CITY OF CUMBY, TEXAS

Financial Statements
(With Auditor's Report Thereon)

September 30, 2019

CITY OF CUMBY, TEXAS

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K. Evans
& Associates, CPA's

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor
And Members of the City Council
City of Cumby
Cumby, Texas 75433

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, as of and for the year ended September 30, 2019, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the City of Cumby as of September 30, 2018 were audited by Christopher A Turner PLLC CPA whose report dated January 14, 2019, expressed an unmodified opinion on the statements.

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 unmodified and qualified audit opinions.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Business-Type Activities	Unmodified
General Fund	Qualified
Proprietary Fund	Unmodified

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Basis for Qualified Opinion on Governmental Activities and General Fund

Because of the inadequacy of accounting records for 2018 fiscal year citation receivable balance, we were unable to obtain sufficient appropriate audit evidence regarding the gross citation receivable balance of $748,873 recorded as of September 30, 2018.

We were unable to obtain a discussion or evaluation from one of the City's outside legal counsel regarding any pending or threatened litigation as described within the footnote on page 35 of the report. We were unable to obtain sufficient appropriate audit evidence by performing other audit procedures.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Governmental Activities and General Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities and General Fund of the City of Cumby, as of September 30, 2019, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and proprietary fund of the City of Cumby, Texas, as of September 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adjustments to Prior Period Financial Statements

The financial statements of the City of Cumby as of September 30, 2018, were audited by other auditors whose opinion dated January 14, 2019, on those statements was unmodified. As discussed in Prior Period Adjustment footnote on page 35, the City restated its September 30, 2018 financial statements during the current year to reflect the appropriate amount of sales tax receivable within the general fund and to recognize deferred property taxes and deferred citations as revenue on the government-wide financial statements, in accordance with accounting principles generally accepted in the United States of America. The Other auditor reported on the September 30, 2018 financial statements before the restatement.

As part of our audit of the September 30, 2019 financial statements, we also audited adjustments described in the Prior Period Adjustment footnote that were applied to restate the September 30, 2018 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the September 30, 2018 financial statement of the City other than with respect to the adjustment and accordingly, we do not express an opinion or any other form of assurance on the September 30, 2018 financial statements as a whole.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, on pages 4 through 8 and 17, 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.

K. Evans & Associates

Frisco, Texas
June 1, 2020

Management's Discussion and Analysis

As management of the City of Cumby (the 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, 2019. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $1,274,204 (net position). Of this amount, $94,998 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by $94,482. This increase is attributable to the recognition of unearned revenues related to citations, as revenues on the government-wide financial statements.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of ($68,801), a decrease of $63,356 in comparison with the prior year. Of the fund balance, ($113,117) is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was ($113,117) or -16 percent of total general fund expenditures.
- As of the close of the current fiscal year, the City's proprietary fund reported total net position of $883,232 including unrestricted net position of ($124,904). Proprietary fund net position decreased by $126,875.
- The City's long-term debt decreased by $34,868 during the current fiscal year. This was due to scheduled principal payments on outstanding debt.
- The City did not purchase any capital assets for governmental activities during the current year, and spent $14,988 on water/sewer system improvements.

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 comprise 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 themselves.

Government-Wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and liabilities, 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 this statement for some items that will only result in cash flows in future fiscal years (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities)* from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities).* The governmental activities of the City include general government, public safety, municipal court, public works, and recreation. The business-type activities of the City of Cumby include the water and sewer system and sanitation services.

The government-wide financial statements can be found on pages 9-11 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the 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 maintains one governmental fund, the General Fund, which accounts for the City's basic operations. The City adopts an annual appropriated budget for its general fund. A Budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 12-16 of this report.

Proprietary Funds. The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water and Sewer and Sanitation operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer and Sanitation operations, which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 17-19 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 can be found on pages 20-34 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 process in funding its obligation to provide pension benefits to its employees. The required supplementary information can be found on pages 35-40 of this report.

Other Information. The City adopts an annual budget for its enterprise fund. A Budgetary comparison statement has been provided to demonstrate compliance with this budget and can be found on page 42 of this report.

Government – Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Cumby, assets exceed liabilities by $1,274,204 at the close of the most recent fiscal year.

A portion of the City's net position (88 percent) reflects its investment in capital assets (e.g. land, building, infrastructure, and equipment) less any related debt used to acquire those assets that is still outstanding. 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 related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* $94,998 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Cumby is reporting a negative balance in unrestricted net position for the government as a whole.

CITY OF CUMBY – Net Position

	Governmental Activities		Business-Type Activities		Total	
	09/30/19	09/30/18	09/30/19	09/30/18	09/30/19	09/30/18
Current & Other Assets	$ 441,541	$ 102,960	$ 62,896	$ 47,828	$ 504,437	$ 150,788
Capital Assets	126,154	158,691	1,545,544	1,644,510	1,671,698	1,803,201
Toal Assets	567,695	261,651	1,608,440	1,692,338	2,176,135	1,953,989
Deferred Outflows of Resources	17,077	24,738	6,975	10,104	24,052	34,842
Long-Term Liabilities	45,993	34,600	563,284	558,857	609,277	593,457
Other Liabilities	137,820	99,265	158,719	124,716	296,539	223,981
Total Liabilities	183,813	133,865	722,003	683,573	905,816	817,438
Deferred Inflows of Resources	10,587	19,983	9,580	8,162	20,167	28,145
Net Position:						
Net Invested in Capital Assets	126,154	158,691	1,000,264	1,064,363	1,126,418	1,223,054
Restricted	44,316	24,409	8,472	18,537	52,788	42,946
Unrestricted	219,902	(50,559)	(124,904)	(72,193)	94,998	(122,752)
Total Net Position	$ 390,372	$ 132,541	$ 883,832	$1,010,707	$1,274,204	$1,143,248

CITY OF CUMBY – Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	09/30/19	09/30/18	09/30/19	09/30/18	09/30/19	09/30/18
Revenues:						
Program Revenues:						
Charges for Services	$ 756,271	$ 458,882	$ 369,097	$ 362,808	$1,125,368	$ 821,690
Grants & Contributions	1,000	-	-	-	1,000	-
General Revenues:						
Property Taxes	86,710	87,305	-	-	86,710	87,305
Other Taxes	137,781	131,125	-	-	137,781	131,125
Other	1,873	3,513	20,009	-	21,882	3,513
Total Revenues	983,635	680,825	389,106	362,808	1,372,741	1,043,633
Expenses:						
General Government Activities	750,768	733,833	-	-	750,768	733,833
Business-Type Activities	-	-	527,491	488,795	527,491	488,795
Total Expenses	750,768	733,833	527,491	488,795	1,278,259	1,222,628
Increase/(Decrease) in Net Position Before Transfers	232,867	(53,008)	(138,385)	(125,987)	94,482	(178,995)
Transfer In/(Out)	(11,510)	4,680	11,510	(4,680)	-	-
Increase/(Decrease) in Net Position	221,357	(48,328)	(126,875)	(130,667)	94,482	(178,995)
Net Position - Beginning	132,541	181,580	1,010,707	1,142,873	1,143,248	1,324,453
Prior Period Adjustment	36,474	(711)	-	(1,499)	36,474	(2,210)
Net Position - Ending	$ 390,372	$ 132,541	$ 883,832	$1,010,707	$1,274,204	$1,143,248

The following key elements influenced the changes in net position from the prior year:

Governmental Activities:

Governmental activities (after transfers) increased the City's net position by $221,357. This can be contributed to the recognition of unearned revenues related to citations, as revenues on the government-wide financial statements.

Business – Type Activities

Business–Type activities (after transfers) decreased the City's net position by $126,875. Revenues and expenses remained consistent with the prior year.

Financial Analysis of the Government's Funds

As noted earlier, the City of Cumby 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 *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of ($68,801), a decrease of $63,356 from the prior year. Of the current combined ending fund balance, ($113,117) is unassigned and $44,316 is restricted.

The general fund is the main operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was ($113,117). Total unassigned fund balance represents -16% of total general fund expenditures.

Proprietary Funds. The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Enterprise Fund at the end of the year amounted to ($124,904). The total decrease in net position of the Enterprise Fund was $126,875. The factors concerning the finances of this fund have already been addressed in the discussion of the City's business type activities.

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; 3) increase in appropriations that become necessary to maintain services.

During the year, budgetary estimates exceeded both actual revenues and expenditures. However, the budget estimated a $32,760 decrease in fund balance, and actual results were consistent with a decrease in fund balance of $30,596.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2019, was $1,671,698 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, infrastructure, and furniture and equipment. The change in capital assets during the year was a result of depreciation expense of $146,491, and asset additions of $14,988.

Additional information on the City's capital assets can be found on pages 26-27 of the notes to the financial statements.

Long-Term Debt. At the end of the current fiscal year, the City had long-term debt outstanding of $545,280. The City's long-term debt decreased by $34,868 due to scheduled principal payments on outstanding debt.

Additional information on the City's long-term debt can be found on pages 27-28 of the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The City's management approach is conservative, yet accommodating, to its citizens economic development. The tax rate for the year ended September 30, 2020 will remain consistent with the current rate of $0.440768 per $100 value of assessed land.

Whenever possible, the Mayor and City Council actively purse grants and other funding to provide new and better services for the City while relying on existing revenues and living within the budget. The City finances long-term projects only when necessary.

Request for Information

This financial report is designed to provide a general overview of the City of Cumby's finances and to demonstrate the City's financial accountability. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Cumby, P.O. Box 349, Cumby, Texas 75493.

BASIC FINANCIAL STATEMENTS

CITY OF CUMBY, TEXAS
Statement of Net Position
September 30, 2019

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash & Cash Equivalents	$ 10,809	$ 2,785	$ 13,594
Cash - Restricted	44,316	8,472	52,788
Receivable (Net of Allowance for Uncollectibles):			
Utility Bills	-	51,639	51,639
Citations	364,351	-	364,351
Delinquent Property Taxes	8,169	-	8,169
Sales Tax	8,708	-	8,708
Other	5,188	-	5,188
Capital Assets Not Being Depreciated:			
Land	32,000	11,370	43,370
Capital Assets (Net of Accumulated Depreciation):			
Building & Improvements	45,558	102,729	148,287
Infrastructure	23,030	1,366,088	1,389,118
Furniture & Equipment	25,566	65,357	90,923
Total Assets	567,695	1,608,440	2,176,135
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow Related to TMRS Pension	15,946	6,513	22,459
Deferred Outflow Related to TMRS OPEB	1,131	462	1,593
Total Deferred Outflows of Resources	17,077	6,975	24,052
LIABILITIES			
Accounts Payable	132,343	100,536	232,879
Accrued Payroll	5,477	6,437	11,914
Deposits	-	45,790	45,790
Accrued Interest Payable	-	5,956	5,956
Noncurrent Liabilities:			
Due Within One Year	3,190	31,385	34,575
Due in More Than One Year	-	514,415	514,415
Net Pension Liability	33,394	13,640	47,034
Net OPEB Liability	9,409	3,844	13,253
Total Liabilities	183,813	722,003	905,816
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflow Related to TMRS Pension	7,445	3,041	10,486
Deferred Inflow Related to TMRS OPEB	3,142	1,284	4,426
Deferred Inflow - Other	-	5,255	5,255
Total Deferred Inflows of Resources	10,587	9,580	20,167
NET POSITION			
Net Invested in Capital Assets	126,154	1,000,264	1,126,418
Restricted for:			
Debt Service	-	8,472	8,472
Court Use	3,202	-	3,202
Seizure Funds	41,114	-	41,114
Unrestricted	219,902	(124,904)	94,998
Total Net Position	$ 390,372	$ 883,832	$ 1,274,204

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

CITY OF CUMBY, TEXAS
Statement of Activities
For the Year Ended September 30, 2019

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	$ 155,295	$ -	$ -	$ -
Public Safety	337,815	-	-	-
Municipal Court	242,009	756,271	-	-
Public Works	14,896	-	-	-
Parks & Recreation	752	-	1,000	-
Total Governmental Activities	750,768	756,271	1,000	-
Business-Type Activities:				
Water & Sewer	474,016	307,349	-	-
Sanitation	53,475	61,748	-	-
Total Business-Type Activities	527,491	369,097	-	-
Total Primary Government	$ 1,278,259	$ 1,125,368	$ 1,000	$ -

General Revenues:
Property Taxes
Sales Taxes
Franchise Taxes
Unrestricted Investment Earnings
Miscellaneous Revenue
Transfers
Total General Revenues & Transfers

Change in Net Position

Net Position - Beginning, as Restated

Net Position - Ending

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

Net (Expense) Revenue and Change in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
$ (155,295)	$ -	$ (155,295)
(337,815)	-	(337,815)
514,262	-	514,262
(14,896)	-	(14,896)
248	-	248
6,503	-	6,503
	(166,667)	(166,667)
	8,273	8,273
	(158,394)	(158,394)
6,503	(158,394)	(151,891)
86,710	-	86,710
107,937	-	107,937
29,844	-	29,844
35	-	35
1,838	20,009	21,847
(11,510)	11,510	-
214,854	31,519	246,373
221,357	(126,875)	94,482
169,015	1,010,707	1,179,722
$ 390,372	$ 883,832	$ 1,274,204

CITY OF CUMBY, TEXAS
Balance Sheet
Governmental Funds
September 30, 2019

	General Fund
ASSETS	
Cash & Cash Equivalents	$ 10,809
Cash - Restricted	44,316
Receivables (Net Allowance for Uncollectibles):	
Citations	364,351
Delinquent Property Taxes	8,169
Sales Tax	8,708
Other	5,188
Total Assets	$ 441,541
LIABILITIES:	
Accounts Payable	$ 132,343
Accrued Payroll	5,477
Total Liabilities	137,820
DEFERRED INFLOWS OF RESOURCES:	
Unavailable Revenue - Property Taxes	8,170
Unavailable Revenue - Citations	364,352
Total Deferred Inflows of Resources	372,522
FUND BALANCES:	
Restricted for:	
Court Use	3,202
Seizure Funds	41,114
Unassigned	(113,117)
Total Fund Balances	(68,801)
Total Liabilities, Deferred Inflows, & Fund Balances	$ 441,541

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

CITY OF CUMBY, TEXAS
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
September 30, 2019

Total Fund Balances - Governmental Funds	$	(68,801)
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in governmental funds. At the beginning of the year, the cost of these assets was $1,010,967 and the accumulated depreciation was $(852,276). The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net assets.		158,691
The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(32,537)
Property Tax revenues reported as unearned revenue in the governmental fund financial statements are recorded as revenue in the government-wide financial statements. The net effect of recognizing the unearned revenue is to increase net assets.		8,170
Citation revenues reported as unearned revenue in the governmental fund financial statements are recorded as revenue in the government-wide financial statements. The net effect of recognizing the unearned revenue is to increase net assets.		364,352
Accrued liabilities for compensated absences are not due and payable in the current period, and therefore, are not reported in the fund financial statements. The net effect of recognizing compensated absences is to decrease net assets.		(3,190)
Included in the noncurrent liabilities is the recognition of the City's net pension liability required by GASB 68 in the amount of $(33,394), a deferred resource inflow in the amount of $(7,445), and a deferred resource outflow in the amount of $15,946. The net effect of this adjustment is a decrease in net position.		(24,893)
Included in the noncurrent liabilities is the recognition of the City's net OPEB liability required by GASB 75 in the amount of $(9,409), a deferred resource inflow in the amount of $(3,142), and a deferred resource outflow in the amount of $1,131. The net effect of this adjustment is a decrease in net position.		(11,420)
Net Position of Governmental Activities	$	390,372

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

CITY OF CUMBY, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended September 30, 2019

	General Fund
REVENUES	
Taxes:	
Property	$ 86,710
Sales	107,937
Franchise	29,844
License & Permits	1,150
Fines & Forfeitures	428,213
Investment Income	35
Donations/Fund Raisers	1,000
Miscellaneous	1,838
Total Revenues	656,727
EXPENDITURES	
Current:	
General Government	153,255
Public Safety	307,300
Muncipal Court	239,942
Public Works	8,076
Total Expenditures	708,573
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	(51,846)
OTHER FINANCING SOURCES (USES)	
Transfer Out	(11,510)
Total Other Financing Sources/(Uses)	(11,510)
Net Change in Fund Balances	(63,356)
Fund Balances - Beginning, as Restated	(5,445)
Fund Balances - Ending	$ (68,801)

The notes to the financial statements are an integral part of this 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 Fiscal Year Ended September 30, 2019

Total Net Change in Fund Balances - Governmental Funds	$ (63,356)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current resources. The net effect of the current year's depreciation is to decrease net position.	(32,537)
The change in deferred revenue must be eliminated to convert from the modified accrual basis of accounting to accrual basis of accounting.	326,908
Expenditures related to the change in compensated absences are not recognized in governmental funds. The net effect is to increase net position.	2,842
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/18 caused the change in the ending net position to increase in the amount of $4,263. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net net position totaling $(4,483). The City's reported TMRS net pension expense had to be recorded. The net pension expense decreased the change in net position by $(12,066). The net effect of these changes is to decrease net position.	(11,846)
The implementation of GASB 75 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/18 caused the change in the ending net position to increase in the amount of $274. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling $(275). The City's reported TMRS net OPEB expense had to be recorded. The net OPEB expense decreased the change in net position by $(656). The net effect of these changes is to decrease net position.	(654)
Change in Net Position of Governmental Activities	$ 221,357

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

CITY OF CUMBY, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual – General Fund
For the Fiscal Year Ended September 30, 2019

	Original & Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Taxes:			
Property	$ 86,900	$ 86,710	$ (190)
Sales	108,200	107,937	(263)
Franchise	29,900	29,844	(56)
License & Permits	100	1,150	1,050
Fines & Forfeitures	480,000	428,213	(51,787)
Investment Income	100	35	(65)
Donations/Fund Raisers	-	1,000	1,000
Miscellaneous	-	1,838	1,838
Total Revenues	705,200	656,727	(48,473)
EXPENDITURES			
Current:			
General Government	114,174	153,255	(39,081)
Public Safety	329,391	307,300	22,091
Municipal Court	264,695	239,942	24,753
Public Works	27,700	8,076	19,624
Parks & Recreation	2,000	-	2,000
Total Expenditures	737,960	708,573	29,387
Excess (deficiency) of revenues over (under) expenditures	(32,760)	(51,846)	(19,086)
OTHER FINANCING SOURCES (USES)			
Transfer Out	-	(11,510)	(11,510)
Total Other Financing Sources/(Uses)	-	(11,510)	(11,510)
Net Change in Fund Balances	(32,760)	(63,356)	(30,596)
Fund Balances - Beginning, as Restated	(5,445)	(5,445)	-
Fund Balances - Ending	$ (38,205)	$ (68,801)	$ (30,596)

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

CITY OF CUMBY, TEXAS
Statement of Net Position
Proprietary Fund
September 30, 2019

	2019
ASSETS	
Current Assets:	
Cash & Cash Equivalents	$ 2,785
Cash - Restricted	8,472
Receivables (Net of Allowance of Uncollectibles)	51,639
Total Current Assets	62,896
Noncurrent Assets:	
Capital Assets:	
Land	11,370
Buildings & Improvements	164,820
Infrastructure	2,734,276
Furniture & Equipment	215,209
Less: Accumulated Depreciation	(1,580,131)
Total Capital Assets (Net of Accumulated Depreciation)	1,545,544
Total Noncurrent Assets	1,545,544
Total Assets	1,608,440
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflow Related to TMRS Pension	6,513
Deferred Outflow Related to TMRS OPEB	462
Total Deferred Outflows of Resources	6,975
LIABILITIES	
Current Liabilities:	
Accounts Payable	100,536
Accrued Payroll	6,437
Deposits	45,790
Accrued Interest Payable	5,956
Compensated Absences	520
Current Portion of Long-Term Debt	30,865
Total Current Liabilities	190,104
Noncurrent Liabilities:	
Long-Term Debt	514,415
Net Pension Liability	13,640
Net OPEB Liability	3,844
Total Noncurrent Liabilities	531,899
Total Liabilities	722,003
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflow Related to TMRS Pension	3,041
Deferred Inflow Related to TMRS OPEB	1,284
Deferred Inflow - Other	5,255
Total Deferred Inflows of Resources	9,580
NET POSITION	
Invested in Capital Assets, Net of Related Debt	1,000,264
Restricted for:	
Debt Service	8,472
Unrestricted	(124,904)
Total Net Position	$ 883,832

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

CITY OF CUMBY, TEXAS
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended September 30, 2019

	2019
OPERATING REVENUES	
Water Sales	$ 190,187
Sewer Charges	106,684
Sanitation Charges	61,748
Late Fees	6,131
Service Charges	4,347
Miscellaneous	20,009
Total Operating Revenues	389,106
OPERATING EXPENSES	
Personnel Services	175,007
Contract Services	60,551
Supplies & Materials	20,417
Repair & Maintenance	101,452
Utilities	16,369
Miscellaneous	15,127
Depreciation	113,954
Total Operating Expenses	502,877
Operating Income/(Loss)	(113,771)
NONOPERATING REVENUES/(EXPENSES)	
Transfers In	11,510
Interest Expense	(24,614)
Total Nonoperating Revenues/(Expenses)	(13,104)
Change in Net Position	(126,875)
Net Position, Beginning	1,010,707
Net Position, Ending	$ 883,832

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

CITY OF CUMBY, TEXAS
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended September 30, 2019

	2019
Cash Flows from Operating Activities:	
Cash Received from Customers	$ 366,929
Cash Paid to Employees	(178,266)
Cash Paid to Suppliers	(137,562)
Net Cash Provided by Operating Activities	51,101
Cash Flows from Noncapital Financing Activities:	
Transfers From Other Funds	11,510
Net Cash Provided by /(Used in) Noncapital Financing Activities	11,510
Cash Flows from Capital and Related Financing Activities:	
Principal Payments on Capital Debt	(34,868)
Interest Paid on Capital Debt	(24,614)
Purchase of Capital assets	(14,988)
Net Cash Used in Capital and Related Financing Activities	(74,470)
Net Increase/(Decrease) in Cash & Cash Equivalents	(11,859)
Cash & Cash Equivalents - Beginning	23,116
Cash & Cash Equivalents - Ending	$ 11,257
Reconciliation of Net Income to Net Cash Provided by Operating Activities	
Operating Loss	$ (113,771)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation/Amortization Expense	113,954
(Increase)/Decrease in Receivables (Net)	(26,927)
(Increase)/Decrease in Deferred Outflows of Resources	3,129
Increase/(Decrease) in Accounts Payable	65,992
Increase/(Decrease) in Deposits	4,750
Increase/(Decrease) in Compensated Absences	(3,259)
Increase/(Decrease) in Net Pension Liability	6,792
Increase/(Decrease) in Net OPEB Liability	(977)
Increase/(Decrease) in Deferred Inflows of Resources	1,418
Total Adjustments	164,872
Net Cash Provided by Operating Activities	$ 51,101

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Cumby, Texas, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

The City of Cumby, TX (the City) was incorporated May 13, 1911 and operates under a Mayor-Council form of government, which provides the following services as authorized by its charter: public safety - police, streets, water utility service, sanitation, culture-recreation, public improvements, planning and zoning, and general administrative services.

Government – Wide & 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 nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities,* which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities,* which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds and proprietary funds.

Measurement Focus, Basis of Accounting & Financial Statement Presentation

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

Governmental fund 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 year or soon enough thereafter to pay liabilities of the current year. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Measurement Focus, Basis of Accounting & Financial Statement Presentation *(continued)*

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal year are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. Only the portion of special assessments receivable due within the current fiscal year is considered to be susceptible to accrual as revenue of the current year. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The government reports the following proprietary funds:

The *enterprise fund* is used to account for those operations that are financed and operated in a manner similar to private business or where the council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The government's enterprise fund is for water and sewer operations.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes 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.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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 enterprise fund, and of the government's internal service fund are charges to customers for sales and services. The enterprise 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 enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Deposits & Investments

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

Short-Term Inter-Fund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Restricted Assets

Certain resources set aside for the repayment of bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. When the government incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Property, plant, and equipment of the primary government, as well as the component unit, is depreciated using the straight-line method over the following estimated useful lives:

Asset	Useful Life
Buildings & Improvements	10 - 39
Infrastructure	5 - 40
Furniture & Equipment	5 - 10

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

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, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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 financing 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fund Equity

Fund Balance Classification: The governmental fund financial statements present fund balance classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City did not have any committed resources as of September 30, 2019.

- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by an official to which the City Council delegates this authority.

- Unassigned: This classification includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When expenditures are incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of unassigned funds, then assigned funds, and finally committed funds, as needed.

As of September 30, 2019, fund balances are composed of the following:

	General Fund
Restricted for:	
Court Use	$ 3,202
Seizure Funds	41,114
Unassigned	(113,117)
Total Fund Balance	$ (68,801)

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Pensions *(continued)*

For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted for the general fund and water and sewer fund. All annual appropriations lapse at fiscal yearend.

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

1. Prior to September 1, the City Staff meet with the City Council in a series of workshops to work on the budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to September 30, the budget is legally enacted through passage of an ordinance.
4. Under Civil Statures, the City is prohibited from budgeting total proposed expenditures in excess of total anticipated revenues and any unencumbered funds from prior years; therefore, expenditures may not legally exceed revenues and unencumbered fund balances from prior years.
5. Formal budgetary integration is employed as a management control devise during the year for the General Fund and Proprietary Fund.

Formal encumbrance accounting is not used by the City.

DEPOSITS & 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.

At September 30, 2019, the government's carrying amount of deposits was $66,382 and the bank balance of the government's deposits was $80,107. The federal depository insurance covers up to $250,000, therefore, the City's cash deposits were fully covered at September 30, 2019.

In compliance with the Public Funds Investment Act, the government has adopted a deposit and investment policy. That policy addresses the following risks:

Credit Risk is the risk that a security issuer may default on an interest or principal payment.

DEPOSITS & INVESTMENTS *(continued)*

Custodial Credit Risk is the risk that, in the event of the failure of a depository financial institution or counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover its deposits, value of its investments, or collateral securities that are in the possession of an outside party. The PFIA, the government's investment policy, and Government Code Chapter 2257 "Collateral for Public Funds" contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments. The government's funds are deposited and invested under terms of a depository contract with amounts greater than the FDIC insurance coverage protected by approved pledged securities held on behalf of the government. Public funds investment pools created to function as money market mutual funds must mark their portfolios to market daily, and, to the extent reasonably possible, stabilize at a $1 net asset value. The government's policy manages custodial credit risk by requiring securities purchased by a brokerdealer for the government to be held in a Safekeeping account in the government's name. The policy also requires that security transactions be conducted on a delivery-versus-payment basis. The government is not exposed to custodial credit risk for its deposits, as all are covered by depository insurance and pledged securities.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the government's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. It is the government's policy to not allow for a concentration of credit risk. Investments issued by the U. S. Government and investments in investment pools are excluded from the 5 percent disclosure requirement. The government is not exposed to concentration of credit risk.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the government 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. The weighted average maturity for the government's investment in external investment pools is less than 60 days.

Foreign Currency Risk is the potential for loss due to fluctuations in exchange rates. The government's policy does not allow for any direct foreign investments, and therefore the government is not exposed to foreign currency risk.

RECEIVABLES

Receivables at September 30, 2019 consist of the following:

	Receivables	Allowance	Net
Governmental Funds:			
Citations	$ 1,444,423	$ (1,080,072)	$ 364,351
Delinquent Taxes	9,077	(908)	8,169
Sales Taxes	8,708	-	8,708
Franchise Taxes	5,188	-	5,188
	1,467,396	(1,080,980)	386,416
Proprietary Funds:			
Utility Bills	$ 54,385	$ (2,746)	$ 51,639

RECEIVABLES *(continued)*

Taxes are levied on October 1 and are payable until February 1 without penalty. Property taxes attach as an enforceable lien on property as of February 1. No discounts are allowed for early payment. Penalty is calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 up to the date collected by the government at the rate of 1% per month. Under state law, property taxes on real property constitute a lien on the property and cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes applicable to personal property may be deemed uncollectible by the government.

INTER-FUND TRANSFERS

The composition of inter-fund balances as of September 30, 2019, is as follows:

Transfers Out:	Transfers In:	
General	Water & Sewer	$ 11,510
	Total	$ 11,510

CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2019 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	$ 32,000	$ -	$ -	$ 32,000
Total Capital Assets Not Being Depreciated	32,000	-	-	32,000
Capital Assets Being Depreciated:				
Buildings & Improvements	139,001	-	-	139,001
Infrastructure	270,536	-	-	270,536
Furniture & Equipment	569,430	-	-	569,430
Total Capital Assets Being Depreciated	978,967	-	-	978,967
Less Accumulated Depreciation for:				
Buildings & Improvements	(90,728)	(2,715)	-	(93,443)
Infrastructure	(241,771)	(5,735)		(247,506)
Furniture & Equipment	(519,777)	(24,087)	-	(543,864)
Total Accumulated Depreciation	(852,276)	(32,537)	-	(884,813)
Total Capital Assets Being Depreciated, Net	126,691	(32,537)	-	94,154
Governmental Activities Capital Assets, Net	$ 158,691	$ (32,537)	$ -	$ 126,154

CAPITAL ASSETS *(continued)*

	Beginning Balance	Additions	Retirements	Ending Balance
Business-Type Activities:				
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 & Improvements	164,820	-	-	164,820
Infrastructure	2,719,288	14,988	-	2,734,276
Furniture & Equipment	215,209	-	-	215,209
Total Capital Assets Being Depreciated	3,099,317	14,988	-	3,114,305
Less Accumulated Depreciation for:				
Buildings & Improvements	(57,148)	(4,943)	-	(62,091)
Infrastructure	(1,278,029)	(90,159)		(1,368,188)
Furniture & Equipment	(131,000)	(18,852)	-	(149,852)
Total Accumulated Depreciation	(1,466,177)	(113,954)	-	(1,580,131)
Total Capital Assets Being Depreciated, Net	1,633,140	(98,966)	-	1,534,174
Business-Type Activities Capital Assets, Net	$1,644,510	$ (98,966)	$ -	$1,545,544

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

Governmental Activities:	
General Government	$ 1,653
Public Safety	23,312
Public Works	6,820
Parks & Recreation	752
Total Depreciation Expense - Governmental Activities	$ 32,537
Business-Type Activities:	
Water & Sewer	$ 113,954
Total Depreciation Expense - Business-Type Activies	$ 113,954

COMPENSATED ABSENCES

Compensated Absences activity for the year ended September 30, 2019 was as follows:

	Beginning Balance	Accrued	Used	Ending Balance
General Fund	$ 6,032	2,643	(5,485)	$ 3,190
Water and Sewer Fund	$ 3,779	520	(3,779)	$ 520

Compensated Absences are included in accrued expenses on the financial statements.

LONG-TERM DEBT

On October 1, 2012, the City issued $695,000 in Combination Tax and Revenue bonds, for sewer infrastructure improvements which were completed during 2013. The bonds require semi-annual interest payments in January and July at an average interest rate of 3.98% and matures on October 1, 2034. The outstanding balance at September 30, 2019 was $535,000.

LONG-TERM DEBT *(continued)*

In January 2014, the City secured a note in the amount of $45,436 to purchase a sewer jet spray. Interest is payable quarterly at a rate of 5.25%. The note matures in January of 2019. As of September 30, 2019, the note was paid in full.

In May 2016, the City entered into a capital lease with Ally Financial for a 2016 Silverado in the amount of $27,736. The lease is to be paid in monthly payments of $517 with an interest rate of 4.39%. The lease will be paid in full in May 2021.

For the year ended September 30, 2019 there were no outstanding Long-Term liabilities reported in the Governmental Activities.

During the year ended September 30, 2019, the following changes occurred in Long-Term liabilities reported in the Water & Sewer Fund:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Notes Payable:					
Capital Lease	$ 15,604	$ -	$ (5,324)	$ 10,280	$ 5,865
Note Payable	5,092	-	(5,092)	-	-
Certificates of Obligation					
Bond Payable	559,452	-	(24,452)	535,000	25,000
Total	$ 580,148	$ -	$ (34,868)	$ 545,280	$ 30,865

Debt service requirements, until maturities, are as follows:

Fiscal Year End	Water & Sewer Fund Principal	Interest	Total
9/30/2020	$ 30,865	$ 21,186	$ 52,051
9/30/2021	34,415	20,097	54,512
9/30/2022	30,000	19,053	49,053
9/30/2023	30,000	18,035	48,035
9/30/2024	30,000	16,971	46,971
2025-2029	180,000	65,070	245,070
2030-2034	210,000	24,160	234,160
	$ 545,280	$ 184,572	$ 729,852

Interest expense on long-term debts outstanding for the year ended September 30, 2019 was $24,614.

LEASES

On November 22, 2016, the City entered into a 60-month lease agreement with Pitney Bowes for a postage meter. Payments are due quarterly at a rate of $84.

Future minimum lease payments for the fiscal years ending September 30 are as follows:

2020	$ 336
2021	140
	$ 476

RISK MANAGEMENT

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City 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 insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reimburse 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.

RETIREMENT SYSTEM – PENSION PLAN

Plan Description - The City of Cumby participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension 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 (the 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's 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 includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by the System. This report may be obtained at www.tmrs.com.

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

Benefits Provided - TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, 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.

RETIREMENT SYSTEM – PENSION PLAN *(continued)*

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

	Plan Year	
	2019	2018
Employee deposit rate	5%	5%
Matching ratio (city to employee)	2 to 1	2 to 1
Year Required for vesting	5	5
Service retirement eligibility		
(expressed as age/years of service)	60/5,0/20	60/5,0/20
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

Employees Covered by Benefit Terms – At the December 31, 2018 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	17
Active Employees	10
	30

Contributions - Under the state law governing TMRS, the contribution rate for each government is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that government. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credit and Annuity Increases.

The government contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the government make contributions monthly. Since the government needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

Employees of the City were required to contribute 5.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 2.18% and 1.96% in calendar year 2019 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2019 were $8,069 and were equal to required contributions.

Net Pension Liability - The City's Net Pension Liability (NPL) was measured as of December 31, 2018, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

RETIREMENT SYSTEM – PENSION PLAN *(continued)*

Net Pension Liability *(continued)*

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/17	$ 290,767	$ 267,153	$ 23,614
Changes for the year:			
Service cost	28,316	-	28,316
Interest	20,122	-	20,122
Change in benefit terms	-	-	-
Diff between expected/actual experience	(3,136)	-	(3,136)
Changes of assumptions	-	-	-
Contributions - employer	-	8,405	(8,405)
Contributions - employee	-	21,615	(21,615)
Net investment income	-	(7,975)	7,975
Benefit payments, including refunds of employee contributions	(13,636)	(13,636)	-
Administrative expenses	-	(155)	155
Other charges	-	(8)	8
Net changes	31,666	8,246	23,420
Balance at 12/31/18	$ 322,433	$ 275,399	$ 47,034

Sensitivity of the Net Pension 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 have been 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.

	1% Decrease (5.75%)	Discount Rate (6.75%)	1% Increase (7.75%)
City's net pension liability	$ 88,271	$ 47,034	$ 13,014

Pension Expense and Deferred Outflows and Inflows of Resources - For the year ended September 30, 2019, the City recognized pension expense in the amount of $8,160. At September 30, 2019, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	$ 642	$ 10,486
Changes in actuarial assumptions	1,654	-
Differences between projected and actual investment earnings (net of current year amortization)	14,139	-
Contributions subsequent to the measurement date	6,024	-
Total	$ 22,459	$ 10,486

RETIREMENT SYSTEM – PENSION PLAN *(continued)*

Pension Expense and Deferred Outflows and Inflows of Resources *(continued)*

$6,024 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 year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31,		
2020	$	(1,249)
2021		304
2022		1,694
2023		5,200
	$	5,949

RETIREMENT SYSTEM – OTHER POST EMPLOYMENT BENEFITS

Plan Description - The City participates in a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). SDBF is an unfunded multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Texas Municipal Retirement System (TMRS).

OPEB Plan Fiduciary Net Position - Detailed information about the TMRS SDBF's fiduciary net position is available in a separately issued Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information. This report may be obtained at www.tmrs.com.

Benefits Provided – SDBF is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including retirees. 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). The death benefit for retirees is considered another postemployment benefit and is a fixed amount of $7,500.

Contributions – City contribution rates for the SDBF are established 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.

Employees for the City of Cumby were not required to contribute to the SDBF. The contribution rates for the City were 0.14% and 0.12% in calendar year 2019 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2019 were $512 and were equal to required contributions.

Employees Covered by Benefit Terms – At the December 31, 2018 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	-
Active Employees	10
	13

RETIREMENT SYSTEM – OTHER POST EMPLOYMENT BENEFITS *(continued)*

Actuarial Assumptions - The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Discount Rate*	3.31%
Retirees' share of benefit related costs	$0
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality Rates - service retirees	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.
Mortality Rates - disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for moth males and felames. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rates as of December 31, 2018.

Note: The actuarial assumption used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period December 31, 2010 - December 31, 2014.

Total OPEB Liability - The City's Total OPEB Liability was determined by an actuarial valuation as of December 31, 2018.

	Increase/Decrease Total OPEB Liability
Balance at 12/31/17	$ 16,623
Changes for the year:	
Service cost	1,297
Interest	571
Change in benefit terms	-
Diff between expected/actual experience	(4,019)
Changes of assumptions	(1,176)
Contributions - employer	-
Contributions - employee	-
Net investment income	-
Benefit payments, including refunds of employee contributions	(43)
Administrative expenses	-
Other charges	-
Net changes	(3,370)
Balance at 12/31/18	$ 13,253

RETIREMENT SYSTEM – OTHER POST EMPLOYMENT BENEFITS *(continued)*

Discount Rate Sensitivity Analysis - The following presents the total OPEB liability of the City, calculated using the discount rate of 3.71%, as well as what the City's total OPEB liability would have been if it were calculated using a discount rate that is 1-percentage-point lower (2.71%) or 1-percentage-point higher (4.71%) than the current rate.

	1% Decrease (2.71%)	Discount Rate (3.71%)	1% Increase (4.71%)
City's total OPEB liability	$ 16,377	$ 13,253	$ 10,858

OPEB Expense and Deferred Outflows and Inflows of Resources - For the year ended September 30, 2019, the City recognized OPEB expense in the amount of $1,352. At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	$ -	$ 3,424
Changes in actuarial assumptions	1,206	1,002
Differences between projected and actual investment earnings (net of current year amortization)	-	-
Contributions subsequent to the measurement date	387	-
Total	$ 1,593	$ 4,426

$387 reported as deferred outflows of resources related to OPEBs resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year ended December 31,	
2020	$ (516)
2021	(516)
2022	(516)
2023	(516)
2024	(575)
Thereafter	(581)
	$ (3,220)

TAX ABATEMENTS

In compliance with GASB Statement #77, the City did not have any outstanding tax abatements for the year ended September 30, 2019.

PRIOR PERIOD ADJUSTMENT

During fiscal year 2018, the City did not reflect the appropriate amount of sales tax receivable within the general fund. This resulted in a decrease in fund balance and net position of $9,140. Additionally, during fiscal year 2018, the City did not appropriately recognize deferred property taxes and deferred citations as revenue on the government-wide financial statements. This resulted in an increase in net position of $45,614. The details for the prior period adjustments are as follows:

		Governmental Activities
Net Position - as Originally Reported	$	132,541
Increase in Sales Tax Receivable		(9,140)
Recognize PY Deferred Revenue for Property Taxes		8,170
Recognize PY Deferred Revenue for Citations		37,444
Net Position - as Restated	$	169,015

		General Fund
Fund Balance - as Originally Reported	$	3,695
Increase in Sales Tax Receivable		(9,140)
Fund Balance - as Restated	$	(5,445)

PENDING OR THREATENED LITIGATION, CLAIMS AND ASSESSMENTS

We were unable to obtain a discussion or evaluation with one of the City's outside legal counsel regarding pending or threatened litigation, claims and assessments.

EVALUATION OF SUBSEQUENT EVENTS

The City has evaluated subsequent events through June 1, 2020, the date which the financial statements were available to be issued and cited the below subsequent event has occurred since the fiscal year ended September 30, 2019.

The City has passed the maximum of 85% water system capacity limit required by law. As a result, it cannot add new meters unless it takes remedial action related to the non-compliance.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CUMBY, TEXAS
Schedule of Changes in Net Pension Liability and Related Ratios
For the Year Ended September 30, 2019

	2018	2017
Total Pension Liability		
Service cost	$ 28,316	$ 25,696
Interest (on the total pension liability)	20,122	17,966
Changes of benefit terms	-	-
Difference between expected and actual experience	(3,136)	1,509
Change of assumptions	-	-
Benefit payments, including refunds of employee contributions	(13,636)	(15,430)
Net Change in Total Pension Liability	31,666	29,741
Total Pension Liability - Beginning	290,767	261,026
Total Pension Liability - Ending (a)	$ 322,433	$ 290,767
Plan Fiduciary Net Position		
Contributions - employer	$ 8,405	$ 8,258
Contributions - employee	21,615	20,044
Net investment income	(7,975)	30,871
Benefit payments, including refunds of employee contributions	(13,636)	(15,430)
Administrative expense	(155)	(160)
Other	(8)	(8)
Net Change in Plan Fiduciary Net Position	8,246	43,575
Plan Fiduciary Net Position - Beginning	267,153	223,578
Plan Fiduciary Net Position - Ending (b)	$ 275,399	$ 267,153
Net Pension Liability - Ending (a) - (b)	$ 47,034	$ 23,614
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	85.41%	91.88%
Covered Employee Payroll	$ 432,303	$ 400,879
Net Pension Liability as a Percentage of Covered Employee Payroll	10.88%	5.89%

Plan Year Ended December 31,		
2016	2015	2014
$ 26,743	$ 26,601	$ 23,554
16,715	17,719	16,133
-	-	-
(5,657)	(30,388)	255
-	8,070	-
(22,056)	(33,095)	(4,534)
15,745	(11,093)	35,408
245,281	256,374	220,966
$ 261,026	$ 245,281	$ 256,374
$ 9,831	$ 9,766	$ 8,217
20,828	20,431	19,564
13,606	302	9,808
(22,056)	(33,095)	(4,534)
(154)	(184)	(102)
(8)	(9)	(8)
22,047	(2,789)	32,945
201,531	204,320	171,375
$ 223,578	$ 201,531	$ 204,320
$ 37,448	$ 43,750	$ 52,054
85.65%	82.16%	79.70%
$ 416,554	$ 408,623	$ 391,274
8.99%	10.71%	13.30%

CITY OF CUMBY, TEXAS
Schedule of Pension Contributions
For the Year Ended September 30, 2019

	2019	2018
Actuarially determined contribution	$ 8,069	$ 8,258
Contributions in relation to actuarially determined contribution	(8,069)	(8,258)
Contribution deficiency (excess)	$ -	$ -
Covered employee payroll	$ 380,646	$ 400,879
Contributions as a percentage of covered employee payroll	2.12%	2.06%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date: 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	25 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 based on 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: There were no benefit changes during the year.

Fiscal Year Ended September 30,		
2017	2016	2015
$ 8,691	$ 8,418	$ 9,234
(8,691)	(8,418)	(9,234)
$ -	$ -	$ -
$ 421,916	$ 408,623	$ 391,274
2.06%	2.06%	2.36%

CITY OF CUMBY, TEXAS
Schedule of Changes in Total OPEB Liability and Related Ratios
For the Year Ended September 30, 2019

	Plan Year Ended December 31,	
Total OPEB Liability	2018	2017
Service Cost	$ 1,297	$ 1,042
Interest (on the Total OPEB Liability)	571	525
Changes of Benefit Terms	-	-
Difference Between Exected & Actual Experience	(4,019)	-
Change of Assumptions	(1,176)	1,712
Benefit Payments, Including Refunds of Employee Contributions	(43)	(40)
Net Change in Total OPEB Liability	(3,370)	3,239
Total OPEB Liability - Beginning	16,623	13,384
Total OPEB Liability - Ending	$ 13,253	$ 16,623
Covered Employee Payroll	$ 432,303	$ 400,879
Total OPEB Liability as a Percentage of Covered Payroll	3.07%	4.15%

Notes to Schedule of Changes in Total OPEB Liability and Related Ratios

Valuation Date	Actuarially determined contribution rates are calculated as of Decemebr 31, an become effective in January, 13 months later.

Actuarial Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry Age Normal
Amortization Method	Legel Percentage of Payroll, Closed
Remaining Amortization Period	17 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
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:	There were no benefit changes during the year.

OTHER SUPPLEMENTARY INFORMATION

CITY OF CUMBY, TEXAS

Schedule of Revenues, Expenses, and Changes in Fund Net Position
Budget and Actual - Enterprise Fund
For the Fiscal Year Ended September 30, 2019

	Original & Final Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Water Sales	$ 183,100	$ 190,187	$ 7,087
Sewer Charges	102,600	106,684	4,084
Sanitation Charges	59,400	61,748	2,348
Late Fees	5,900	6,131	231
Service Charges	4,200	4,347	147
Miscellaneous	4,800	20,009	15,209
Total Operating Revenues	360,000	389,106	29,106
OPERATING EXPENSES			
Personnel Services	182,835	175,007	7,828
Contract Services	52,000	60,551	(8,551)
Supplies & Materials	27,000	20,417	6,583
Repair & Maintenance	42,000	101,452	(59,452)
Utilities	18,000	16,369	1,631
Miscellaneous	10,000	15,127	(5,127)
Depreciation	-	113,954	(113,954)
Total Operating Expenses	331,835	502,877	(171,042)
Operating Income/(Loss)	28,165	(113,771)	(141,936)
NONOPERATING REVENUES/(EXPENSES)			
Transfers In	-	11,510	11,510
Interest Expense	(27,700)	(24,614)	3,086
Total Nonoperating Revenues/(Expenses)	(27,700)	(13,104)	14,596
Change in Net Position	465	(126,875)	(127,340)
Net Position, Beginning	1,010,707	1,010,707	-
Net Position, Ending	$ 1,011,172	$ 883,832	$ (127,340)

K. Evans
& Associates, CPA's

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities and the business-type activities of the City of Cumby, Texas (the City), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 1, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying summary of findings, recommendations, and management response, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying summary of Internal Control Findings, Recommendations, and Management Response as items 1, 2, 5, 11, 12, 13, and 15, to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany Summary of Findings, Recommendations, and Management Response 3, 4, 6, 7, 8, 9 and 10 to be significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed item 16 as an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Summary of Findings, Recommendations, and Management Response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose and which are described in the accompanying Summary of Findings, Recommendations, and Management Response.

City of Cumby Response to Findings

City of Cumby response to the findings identified in our audit is described in the accompanying Summary of Findings, Recommendations, and Management Response. City of Cumby response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

K. Evans & Associates

Frisco, TX
June 1, 2020

Summary of Internal Control Findings, Recommendations and Management Response

1. Fund Accounting

We noted account numbers were not assigned to the accounts and W&S and general funds were comingled and not recognized as separate funds. To ensure proper reporting of funds, designate separate QuickBooks files for water and sewer and general fund and assign accounts numbers for chart of accounts.

Duplicate and similar accounts were created (i.e. legal fees, legal fee). Review the chart of accounts and consolidate duplicated accounts.

Management Response

The City will work with QuickBooks advisor on staff with K. Evans & Associates to designate separate QuickBooks files for water and sewer and general fund and assign account numbers for the chart of accounts. While doing so the City will also review and consolidate the chart of accounts to assure there are no duplicate accounts.

2. Cash & Bank Accounts

All transactions were coded to the general operating account. To ensure appropriate accounting, transactions should be coded to the account specified for the related purpose (i.e. water & sewer, municipal court).

The operating account bank reconciliation includes stale dated checks extending back to 2014, as well as uncleared paychecks. Follow up with stale dated checks and uncleared transactions, void and reissue (if necessary) so that stale transactions do not skew the cash balance on the books.

Management Response

By separating the QuickBooks files this will also ensure that transactions are coded to the specified account for the related purposes. The City will follow up with stale dated checks and uncleared transactions, void and reissue (if necessary).

3. Cash Disbursement

Vendors were entered with two names in the billing system, which resulted in outstanding payables being split between "separate" vendors (i.e. ECS House Industries, House Industries). To prevent duplicating vendors within the system, create a system that will prevent creating two names, such as entering vendors by the full name on the invoice. Further review the list of vendors presently within QuickBooks and consolidate duplicated vendors.

Multiple voided and duplicate entries were noted throughout the general ledger, specifically to the Contingency/Bank Rec account which had approximately $30,000 of debt entries such as: "double entry", "error in entry", and "deposit posted twice". Correction of errors, need to be reversed to the original account, thus eliminating the error, not coded to a new account.

Management Response

The City is now entering full name and address along with the phone number for each vendor directly from the invoice. The City will review the vendor list in QuickBooks and consolidate any duplications. The City will also mqke corrections of errors to eliminate the errors and ensure it is reversed to the original account and not coded to a new account.

4. RevTrak Deposits - Revenue

Activity totaling approximately $80,000 was coded to "RevTrak Clearing Account" and accounted for deposits that had not been allocated to W/S and Court funds. Deposits from RevTrak need to be accurately recognized as revenues as utilities within water & sewer, or citations within the general fund. No balances should remain in a clearing account.

Management Response

The City is now accounting for all deposits as they are entered. The City is no longer using the "RevTrak Clearing Account" in QuickBooks. The City will also go back through and allocate the deposits to the appropriate accounts to clear up the sum in the "RevTrak clearing account"

5. Citation Receivable

The prior auditor did not grant us access to the previous revenue and receivable workpapers. Furthermore, the City was unable to provide adequate accounting records to establish sufficient audit evidence regarding the gross citation receivable balance of $748,873 recorded in the prior year audit report at September 30, 2018. The City needs to maintain accounting records to support balances on the audit report.

Management Response

The City is already working to keep better accounting records to support the balances. The reports are being kept organized by month.

6. Inventory

Annual physical inventory is not performed by the City. The City needs to perform annual inventory count and incorporate the balance in the financial statement.

Management Response

The City will begin performing annual inventory counts. The City has already started implementing logs of all tools that have been purchased.

7. Payroll

During observation of randomly selected personnel files, we observed incomplete files which include: missing I-9 and W-4, and lack of documentation regarding pay adjustments. The City should establish a policy to include I-9s and W-4s within all personnel files. We also recommend that initial pay rates, and subsequent pay increases be documented, signed as acknowledged by employee and employer, and maintained within the personnel file.

We noted that all payroll is lumped together and not being separated by fund, as well as being incorrectly reported (gross payroll versus employer taxes). To ensure proper reporting of funds, payroll needs to be designated by fund and accounted for accordingly. Management should review the payroll allocation in QBs and verify that the employer and employee payroll taxes are appropriately coded.

During review of payroll we noted duplicate pay period entries with separate pay dates, for example: Paid 11.07.18, Period 11.02.18 -11.08.18; Paid 11.19.18, Period 11.02.18 – 11.08.18. The City needs to establish a diligent review process to ensure that payroll checks are dated accurately prior to issuance of payroll.

Management Response

The City has already started keeping proper new hire documentation in personnel files and has also started putting pay rate letters on file. Management will separate payroll by fund and review the payroll allocation in QBs and verify that the employer and employee taxes are being coded appropriately. The City is already developing a better review process than previously. Payroll is reviewed by City Secretary twice before creating the checks and then reviewed by the Mayor when signed.

8. Compensated Absences

Observed override of accrued vacation hours. As a result, the payroll system did not provide an accurate vacation accrual report. For a specific employee, the accrued vacation time fluctuated from 120 hours to 80 hours and then to 160 hours for three consecutive pay periods, without any "used" vacation hours. Weekly payrolls need to be reviewed by management and the City's vacation policy need to be followed.

Management Response

The City has already started having weekly payroll reviewed by the mayor and the vacation policy is being followed.

9. Credit Card

Observed that credit card use was not properly accounted for. Business use of credit cards need to be verified and credit card holders need to submit invoices to accounting department for each purpose. Credit card transactions are not being recognized as expense when individual purchases are made, but rather when the payment is made. Each credit card transaction should be recorded as an expense in accordance with its purpose (i.e. supplies, equipment, etc.), and offset to a liability account (credit card). When a payment is made, it should reduce the liability. The liability on the books should always reflect the balance on the credit card.

Management Response

Upon working with the QuickBooks advisor management will begin proper accounting of the credit card use.

10. Supporting Documents

The City received an insurance claim of $15,000 during the fiscal year. However, we were not able to obtain documentation related to this. The City need to keep accounting records to support transactions on the general ledger.

Management Response

The City is already working to keep better records to support transactions on the general ledger as well as all transactions.

11. Accounting Manual

The City does not have a formal accounting manual documenting the procedures for fiscal operations. A written accounting manual is necessary to ensure that transactions are treated in a standardized manner and that proper internal controls exist in the accounting system. Should employees have a question as to the proper handling of a transaction in accordance with management's authorization, such information is not available in writing. City personnel were unaware of the need to have a formal accounting manual. We recommend that operating guidelines for fiscal activities be prepared including a description of each fiscal procedure, such as payments of invoices, maintenance of accounts receivable and accounts payable subsidiary records, and payroll procedures. In addition, an expense allocation methodology should also be incorporated into the accounting manual.

Management Response

The City will develop a formal accounting manual to document the procedures as well as the expense allocation methodology.

12. Segregation of Duties

During review of walkthrough procedures, we noted the following inconsistencies with predetermined policies. The city policy requires dual signing of checks, one from an administrative employee and the other from an elected official, preferably the mayor. However, we observed that both signors on a check were administrative employees. Moreover, a credit card user also authorizes payments, reviews transactions, reconcile the cards, records transactions in the accounting system, and pays the card online. We also noted that the Utility clerk receives payments, acknowledges payments within the system, and makes the deposits to the bank.

Dual check signing should be performed per the City's policy and asset custodianship, approval and record keeping should be segregated to prevent misappropriation of assets.

Management Response

The City has already started following the policy of the dual signature requirement of the administrative employee and mayor or council member when the mayor is not available. The City will work on implementing segregation of duties as much as possible with its small staff. The credit card use is authorized by the Mayor before any purchase can be made with it.

13. Physical Safeguarding of Assets

During review of the City processes, it was determined that prenumbered checks, as well as the utility payment drop box key, are held in an unlocked drawer. We recommend keeping checks and the drop box key in a secure location.

Management Response

The City has implemented keeping the keys to the drop box in a locked drawer. The prenumbered checks are now being held in a locked and secure location.

14. Organizational Structure

The size of the City's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Board of Directors remain involved in the financial affairs of the Organization to provide oversight and independent review functions.

Management Response

The Board of Directors will remain involved in the financial affairs of the organization. Management is working to segregate duties as much as possible with its small staff.

15. Skill, Knowledge and Experience of Accounting Personnel

Accounting personnel and management lack appropriate skill, knowledge, and experience to oversee GAAP accounting procedures including performing the financial statement preparation. We recommend the city to employ individuals with appropriate skill, knowledge, and experience.

Management Response

Management will find some training courses that apply to GAAP accounting procedures in order to be better equipped.

16. Non-Compliance with the Law

The City has reached 89% water system capacity but is required by law to have a maximum of 85%. As a result, the City cannot add new meters. Management should regularly review the City's compliance with laws and take immediate remedial actions when non-compliance has occurred.

Management Response

The City is working on getting an ACR waiver as well as looking for grants available that would assist in expanding the system. However, at this time the City is not installing any new meters.