvements, equipment, vehicles and infrastructure assets, are reported in the applicable governmental or business-type activity columns for the government-wide statement of net assets, and related depreciation is allocated to program in the statement of activities. Assets purchased or constructed are capitalized at historical cost. Donated capital assets are recorded at the estimated fair market value at the date of donation. Capital outlay is recorded as expenditure in the General Fund and other governmental funds and as an asset in the Government-wide Financial Statements and Proprietary funds. Maintenance and repairs are charged to operations as incurred, and improvements and betterments that extend the useful lives of capital assets are capitalized.

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life greater than one year.

The City obtains public domain capital assets (infrastructure) through capital improvements projects (CIP) construction. Infrastructure consists of certain improvements other than buildings, including streets and roads, pedestrian facilities, and drainage systems.

In the Government-wide and Proprietary Fund financial statements, capital assets are depreciated using the straight-line methods with the following estimated useful lives:

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>General Fund</u>	<u>Proprietary Fund</u>
Building	10-30	10-30
Improvements other than buildings	15-30	15-30
Streets and Right of Ways	30	0
Machinery and Equipment	5-15	5-15
Vehicles	5-7	5-7
Water and Sewer System	15-30	15-30

Depreciation of assets is classified by functional components. The City considers land to be inexhaustible; and therefore, this asset is reported as non-depreciable.

In the Government-wide and Proprietary fund statements, the City recognizes a gain or loss on the disposal of assets when it retires or otherwise disposes of capital assets.

Budgetary Data

The City follows these procedures in the budgetary data reflected in the financial statements:

- (1) Prior to September, the Mayor submits to the City Council a proposed operating budget for the year commencing the following October 1. The budget includes proposed expenditures and the means of financing them.
- (2) Public hearings are conducted, after proper official journal notification, to obtain taxpayer comments.
- (3) Prior to September 30, the budget is legally enacted through passage of an ordinance.
- (4) Under Civil Statutes, the City is prohibited from budgeting total proposed expenditures in excess of total anticipated revenues and any unencumbered funds from prior years; therefore, expenditures may not legally exceed revenues and unencumbered fund balances from prior years.
- (5) Formal budgetary integration is employed as a management control device during the year for the General Fund and Revenue Fund.

The Budget for the Revenue Fund (Proprietary) is adopted on a basis consistent with GAAP, except the City budgets capital outlay as expense and does not budget depreciation expense.

Budgeted amounts are as originally adopted or as amended by the City Council.

Pension Plan

Full-time City Employees are members of the Texas Municipal Retirement System (System). The City's policy is to fund all pension costs accrued; such costs to be funded are determined annually as of April 1, by the Systems actuary.

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Encumbrances

Formal encumbrance accounting is not used by the City.

Cash Flows

The City pools available cash from funds for the purpose of increasing revenue through interest income. Interest income, which includes changes in fair value, is allocated to all individual funds.

For purposes of the statement of cash flows, the Proprietary Fund considers all highly liquid investments with a maturity of thirty days or less when purchased to be cash equivalents.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. These receivables and payables are classified as "due to or from other funds" on the fund-level statements. All interfund transactions between governmental funds are eliminated on the Government-wide statements.

Receivables – Government-Wide Statements

In the Government-wide Statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivables are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes, franchise fees, grants and police fines. Business-type activities report utility accounts receivable as their major receivables.

Receivables – Fund Financial Statements

In the fund financial statements, material receivables in governmental funds include revenue accruals such as grants and other similar intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the Government-wide Financial Statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Long-Term Debt

In the Government-wide Financial Statements and Proprietary Fund Types in the Fund Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the applicable

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

governmental activities, business-type activities, or proprietary fund type statement of net assets. In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing uses.

Interfund Transfers

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated. Transfers between governmental funds and business-type activities have not been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Reservations of Fund Equity

Reservation of fund balances of the governmental funds indicate that portion of fund equity which is not available for appropriation for expenditure or is legally restricted by outside parties for use for a specific purpose. Designations of fund balance are the representations of management for the utilization of resources in future periods. As of September 30, 2012, the General Fund reserved fund balance for maintenance and repair of streets totaled \$19,466. This reserved balance represents 1/4 of 1% sales tax voted in the general election to provide revenue for the maintenance and repairs of municipal streets.

Comparative Data

Governments are required to present comparative data only in connection with Management's Discussion and Analysis (MD&A).

Equity Classifications

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets less any unspent debt proceeds.

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

2. Restricted net assets – Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. In accordance with Governmental Accounting Standards Board Statement No. 54. – Fund Balance Reporting and Governmental Fund Type Definitions, the City classifies governmental fund balance as follows:

1. Non-spendable—Includes fund balance amounts that cannot be spent either because they are not in spendable form (inventories) or because legal or contractual requirements mandate funds be maintained intact (contractual obligations).
2. Restricted—Consists of fund balances with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
3. Committed—Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action at the highest level of decision making authority. The Common Council through a formal action (ordinance or resolution) commits fund balance amounts for the City. This formal action must occur prior to the end of the reporting period, but the amount of the commitment, which is subject to the constraints, may be determined in a subsequent period. Any changes to the constraints imposed require the same formal action of the City that originally created the commitment.
4. Assigned—Includes spendable fund balance amounts that are intended to be used for specific purposes that are not considered restricted or committed. Fund balance is assigned through formal action (ordinance or resolution) by the Common Council for specific purposes. Assignments may take place after the end of the reporting period.
5. Unassigned—Includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any other governmental fund if expenditures exceed amounts restricted, committed, or assigned for those purposes.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the City would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

Proprietary fund equity is classified the same as in the government-wide statements

The following schedule provides information about the specific fund balance classification by fund:

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Governmental		
	General	Funds	Totals
Restricted			
Law Officer Training	\$ -	\$ 4,046	\$ 4,046
Municipal Court Security	-	10,353	10,353
Municipal Technology	-	5,067	5,067
Committed			
Street Maintenance	19,597	-	19,597
Police Seized Funds	-	31,612	31,612
Arson Reward	-	399	399
Federal Seizure	-	1,910	1,910
Unassigned	130,586	-	130,586
Total Net Assets	\$ 150,183	\$ 53,387	\$ 203,570

Note (2) – Collateralization of Deposits

Custodial Credit Risk for Deposits

Statutes authorize the City to invest in bank certificates of deposit, obligations of the U.S. Treasury and U.S. agencies, banker's acceptances repurchase agreements, and commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record. The City's policy is to invest in instruments or require collateral so as to not expose the City to credit, custodial credit, custodial concentration, interest rate, or foreign currency risks. Since the City complies with this law, it has no custodial credit risk for deposits.

At September 30, 2012, the bank balances totaling \$310,606 were fully insured by FDIC coverage of \$250,000. There was no additional coverage provided by pledged securities.

Note (3) Property Taxes

Property taxes are attached as an enforceable lien on property as of January 31. Property taxes are levied by October 1. City property tax revenues are recognized when levied to the extent that they result in current receivables. The Titus County Appraisal District bills and collects property taxes for the City of Cumby, Texas.

The State of Texas Constitution limits the city's ad valorem tax rate for all purposes to \$1.50 per one hundred dollars of assessed valuation. The tax rates levied October 1, 2011 to finance General Fund operations was \$.42 per \$100 per valuation respectively. Ad valorem tax revenue was levied using total rate of \$.23 per hundred dollars of assessed valuation, based on 100% of estimated market value, which means that the City has a tax margin of \$1.20 per \$100 and could rise up to \$12,000 additional tax revenue a year from the present assessed valuation of \$1,227,290 before the limit is reached. The current year levy assessed for the 2012 tax roll was \$61,713.

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Note (4) Receivables

For the year ended September 30, 2012, receivables are reported net of allowance for doubtful accounts as calculated below:

	Receivables	Allowance	Net Receivables
Governmental Funds: General Fund			
Property Taxes Receivable	11,529.39	1,152.94	10,376.45
Sales Tax Receivables	11,572.59	-	11,572.59
Fines and Fees	1,600,822.76	1,200,617.07	400,205.69
Total	<u>1,612,352.15</u>	<u>1,201,770.01</u>	<u>410,582.14</u>
Property Funds: Utility Fund			
Accounts Receivable	<u>25,314.95</u>	<u>-</u>	<u>25,314.95</u>

Note (5) Capital Assets

Capital Asset activity for the year ended September 30, 2012 was as follows:

	October 1, 2011	Additions	Disposals	September 30, 2012
Governmental Activities				
Land and Buildings	\$ 128,377	\$ -	\$ -	\$ 128,377
Machinery and Equipment	73,765	7,225	-	80,990
Office Furniture and Equipment	38,976	-	-	38,976
Furniture and Fixtures	-	-	-	-
Infrastructure	212,961	-	-	212,961
Construction In Progress	-	57,575	-	57,575
Automobiles	286,776	22,773	-	309,549
Total at cost	740,855	87,573	-	828,428
Less Accumulated Depreciation	(432,921)	(68,996)	-	(501,917)
Governmental Activities Capital Assets (Net)	<u>\$ 307,934</u>	<u>\$ 18,577</u>	<u>\$ -</u>	<u>\$ 326,510</u>
Business-type Activities				
Land and Buildings	\$ 2,268,839	\$ -	\$ -	\$ 2,268,839
Automobiles	-	-	-	-
Machinery and Equipment	70,885	-	-	70,885
Loan Costs	-	-	-	-
Construction in Progress	-	25,176	-	25,176
Total at cost	2,339,724	25,176	-	2,364,900
Less Accumulated Depreciation	(773,150)	(79,990)	-	(853,140)
Business-type Activities Capital Assets (Net)	<u>\$ 1,566,574</u>	<u>\$ (54,814)</u>	<u>\$ -</u>	<u>\$ 1,511,760</u>

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Depreciation expense was charged to Governmental Activities and Business-type Activities in the amounts of \$68,996 and \$79,990 for the year ended September 30, 2012, respectively.

Note (6) Deferred Revenue

Deferred revenue at September 30, 2012 was \$10,376 as a result of uncollected property tax revenues and \$400,207 for uncollected fines and fees.

Note (7) Bond and Notes Payable

At September 30, 2012, the City has executed several agreements to obtain financing for capital expenditures. The agreements in place at year end are as follows:

	Original Balance	Maturity Date	Interest Rates	Debt Balance 9/30/2012	Payment Dates
Alliance Bank - 2010 Tahoe	24,440	8/3/2013	5.25%	7,879	Monthly
Alliance Bank - Maint. Truck	20,773	11/5/2014	5.25%	14,701	Monthly
Alliance Bank - 2010 Backhoe	49,935	10/25/2015	5.25%	31,024	Monthly
Revolving Line of Credit	57,575	12/5/2011	5.25%	54,557	On demand

The following is a summary of the changes in long-term obligations reported in the government-wide financial statements for the year ended September 30, 2012:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Alliance Bank - 2010 Tahoe	\$ 16,054	\$ -	\$ 8,175	\$ 7,879	\$ 7,879
Alliance Bank - Maint. Truck	-	20,773	6,072	14,701	6,891
Alliance Bank - 2010 Backhoe	41,106	-	10,082	31,024	9,986
Revolving Line of Credit	-	57,575	3,018	54,557	54,557
	<u>\$ 57,160</u>	<u>\$ 78,348</u>	<u>\$ 27,346</u>	<u>\$ 108,162</u>	<u>\$ 79,314</u>

Payment requirements for the next five years and thereafter for all bonds and loans outstanding as of September 30, 2012 are as follows:

	Principal	Interest	Total
2013	\$ 79,314	\$ 2,683	\$ 81,997
2014	17,785	1,091	18,876
2015	11,062	(0)	11,062
2016	0	-	0
2017	-	-	-
Thereafter	-	-	-
Total	<u>\$ 108,162</u>	<u>\$ 3,773</u>	<u>\$ 111,935</u>

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

The City has the following debt outstanding for the Government Activities at September 30, 2012:

	<u>Original Balance</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Debt Balance 9/30/2012</u>	<u>Payment Dates</u>
Oshkosh Financial - Fire Truck	147,500	10/26/2016	4.84%	82,424	Annually

The lease terms require an annual payment due each October per the agreement in place. The agreement was entered into purchase a fire truck. The fire truck is listed as vehicles in the capital asset note. The fire truck will be depreciated over a 10 year period which mirrors the financing agreement.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Oshkosh Financial - Fire Truck	\$ 96,698	\$ -	\$ 14,274	\$ 82,424	\$ 15,689
	<u>\$ 96,698</u>	<u>\$ -</u>	<u>\$ 14,274</u>	<u>\$ 82,424</u>	<u>\$ 15,689</u>

Future minimum lease payments to be made under this lease agreement are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 14,964	\$ 3,989	\$ 18,954
2014	15,689	3,265	18,954
2015	16,448	2,506	18,954
2016	17,244	1,710	18,954
2017	18,079	875	18,954
Thereafter	-	-	-
Total	<u>\$ 82,424</u>	<u>\$ 12,345</u>	<u>\$ 94,769</u>

The City has the following debt outstanding for the Proprietary Fund at September 30, 2012:

	<u>Original Balance</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Debt Balance 9/30/2012</u>	<u>Payment Dates</u>
Bond Note Payable	24,000	9/30/2016	5.00%	20,000	Annually
Line of Credit	-	9/30/2013	5.00%	15,375	Demand

The City issued City of Cumby, TX Water and Sewer Utility Revenue Bonds, Series 1978 to provide financing for utility system improvements. The bonds require annual payments of principle and interest through the maturity date of January 1, 2017. The bonds incur interest of 5% on the unpaid balance.

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bond Note Payable	\$ 24,000	\$ -	\$ 4,000	\$ 20,000	\$ 4,000
Line of Credit	-	15,375	-	15,375	15,375
	<u>\$ 24,000</u>	<u>\$ 15,375</u>	<u>\$ 4,000</u>	<u>\$ 35,375</u>	<u>\$ 19,375</u>

Payment requirements for the next five years and thereafter for all bonds and loans outstanding as of September 30, 2012 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 19,375	\$ 1,000	\$ 20,375
2014	4,000	800	4,800
2015	4,000	600	4,600
2016	4,000	400	4,400
2017	4,000	200	4,200
Thereafter	-	-	-
Total	<u>\$ 35,375</u>	<u>\$ 3,000</u>	<u>\$ 38,375</u>

Note (8) Deficit in Fund Equity

Fund equity contains no deficit balances in individual funds at September 30, 2012.

Note (9) Interfund Transfers

Interfund transfers for the year ended September 30, 2012 consisted of the following:

	<u>Transfers</u>	
	<u>In</u>	<u>Out</u>
General Fund:		
Transfer in/out to Utility Fund	5,200.00	4,375.04
Transfer in/out to Municipal Fund	11,543.39	
Municipal Fund		
Transfer in/out to General Fund		11,543.39
Proprietary Fund		
Transfer in/out to General Fund	4,375.04	5,200.00
	<u>21,118.43</u>	<u>21,118.43</u>

The Proprietary Fund transferred out funds to the General Fund to subsidize the deficiency of revenues over expenses in the General Fund.

Note (10) Risk Financing and Related Insurance Issues

In the normal course of business, the City is exposed to risks of loss from a number of sources including fire and casualty losses, errors of omissions by council members and employees, negligent

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

acts by employees including law enforcement officers, automobile and mobile equipment accidents, and injuries to employees during the course of performing during the course of performing duties for the City.

The City attempts to cover these losses by the purchase of insurance. The City purchases insurance with annual maximum limits and to the extent of these maximum limits the City will incur no additional liability due to excess insurance purchases by the risk pool. The City would be liable for claims in excess of the policy limits. In management's estimation, there are no current loss claims that exceed the insured maximum limits. Significant loss experiences could subject the City to significant premium increases.

Note (11) Subsequent Events

The City has reviewed its records for subsequent events that may or will occur as of August 6, 2013. Based on the City's review, there are no such events that need disclosure or accounted for at this time for the year ended September 31, 2012. The City has made the financial statements available as of August 6, 2013.

Note (12) Compliance, Stewardship, and Accountability

The following funds incurred expenditures in excess of appropriations at functional expenditure levels:

	Budget	Actual	Excess
General Fund			
Mayor and City Council	4,650.00	61,729.65	57,079.65
Public Safety	247,604.00	269,411.15	21,807.15
Administration	57,599.00	96,985.39	39,386.39
Municipal Court	42,795.00	236,784.86	193,989.86
Public Works	-	13,465.89	13,465.89

Note (13) Pension 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 company employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes 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. The report may be obtained from TMRS' website at www.TMRS.com.

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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

	<u>12/31/2011</u>	<u>12/31/2012</u>
Employee deposit rate	5.00%	5.00%
Matching ratio (city to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	0.00%	0.00%
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 normal cost contribution rate and the prior service cost contribution rate, which is calculated to be 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 contributions 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:

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/2012
Actuarial Value of Assets	\$ 102,879
Actuarial Accrued Liability	\$ 173,752
Unfunded (Overfunded) Actuarial	
Accrued Liability (UAAL)	\$ 70,873
Percentage Funded	59.2%
Annual Coverage Payroll	\$ 70,873
UAAL as a Percentage	
of Covered Payroll	18.1%
Net Pension Obligation (NPO)	
at the Beginning of Period	\$ -
Annual Pension Cost:	\$ 12,828
Contributions Made (F)	\$ 12,828
NPO at the end of the month	\$ -

General System-wide Actuarial Assumptions

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	21.6 Years - Closed Period
Asset Valuation Method	Fund Value
Investment Rate of Return	7.0%
Projected Salary Increases	Varies by Age and Service
Includes Inflation at	3.0%
Cost-of-Living Adjustments	0.0%

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by 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 postemployment benefit," or OPEB.

CITY OF CUMBY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over / (Under)
	Original	Final		
REVENUES				
Sales Taxes	\$ 238,000	\$ 238,000	\$ 234,980	\$ (3,020)
Licenses and Permits	500	500	100	(400)
Fines and Forfeitures	365,256	365,256	485,666	120,410
Charges for Services	-	-	5,014	5,014
Grants and Entitlements	-	-	6,000	6,000
Interest Earnings	250	250	77	(173)
Other Revenue	22,354	22,354	28,000	5,646
Total Revenues	<u>626,360</u>	<u>626,360</u>	<u>759,837</u>	<u>133,477</u>
EXPENDITURES				
Current				
Mayor and City Council	4,650	4,650	61,731	57,081
Public Safety	248,604	248,604	269,412	20,808
Administration	58,199	58,199	104,726	46,527
Municipal Court	44,295	44,295	224,272	179,977
Public Works	-	-	13,466	13,466
Debt Service	37,000	37,000	41,622	4,622
Capital Improvements	-	-	87,573	87,573
Total Expenditures	<u>392,748</u>	<u>392,748</u>	<u>802,802</u>	<u>410,054</u>
Excess (deficiency) of Revenues Over Expenditures	<u>233,612</u>	<u>233,612</u>	<u>(42,965)</u>	<u>(276,577)</u>
OTHER FINANCING SOURCES (USES)				
Bond Proceeds	-	-	78,348	(78,348)
Transfers In	-	-	18,354	18,354
Transfers Out	-	-	(5,985)	(5,985)
Total Other Financing Sources and Uses	<u>-</u>	<u>-</u>	<u>90,717</u>	<u>90,717</u>
Net Change in Fund Balance	233,612	233,612	47,752	(185,860)
Fund Balances - Beginning	102,214	102,214	102,214	-
Fund Balances - Ending	<u>\$ 335,826</u>	<u>\$ 335,826</u>	<u>\$ 149,966</u>	<u>\$ (185,860)</u>

CITY OF CUMBY
BUDGETARY COMPARISON SCHEDULE
ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over / (Under)
	Original	Final		
REVENUES				
Charges for Services	373,950	373,950	354,810	(19,140)
Interest Earnings	254	254	207	(47)
Total Revenues	<u>374,204</u>	<u>374,204</u>	<u>355,017</u>	<u>(19,187)</u>
EXPENDITURES				
Current				
Excess (deficiency) of Revenues Over Expenditures	<u>374,204</u>	<u>374,204</u>	<u>355,017</u>	<u>(19,187)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	16,000	16,000	4,375	(11,625)
Transfers Out	-	-	(5,200)	(5,200)
Total Other Financing Sources and Uses	<u>16,000</u>	<u>16,000</u>	<u>(825)</u>	<u>(16,825)</u>
Net Change in Fund Balance	390,204	390,204	354,192	(36,012)
Fund Balances - Beginning	1,585,045	1,585,045	1,585,045	-
Fund Balances - Ending	<u>\$ 1,975,249</u>	<u>\$ 1,975,249</u>	<u>\$ 1,939,237</u>	<u>\$ (36,012)</u>