ANNUAL FINANCIAL REPORT

OF THE

CITY OF CUMBY, TEXAS

FOR

FISCAL YEAR ENDED

SEPTEMBER 30, 2014

Mayor
Kathy Hall-Carter

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CITY OF CUMBY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2014

TABLE OF CONTENTS

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INTRODUCTORY SECTION

CITY OF CUMBY, TEXAS

City Council

For the Year Ended September 30, 2014

Kathy Hall-Carter	Mayor
David Petty	Mayor Pro-Tem
Doug Simmerman	Alderman
Lisa Taylor	Alderman
Cody Talley	Alderman
Jackie Holley	Alderman

FINANCIAL SECTION

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Member
American Institute of CPAs
Texas Society of CPAs

December 17, 2014

Independent Auditor's Report

Mayor and City Council
City of Cumby
Cumby, Texas

Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cumby, Texas ("City") as of and for the year ended September 30, 2014, 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.

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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, Texas, as of September 30, 2014, 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, the TMRS Funding Progress and Contributions and the General Fund budgetary comparison schedule on pages 5 - 14 and pages 47 - 48 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 Cumby, Texas' basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has 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.

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Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated December 17, 2014, on our consideration of the City of Cumby, 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* and should be considered in assessing the results of our audit.

Respectfully Submitted,
CONWAY COMPANY CPAs, P.C.

Conway Company CPAs, P.C.

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CITY OF CUMBY, TEXAS

MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2014

As management of the City of Cumby ("City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2014. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the fiscal year by $1,706,007 (net position). Of this amount $1,499,230 is net investment in capital assets. Net position restricted for specific purposes is $87,628. The remaining amount of $119,149 (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors in accordance with fund designation and fiscal policies.

- The City's total net position decreased by ($116,267), excluding prior period adjustments. The majority of this decrease is less revenues collected in comparison to the prior year.

- At of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of $147,037, a decrease of ($28,709) in comparison with the prior year. Approximately 73% of this total amount, or $107,041, is available for spending at the City's discretion (unassigned fund balance).

- At the end of the current fiscal year, unassigned fund balance for the General Fund was $107,041 , or 14.2%, of total general fund expenditures. The decrease in fund balance for the General Fund in the amount of ($171,532), is due to a decrease in revenues.

- The City's total long-term debt decreased by ($31,071), or (4%), during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Basic Financial Statements

The first two statements (pages 17 - 19) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (pages 20 - 26) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the proprietary fund statements.

The next section of the basic financial statements is the **notes** on pages 27 - 44. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **required supplemental information** is provided to show details about the City's pension plan and budgetary comparison schedule on pages 47 - 48.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The statement of net position presents information on all of the City's assets, deferred outflows, liabilities, and deferred inflows with the difference between the two 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 is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both the statement of net position and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting methods.

The government-wide statements are divided into three categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property and sales taxes and state finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the utility services offered by the City.

The government-wide financial statements are on pages 17 - 19 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant activities. 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 all other governmental entities in Texas, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. 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 those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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 government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison schedule uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The schedule shows four columns: 1) the original budget; 2) the final budget as amended by the council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds – The City has one type of proprietary fund which is the Water and Sewer Fund. The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary Funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. Because these services benefit both governmental as well as business type functions, they have been included in both the governmental and business-type activities in the government-wide financial statements.

Proprietary Funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 24 - 26 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 27 – 44 of this report.

Required Supplementary Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees as well as a budget comparison schedule.

New Pronouncements – The following statements for GASB were effective for the City in the fiscal year ending September 30, 2014:

GASB Statement No. 66, "Technical Corrections – 2012 – an amendment of GASB Statement No. 10 and No. 62", will be implemented by the City as required by GASB during the fiscal year ending September 30, 2014. This statement improves financial reporting by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. This statement amends Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This statement also amends Statement No. 62 by modifying the specific guidance on accounting and operating leases. The implementation of this statement will not result in any changes to the financial statements.

GASB Statement No. 67, "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25 will be implemented as required by GASB during the fiscal year ending September 30, 2014. The objective of this statement is to improve financial reporting by state and local government pension plans. The implementation of this statement will not result in any changes to the financial statements.

The GASB has issued the following statements which will be effective in future years as described below:

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27", will be implemented as required by GASB during the fiscal year September 30, 2015. The objective of this statement is to improve accounting and financial reporting by state and local government pensions and improve the decision-usefulness of information contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. Note disclosure and required supplementary information requirement about pensions also are addressed. This statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. The City is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

GASB Statement No. 69, "Governmental Combinations and Disposals of Government Operations", will be implemented as required by GASB during the fiscal year September 30, 2015. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The City is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees", will be implemented as required by GASB during the fiscal year September 30, 2015. This statement requires a government that extends nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. It is not anticipated that the adoption of the statement will result in any changes to the City's financial statements.

GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date", will be implemented as required by GASB during the fiscal year September 30, 2015. This statement addresses an issue regarding application of the transition provisions of GASB Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The City is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

The City of Cumby's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	$ 213,498	$ 671,883	$ 161,548	$ 407,543	$ 375,046	$ 1,079,426
Capital assets	254,700	292,299	1,957,516	1,776,042	2,212,216	2,068,341
Total assets	468,198	964,182	2,119,064	2,183,585	2,587,262	3,147,767
Long-term liabilities	56,283	118,768	708,243	691,933	764,526	810,701
Current liabilities	56,111	61,637	60,618	47,339	116,729	108,976
Total liabilities	112,394	180,405	768,861	739,272	881,255	919,677
Net position:						
Net investment in capital assets	202,929	173,531	1,296,301	1,084,109	1,499,230	1,257,640
Restricted	39,996	21,341	47,632	10,874	87,628	32,215
Unrestricted	112,879	588,905	6,270	349,330	119,149	938,235
Total net position	$ 355,804	$ 783,777	$ 1,350,203	$ 1,444,313	$ 1,706,007	$ 2,228,090

As noted earlier, net position may serve over time as one useful indicator of a City's financial condition. The net position of the City exceeded liabilities by $1,706,007 as of September 30, 2014. The City's net position decreased by ($116,267), excluding prior period adjustments, for the fiscal year ended September 30, 2014.

Net investment in capital assets:
The largest portion of the City's net position, 87.9%, reflects the investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of outstanding related debt, the resources needed to repay that debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities.

Restricted net position:
The restricted net position of $87,628, or 5.14%, of total net position represents resources that are subject to external restrictions on their use, or by enabling legislation. Restricted net position is comprised of state and contractually imposed restrictions which are $26,488, or 30.2%, for court fees, debt requirements of $47,632 , or 54.4%, and $13,508, or 15.4%, is for unspent federal seizure funds.

Unrestricted net position:
Unrestricted net position of $119,149 is available to fund City programs to citizens and debt obligations to creditors. The majority of unrestricted net position resides in the governmental activities.

Changes in Net Position

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
REVENUE:						
Program Revenues						
Charges for Services	$ 505,543	$ 582,096	$ 351,847	$ 373,958	$ 857,390	$ 956,054
Operating Grants and Contributions	33,150	1,407	-	-	33,150	1,407
Capital Grants and Contributions	6,500	-	-	-	6,500	-
General Revenues:						
Property Taxes	81,925	79,897	-	-	81,925	79,897
Sales Taxes	88,600	123,528	-	-	88,600	123,528
Franchise Taxes	36,192	32,173	-	-	36,192	32,173
Investment Income	287	90	-	124	287	214
Miscellaneous	3,359	13,967	3,868	-	7,227	13,967
Total Revenues	755,556	833,158	355,715	374,082	1,111,271	1,207,240
EXPENSES:						
Program Expenses:						
General Government	116,981	264,311	-	-	116,981	264,311
Public Safety	310,768	279,220	-	-	310,768	279,220
Public Services and operations	242,471	237,136	-	-	242,471	237,136
Public Works	62,086	16,192	-	-	62,086	16,192
Parks and Recreation	10,818	-	-	-	10,818	-
Interest on Long-Term Debt	1,829	-	-	-	1,829	-
Water and Sewer	-	-	482,585	444,574	482,585	444,574
Total Expenses	744,953	796,859	482,585	444,574	1,227,538	1,241,433
Increase in Net Position before Transfers	10,603	36,299	(126,870)	(70,492)	(116,267)	(34,193)
Other Revenues and Financing Sources (uses)						
Transfers	(174,483)	1,392	174,483	(1,392)	-	-
Total Other Financing Sources (uses)	(174,483)	1,392	174,483	(1,392)	-	-
Increase in Net Position	(163,880)	37,691	47,613	(71,884)	(116,267)	(34,193)
Net Position, October 1	783,777	746,086	1,444,313	1,516,197	2,228,090	2,262,283
Prior Period Adjustments	(264,093)	-	(141,723)	-	(405,816)	-
Net Position, September 30	$ 355,804	$ 783,777	$ 1,350,203	$ 1,444,313	$ 1,706,007	$ 2,228,090

Governmental activities decreased net position, excluding prior period adjustments, by ($163,880). This is due to the increase in transfer to the Business-type fund for allocation of payroll by function of ($146,028).

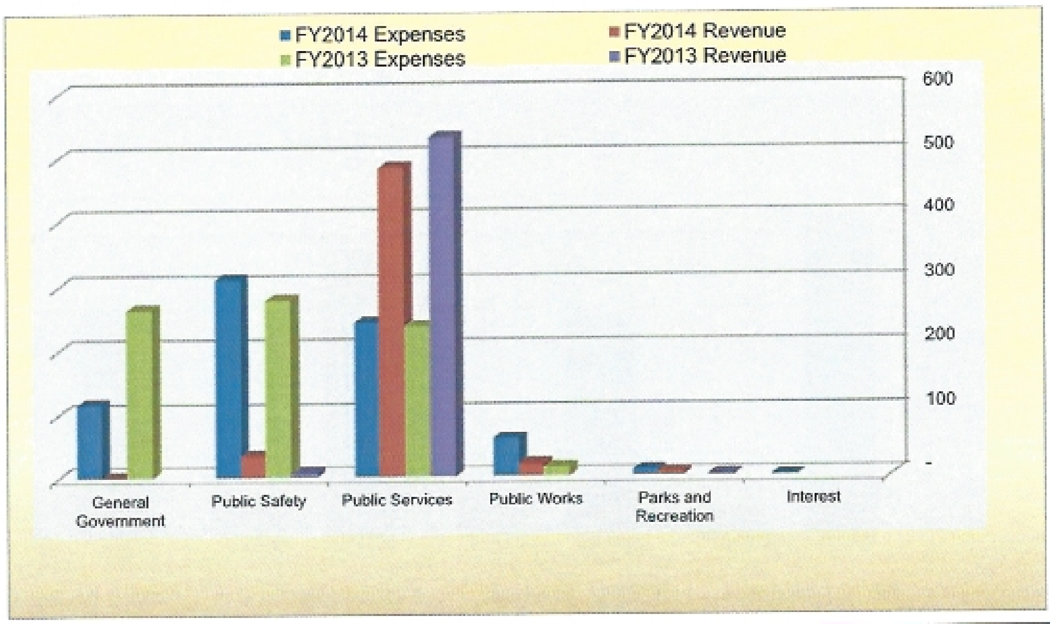
Business-type activities increased net position, excluding prior period adjustments, by $47,613. Revenues decreased slightly and expenditures increased causing a net decrease of ($56,378) of which the increase in transfers offset.

Governmental-type activities - Governmental-type activities decreased the City's net position by ($163,880), excluding prior period adjustments. A key element of this decrease as follows:

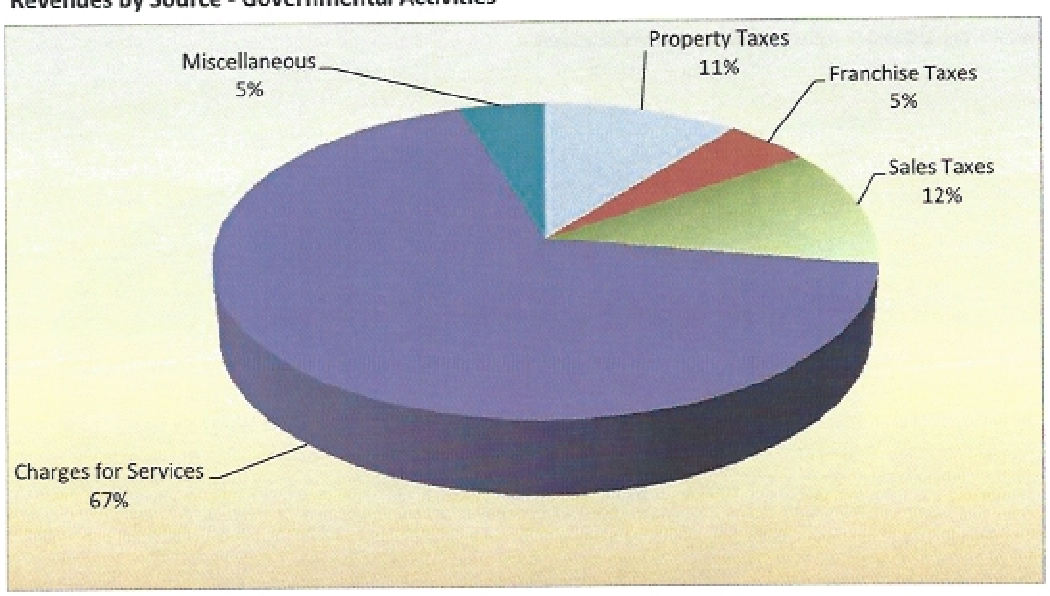
Transfers to Water and Sewer Fund increased to ($174,483) of which ($146,028) is for the allocation of payroll.

Expenses and Program Revenues - Governmental Activities

(amounts expressed in thousands)



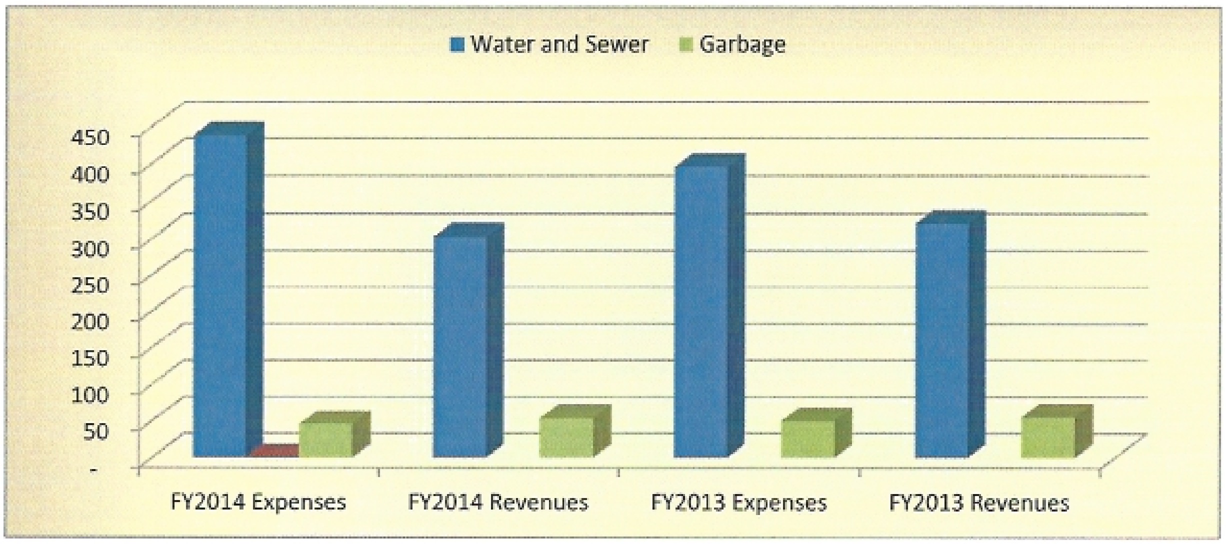
Revenues by Source - Governmental Activities



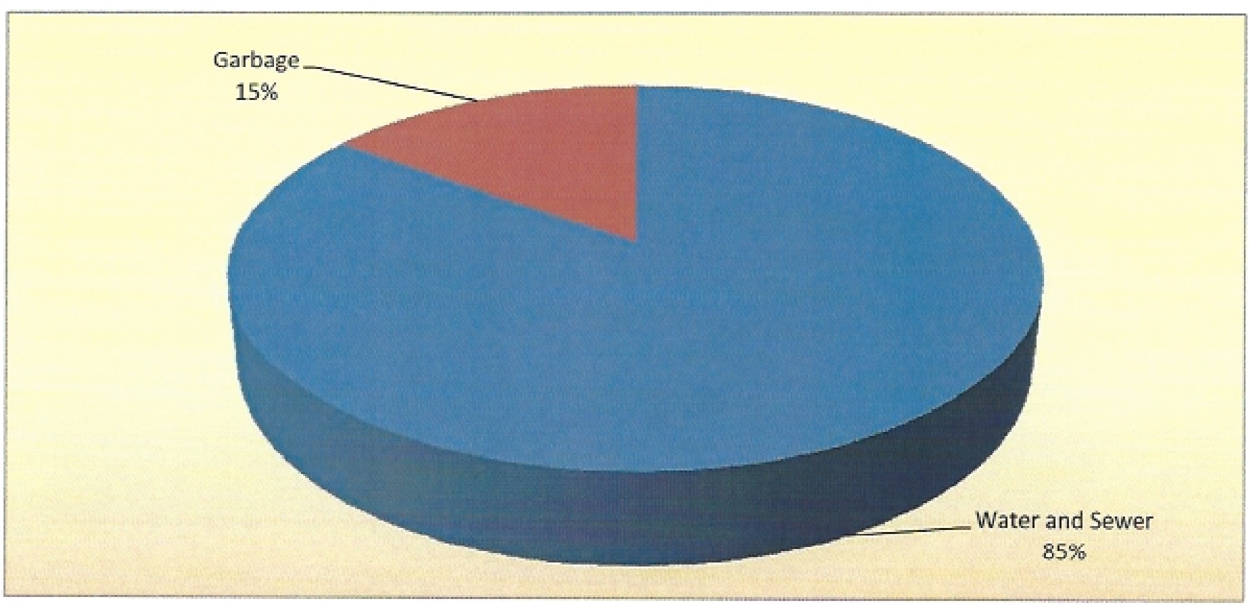
Business-type Activities - Business-type activities increased the City's net position by $47,613, excluding prior period adjustments. A key element of this increase is as follows:

Transfer from General Fund increased to $174,483 of which $146,028 is to allocate payroll.

Expenditures and Program Revenues - Business-type Activities
(amounts expressed in thousands)



Revenues by Source - Business-type Activities



Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net recourses available for spending as they represent the portion of fund balance which has not been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been granted authority to assign resources for a particular purpose for the City.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the General Fund was $107,041, an increase of 9.7% in comparison with the prior year.

The restricted fund balances of $39,996, consist of amounts with constraints put on their use by externally imposed creditors, grantors, contributions, laws, regulations or enabling legislation. Restricted fund balance of $26,488, or 66.23%, is for court use. Seized funds not spent at the end of the fiscal year in the amount of $13,508, or 33.77%, is restricted by federal law .

Unassigned fund balance of $107,041 represents the residual classification for the City's General Fund.

It is the City's goal to achieve and maintain an unassigned fund balance in the General Fund equal to 16.67% of expenditures. At the end of the current fiscal year, the City is short of this goal by (2.45%).

General Fund Budgetary Highlights: During the fiscal year, the City did not revise the budget. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and (3) increases in appropriations that become necessary to maintain services.

Revenues were less than the budgeted amounts in most classifications. Expenditures were more than budgeted amounts at the fund level.

Proprietary Funds - The City of Cumby's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the proprietary funds at the end of the fiscal year amounted to $6,270.

Capital assets - The City of Cumby's investment in capital assets for its governmental and business-type activities as of September 30, 2014, totals $2,212,216 (net of accumulated depreciation). This investment in capital assets includes buildings, roads and bridges, land, machinery and equipment. The total increase in the City of Cumby's investment in capital assets for the current fiscal year was 6.95%.

Major capital asset events during the current fiscal year included the following:

- Improvements to water and sewer infrastructure

Capital Assets
As of September 30, 2014
(net of accumulated depreciation)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land & Improvements	$ -	$ -	$ 11,370	$ 1,370	$ 11,370	$ 1,370
Machinery & Equipment	130,207	154,114	40,128	1,783	170,335	155,897
Buildings	59,136	50,696	127,443	132,386	186,579	183,082
Infrastructure	65,357	29,973	1,778,575	1,272,161	1,843,932	1,302,134
Construction in Progress	-	57,575	-	368,341	-	425,916
Total	$ 254,700	$ 292,358	$ 1,957,516	$ 1,776,041	$ 2,212,216	$ 2,068,399

More detailed information about the City's capital assets is presented in Note F to the financial statements

Long-term Debt - As of September 30, 2014, the City had long-term debt outstanding of $758,197. This debt is secured by property taxes and/or revenues. The debt decreased by ($31,071), or (4%).

Outstanding Debt
As of September 30, 2014

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Certificates of Obligation	$ -	$ -	$ 655,000	$ 675,000	$ 655,000	$ 675,000
Notes Payable	-	30,808	51,426	16,000	51,426	46,808
Capital Lease Payable	51,771	67,460	-	-	51,771	67,460
Total	$ 51,771	$ 98,268	$ 706,426	$ 691,000	$ 758,197	$ 789,268

More detailed information about the City's long-term liabilities is presented in Note G to the financial statements.

BASIC FINANCIAL STATEMENTS

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CITY OF CUMBY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 147,278	$ 23,491	$ 170,769
Receivables (net of allowance for uncollectible)	26,224	22,791	49,015
Restricted assets:			
Cash and cash equivalents	39,996	115,266	155,262
Capital assets, not being depreciated:			
Land & improvements	-	11,370	11,370
Capital assets, net of accumulated depreciation:			
Buildings and improvements	59,136	127,443	186,579
Infrastructure	65,357	1,778,575	1,843,932
Machinery & equipment	130,207	40,128	170,335
Total Assets	468,198	2,119,064	2,587,262
LIABILITIES			
Accounts payable	24,472	16,111	40,583
Customer deposits	-	35,491	35,491
Accrued interest payable	-	5,957	5,957
Accrued expenses	3,090	1,927	5,017
Other liabilities	28,549	1,132	29,681
Noncurrent Liabilities:			
Due within one year:			
Capital lease payable	16,448	-	16,448
Notes payable	-	18,392	18,392
Bonds payable	-	20,000	20,000
Due in more than one year:			
Compensated absences	4,512	1,817	6,329
Capital lease payable	35,323	-	35,323
Notes payable	-	33,034	33,034
Bonds payable	-	635,000	635,000
Total Liabilities	112,394	768,861	881,255
NET POSITION			
Net investment in capital assets	202,929	1,296,301	1,499,230
Restricted for:			
Debt	-	47,632	47,632
Seizure funds	13,508	-	13,508
Court use	26,488	-	26,488
Unrestricted	112,879	6,270	119,149
Total Net Position	$ 355,804	$ 1,350,203	$ 1,706,007

The accompanying notes to the basic financial statements are an integral part of this financial statement.

CITY OF CUMBY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Function/Program Activities				
Primary Government				
Governmental Activities:				
General Government	$ 116,981	$ 194	$ -	$ -
Public Safety	310,768	54	33,150	-
Public Services and Operations	242,471	484,491	-	-
Public Works	62,086	20,804	-	-
Parks and Recreation	10,818	-	-	6,500
Interest on Long-Term Debt	1,829	-	-	-
Total governmental activities	744,953	505,543	33,150	6,500
Business-type Activities:				
Water and Sewer	482,585	351,847	-	-
Total business-type activities	482,585	351,847	-	-
Total primary government	$ 1,227,538	$ 857,390	$ 33,150	$ 6,500

General revenues:
Property taxes
Sales taxes
Franchise taxes
Investment income
Miscellaneous
Transfers
Total general revenues & transfers
Change in net position
Net position - beginning
Prior Period Adjustment
Net position - ending

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business Activities	Total
$ (116,787)	$ -	$ (116,787)
(277,564)	-	(277,564)
242,020	-	242,020
(41,282)	-	(41,282)
(4,318)	-	(4,318)
(1,829)	-	(1,829)
(199,760)	-	(199,760)
-	(130,738)	(130,738)
-	(130,738)	(130,738)
$ (199,760)	$ (130,738)	$ (330,498)
$ 81,925	$ -	$ 81,925
88,600	-	88,600
36,192	-	36,192
287	-	287
3,359	3,868	7,227
(174,483)	174,483	-
35,880	178,351	214,231
(163,880)	47,613	(116,267)
783,777	1,444,313	2,228,090
(264,093)	(141,723)	(405,816)
$ 355,804	$ 1,350,203	$ 1,706,007

The accompanying notes to the basic financial statements are an integral part of this financial statement.

CITY OF CUMBY, TEXAS
BALANCE SHEET - GOVERNMENTAL FUND
SEPTEMBER 30, 2014

		General Fund
ASSETS		
Cash and cash equivalents	$	147,278
Receivables (net of allowances for uncollectible)		26,224
Cash - Restricted		39,996
Total Assets		213,498
LIABILITIES		
Accounts payable		24,472
Accrued expenses		3,090
Other liabilities		28,549
Total Liabilities		56,111
DEFERRED INFLOW OF RESOURCES		
Unavailable revenue-property taxes		10,350
Total Deferred Inflow of Resources		10,350
FUND BALANCES		
Restricted for:		
Seized Funds		13,508
Court Use		26,488
Unassigned:		107,041
Total Fund Balances		147,037
Total Liabilities, Deferred Inflow of Resources, and Fund Balances	$	213,498

The accompanying notes to the basic financial statements are an integral part of this financial statement.

CITY OF CUMBY, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

Total fund balances - governmental funds balance sheet	$ 147,037
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	904,983
Accumulated depreciation has not been included in the governmental fund financial statements.	(650,283)
Revenues reported as unearned revenue in the governmental fund financial statements was recorded as revenue in the government-wide financial statements.	10,350
Accrued liabilities for compensated absences have not been reflected in the fund financial statements.	(4,512)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the fund financial statements.	(51,771)
Net position of governmental activities - statement of net position	$ 355,804

The accompanying notes to the basic financial statements are an integral part of this financial statement.

CITY OF CUMBY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	General Fund
REVENUE	
Property Taxes	$ 81,925
Sales Tax Collected	88,600
Franchise Taxes	36,192
Licenses and Permits	2,027
Fines and Forfeitures	482,464
Charge for Services	248
Seizures	33,150
Donations	6,500
Investment Income	287
Miscellaneous	3,359
Total Revenues	734,752
EXPENDITURES	
Current:	
General Government	99,690
Public Safety	280,209
Public Services and Operations	241,735
Public Works	32,514
Parks and Recreation	4,529
Debt Service:	
Principal Retirement	46,496
Interest Expense	5,094
Capital Outlay:	
Public Safety	31,711
Parks and Recreation	10,624
Total Expenditures	752,602
Excess (deficiency) of revenues over (under) expenditures	(17,850)
Other Revenues and Financing Sources (uses)	
Sale of Assets	20,802
Transfers	(174,484)
Total Other Financing Sources (uses)	(153,682)
Net Change in Fund Balances	(171,532)
Fund Balances, October 1	175,746
Prior Period Adjustments	142,823
Fund Balances, September 30	$ 147,037

CITY OF CUMBY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Net change in fund balances - total governmental funds	$ (171,532)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	42,335
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.	(79,933)
Current year long-term debt principal payments on contractual obligations, and bonds payable are expenditures in the fund financial statements but are shown as reductions in long-term debt in the government-wide financial statements.	46,496
Current year changes in accrued interest payable do not require the use of current resources; therefore, are not reported as expenditures in governmental funds.	3,266
Current year changes in the long-term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	(4,512)
Change in net position of governmental activities - statement of activities	$ (163,880)

The accompanying notes to the basic financial statements are an integral part of this financial statement.

CITY OF CUMBY, TEXAS
STATEMENT OF FUNDS NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2014

	Water/Sewer Fund
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 23,491
Restricted cash and cash equivalents	115,266
Receivables (net of allowances for uncollectible)	22,791
Total Current Assets	161,548
Noncurrent Assets:	
Capital Assets:	
Land	11,370
Building & improvements	164,820
Machinery & equipment	102,321
Infrastructure	2,704,118
Less: accumulated depreciation	(1,025,113)
Total Capital Assets (net of accumulated depreciation)	1,957,516
Total Noncurrent Assets	1,957,516
Total Assets	2,119,064
LIABILITIES	
Current Liabilities:	
Accounts payable	16,111
Accrued expenses payable	1,927
Other liabilities	1,132
Payables from restricted funds:	
Customer deposits	35,491
Accrued interest payable	5,957
Notes Payable - current	18,392
Bonds payable - current	20,000
Total Current Liabilities	99,010
Noncurrent Liabilities:	
Compensated absences	1,817
Notes Payable	33,034
Bonds payable	635,000
Total Non-Current Liabilities	669,851
Total Liabilities	768,861
NET POSITION	
Net investment in capital assets	1,296,301
Restricted for:	
Debt	47,632
Unrestricted	6,270
Total Net Position	$ 1,350,203

The accompanying notes to the basic financial statements are an integral part of this financial statement.

CITY OF CUMBY, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Water/Sewer Fund
OPERATING REVENUES	
Charges for services	$ 350,347
Tap fees	1,500
Miscellaneous income	3,868
Total Operating Revenues	355,715
OPERATING EXPENSES	
Personnel costs	147,844
Supplies and materials	34,306
Maintenance and repair	77,300
Contractual services	62,045
Utilities	28,288
Depreciation	93,089
Total Operating Expenses	442,872
Operating Income (Loss)	(87,157)
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	(39,713)
Total Non-Operating Revenues (Expenses)	(39,713)
Income before capital contributions and transfers	(126,870)
Transfers	174,483
Change in Net Position	47,613
Net position - Beginning, October 1	1,444,313
Prior Period Adjustments	(141,723)
Net Position - Ending, September 30	$ 1,350,203

The accompanying notes to the basic financial statements are an integral part of this financial statement.

CITY OF CUMBY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Water/Sewer Fund
Cash Flows from Operating Activities	
Cash received from customers	$ 367,231
Cash received from other sources	3,868
Cash paid to employees	(147,844)
Cash paid to suppliers	(343,264)
Net cash provided by (used for) operating activities	(120,009)
Cash Flows from Noncapital Financing Activities	
Transfers to/from other funds	174,483
Net Cash Provided by Non-capital Financing Activities	174,483
Cash Flows from Capital and Related Financing Activities	
Acquisition and construction of capital assets	(275,498)
Note proceeds	45,436
Principal payments on debt obligations	(30,010)
Interest and fiscal charges on debt	(36,734)
Net cash provided by (used for) capital and related financing activities	(296,806)
Net Increase (Decrease) in Cash and Cash Equivalents	(242,332)
Cash and Cash Equivalents at Beginning of Year	381,089
Cash and Cash Equivalents at End of Year	$ 138,757
Reconciliation of operating income to net cash provided by (used for) operation activities	
Operating income (loss)	$ (87,157)
Adjustment to reconcile operating income to net provided by operating activities:	
Prior period adjustment	(141,723)
Depreciation	93,089
Change in Assets and Liabilities	
Decrease (increase) in receivables	3,663
Increase (decrease) in accounts payable	1,064
Increase (decrease) in customer deposits	11,721
Increase (decrease) in accrued expenses	3,744
Increase (decrease) in other liabilities	(4,410)
Total Adjustments	(32,852)
Net cash provided by (used for) operating activities	$ (120,009)

The accompanying notes to the basic financial statements are an integral part of this financial statement.

A. Summary of Significant Accounting Policies

The City of Cumby ("City") was incorporated May 13, 1911 and operates under a Mayor-Council form of government and provides police protection, water and sewer services, and general administration.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America ("GAAP") applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board ("GASB"), the American Institute of Certified Public Accountants in the publication entitled *State and Local Governments-Audit and Accounting Guide* and by the Financial Accounting Standards Board when applicable. The more significant accounting policies of the City are described below:

1. Reporting Entity

The City is a municipal corporation governed by an elected mayor and five-member council and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by GASB in its Statement No. 14, "The Financial Reporting Entity", as amended by GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units".

Under GASB Statement No. 14, component units are organizations for which the City is financially accountable and all other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City may be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The financial statements of the component unit may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government. GASB Statement No. 39 added clarification to GASB Statement No. 14 by including entities which meet all three of the following requirements:

1. The economic resources received or held by the separate organization are entirely for the direct benefit of the primary government, its component units, or it constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to other access, are significant to the primary government.

Based upon the application of these tests, the City does not have any component units.

In addition, GASB Statement No. 61 considers an organization that does not meet the financial accountability criteria may be included as a component unit if management's professional judgment determines it to be necessary and misleading if omitted. This evaluation includes consideration of whether a financial benefit or burden exists in the relationship between the entities. Management has not identified any additional organizations that fit this criteria.

2. Basis of Presentation, Basis of Accounting

The basic financial statements are prepared in conformity GAAP which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities and business-type activities on the statement of net position and statement of activities. Significantly, the City's statement of net position include both noncurrent assets and noncurrent liabilities. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure.

A. Summary of Significant Accounting Policies

2. Basis of Presentation, Basis of Accounting (continued)

In addition to the government-wide financial statements, the City has prepared fund financial statements, which use the modified accrual basis of accounting and the current financial resource measurement focus for the governmental funds. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Management's Discussion and Analysis provides an analytical overview of the City's financial activities. In addition, a budgetary comparison schedule is presented that compares the original adopted budget and final amended General Fund budget with actual results.

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Public Safety, Public Works, Parks, etc.) or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include: a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program, b) grants and contributions that are restricted to meeting the operational requirements of a particular function or program, or c) grants and contributions that are restricted to meeting the capital requirements of a particular function or program. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated revenues. Internally dedicated resources are also reported as general revenues rather than as program revenues.

The net cost (by function) is normally covered by general revenue (property and sales taxes, franchise taxes, and interest income).

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the funds financial statements. The major governmental fund is the general fund. The major proprietary fund is the water and sewer fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and proprietary combined) for the determination of major funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to the general rule are franchise fees and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The proprietary fund distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer business-type fund are the charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tax fees intended to recover the cost of connecting new customers to the system. Operating expenses for business-type funds include the cost of sales and service, administrative expenses, and depreciation on assets. All revenues and expenses not meeting the definition are reported as non-operating revenues and expenses.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on major individual funds of the governmental and proprietary categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

A. Summary of Significant Accounting Policies (continued)

3. Measurement Focus, Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund level financial statements are reported using the current financial resources measurement focus and the 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 within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available when 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 and claims and judgments, are recorded only when payment is due and payable shortly after year end as required by GASB Interpretation No. 6.

Ad valorem, franchise and sales tax revenues recorded in the General Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is not measurable. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. Intergovernmental grant revenues are recognized when all eligibility requirements have been met.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following is a description of the major governmental funds of the City:

The ***General Fund*** is the operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund.

Proprietary funds are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position, and changes in cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its statement of net position.

Proprietary funds are financed and operated in a manner similar to a private business enterprise. The costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. Periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or purposes. The following is a description of the proprietary funds of the City:

The ***Water and Sewer Funds*** account for the operations of the water and sanitary sewer utilities and garbage which are self-supporting activities rendering services on a user-charge basis.

A. Summary of Significant Accounting Policies (continued)

4. Financial Statement Amounts

a. Cash and Cash Equivalents

The City's cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City may invest in certificates of deposits, authorized investment pools and funds, U.S. Government Securities, commercial paper, and repurchase agreements.

b. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation.

Trade and property tax receivables are shown net of an allowance for uncollectible.

c. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the governmental funds represent cash and cash equivalents and investments set aside for specific capital additions, and various bond covenants. Restricted assets in the proprietary funds represent cash and cash equivalents and investments set aside for repayment of deposits to utility customers, specific capital, additions, and various bond covenants.

Customer deposits received for the water and sewer service are, by law, to be considered restricted assets. These activities are included in the Water and Sewer Fund.

d. Capital Assets

Capital assets, which include land, buildings, equipment, and improvements, purchased or acquired, are in the applicable governmental or business-like activities columns in the government-wide financial statements and proprietary fund types. The City defines capital assets as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets of business-like activities is included as part of the capitalized value of the assets constructed. There was not any interest accrued in the current period.

Management elected not to retroactively report infrastructure assets within the scope of GASB Statement No. 34.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Infrastructure	15 - 40
Building & Improvements	10 - 40
Machinery and equipment	5 - 20

A. Summary of Significant Accounting Policies

4. Financial Statement Amounts (continued)

e. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and overtime not paid (comp time) with a maximum of 160 hours. All vacation and comp time is accrued at the close of the fiscal year in the government-wide and proprietary fund financial statements.

f. Long-term Obligations

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 governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method and netted with the long term obligations in the liabilities. The City has compared this method to the effective interest method and found the difference between the two methods to be immaterial. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, if any, are expensed during the year they are incurred in accordance with GASB Statement No. 65.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

g. Deferred Outflows/Inflows of Resources

In addition to assets, the fund balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The City does not have any deferred outflows of resources for the current fiscal year.

In addition to liabilities, the fund balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of a net position that applies to that time. The City has only one type of deferred inflow of resources in the governmental fund financial statement. Deferred revenue from property taxes is deferred and recognized as an inflow of resources in the period that the amounts become available.

h. Fund Balance Policies

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent:

- *Nonspendable fund balance* - includes the portion of net resources that cannot be spent because of their form (i.e. inventory, long-term loans, or prepaid) or because they must remain intact such as the principal of an endowment.

- *Restricted fund balance* - includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors, or by laws or regulations of other governments (i.e. externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation. Examples include grant awards and bond proceeds.

A. Summary of Significant Accounting Policies
4. Financial Statement Amounts
h. Fund Equity (continued)

- *Committed fund balance* - includes the portion of net resources for which the City Council has imposed limitations of use. Amounts that can be used only for the specific purposes determined by a resolution of the City Council. Commitments may be changed or lifted only by a resolution of the City Council. The resolution must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements.

- *Assigned fund balance* - includes the portion of net resources for which an *intended* use has been established by the City Council or Mayor authorized to do so by the City Council. Assignments of fund balances are much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum, intended to be used for the purpose of that fund.

- *Unassigned fund balance* - includes the amounts in the general fund in excess of what can properly be classified in one of the other four categories of fund balance. It is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.

The City believes that adequate levels of fund balance are essential in mitigating financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. In order to comply with the adopted minimum fund balance policy, the City's general fund balance should be 16.67% of total maintenance and operation expenditures. The City at the end of the current period is at 14.22%. The City considers a balance less than 8.34% to be cause for concern.

i. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

j. Fund Balance Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements is a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

k. Comparative Data/Reclassification

Comparative total data for the current year to budget have been presented in the supplementary section of the financial statements in order to provide an understanding of budget to actual. Also, certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

A. Summary of Significant Accounting Policies
4. Financial Statement Amounts (continued)

l. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consideration. Services provided, deemed to be a market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges in appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position. The government did not have any Internal Balances at fiscal year end.

m. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

n. Program Revenues

Certain revenues such as charges for services are included in program revenues.

o. Program Expenditures

Certain indirect costs such as administrative costs are included in the program expenditures reported for individual functional activities.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations.

Violation	Action Taken
General Fund	Shortfall in budget of ($33,805) was covered by fund balance.

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

Fund Name	Deficit Amount
None reported	No applicable

3. Budgets and Budgetary Accounting

The City adopts an "appropriated budget" of governmental fund types on the Generally Accepted Accounting Principles ("GAAP") basis of accounting by department. The City is required to present the adopted and final amended budgeted revenues and expenditures. The City compares the final amended budget to actual revenues and expenditures.

B. Compliance and Accountability
3. Budgets and Budgetary Accounting (continued)

The following procedures are followed in establishing the budgetary data:

- No later than the first City Council meeting each August, the Mayor submits to the City Council a proposed budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to September 30, the budget is legally enacted through passage of an ordinance. If the Council takes no action on or prior to such day, the budget, as submitted by the Mayor, shall be deemed to have been adopted by the City Council.
- Budgets for the General Fund is legally adopted on a basis consistent with GAAP.
- According to the Local Government Code for General Law A cities, total estimated expenditures of the General Fund is to be budgeted.
- The level of control (the level at which expenditures may not exceed budget) is the fund level. The Mayor is authorized to approve a transfer of budgeted amounts within departments; however, any revisions that alter the total of any fund must be approved by the City Council.

C. Cash and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect the 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 banks dollar amount of Federal Deposit Insurance Corporation ("FDIC") Insurance.

Cash Deposits
At September 30, 2014, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was $326,031, and the bank balance was $330,804. The City's cash deposits at September 30, 2014 and during the year ended September 30, 2014 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. The amount of deposits covered by collateralized securities was $595,240. Cash and investments as of September 30, 2014 consist of and are classified in the accompanying financial statements as follows:

Statement of net position:		
Primary Government		
Cash and cash equivalents	$	170,769
Restricted assets-cash & cash equivalents		155,262
Total cash and cash equivalents	$	326,031
Governmental - Restricted cash		
Municipal Court - technology, building security	$	26,488
Seizure funds		13,508
Total restricted cash and cash equivalents	$	39,996
Business-type - Restricted cash		
Customer Deposits	$	16,866
Debt Service		98,400
Total restricted cash and cash equivalents		115,266
Total Restricted Cash	$	155,262

C. Cash and Investments (continued)

Investments:
The Public Funds Investment Act ("Act") (Government Code Chapter 2256) requires the City to have an independent auditor perform test procedures related to investment practices as provided by the Act. The City is in compliance with the requirements of the Act and with local policies.

Investment Accounting Policy
The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are report at value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "non-participating" means that the investment value does not vary with market interest rate changes. Non-negotiable certificates of deposits are examples of nonparticipating interest-earning investment contracts.

Custodial Credit Risk
Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investment is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The Public Funds Act and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits: The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state or local governmental units by pledging unit. The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

Interest Rate Risk
As a means of limiting its exposure to fair value arising from increasing interest rates, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase.

D. Property Taxes

Property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City. Assessed value represents the appraisal value less applicable exemptions authorized by the City Council. The Appraisal Board of Review establishes appraised values at 100% for estimated market value. A tax lien attaches to the property on January 1 of each year to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on that property, whether or not the taxes are imposed in the year the lien attaches.

Revenues are recognized as the related ad valorem taxes are collected. Additional delinquent property taxes estimated to be collectible within sixty days following the close of the fiscal year have been recognized as revenue at the fund level.

In Texas, county-wide central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its market value and are prohibited from applying any assessment ratios.

The value of property within the appraisal district must be reviewed every five years; however, the City may, at its own expense, require annual reviews of appraised values. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, take legal action. Under this legislation, the City continues to set tax rates on City property. However, if the effective tax rate, including tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year.

D. Property Taxes (continued)

The statutes of the State of Texas do not prescribe a legal debt limit. However, Article XI, Section 5 of the Texas Constitution applicable to cities of more than 5,000 population limits the ad valorem tax rate to $1.50 per $100 assessed valuation. The City's 2014 ad valorem tax rate of $0.42000 is in compliance with the rate limitation.

E. Receivables

Receivables as of year-end for the City's individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

	General	Proprietary	Total
Receivables			
Taxes	$ 27,374	$ -	$ 27,374
Warrants	1,597,343	-	1,597,343
Fees and Charges	-	25,324	25,324
Gross Receivables	1,624,717	25,324	1,650,041
Less: Allowance for Uncollectible	(1,598,493)	(2,533)	(1,601,026)
Total Net Receivables	$ 26,224	$ 22,791	$ 49,015

F. Capital Assets

Capital asset activity for the period ended September 30, 2014 was as follows:

	Beginning Balances	Additions	Decreases	Ending Balances
Governmental Activities:				
Capital assets, not being depreciated				
Construction in progress	$ 57,575	$ -	$ (57,575)	$ -
Total capital assets, not being depreciated	57,575	-	(57,575)	-
Capital assets, being depreciated:				
Buildings and improvements	128,377	10,624	-	139,001
Infrastructure	212,961	57,575	-	270,536
Machinery & equipment	463,735	31,711	-	495,446
Total capital assets being depreciated	805,073	99,910	-	904,983
Less accumulated depreciation for:				
Buildings & Improvements	(77,681)	(2,184)	-	(79,865)
Infrastructure	(183,047)	(22,132)	-	(205,179)
Machinery & Equipment	(309,622)	(55,617)	-	(365,239)
Total accumulated depreciation	(570,350)	(79,933)	-	(650,283)
Total capital assets, being depreciated, net	234,723	19,977	-	254,700
Governmental activities capital assets, net	$ 292,298	$ 19,977	$ (57,575)	$ 254,700

F. Capital Assets (continued)

	Beginning Balances	Additions	Decreases	Ending Balances
Business-type Activities:				
Water/Sewer				
Capital assets, not being depreciated				
Land	$ 1,370	$ 10,000	$ -	$ 11,370
Construction in Progress	368,341	190,328	(558,669)	-
Total capital assets, not being depreciated	369,711	200,328	(558,669)	11,370
Capital assets, being depreciated:				
Buildings and improvements	164,820	-	-	164,820
Infrastructure	2,116,649	587,469	-	2,704,118
Machinery & equipment	56,885	45,436	-	102,321
Total capital assets being depreciated	2,338,354	632,905	-	2,971,259
Less accumulated depreciation for:				
Buildings & Improvements	(32,434)	(4,943)	-	(37,377)
Infrastructure	(844,488)	(81,055)	-	(925,543)
Machinery & Equipment	(55,102)	(7,091)	-	(62,193)
Total accumulated depreciation	(932,024)	(93,089)	-	(1,025,113)
Total capital assets, being depreciated, net	1,406,330	539,816	-	1,946,146
Business-type activities capital assets, net	$ 1,776,041	$ 740,144	$ (558,669)	$ 1,957,516

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	$ 2,541
Public Safety	41,532
Public Works, including depreciation of general infrastructure assets	29,572
Parks and Recreation	6,288
	$ 79,933
Business-type activities:	
Water and Sewer	$ 93,089

G. Long-Term Obligations

A summary of long-term debt transactions, including the current portion, for the year ended September 30, 2014 is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Governmental Activities					
Notes Payable	$ 30,807	$ -	$ (30,807)	$ -	$ -
Capital Lease Payable	67,460	-	(15,689)	51,771	16,448
Total Notes/Cap Lease Payable	98,267	-	(46,496)	51,771	16,448
Compensated absences	-	13,073	(8,561)	4,512	-
Long-term Obligations	$ 98,267	$ 13,073	$ (55,057)	$ 56,283	$ 16,448

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Business-type Activities					
Certificate of Obligations	$ 675,000	$ -	$ (20,000)	$ 655,000	$ 20,000
Notes Payable	16,000	45,436	(10,010)	51,426	18,392
Total Bond/Notes Payable	691,000	45,436	(30,010)	706,426	38,392
Compensated absences	-	6,398	(4,581)	1,817	-
Long-term Obligations	$ 691,000	$ 51,834	$ (34,591)	$ 708,243	$ 38,392

Changes in Governmental Long-Term Debt

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding September 30, 2013	Issued	Retired	Amounts Outstanding September 30, 2014	Due Within One Year
Alliance-truck note	5.25%	$ 20,773	$ 7,810	$ -	$ (7,810)	$ -	$ -
Alliance-Tahoe note	4.25%	26,481	22,998	-	(22,998)	-	-
Capital lease	4.84%	147,500	67,460	-	(15,689)	51,771	16,448
		$ 194,754	$ 98,268	$ -	$ (46,497)	$ 51,771	$ 16,448

The City entered into a capital lease agreement with OshKosh in October 2006 for a fire truck in the amount of $147,500. The lease is to be repaid in annual payments with an interest rate of 4.84%. This lease will be paid in full in October 2017.

Governmental debt service requirements are as follows:

Year Ending September 30:	
2015	$ 16,448
2016	17,244
2017	18,079
Total minimum lease payments	$ 51,771
Less: amount representing interest	5,090
Present value of least payments	$ 56,861

G. Long-Term Obligations (continued)

Changes in Business-type Long-Term Debt

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding September 30, 2013	Issued	Retired	Amounts Outstanding September 30, 2014	Due Within One Year
Series 2012, CO	3.9837%	$ 695,000	$ 675,000	$ -	$ (20,000)	$ 655,000	$ 20,000
N/P-Jet Spray	5.25%	45,436	-	45,436	(4,032)	41,404	8,370
N/P-Backhoe	5.25%	49,935	16,000	-	(5,978)	10,022	10,022
		$ 790,371	$ 691,000	$ 45,436	$ (30,010)	$ 706,426	$ 38,392

Debt service requirements are as follows:

Year Ending September 30:	Principal	Interest	Total Requirements
2015	$ 38,392	$ 25,732	$ 64,124
2016	33,820	24,867	58,687
2017	34,304	23,879	58,183
2018	34,808	22,801	57,609
2019	30,102	21,660	51,762
2020-2024	145,000	94,930	239,930
2025-2029	180,000	65,070	245,070
2030-2034	210,000	24,161	234,161
Totals	$ 706,426	$ 303,100	$ 1,009,526

$695,000 Series 2012 Combination Tax and Revenue Certificate of Obligations were issued for the purpose of sewer infrastructure improvements.

In January 2014, the City secured a note in the amount of $ 45,436 to purchase a sewer jet spray with an interest rate of 5.25%. This note matures in January 2019.

In FY2008, the City secured a note in the amount of $49,935 to purchase a backhoe with an interest rate of 5.25%. This note matures in October 2015.

Compensated Absences

Compensated absences represent the estimated liability for employees' accrued compensatory time and vacation leave which employees are entitled to be paid upon termination of employment if all requirements are met as stated in the personnel manual adopted by City Council. The retirement of this liability is typically paid from the General Fund and the Proprietary Funds based on the assignment of an employee at termination.

H. Operating Leases

The City has operating leases for office equipment. Lease obligations are as follows:

Year End Sept 30	Annual Lease Payment
2015	$ 4,740
2016	4,740
2017	2,765
Total	$ 12,245

I. Pension Plan

1. Plan Description

The City provides pension benefits for all 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 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. This report may be obtained from TMRS' website at www.TMRS.com.

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

Plan provisions for the City were as follows:

	Plan Year	
	2014	2013
Employee Deposit Rate:	5%	5%
Matching Ratio (City to Employee):	1 to 1	1 to 1
Years required for vesting	5 yrs	5 yrs
Service retirements eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). 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 for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2013 valuation will determine the contribution rate beginning January 1, 2015.)

I. Pension Plan

2. Contributions

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

	12/31/11	12/31/12	12/31/13
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level % of payroll	Level % of payroll	Level % of payroll
GASB25 Equivalent Single Amortization period	21.6 years; closed period	20.6 years; closed period	30.0 years; closed period
Amortization period for new gains/losses	17 years	17 years	19 years
Asset Valuation method	10-yr smoothed market	10-yr smoothed market	10-yr smoothed market
Actuarial assumptions:			
Investment rate of return *	7.0%	7.0%	7.0%
Projected Salary Increases *	varies by age & service	varies by age & service	varies by age & service
* Includes Inflation of	3%	3%	3%
Cost-of-Living adjustments	0.0%	0.0%	0.0%

Funded Status and Funding Progress - In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contributions rates and in the development of the Annuity Purchase Rate factors, and (c) the amortization valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially 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 as Required Supplementary Information following the notes to the financial statements, 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.

I. Pension Plan

2. Contributions (continued)

Schedule of Funding Progress:

		12/31/11	12/31/12	12/31/13
Actuarial Valuation Date		12/31/11	12/31/12	12/31/13
Actuarial Value of Assets		$ 102,879	$ 137,341	$ 163,583
Actuarial Accrued Liability		173,752	211,147	220,966
Percentage Funded		59.2%	65.0%	74.0%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)		70,873	73,806	57,383
Annual Covered Payroll		391,204	395,863	391,095
UAAL as a Percentage of Covered Payroll		18.1%	18.6%	14.7%
Net Pension Obligation (NPO) at the Beginning of Period		$ -	$ -	$ -
Annual Pension Cost:				
Annual required contribution (ARC)	Plus	8,322	8,539	7,785
Contributions Made	Less	(8,322)	(8,539)	(7,785)
NPO at the end of the period		$ -	$ -	$ -

3. Group-term Life Insurance

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

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 term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2014, 2013 and 2012 were $11, $11 and $10, respectively, which equaled the required contributions each year.

J. Health Care Coverage

During the year ended September 30, 2014, the City paid each full-time employee $50/week to assist with health insurance premiums.

K. Insurance Coverage

In accordance with state statute, the City was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through Texas Municipal League, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Stop-loss coverage was in effect for individual claims up to $125,000 and for aggregate loss. According to the latest actuarial opinion dated October 1, 2013, the unfunded claim benefit obligation included no reported claims that were unpaid and no estimated claims incurred, but not reported.

L. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City had general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reimbursement. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

M. Litigation

The City is party to a legal proceeding arising in the ordinary course of its operations. It is believed by management that a favorable outcome to the City is likely.

N. Additional Water and Sewer Information

The following information is included at the request of the Texas Water Development Board for the year under audit.
Water Accountability Report:

Gallons Pumped	46,229,800
Gallons Billed	34,133,000

O. Prior Period Adjustments

Governmental

$	155,174	To reconcile fund balance to prior year's audited financial statements
	8,149	To correct recording of prior year sales tax receivable
	(427,416)	To correct recording of prior year outstanding warrant receivable
$	(264,093)	

Business-type

$	(142,293)	To reconcile fund balance to prior year's audited financial statements
	570	To reverse prior year due to/due from internal balances
$	(141,723)	

P. Interfund Transfers

Transfers between funds during the year were as follows:

Transfers Out	General Fund	Water and Sewer Fund
General Fund	$ (174,483)	$ -
Water and Sewer	-	174,483
	$ (174,483)	$ 174,483

Q. Related Party Transactions

There are several Alderman that have personal accounts with the same financial institution that the City does business. Management has determined that this does not pose any conflict of interest for either party.

R. Subsequent Events

The City has evaluated all events or transactions that occurred after September 30, 2014 up through December 17, 2014, the date the financial statements were available to be issued. Management noted no subsequent events requiring disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF CUMBY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2014

SCHEDULE OF PENSION TRUST - TMRS FUNDING PROGRESS AND CONTRIBUTIONS
LAST SEVEN FISCAL YEARS (UNAUDITED)

Fiscal Year *	Actuarial Valuation Date	Actuarial Value** of Assets	Actuarial Accrued Liability (AAL) -Unit Credit	(Over-funded) Actuarial Accrued Liability UAAL	Funded Percent	Covered Payroll	UAAL as Percent of Covered Payroll	Annual Required Contributions	Actual Contributions	Percent Contributed
2011	12/31/2010	102,879	173,752	70,873	59.20%	391,204	18.10%	8,322	8,322	100%
2012	12/31/2011	137,341	211,147	73,806	65.00%	395,863	18.60%	8,539	8,539	100%
2013	12/31/2012	163,583	220,966	57,383	74.00%	391,095	14.70%	7,785	7,785	100%

* As of December 31, of the preceding year, the date of the actuarial valuation
** Information is from appropriate year supplements to TMRS annual reports.

NOTE: See accompanying notes to these financial statements for more detail.

CITY OF CUMBY, TEXAS
GENERAL FUND - SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (MODIFIED ACCRUAL) AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Budgeted Amounts			Variance with Final Budget - Positive
	Original	Final	Actual	(Negative)
REVENUE				
Property taxes	$ 90,000	$ 90,000	$ 81,925	$ (8,075)
Fines and forfeitures	507,000	507,000	482,464	(24,536)
Licenses and permits	100	100	2,027	1,927
Sales taxes collected	112,500	112,500	88,600	(23,900)
Franchise tax	40,000	40,000	36,192	(3,808)
Charge for services	-	-	248	248
Intergovernmental revenues-state and local	-	-	33,150	33,150
Donations	-	-	6,500	6,500
Investment income	-	-	287	287
Miscellaneous	-	-	3,359	3,359
Total Revenues	749,600	749,600	734,752	(14,848)
EXPENDITURES				
General government	130,045	130,045	99,690	30,355
Public safety	275,100	275,100	280,209	(5,109)
Public services and operations	185,500	185,500	241,735	(56,235)
Public works	15,000	15,000	32,514	(17,514)
Parks and recreation	-	-	4,529	(4,529)
Debt Service:				
Principal Retirement	58,400	58,400	46,496	11,904
Interest Expense	8,700	8,700	5,094	3,606
Capital outlay:				
Public safety	51,900	51,900	31,711	20,189
Parks and recreation	9,000	9,000	10,624	(1,624)
Total Expenditures	733,645	733,645	752,602	(18,957)
Excess (deficiency) of revenues over (under) expenditures	15,955	15,955	(17,850)	(33,805)
Other Revenues and Financing Sources (uses)				
Transfers	-	-	(174,484)	(174,484)
Sale of assets	-	-	20,802	20,802
Total Other Financing Sources (uses)	-	-	(153,682)	(153,682)
Excess of revenues and other financing sources over (under) expenditures and other financing uses	15,955	15,955	(171,532)	(187,487)
Fund Balances/Equity, October 1	$ 175,746	$ 175,746	$ 175,746	
Prior Period Adjustment	-	-	142,823	
Fund Balances/Equity, September 30	$ 191,701	$ 191,701	$ 147,037	