

**CITY OF CUMBY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS-TMRS**

	12/31/2016	12/31/2015
Total pension liability		
Service cost	\$ 26,743	\$ 26,601
Interest (on the Total Pension Liability)	16,715	17,719
Changes of benefit terms	-	-
Difference between expected and actual experience	(5,657)	(30,388)
Change of assumptions	-	8,070
Benefit payments, including refunds of employee contributions	(22,056)	(33,095)
Net Change in Total Pension Liability	15,745	(11,093)
Total Pension Liability - Beginning	245,281	256,374
Total Pension Liability - Ending	<u>\$ 261,026</u>	<u>\$ 245,281</u>
Plan Fiduciary Net Position		
Contribution - employer	\$ 9,831	\$ 9,766
Contribution - employee	20,828	20,431
Net investment income	13,606	302
Benefit payments, including refunds of employee contributions	(22,056)	(33,095)
Administrative expense	(154)	(184)
Other	(8)	(9)
Net Change in Plan Fiduciary Net Position	22,047	(2,789)
Plan Fiduciary Net Position - Beginning	201,531	204,320
Plan Fiduciary Net Position - Ending	<u>\$ 223,578</u>	<u>\$ 201,531</u>
Net Pension Liability - Ending	\$ 37,448	\$ 43,750
 Plan Fiduciary Net Position as a percentage of Total Pension Liability	 85.65%	 82.16%
 Covered employee payroll	 \$ 416,554	 \$ 408,623
 Net Pension Liability as a percentage of covered employee payroll	 8.99%	 10.71%

**CITY OF CUMBY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**SCHEDULE OF CONTRIBUTIONS
LAST FOUR FISCAL YEARS (UNAUDITED)**

	2017	2016	2015	2014
Actuarially determined contribution	\$ 8,691	\$ 8,418	\$ 9,234	\$ 9,347
Contributions in relation to the actuarially determined contribution	8,691	8,418	9,234	9,347
Contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 421,916	\$ 408,623	\$ 391,274	\$ 391,095
Contributions as a percentage of covered employee payroll	2.06%	2.06%	2.36%	2.39%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Notes

Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	27 years
Asset Valuation Method	10-year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes

There were no benefit changes during the year.

This page intentionally left blank

**CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

P. 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.

Q. SUBSEQUENT EVENTS

The City has evaluated all events or transactions that occurred after September 30, 2017 up through January 8, 2018, the date the financial statements were available to be issued. Management noted no subsequent events requiring disclosure.

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

J. HEALTH CARE COVERAGE

During the year ended September 30, 2017, the City paid each full-time employee \$70/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, 2016, 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

Currently management is unaware of significant pending litigation against the City of Cumby, Texas.

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	33,140,937
Gallons Billed	27,312,100

O. TRANSFERS

Transfers between funds during the year were as follows:

	General Fund	Water and Sewer Fund
<u>Transfers Out</u>		
General Fund	\$ 54,748	\$ -
Water and Sewer	-	(54,748)
	<u>\$ 54,748</u>	<u>\$ (54,748)</u>

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

I. PENSION PLAN (continued)

5. Pension Expense and deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the City recognized pension expense of \$6,834.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual economic experience	\$ -	\$ 5,657
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	3
Contributions subsequent to the measurement date of December 31, 2016	6,408	-
	<u>\$ 6,408</u>	<u>\$ 5,660</u>

\$7,052 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the fiscal year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Net deferred outflows (inflows) of resources:		
December 31		
2017	\$	(2,355)
2018		(2,357)
2019		(2,812)
2020		(986)
2021		-
Thereafter		-
	<u>\$</u>	<u>(8,510)</u>

6. 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 2016, 2015 and 2014 were \$613, \$548, and \$587, respectively, which equaled the required contributions each year.

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

I. PENSION PLAN

4. Net Pension Liability (continued)

Contributions - employee	\$ -	\$ 20,828	\$ (20,828)
Net investment income	-	13,606	(13,606)
Benefit payments, including refunds of employee contributions	(22,056)	(22,056)	-
Administrative expense	-	(154)	154
Other changes	-	(8)	8
Net changes	<u>\$ 15,745</u>	<u>\$ 22,047</u>	<u>\$ (6,302)</u>
Balance at 12/31/16	<u>\$ 261,026</u>	<u>\$ 223,578</u>	<u>\$ 37,448</u>

Sensitivity of the net position liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	Current Single Rate	
	1% Decrease 5.75%	1% Increase 7.75%
	Assumption 6.75%	
	<u>\$ 73,051</u>	<u>\$ 37,448</u>
		<u>\$ 8,429</u>

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

I. PENSION PLAN

4. Net Pension Liability (continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by a factor of 96%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/15	\$ 245,281	\$ 201,531	\$ 43,750
Changes for the year:			
Service Cost	26,743	-	26,743
Interest	16,715	-	16,715
Changes in current period benefits	-	-	-
Difference between expected and actual experience	(5,657)	-	(5,657)
Changes in assumption	-	-	-
Contributions - employer	\$ -	\$ 9,831	\$ (9,831)

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

I. PENSION PLAN (continued)

3. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the City Council. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal ("EAN") actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 2.51% and 2.36% in calendar years 2016 and 2015, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2017 were \$7,052 and were equal to the required contributions.

4. Net Pension Liability

The City's Net Pension Liability ("NPL") was measured as of December 31, 2016, and the Total Pension Liability ("TPL") used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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 administered by the Texas Municipal Retirement System ("TMRS"). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code ("TMRS Act") as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS' defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report ("CAFR") that can be obtained at www.tmr.com.

All eligible employees of the City are required to participate in TMRS.

2. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the City Council, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Employees covered by benefit terms:

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	15
Active employees	10
	28

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

G. LONG-TERM OBLIGATIONS (continued)

Debt service requirements are as follows:

Year Ending September 30:	Principal	Interest	Total Requirements
2018	\$ 34,808	\$ 22,800	\$ 57,608
2019	30,102	21,660	51,762
2020	25,000	20,852	45,852
2021	30,000	20,019	50,019
2022	30,000	19,053	49,053
2023-2027	165,000	78,308	243,308
2028-2032	195,000	41,837	236,837
2033-2034	90,000	4,091	94,091
Totals	<u>\$ 599,910</u>	<u>\$ 228,620</u>	<u>\$ 828,530</u>

\$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.

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding September 30, 2016	Issued	Retired	Amounts Outstanding September 30, 2017	Due Within One Year
Capital lease	4.39%	\$ 27,736	\$ 26,066	\$ -	\$ (5,158)	\$ 20,908	\$ 6,199
		<u>\$ 27,736</u>	<u>\$ 26,066</u>	<u>\$ -</u>	<u>\$ (5,158)</u>	<u>\$ 20,908</u>	<u>\$ 6,199</u>

The City entered into a capital lease agreement with Jay Hodges Chevrolet in May 2016 for a 2016 Silverado in the amount of \$27,736. The lease is to be repaid in annual payments with an interest rate of 4.39%. This lease will be paid in full in May 2021.

Year Ending September 30:	Minimum Obligation
2018	\$ 6,199
2019	6,199
2020	6,199
2021	2,311
Total minimum lease payments	20,908
Less: amount representing interest	2,801
Present value of lease payments	<u>\$ 18,107</u>

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 the 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
2018	\$ 2,765
Total	<u>\$ 2,765</u>

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

G. LONG-TERM OBLIGATIONS

A summary of long-term debt transactions, including the current portion, for the year ended September 30, 2017 is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Governmental Activities					
Capital Lease Payable	\$ 18,079	\$ -	\$ (18,079)	\$ -	\$ -
Net Pension Liability	25,673	-	(128)	25,545	-
TOTAL	43,752	-	(18,207)	25,545	-
Compensated absences	4,512	6,690	(5,690)	5,512	-
Long-term Obligations	<u>\$ 48,264</u>	<u>\$ 6,690</u>	<u>\$ (23,897)</u>	<u>\$ 31,057</u>	<u>\$ -</u>
	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Business-type Activities					
Certificate of Obligations	\$ 610,000	\$ -	\$ (25,000)	\$ 585,000	\$ 25,000
Notes Payable	24,214	-	(9,304)	14,910	9,303
Capital Lease Payable	26,066	-	(5,158)	20,908	6,199
Net Pension Liability	18,077	-	(7,174)	10,903	-
TOTAL	678,357	-	(46,636)	631,721	40,502
Compensated absences	1,817	2,902	(2,902)	1,817	-
Long-term Obligations	<u>\$ 680,174</u>	<u>\$ 2,902</u>	<u>\$ (49,538)</u>	<u>\$ 633,538</u>	<u>\$ 40,502</u>

Changes in Governmental Long-Term Debt

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding September 30, 2016	Issued	Retired	Amounts Outstanding September 30, 2017	Due Within One Year
Capital lease	4.84%	<u>\$ 147,500</u>	<u>\$ 18,079</u>	<u>\$ -</u>	<u>\$ (18,079)</u>	<u>\$ -</u>	<u>\$ -</u>

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 is paid in full.

Changes in Business-type Long-Term Debt

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding September 30, 2016	Issued	Retired	Amounts Outstanding September 30, 2017	Due Within One Year
Series 2012, CO	3.9837%	\$ 695,000	\$ 610,000	\$ -	\$ (25,000)	\$ 585,000	\$ 25,000
N/P-Jet Spray	5.25%	45,436	24,214	-	(9,304)	14,910	9,303
		<u>\$ 740,436</u>	<u>\$ 634,214</u>	<u>\$ -</u>	<u>\$ (34,304)</u>	<u>\$ 599,910</u>	<u>\$ 34,303</u>

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

F. CAPITAL ASSETS

Capital asset activity for the period ended September 30, 2017 was as follows:

	Beginning Balances	Additions	Decreases	Ending Balances
Governmental Activities:				
Capital assets, being depreciated:				
Land	\$ 32,000	\$ -	\$ -	\$ 32,000
Buildings and improvements	139,000	-	-	139,000
Infrastructure	270,535	-	-	270,535
Machinery & equipment	553,863	-	-	553,863
Total capital assets being depreciated	995,398	-	-	995,398
Less accumulated depreciation for:				
Buildings & Improvements	(85,317)	(2,716)	-	(88,033)
Infrastructure	(228,617)	(7,394)	-	(236,011)
Machinery & Equipment	(448,145)	(40,906)	-	(489,051)
Total accumulated depreciation	(762,079)	(51,015)	-	(813,095)
Total capital assets, being depreciated, net	233,319	(51,015)	-	182,303
Governmental activities capital assets, net	<u>\$ 233,319</u>	<u>\$ (51,015)</u>	<u>\$ -</u>	<u>\$ 182,303</u>
	Beginning Balances	Additions	Decreases	Ending Balances
Business-type Activities:				
Water/Sewer				
Capital assets, not being depreciated				
Land	\$ 11,370	\$ -	\$ -	\$ 11,370
Total capital assets, not being depreciated	11,370	-	-	11,370
Capital assets, being depreciated:				
Buildings and improvements	164,820	-	-	164,820
Infrastructure	2,704,118	-	-	2,704,118
Machinery & equipment	215,210	-	-	215,210
Total capital assets being depreciated	3,084,148	-	-	3,084,148
Less accumulated depreciation for:				
Buildings & Improvements	(47,263)	(4,944)	-	(52,207)
Infrastructure	(1,102,556)	(87,613)	-	(1,190,169)
Machinery & Equipment	(81,179)	(24,910)	-	(106,089)
Total accumulated depreciation	(1,230,998)	(117,467)	-	(1,348,465)
Total capital assets, being depreciated, net	1,853,150	(117,467)	-	1,735,683
Business-type activities capital assets, net	<u>\$ 1,864,520</u>	<u>\$ (117,467)</u>	<u>\$ -</u>	<u>\$ 1,747,053</u>

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

Governmental activities:	
General Government	\$ 1,653
Public Safety	32,050
Public Works, including depreciation of general infrastructure assets	10,494
Parks and Recreation	6,818
	<u>\$ 51,015</u>
Business-type activities:	
Water and Sewer	<u>\$ 117,467</u>

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

C. CASH AND INVESTMENTS (continued)

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.

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 2017 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	689,422	-	689,422
Fees and Charges	-	31,718	31,718
Gross Receivables	716,796	31,718	748,514
Less: Allowance for Uncollectible	(658,898)	(3,172)	(662,070)
Total Net Receivables	\$ 57,898	\$ 28,546	\$ 86,444

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

C. CASH AND INVESTMENTS (continued)

Cash Deposits

At September 30, 2017, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$110,497, and the bank balance was \$115,247. The City's cash deposits at September 30, 2016 and during the year ended September 30, 2017 were entirely covered by FDIC insurance. The amount of deposits covered by FDIC during the year was \$250,000. Cash and cash equivalents as of September 30, 2017 consist of and are classified in the accompanying financial statements as follows:

Statement of net position:

Primary Government	
Cash and cash equivalents	\$ 66,549
Restricted assets-cash & cash equivalents	43,948
Total cash and cash equivalents	<u>\$ 110,497</u>
Governmental - Restricted cash	
Municipal Court - technology, building security	\$ 4,539
Street maintenance	-
Seizure funds	7,585
Total restricted cash and cash equivalents	<u>12,124</u>
Business-type - Restricted cash	
Customer Deposits	1,718
Debt Service	30,106
Total restricted cash and cash equivalents	<u>31,824</u>
Total Restricted Cash	<u>\$ 43,948</u>

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 provisions 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.

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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.

<u>Violation</u>
Expenditures exceeded appropriations in the General Fund

<u>Action Taken</u>
These over expenditures were funded by available 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:

<u>Fund Name</u>	<u>Deficit Amount</u>
None found	n/a

3. Budgets and Budgetary Accounting

The City adopts an "appropriated budget" of governmental fund types on the modified accrual 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.

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.
- The budget for the General Fund is legally adopted on a modified accrual basis.
- 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.

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4. Financial Statement Amounts

i. Fund Balance Policies (continued)

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 2.9%. The City considers a balance less than 8.34% to be cause for concern.

j. 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.

k. 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 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.

l. 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.

m. 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 at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges an 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.

n. Use of Estimates

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

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.

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4. Financial Statement Amounts (continued)

h. 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 has one item that is reportable on the government-wide Statement of Net Position: outflows from changes in net pension liability. This outflow of resources is, also, reported in the proprietary fund financial statements.

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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify in this category. One of these items arise only under a modified accrual basis of accounting. Accordingly, unavailable revenue is reported only in the governmental funds Balance Sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. As a component of implementing GASB Statement No. 68, a deferred inflow is recorded in the government-wide Statement of Net position and fund level financials for the proprietary Statement of Net Position for the difference in projected and actual experience in the actuarial measurement of the total pension liability not recognized in the current year. The amount is deferred and amortized over a period of years determined by the Plan actuary. The differences are amortized over the average remaining service life of all participants in the respective pension plan and recorded as a component of pension expense beginning with the period in which they are incurred.

i. 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.
- *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.

**CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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. Pension

In government-wide financial statements, retirement plans (pension) are required to be recognized and disclosed using the accrual basis of accounting regardless of the amount recognized as pension expenditures on the governmental fund statements, which use the modified accrual basis of accounting.

In general, the City recognizes a net pension liability, which represents the City's proportionate share of the excess of the total pension liability over the fiduciary net position of the pension reflected in the actuarial report provided by the Texas Municipal Retirement System ("TMRS"). The net pension liability is measured as of December 31, 2016. Changes in the net pension liability are recorded as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience) will be amortized over the weighted average remaining service life of all participants and are recorded as a component of pension expense beginning with the period in which they are incurred.

For purposes of measuring the net pension liability and deferred inflows/outflows of resources relating to pension expense, information about the fiduciary net position of the City's pension plan with TMRS and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Projected earnings on pension investments are recognized as a component of pension expense. Difference between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and will be amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred. Each subsequent year will incorporate an additional closed five-year period of recognition.

g. 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.

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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 municipal court uses and seizure funds. 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:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	5 - 40
Building & Improvements	10 - 39
Machinery and equipment	5 - 10

CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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 other purposes. The following is a description of the proprietary funds of the City:

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

**CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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. 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 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 funds 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 tap 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.

**CITY OF CUMBY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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 its 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 with 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.

CITY OF CUMBY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Water/Sewer Fund
Cash Flows from Operating Activities	
Cash received from customers	\$ 360,184
Cash received from other sources	730
Cash paid to employees	(159,328)
Cash paid to suppliers	(223,315)
Net cash provided by (used for) operating activities	<u>(21,729)</u>
Cash Flows from Noncapital Financing Activities	
Transfers to/from other funds	54,748
Net Cash Provided by Non-capital Financing Activities	<u>54,748</u>
Cash Flows from Capital and Related Financing Activities	
Principal payments on debt obligations	(39,461)
Interest and fiscal charges on debt	(25,321)
Net cash provided by (used for) capital and related financing activities	<u>(64,782)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(31,763)
Cash and Cash Equivalents at Beginning of Year	86,218
Cash and Cash Equivalents at End of Year	<u>\$ 54,455</u>
Reconciliation of operating income to net cash provided by (used for) operation activities	
Operating income (loss)	\$ (154,498)
Adjustment to reconcile operating income to net provided by operating activities:	
Depreciation	117,466
Change in Assets and Liabilities	
Increase (decrease) in accounts payable	3,674
Increase (decrease) in pension liability	11,629
Total Adjustments	132,769
Net cash provided by (used for) operating activities	<u>\$ (21,729)</u>

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, 2017

	<u>Water/Sewer Fund</u>
OPERATING REVENUES	
Charges for services	\$ 358,434
Tap fees	1,750
Miscellaneous income	730
Total Operating Revenues	<u>360,914</u>
OPERATING EXPENSES	
Personnel costs	159,328
Supplies and materials	15,331
Maintenance and repair	123,909
Contractual services	76,158
Utilities	23,220
Depreciation	117,466
Total Operating Expenses	<u>515,412</u>
Operating Income (Loss)	<u>(154,498)</u>
NON-OPERATING REVENUES (EXPENSES)	
Gain on sale of asset	-
Interest expense	(25,321)
Total Non-Operating Revenues (Expenses)	<u>(25,321)</u>
Income before transfers	<u>(179,819)</u>
Capital Contributions	-
Transfers	<u>54,748</u>
Change in Net Position	(125,071)
Net position - Beginning, October 1	<u>1,267,944</u>
Net Position - Ending, September 30	<u><u>\$ 1,142,873</u></u>

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, 2017

	<u>Water/Sewer Fund</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 22,631
Restricted cash and cash equivalents	31,824
Receivables (net of allowances for uncollectible)	28,546
Total Current Assets	<u>83,001</u>
Noncurrent Assets:	
Capital Assets:	
Land	11,370
Building & improvements	164,820
Machinery & equipment	215,209
Infrastructure	2,704,119
Construction in progress	-
Less: accumulated depreciation	<u>(1,348,465)</u>
Total Capital Assets (net of accumulated depreciation)	<u>1,747,053</u>
Total Noncurrent Assets	<u>1,747,053</u>
Total Assets	<u>1,830,054</u>
DEFERRED OUTFLOW OF RECOURCES	
Deferred pension	<u>6,016</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	4,750
Accrued expenses payable	1,927
Other liabilities	1,132
Payables from restricted funds:	
Customer deposits	39,265
Accrued interest payable	5,957
Compensated absences - current	-
Capital Lease Payable - current	6,199
Notes Payable - current	9,303
Bonds payable - current	25,000
Total Current Liabilities	<u>93,533</u>
Noncurrent Liabilities:	
Compensated absences	1,817
Net pension liability	10,903
Capital Lease Payable	14,709
Notes Payable	5,607
Bonds payable	560,000
Total Non-Current Liabilities	<u>593,036</u>
Total Liabilities	<u>686,569</u>
DEFERRED INFLOW OF RECOURCES	
Deferred pension	<u>6,628</u>
NET POSITION	
Net investment in capital assets	1,147,143
Restricted for:	
Debt	47,816
Capital Improvements	-
Unrestricted	<u>(52,086)</u>
Total Net Position	<u>\$ 1,142,873</u>

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 - BUDGET TO ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUE				
Property taxes	\$ 76,000	\$ 76,000	\$ 76,069	\$ 69
Fines and forfeitures	550,000	550,000	493,003	(56,997)
Licenses and permits	100	100	650	550
Sales taxes collected	90,000	90,000	112,026	22,026
Franchise tax	34,000	34,000	30,049	(3,951)
Charge for services	-	-	252	252
Intergovernmental revenues-state and local	-	-	11,487	11,487
Donations	-	-	850	850
Grants	-	-	-	-
Investment income	100	100	83	(17)
Miscellaneous	-	-	744	744
Total Revenues	<u>750,200</u>	<u>750,200</u>	<u>725,213</u>	<u>(24,987)</u>
EXPENDITURES				
General government	121,000	121,000	122,504	(1,504)
Public safety	385,000	385,000	298,516	86,484
Public services and operations	233,000	233,000	253,455	(20,455)
Public works	41,500	41,500	13,548	27,952
Parks and recreation	17,500	17,500	22,544	(5,044)
Debt Service:				
Principal Retirement	17,250	17,250	20,449	(3,199)
Interest Expense	-	-	875	(875)
Capital outlay:				
Public safety	47,000	47,000	-	47,000
Total Expenditures	<u>862,250</u>	<u>862,250</u>	<u>731,891</u>	<u>130,359</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(112,050)</u>	<u>(112,050)</u>	<u>(6,678)</u>	<u>105,372</u>
Other Revenues and Financing Sources (uses)				
Transfers	-	-	(54,748)	(54,748)
Insurance reimbursements	-	-	17,899	17,899
Sale of assets	-	-	-	-
Total Other Financing Sources (uses)	<u>-</u>	<u>-</u>	<u>(36,849)</u>	<u>(36,849)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(112,050)</u>	<u>(112,050)</u>	<u>(43,527)</u>	<u>68,523</u>
Fund Balances/Equity, October 1	<u>65,000</u>	<u>65,000</u>	<u>65,000</u>	
Fund Balances/Equity, September 30	<u>\$ (47,050)</u>	<u>\$ (47,050)</u>	<u>\$ 21,473</u>	

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

**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, 2017**

Net change in fund balances - total governmental funds	\$ (43,527)
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.	-
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.	(51,015)
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.	18,079
Current year changes in pension expense do not require the use of current resources; therefore, are not reported as expenditures in governmental funds.	(21,299)
Change in net position of governmental activities - statement of activities	<u>\$ (97,762)</u>

The notes to the 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, 2017

	<u>General Fund</u>
REVENUE	
Property taxes	\$ 76,069
Sales tax	112,026
Franchise tax	30,049
Licenses and permits	650
Fines and forfeitures	493,003
Charge for services	252
Seizures	11,487
Donations	850
Grants	-
Investment income	83
Miscellaneous	744
Total Revenues	<u>725,213</u>
EXPENDITURES	
Current:	
General Government	122,504
Public Safety	298,516
Public Services and Operations	253,455
Public Works	13,548
Parks and Recreation	22,544
Debt Service:	
Principal retirement	20,449
Interest expense	875
Capital outlay:	
Public Safety	-
Parks and Recreation	-
Total Expenditures	<u>731,891</u>
Excess (deficiency) of revenues over (under) expenditures	(6,678)
Other Revenues and Financing Sources (uses)	
Insurance reimbursements	17,899
Sale of Assets	-
Transfers	(54,748)
Total Other Financing Sources (uses)	<u>(36,849)</u>
Net Change in Fund Balances	(43,527)
Fund Balances, October 1	65,000
Fund Balances, September 30	<u>\$ 21,473</u>

The notes to the 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, 2017**

Total fund balances - governmental funds balance sheet	\$ 21,473
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.	995,398
Accumulated depreciation has not been included in the governmental fund financial statements.	(813,095)
Revenues reported as unearned revenue in the governmental fund financial statements was recorded as revenue in the government-wide financial statements.	10,350
Deferred inflow/outflow of resources for pension are not reported in the fund financial statements.	(1,489)
Accrued liabilities for compensated absences have not been reflected in the fund financial statements.	(4,512)
Net pension liability is not due and payable in the current period and, therefore, is not reported in the fund financial statements.	(26,545)
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.	-
Net position of governmental activities - statement of net position	<u>\$ 181,580</u>

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

CITY OF CUMBY, TEXAS
BALANCE SHEET - GOVERNMENTAL FUND
SEPTEMBER 30, 2017

	General Fund
ASSETS	
Cash and cash equivalents	\$ 43,918
Receivables (net of allowances for uncollectible)	57,898
Cash - Restricted	12,124
Total Assets	<u>113,940</u>
LIABILITIES	
Accounts payable	47,418
Accrued expenses	3,090
Other liabilities	31,609
Total Liabilities	<u>82,117</u>
DEFERRED INFLOW OF RESOURCES	
Unavailable revenue-property taxes	10,350
Total Deferred Inflow of Resources	<u>10,350</u>
FUND BALANCES	
Restricted for:	
Seized Funds	7,585
Court Use	4,539
Unassigned:	9,349
Total Fund Balances	<u>21,473</u>
Total Liabilities, Deferred Inflow of Resources, and Fund Balances	<u>\$ 113,940</u>

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

**Net (Expense) Revenue and
Changes in Net Position**

Primary Government		
Governmental Activities	Business Activities	Total
\$ (150,272)	\$ -	\$ (150,272)
(267,776)	-	(267,776)
240,314	-	240,314
(24,042)	-	(24,042)
(59,334)	-	(59,334)
(876)	-	(876)
<u>\$ (261,986)</u>	<u>\$ -</u>	<u>\$ (261,986)</u>
-	(180,549)	(180,549)
-	(180,549)	(180,549)
<u>\$ (261,986)</u>	<u>\$ (180,549)</u>	<u>\$ (442,535)</u>
\$ 76,069	\$ -	\$ 76,069
112,026	-	112,026
30,049	-	30,049
83	-	83
745	730	1,475
(54,748)	54,748	-
<u>164,224</u>	<u>55,478</u>	<u>219,702</u>
(97,762)	(125,071)	(222,833)
279,342	1,267,944	1,547,286
<u>\$ 181,580</u>	<u>\$ 1,142,873</u>	<u>\$ 1,324,453</u>

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

CITY OF CUMBY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Function/Program Activities	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General Government	\$ 150,415	\$ 143	\$ -	\$ -
Public Safety	297,271	18,008	11,487	-
Public Services and Operations	253,339	493,653	-	-
Public Works	24,042	-	-	-
Parks and Recreation	60,184	-	-	850
Interest on Long-Term Debt	876	-	-	-
Total governmental activities	\$ 786,127	\$ 511,804	\$ 11,487	\$ 850
Business-type Activities:				
Water and Sewer	540,733	360,184	-	-
Total business-type activities	540,733	360,184	-	-
Total primary government	\$ 1,326,860	\$ 871,988	\$ 11,487	\$ 850

General revenues:

Property taxes

Sales taxes

Franchise taxes

Investment income

Miscellaneous

Transfers

Total general revenues & transfers

Change in net position

Net position - beginning

Net position - ending

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

CITY OF CUMBY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and cash equivalents	\$ 43,918	\$ 22,631	\$ 66,549
Receivables (net of allowance for uncollectible)	57,898	28,546	86,444
Restricted assets:			
Cash and cash equivalents	12,124	31,824	43,948
Capital assets, not being depreciated:			
Land & improvements	32,000	11,370	43,370
Capital assets, net of accumulated depreciation:			
Buildings and improvements	50,970	112,615	163,585
Infrastructure	34,525	1,513,949	1,548,474
Machinery & equipment	64,808	109,119	173,927
Total Assets	296,243	1,830,054	2,126,297
DEFERRED OUTFLOW OF RESOURCES			
Deferred pension	14,647	6,016	20,663
LIABILITIES			
Accounts payable	47,418	4,750	52,168
Customer deposits	-	39,265	39,265
Accrued interest payable	-	5,957	5,957
Accrued expenses	3,090	1,927	5,017
Other liabilities	31,609	1,132	32,741
Noncurrent Liabilities:			
Due within one year:			
Compensated absences	-	-	-
Capital lease payable	-	6,199	6,199
Notes payable	-	9,303	9,303
Bonds payable	-	25,000	25,000
Due in more than one year:			
Compensated absences	4,512	1,817	6,329
Net pension liability	26,545	10,903	37,448
Capital lease payable	-	14,709	14,709
Notes payable	-	5,607	5,607
Bonds payable	-	560,000	560,000
Total Liabilities	113,174	686,569	799,743
DEFERRED INFLOW OF RESOURCES			
Deferred pension	16,136	6,628	22,764
NET POSITION			
Net investment in capital assets	182,303	1,147,143	1,329,446
Restricted for:			
Debt	-	47,816	47,816
Seizure funds	7,585	-	7,585
Court use	4,539	-	4,539
Unrestricted	(12,847)	(52,086)	(64,933)
Total Net Position	\$ 181,580	\$ 1,142,873	\$ 1,324,453

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

This page intentionally left blank

BASIC FINANCIAL STATEMENTS

CITY OF CUMBY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2017

Capital assets - The City of Cumby's investment in capital assets for its governmental and business-type activities as of September 30, 2017, totals \$1,929,356 (net of accumulated depreciation). This investment in capital assets includes buildings, roads and bridges, land, machinery and equipment. The total decrease in the City of Cumby's investment in capital assets for the current fiscal year was (8.03%).

Capital Assets
As of September 30, 2017
(net of accumulated depreciation)

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land & Improvements	\$ 32,000	\$ 32,000	\$ 11,370	\$ 11,370	\$ 43,370	\$ 43,370
Machinery & Equipment	64,808	105,716	109,119	134,030	173,927	239,746
Buildings	50,970	53,685	112,615	117,558	163,585	171,243
Infrastructure	34,525	41,918	1,513,949	1,601,562	1,548,474	1,643,480
Total	\$ 182,303	\$ 233,319	\$ 1,747,053	\$ 1,864,520	\$ 1,929,356	\$ 2,097,839

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, 2017, the City had long-term debt outstanding of \$620,818. This debt is secured by property taxes and/or revenues. The debt decreased by (\$59,211), or (8.71%).

Outstanding Debt
As of September 30, 2017

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Certificates of Obligation	\$ -	\$ -	\$ 585,000	\$ 610,000	\$ 585,000	\$ 610,000
Notes Payable	-	-	14,910	24,214	14,910	24,214
Capital Lease Payable	-	18,079	20,908	27,736	20,908	45,815
Total	\$ -	\$ 18,079	\$ 620,818	\$ 661,950	\$ 620,818	\$ 680,029

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

CITY OF CUMBY, TEXAS
MANAGEMENT AND DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2017

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 resources 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 \$9,349, a decrease of (83%) in comparison with the prior year.

The restricted fund balances of \$12,124, consist of amounts with constraints put on their use by externally imposed creditors, grantors, contributors, laws, regulations or enabling legislation. Restricted fund balance of \$4,539, or 37.44%, is for court use. Seized funds not spent at the end of the fiscal year in the amount of \$7,585, or 62.56%, is restricted by federal law.

Unassigned fund balance of \$9,349 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 (9.01%).

General Fund Budgetary Highlights: During the fiscal year, the City did not revise the budget. Generally, 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 greater than the budgeted amounts in most classifications. Expenditures were greater 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 (\$52,086).

CITY OF CUMBY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2017

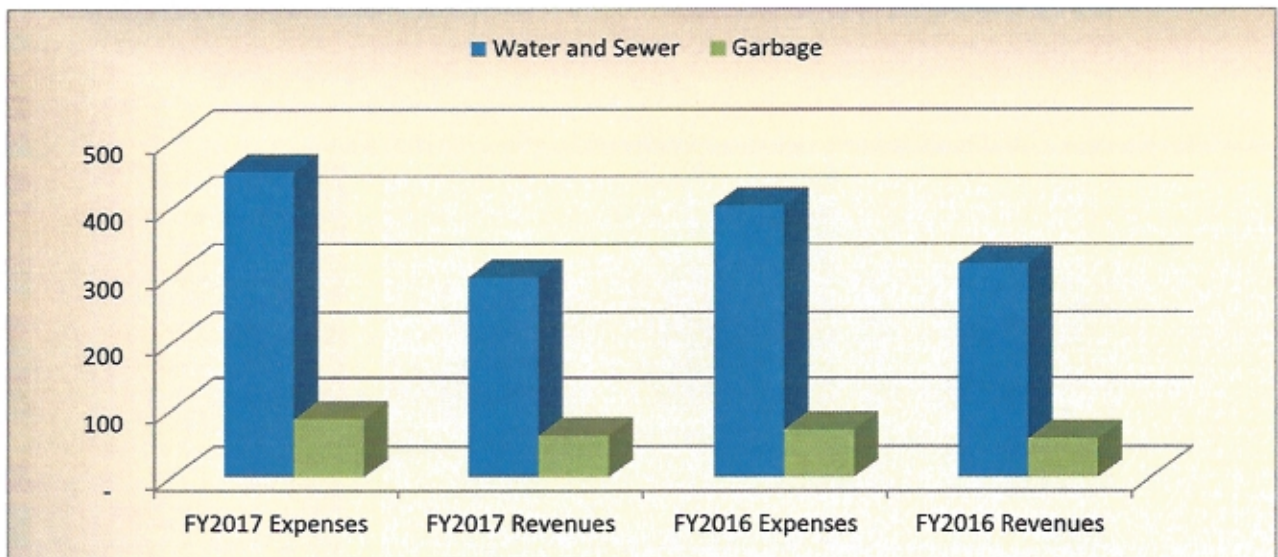
Business-type Activities - Business-type activities decreased the City's net position by (\$125,071). A key element of this decrease is as follows:

Total Program Revenues decreased by \$14,822, (4%).

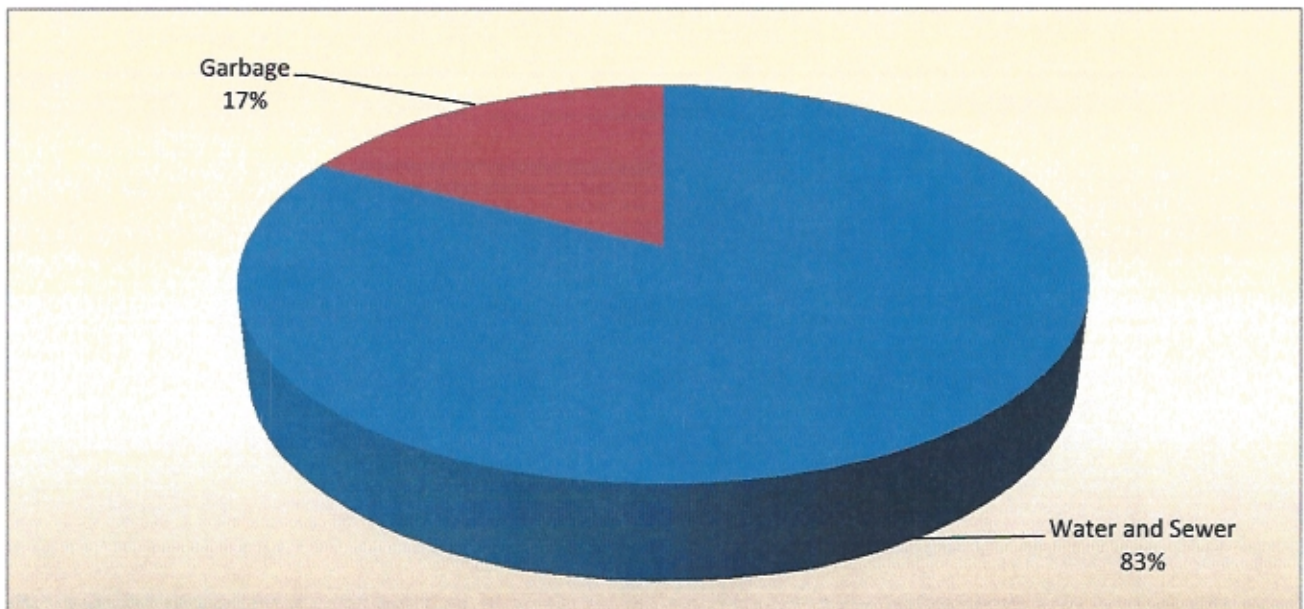
Total Expenses increased by \$65,767.

Expenditures and Program Revenues - Business-type Activities

(amounts expressed in thousands)



Revenues by Source - Business-type Activities



CITY OF CUMBY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2017

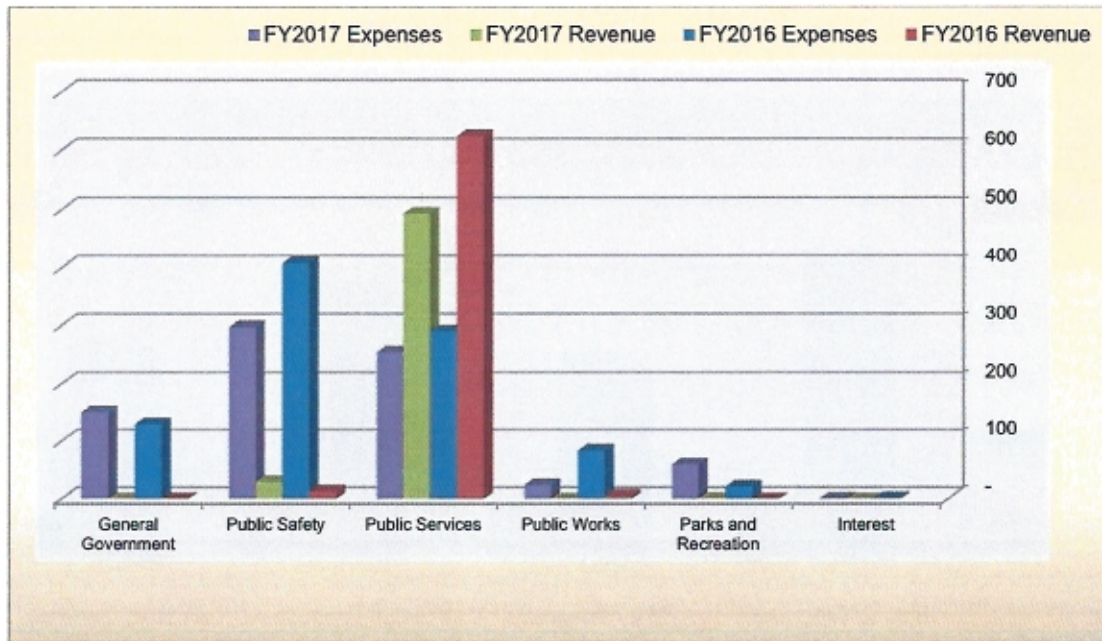
Governmental-type activities - Governmental-type activities decreased the City's net position by (\$97,762). Key elements of this decrease are as follows:

Revenues decreased by (\$119,357), or (19%).

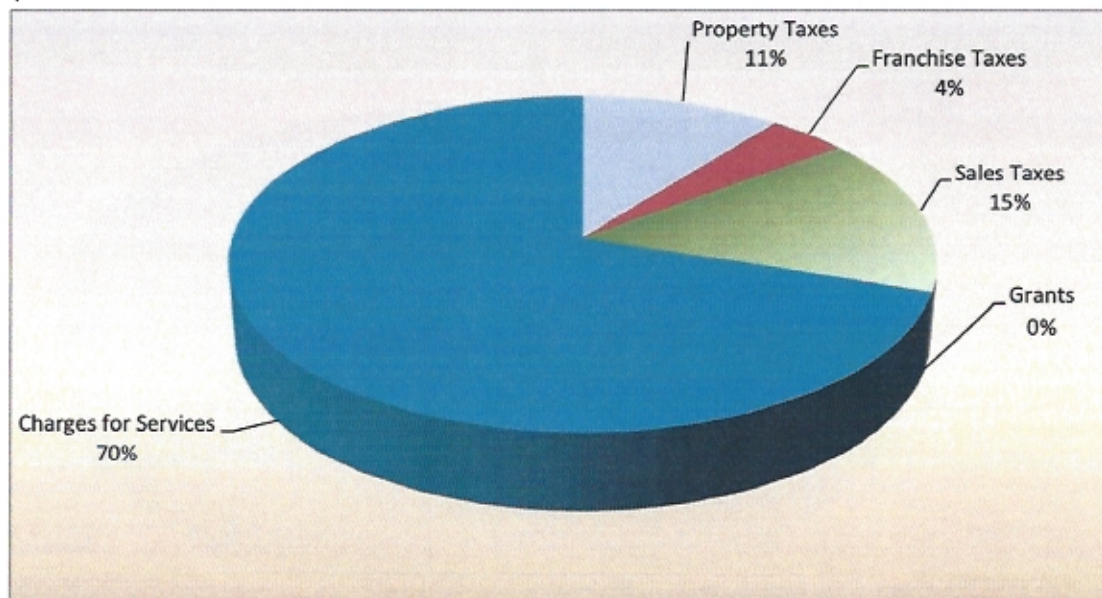
Expenses decreased by (\$148,202), or (16%).

Expenses and Program Revenues - Governmental Activities

(amounts expressed in thousands)



Revenues by Source - Governmental Activities



CITY OF CUMBY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2017

	Changes in Net Position					
	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
REVENUE:						
Program Revenues						
Charges for Services	\$ 511,804	\$ 592,872	\$ 360,184	\$ 375,006	\$ 871,988	\$ 967,878
Operating Grants and Contributions	11,487	910	-	-	11,487	910
Capital Grants and Contributions	850	49,716	-	-	850	49,716
General Revenues:						
Property Taxes	76,069	72,553	-	-	76,069	72,553
Sales Taxes	112,026	104,178	-	-	112,026	104,178
Franchise Taxes	30,049	31,748	-	-	30,049	31,748
Investment Income	83	189	-	-	83	189
Miscellaneous	745	426	730	1,146	1,475	1,572
Total Revenues	743,113	852,592	360,914	376,152	1,104,027	1,228,744
EXPENSES:						
Program Expenses:						
General Government	150,415	129,375	-	-	150,415	129,375
Public Safety	297,271	408,025	-	-	297,271	408,025
Public Services and operations	253,339	290,076	-	-	253,339	290,076
Public Works	24,042	84,034	-	-	24,042	84,034
Parks and Recreation	60,184	21,109	-	-	60,184	21,109.00
Interest on Long-Term Debt	876	1,710	-	-	876	1,710.00
Water and Sewer	-	-	540,733	474,966	540,733	474,966
Total Expenses	786,127	934,329	540,733	474,966	1,326,860	1,409,295
Increase in Net Position before Transfers	(43,014)	(81,737)	(179,819)	(98,814)	(222,833)	(180,551)
Other Revenues and Financing Sources (uses)						
Transfers	(54,748)	(64,566)	54,748	64,566	-	-
Total Other Financing Sources (uses)	(54,748)	(64,566)	54,748	64,566	-	-
Increase in Net Position	(97,762)	(146,303)	(125,071)	(34,248)	(222,833)	(180,551)
Net Position, October 1	279,342	425,645	1,267,944	1,302,192	1,547,286	1,727,837
Prior Period Adjustments	-	-	-	-	-	-
Net Position, September 30	\$ 181,580	\$ 279,342	\$ 1,142,873	\$ 1,267,944	\$ 1,324,453	\$ 1,547,286

Governmental activities decreased net position by (\$97,762). This is due to a decrease in revenues and an increase in expenses.

Business-type activities decreased net position by (\$125,071). This is due to expenses being greater than revenues.

CITY OF CUMBY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2017

Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 113,940	\$ 125,801	\$ 83,001	\$ 114,764	\$ 196,941	\$ 240,565
Capital assets	182,303	233,319	1,747,053	1,864,520	1,929,356	2,097,839
Total assets	296,243	359,120	1,830,054	1,979,284	2,126,297	2,338,404
Deferred outflows-pension	14,647	50,038	6,016	22,272	20,663	72,310
Long-term liabilities	31,057	48,264	633,538	680,174	664,595	728,438
Current liabilities	82,117	50,450	53,031	49,357	135,148	99,807
Total liabilities	113,174	98,714	686,569	729,531	799,743	828,245
Deferred inflows-pension	16,136	31,102	6,628	4,081	22,764	35,183
Net position:						
Net investment in capital assets	182,303	215,240	1,147,143	1,202,570	1,329,446	1,417,810
Restricted	12,124	39,152	47,816	47,816	59,940	86,968
Unrestricted	(12,847)	24,950	(52,086)	17,558	(64,933)	42,508
Total net position	\$ 181,580	\$ 279,342	\$ 1,142,873	\$ 1,267,944	\$ 1,324,453	\$ 1,547,286

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 was \$1,324,453 as of September 30, 2017. The City's net position decreased by (\$222,833) for the fiscal year ended September 30, 2017.

Net investment in capital assets:

The largest portion of the City's net position, \$1,329,446 or, 100.4%, 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 \$59,940, or 5%, 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 \$4,539, or 7.6%, for court fees, debt requirements of \$47,816, or 79.8%, and \$7,585, or 12.6%, is for unspent federal seizure funds.

Unrestricted net position:

Unrestricted net position of (\$64,933) is available to fund City programs to citizens and debt obligations to creditors. The majority of unrestricted net position resides in the governmental activities.

**CITY OF CUMBY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2017**

New Pronouncements – The following statements for GASB were effective for the City in the fiscal year ending September 30, 2016:

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

GASB Statement No. 72, "Fair Value Measurement and Application" addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and, also, provides guidance for applying fair value to certain investments and disclosure related to all fair value measurements. The City is evaluating the potential changes to the financial statements as a result of the implementation of this statement.

CITY OF CUMBY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2017

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 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.

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 25 - 27 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 28 – 47 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.

**CITY OF CUMBY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2017**

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 - 27) 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 28 - 47. 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 on pages 49 - 50.

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 two 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 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.

CITY OF CUMBY, TEXAS

MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2017

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, 2017. 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 and deferred outflow of resources of the City exceeded its liabilities and deferred inflow of resources at the close of the fiscal year by \$1,324,453 (net position). Of this amount \$1,329,446, or, 100.4% is net investment in capital assets. Net position restricted for specific purposes is \$59,940, or 4.5%. The remaining amount of -\$64,933, or -4.9%, (unrestricted net position) because of its deficit position, may not be used to meet the City's ongoing obligations to its citizens and creditors.
- The City's total net position decreased by (\$222,833). This decrease is due to decreases in both the governmental and business-type activities.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$21,473, a decrease of (\$43,527) in comparison with the prior year. Approximately 44% of this total amount, or \$9,349, 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 \$9,349, or 1.3%, of total general fund expenditures. The decrease in fund balance for the General Fund in the amount of (\$43,527), is due to a decrease in seizure funds.
- The City's total long-term debt decreased by (\$59,211), or (9%), 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.

the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 5 – 14 and 49 - 50 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 8, 2018, 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.

January 8, 2018



Michael Conway, CPA
Neil Conway, CPA

Toll Free (800) 594-7951
Metro (903) 450-1200

CONWAY COMPANY CPAs PC

ACCOUNTANTS & ADVISORS

www.conwaycpas.com

PO Box 8234
Greenville, Texas 75404-8234

Member
American Institute of CPAs
Texas Society of CPAs

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2017, and

This page intentionally left blank

FINANCIAL SECTION

CITY OF CUMBY, TEXAS

City Council

For the Year Ended September 30, 2017

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

INTRODUCTORY SECTION

This page intentionally left blank

**CITY OF CUMBY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
City Officials.....	iv
FINANCIAL SECTION	
Independent Auditor's Report.....	3
A. Management Discussion and Analysis.....	5
B. Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position.....	17
Statement of Activities.....	18
Governmental Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	20
Reconciliation of the Governmental Funds	
Balance Sheet to the Statement of Net Position.....	21
Statement of Revenues, Expenditures, and Changes in	
Fund Balances - Governmental Funds.....	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in	
Fund Balances of Governmental Funds to the Statement of Activities.....	23
Statement of Revenues, Expenditures, and Changes in	
Fund Balances - Budget to Actual - General Fund.....	24
Proprietary Fund Financial Statements:	
Statement of Net Position - Proprietary Funds.....	25
Statement of Revenues, Expenses, and Changes in	
Fund Net Position - Proprietary Funds.....	26
Statement of Cash Flows - Proprietary Funds.....	27
Notes to the Financial Statements.....	28
C. Required Supplementary Information:	
Schedule of Pension Trust - TMRS Funding Progress and Contributions.....	49
Schedule of Changes in Net Pension Liability and Related Ratios.....	50

This page intentionally left blank

ANNUAL FINANCIAL REPORT
OF THE
CITY OF CUMBY, TEXAS

FOR
FISCAL YEAR ENDED
SEPTEMBER 30, 2017

Mayor
Kathy Hall-Carter