

CITY OF CISCO, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2019

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CITY OF CISCO, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2019

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Independent Auditor's Report

UNMODIFIED OPINION ON BASIC FINANCIAL STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER INFORMATION

City Commission
City of Cisco
P. O. Box 110
Cisco, Texas 76437

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the City of Cisco (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 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Cisco 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 account principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule for the General Fund, Schedule of Changes in Net Pension Liability and Related Ratios and Schedule of Contributions as listed in the table of contents 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. I have applied certain limited procedure 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards and other supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards and other supplementary information are fairly stated, in all material respects, in relation to the basic financial statements as a whole. The combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards and the other supplementary information have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated October 13, 2020, on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Cameron L. Gulley
Certified Public Accountant

October 13, 2020

City of Cisco

WHERE A PROUD PAST GREETES A PROMISING FUTURE

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of City of Cisco, Texas, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2019. Please read it in conjunction with the independent auditor's report on page 1 and the City's Basic Financial Statements which begin on page 11.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 11 - 12). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 13) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the City were sold to external customers and how the sales revenues covered the expenses of the goods or services.

The notes to the financial statements (starting on page 20) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 4. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who share the costs of some programs, such as revenue sharing programs from other governments received and fees charged for utility services (program revenues), and revenues provided by the taxpayers or by the State of Texas (general revenues). All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider nonfinancial factors as well, such as changes in the City's property tax base and the condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities, we divide the City into two activities:

Governmental activities - Most of the City's basic services are reported here, including public safety, maintenance of city streets and alleys, community services, and general administration. Property taxes, franchise and other fees, and state and federal grants finance most of these services.

Business-type activities - The City charges a fee to "customers" to help it cover all or most of the cost of services it provides in the utility waterworks, sewer, and solid waste funds.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 13 and provide detailed information about the most significant funds - not the City as a whole. Laws and contracts require the City to establish some funds, such as a debt service fund used to provide sources of revenues to service the City's general obligation bonds. The City's administration establishes many other funds to help it control and manage money for particular purposes. The City's two kinds of funds - governmental and proprietary - use different accounting approaches.

Governmental funds - Most of the City's basic services are reported in governmental funds. These use the modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

Proprietary funds - the City reports the activities for which it charges users (whether outside customers or other units of the City) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Total net position of the City's governmental activities increased from \$2,656,848 to \$2,872,435. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - decreased from \$284,519 to \$222,214. Current and other assets (consisting primarily of cash, receivables and the net pension asset) decreased by \$10,896. Capital assets increased (net of depreciation) by \$245,552 due to current year asset additions. Long-term liabilities increased by \$126,938 due to increases in net pension liability and notes payable offset by retirement of outstanding capital lease obligations. Other liabilities increased by \$70,101 due to accounts payable.

Net position of the business-type activities increased by \$26,068 to an ending balance of \$10,719,673. Current and other assets decreased by \$2,576,478 due to reductions in cash used for capital expenses and liquidation of outstanding debt. Capital assets increased by \$2,270,434 (net of depreciation) due to ongoing construction projects. Long-term liabilities decreased \$278,081 due to long-term debt retired during the year. Other liabilities increased by \$2,666 due to changes in ending accrued liabilities.

Changes in deferred resource inflows and outflows for both the governmental and business-type activities were related to timing differences for the accrual of the net pension liability of the City.

Table I
City of Cisco, Texas
Net Position

	Governmental Activities 2019	Governmental Activities 2018	Variance Increase/ (Decrease)
Current and other assets	\$ 556,965	\$ 567,861	\$ (10,896)
Capital assets	3,009,610	2,764,058	245,552
Deferred outflows of resources	227,841	96,539	131,302
Total assets and deferred outflows	3,794,416	3,428,458	365,958
Long-term liabilities	545,960	419,022	126,938
Other liabilities	346,534	276,433	70,101
Deferred inflows of resources	29,487	76,155	(46,668)
Total liabilities and deferred inflows	921,981	771,610	150,371
Net position:			
Invested in capital assets net of related debt	2,650,221	2,372,329	277,892
Unrestricted	222,214	284,519	(62,305)
Total net position	\$ 2,872,435	\$ 2,656,848	\$ 215,587
	Business-type Activities 2019	Business-type Activities 2018	Variance Increase/ (Decrease)
Current and other assets	\$ 8,686,004	\$ 11,262,482	\$ (2,576,478)
Capital assets	18,722,880	16,452,446	2,270,434
Deferred outflows of resources	71,736	29,906	41,830
Total assets and deferred outflows	27,480,620	27,744,834	(264,214)
Long-term liabilities	12,331,915	12,609,996	(278,081)
Other liabilities	4,419,637	4,416,971	2,666
Deferred inflows of resources	9,395	24,262	(14,867)
Total liabilities and deferred inflows	16,760,947	17,051,229	(290,282)
Net position:			
Invested in capital assets net of related debt	6,624,116	4,015,326	2,608,790
Restricted for debt service	139,354	139,594	(240)
Unrestricted	3,956,203	6,538,685	(2,582,482)
Total net position	\$ 10,719,673	\$ 10,693,605	\$ 26,068

Table II
City of Cisco, Texas
Changes in Net Position

	Governmental Activities 2019	Governmental Activities 2018	Variance Favorable/ (Unfavorable)
Revenues:			
Program Revenues:			
Charges for services	\$ 1,070,830	\$ 1,134,364	\$ (63,534)
Operating grants and contributions	353,978	752,383	(398,405)
General Revenues:			
Maintenance and operations taxes	1,121,427	1,125,422	(3,995)
Sales and hotel/motel taxes	518,680	579,312	(60,632)
Franchise fees	151,376	148,171	3,205
Lake lot rentals and leases	61,894	89,820	(27,926)
Investment earnings	6,726	6,809	(83)
Transfer from water and sewer fund	460,000	0	460,000
Miscellaneous	114,068	32,110	81,958
Total Revenues	3,858,979	3,868,391	(9,412)
Expenses:			
Administrative	703,860	718,742	14,882
Police and municipal court	1,094,143	982,659	(111,484)
Animal control	66,270	60,991	(5,279)
Fire	482,702	472,872	(9,830)
Streets	603,385	531,905	(71,480)
Parks and recreation	80,275	52,845	(27,430)
Sanitation	596,989	600,715	3,726
Airport	2,559	4,531	1,972
Interest	13,209	11,040	(2,169)
Total Expenses	3,643,392	3,436,300	(207,092)
Increase in Net Position	215,587	432,091	(216,504)
Net Position - beginning of year	2,656,848	2,224,757	432,091
Net Position - end of year	\$ 2,872,435	\$ 2,656,848	\$ 215,587

Table II - Continued
City of Cisco, Texas
Changes in Net Position

	Business-type Activities 2019	Business-type Activities 2018	Variance Favorable/ (Unfavorable)
Revenues:			
Program Revenues:			
Charges for services	\$ 1,488,815	\$ 1,566,766	\$ (77,951)
Grant revenues	1,042,568	7,023,300	(5,980,732)
Investment income	13,963	4,238	9,725
Total Revenues	2,545,346	8,594,304	(6,048,958)
Expenses:			
Water	348,021	278,972	(69,049)
Wastewater	282,398	201,381	(81,017)
Water plant	772,475	779,024	6,549
Utility billing	113,489	124,820	11,331
Depreciation	312,015	306,115	(5,900)
Interest	230,880	787,941	557,061
Transfer to general fund	460,000	0	(460,000)
Total Expenses	2,519,278	2,478,253	(41,025)
Increase in Net Position	26,068	6,116,051	(6,089,983)
Net Position - beginning of year	10,693,605	4,577,554	6,116,051
Net Position - end of year	\$ 10,719,673	\$ 10,693,605	\$ 26,068

The City's total revenues of its governmental activities decreased by \$9,412 from the previous year. The most significant decrease was in operating grants and contributions by \$398,000 from grant funds received last year to fund street improvements. Sales tax revenues were lower by \$61,000. Those decreases were funded by a transfer into the general fund from the water and sewer fund which totaled \$460,000 for the year.

Total expenses of the City's governmental activities increased by \$207,092 from the previous year. Police and municipal court expenses were higher due to higher payroll and municipal court costs for the year. Street department expenses increased \$71,000 due to increased depreciation and payroll costs.

Revenues for the business-type activities were significantly less than last year due to grants and contributions received last year related to the disaster flood recovery from the Texas Water Development Board. Total revenues decreased by \$6.1 million of which most was grant-related.

Expenses were \$41,000 more than last year. The most significant expense reduction was in interest expense due to refinancing of the City's debt last year which lowered total interest and fees by \$557,000. That savings was offset by a transfer out to cover general fund deficits totaling \$460,000.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 15) reported a combined fund balance of \$122,879, an increase of \$810 in the City's governmental funds from last year's fund balance of \$122,069.

The City Commission did not make any significant budget amendments during the year.

The City's General Fund balance of \$122,879 reported on pages 15 and 37 differs from the projected budgetary fund balance of \$41,286 due to total revenues being \$369,000 less than budgeted, expenditures being \$484,000 less than budgeted and nonoperating activity from other financing sources being \$33,000 less than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2019, the City had \$49,434,253 invested in a broad range of capital assets including infrastructure, water treatment and wastewater disposal facilities and equipment and maintenance of City streets and alleys. This year's major additions included:

Water system improvement project (in progress)	\$ 2,551,448
Street improvements	210,170
Pickups (2)	62,003
Police and fire department equipment	86,133
Compact track loader	57,296
Police and city hall roof improvements	126,360
Total	\$ 3,093,410

Debt

The City had seven outstanding long-term liabilities in the forms of general obligation and revenue bonds issued in 1986, 2001, 2008, 2014 and 2018 that were originally issued to finance infrastructure improvements in the water and sewer fund. The City also had four outstanding long-term liabilities in the form of public property finance contract notes issued in 2016, 2017 and 2018 that were originally issued to finance water meter and equipment.

The City had two outstanding long-term liabilities in the form of capital lease obligations which were issued to finance equipment purchases in the general fund.

The following table summarizes the outstanding debt of the City:

Debt outstanding by type	2019	2018
Bonds and notes payable	\$ 12,195,221	\$ 12,609,362
Capital leases	262,932	341,229
Total debt outstanding	\$ 12,458,153	\$ 12,950,591

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

As discussed in the notes to the financial statements, the City water plant was completely destroyed by a catastrophic flood in June, 2016 which has significantly affected the cost structure of the City until a new water plant (currently under construction) can be completed..

The City was awarded Texas Water Development Board disaster assistance as a result of the flood. Construction is ongoing and should be completed in the 2019-20 fiscal year. Cumulative construction costs total \$8.97 million (which represents over half the total cost of the project).

Grant and loan financing was received through TWDB in June, 2018 totaling nearly \$17 million which was used to pay down existing debt and to finance the remaining construction costs on the project.

The City should maintain its financial health during the 2019-20 fiscal year. Revenues and expenditures for next fiscal year for the general fund are \$4.2 million and water and sewer fund revenues and expenses are \$1.84 million. The City has projected a break-even year for 2019-20. Therefore, the fund balance of the City is projected to remain at or near \$123,000 and net position should remain at or near \$10.7 million.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City's business office at: City of Cisco, Texas, P. O. Box 110, Cisco, Texas 76437.

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BASIC FINANCIAL STATEMENTS

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CITY OF CISCO, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2019

	Governmental Activities	Business-type Activities	Totals (Memo Only)		Total
			Primary Government	Component Unit	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 315,780	\$ 1,669,186	\$ 1,984,966	\$ 961,887	\$ 2,946,853
Property taxes receivable (net of estimated uncollectible)	73,748	-	73,748	-	73,748
Accounts receivable	79,680	178,432	258,112	73,041	331,153
Due from other governments	87,757	-	87,757	32,802	120,559
Inventory	-	12,762	12,762	-	12,762
Total current assets	<u>556,965</u>	<u>1,860,380</u>	<u>2,417,345</u>	<u>1,067,730</u>	<u>3,485,075</u>
Noncurrent assets:					
Capital assets					
Land and land improvements	482,698	58,022	540,720	314,849	855,569
Infrastructure	20,713,522	24,045,103	44,758,625	-	44,758,625
Buildings and improvements	636,677	-	636,677	1,615,136	2,251,813
Furniture and equipment	2,734,351	763,880	3,498,231	-	3,498,231
Less: accumulated depreciation	(21,557,638)	(6,144,125)	(27,701,763)	(248,501)	(27,950,264)
Total capital assets	<u>3,009,610</u>	<u>18,722,880</u>	<u>21,732,490</u>	<u>1,681,484</u>	<u>23,413,974</u>
Notes receivable	-	-	-	492,200	492,200
Restricted cash	-	6,825,624	6,825,624	-	6,825,624
Total noncurrent assets	<u>3,009,610</u>	<u>25,548,504</u>	<u>28,558,114</u>	<u>2,173,684</u>	<u>30,731,798</u>
TOTAL ASSETS	<u><u>3,566,575</u></u>	<u><u>27,408,884</u></u>	<u><u>30,975,459</u></u>	<u><u>3,241,414</u></u>	<u><u>34,216,873</u></u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows related to TMRS	227,841	71,736	299,577	-	299,577
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>227,841</u>	<u>71,736</u>	<u>299,577</u>	<u>-</u>	<u>299,577</u>
LIABILITIES					
Current liabilities:					
Accounts payable	316,652	75,187	391,839	-	391,839
Accrued liabilities	26,993	7,125	34,118	-	34,118
Accrued interest payable	2,889	35,025	37,914	-	37,914
Unearned revenue	-	4,302,300	4,302,300	54,000	4,356,300
Current portion of long-term debt	46,363	523,116	569,479	-	569,479
Total current liabilities	<u>392,897</u>	<u>4,942,753</u>	<u>5,335,650</u>	<u>54,000</u>	<u>5,389,650</u>
Noncurrent liabilities:					
Customer deposits	-	173,794	173,794	-	173,794
Accrued compensated absences	33,727	10,664	44,391	-	44,391
Net pension liability	152,844	48,693	201,537	-	201,537
Capital leases payable	262,932	-	262,932	-	262,932
Long-term debt	96,457	12,098,764	12,195,221	-	12,195,221
Less: current portion of long-term debt	(46,363)	(523,116)	(569,479)	-	(569,479)
Total noncurrent liabilities	<u>499,597</u>	<u>11,808,799</u>	<u>12,308,396</u>	<u>-</u>	<u>12,308,396</u>
TOTAL LIABILITIES	<u>892,494</u>	<u>16,751,552</u>	<u>17,644,046</u>	<u>54,000</u>	<u>17,698,046</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows related to TMRS	29,487	9,395	38,882	-	38,882
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>29,487</u>	<u>9,395</u>	<u>38,882</u>	<u>-</u>	<u>38,882</u>
NET POSITION					
Net investment in capital assets	2,650,221	6,624,116	9,274,337	1,681,484	10,955,821
Restricted for debt service	-	139,354	139,354	-	139,354
Unrestricted	222,214	3,956,203	4,178,417	1,505,930	5,684,347
TOTAL NET POSITION	<u><u>\$ 2,872,435</u></u>	<u><u>\$ 10,719,673</u></u>	<u><u>\$ 13,592,108</u></u>	<u><u>\$ 3,187,414</u></u>	<u><u>\$ 16,779,522</u></u>

The accompanying notes are an integral part of this statement.

CITY OF CISCO, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Function/Programs:	Program Revenues			Net (Expense) Revenue and Changes in Net Position					
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Totals		Component Unit	Totals
						(Memo Only)	Primary Govt.		
Governmental activities:									
Administrative	\$ 703,860	\$ 19,668	\$ 114,358	\$ (569,834)	\$ -	\$ (569,834)	\$ -	\$ (569,834)	
Police and municipal court	1,094,143	443,494	178,120	(472,529)	-	(472,529)	-	(472,529)	
Animal control	66,270	-	-	(66,270)	-	(66,270)	-	(66,270)	
Fire	482,702	-	23,000	(459,702)	-	(459,702)	-	(459,702)	
Streets	603,385	-	-	(603,385)	-	(603,385)	-	(603,385)	
Parks and recreation	80,275	-	-	(80,275)	-	(80,275)	-	(80,275)	
Sanitation	596,989	607,668	-	10,679	-	10,679	-	10,679	
Airport	2,559	-	38,500	35,941	-	35,941	-	35,941	
Economic development	-	-	-	-	-	-	(248,307)	(248,307)	
Interest expense	13,209	-	-	(13,209)	-	(13,209)	-	(13,209)	
Total governmental activities	3,643,392	1,070,830	353,978	(2,218,584)	-	(2,218,584)	(248,307)	(2,466,891)	
Business-type activities:									
Water	348,021	993,278	329,000	-	974,257	974,257	-	974,257	
Wastewater	282,398	436,981	713,568	-	868,151	868,151	-	868,151	
Water plant	772,475	-	-	-	(772,475)	(772,475)	-	(772,475)	
Utility billing	113,489	58,556	-	-	(54,933)	(54,933)	-	(54,933)	
Depreciation expense	312,015	-	-	-	(312,015)	(312,015)	-	(312,015)	
Interest expense	230,880	-	-	-	(230,880)	(230,880)	-	(230,880)	
Total business-type activities	2,059,278	1,488,815	1,042,568	-	472,105	472,105	-	472,105	
Total	\$ 5,702,670	\$ 2,559,645	\$ 1,396,546	(2,218,584)	472,105	(1,746,479)	(248,307)	(1,994,786)	
General revenues:									
Property tax				1,121,427	-	1,121,427	-	1,121,427	
Sales and hotel/motel tax				518,680	-	518,680	486,288	1,004,968	
Franchise fees				151,376	-	151,376	-	151,376	
Rentals and leases				61,894	-	61,894	59,456	121,350	
Investment and royalty income				6,726	13,963	20,689	7,816	28,505	
Miscellaneous income				114,068	-	114,068	3,638	117,706	
Interfund transfers				460,000	(460,000)	-	-	-	
Total general revenues				2,434,171	(446,037)	1,988,134	557,198	2,545,332	
Changes in net position				215,587	26,068	241,655	308,891	550,546	
Beginning net position				2,656,848	10,693,605	13,350,453	2,878,523	16,228,976	
Ending net position				\$ 2,872,435	\$ 10,719,673	\$ 13,592,108	\$ 3,187,414	\$ 16,779,522	

The accompanying notes are an integral part of this statement.

CITY OF CISCO, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2019

	General Fund	Airport Fund	Totals (Memo Only)		Total Governmental Funds
			Primary Government	Component Unit	
ASSETS					
Cash and cash equivalents	\$ 315,656	\$ 124	\$ 315,780	\$ 961,887	\$ 1,277,667
Property taxes receivable (net of est. uncollect)	73,748	-	73,748	-	73,748
Accounts receivable (net of est. uncollectibles)	62,987	-	62,987	73,041	136,028
Due from other governments	87,757	-	87,757	32,802	120,559
Notes receivable	-	-	-	492,200	492,200
TOTAL ASSETS	\$ 540,148	\$ 124	\$ 540,272	\$ 1,559,930	\$ 2,100,202
LIABILITIES, DEFERRED INFLOW OF RESOURCES & FUND EQUITIES					
LIABILITIES					
Accounts payable	\$ 316,528	\$ 124	\$ 316,652	\$ -	\$ 316,652
Accrued liabilities	26,993	-	26,993	-	26,993
Unearned revenue	-	-	-	54,000	54,000
TOTAL LIABILITIES	343,521	124	343,645	54,000	397,645
DEFERRED INFLOW OF RESOURCES					
Unavailable revenue - property taxes	73,748	-	73,748	-	73,748
TOTAL DEFERRED INFLOW OF RESOURCES	73,748	-	73,748	-	73,748
FUND EQUITIES					
Fund balances:					
Restricted for long-term notes	-	-	-	492,200	492,200
Unassigned	122,879	(0)	122,879	1,013,730	1,136,609
TOTAL FUND EQUITIES	122,879	(0)	122,879	1,505,930	1,628,809
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES & FUND EQUITIES	\$ 540,148	\$ 124	\$ 540,272	\$ 1,559,930	\$ 2,100,202

The accompanying notes are an integral part of this statement.

CITY OF CISCO, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2019

	Governmental Funds (Primary Government)	Component Unit
Total Fund Balances - Governmental Funds	\$ 122,879	\$ 1,505,930
1 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 \$26,001,518 and the accumulated depreciation was \$21,582,294. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.	2,372,329	1,655,166
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the capital outlays and debt principal payments is to increase (decrease) net position.	601,096	357,159
3 Depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(265,408)	(32,917)
4 Included in the noncurrent assets/(liabilities) is the recognition of the City's net pension asset/(liability) required by GASB 68 in the amount of \$(152,844), a deferred resource inflow in the amount of \$(29,487) and a deferred resource outflow in the amount of \$227,841. This resulted in an increase/(decrease) in net position.	45,510	
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	(3,971)	(297,924)
Net Position of Governmental Activities	\$ 2,872,435	\$ 3,187,414

The accompanying notes are an integral part of this statement.

CITY OF CISCO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	General Fund	Airport Fund	Totals (Memo Only)		Total Governmental Funds
			Primary Government	Component Unit	
REVENUES					
Ad valorem taxes (including penalties and interest)	\$ 1,122,910	\$ -	\$ 1,122,910	\$ -	\$ 1,122,910
Sales and hotel/motel tax	518,680	-	518,680	486,288	1,004,968
Franchise taxes	151,376	-	151,376	-	151,376
Sanitation fees	607,382	-	607,382	-	607,382
Municipal court fines and fees	443,494	-	443,494	-	443,494
Licenses and permits	19,954	-	19,954	-	19,954
Rent/leases	59,254	2,640	61,894	-	61,894
Oil and gas royalties	2,115	-	2,115	-	2,115
Interest	4,611	-	4,611	7,816	12,427
Grants and contributions	230,489	-	230,489	-	230,489
Miscellaneous	143,475	38,500	181,975	59,456	241,431
TOTAL REVENUES	3,303,740	41,140	3,344,880	553,560	3,898,440
EXPENDITURES					
Administrative	750,708	-	750,708	-	750,708
Police and municipal court	1,156,441	-	1,156,441	-	1,156,441
Animal control	53,064	-	53,064	-	53,064
Fire	460,303	-	460,303	-	460,303
Streets	781,265	-	781,265	-	781,265
Parks and recreation	76,038	-	76,038	-	76,038
Sanitation	596,989	-	596,989	-	596,989
Airport	-	42,640	42,640	-	42,640
Economic development	-	-	-	572,549	572,549
TOTAL EXPENDITURES	3,874,808	42,640	3,917,448	572,549	4,489,997
EXCESS REVENUE OVER (UNDER) EXPENDITURES	(571,068)	(1,500)	(572,568)	(18,989)	(591,557)
OTHER FINANCING SOURCES (USES)					
Transfers in (out)	458,598	1,402	460,000	-	460,000
Gain on sale of assets	55,582	-	55,582	301,562	357,144
Proceeds from capital lease	57,796	-	57,796	-	57,796
TOTAL OTHER FINANCING SOURCES (USES)	571,976	1,402	573,378	301,562	874,940
EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	908	(98)	810	282,573	283,383
FUND BALANCE - BEGINNING	121,971	98	122,069	1,223,357	1,345,426
FUND BALANCE - ENDING	\$ 122,879	\$ -	\$ 122,879	\$ 1,505,930	\$ 1,628,809

The accompanying notes are an integral part of this statement.

CITY OF CISCO, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Governmental Funds (Primary Government)	Component Unit
Total Net Change in Fund Balances - Governmental Funds	\$ 810	\$ 282,573
1 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the capital outlays and debt principal payments is to increase (decrease) net position.	601,096	357,159
2 Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(265,408)	(32,917)
3 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 \$53,005. 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 \$(42,178). The City's reported TMRS net pension expense had to be recorded. The net pension expense increased/(decreased) the change in net position by \$(63,136). The result of these changes is to increase/(decrease) the change in net position.	(52,309)	
4 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	(68,602)	(297,924)
Change in Net Position of Governmental Activities	\$ 215,587	\$ 308,891

The accompanying notes are an integral part of this statement.

CITY OF CISCO, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2019

	Water and Sewer Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,669,186
Accounts receivable (net of allowance for uncoll)	178,432
Inventory	12,762
Total current assets	1,860,380
Noncurrent assets:	
Capital assets:	
Land	58,022
Infrastructure	24,045,103
Property, plant and equipment	763,880
Less: accumulated depreciation	(6,144,125)
Total capital assets	18,722,880
Restricted cash	6,825,624
Total noncurrent assets	25,548,504
TOTAL ASSETS	27,408,884
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to TMRS	71,736
TOTAL DEFERRED OUTFLOWS OF RESOURCES	71,736
 LIABILITIES	
Current liabilities:	
Accounts payable	75,187
Accrued liabilities	7,125
Accrued interest payable	35,025
Unearned revenue	4,302,300
Current portion of long-term debt	523,116
Total current liabilities	4,942,753
Noncurrent liabilities:	
Customer deposits	173,794
Compensated absences	10,664
Net pension liability	48,693
Long-term debt	12,098,764
Less: current portion of long-term debt	(523,116)
Total noncurrent liabilities	11,808,799
TOTAL LIABILITIES	16,751,552
 DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to TMRS	9,395
TOTAL DEFERRED INFLOWS OF RESOURCES	9,395
 NET POSITION	
Net invested in capital assets	6,624,116
Restricted for debt service	139,354
Unrestricted	3,956,203
TOTAL NET POSITION	\$ 10,719,673

The accompanying notes are an integral part of this statement.

CITY OF CISCO, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Water and Sewer Fund
OPERATING REVENUES	
Water sales	\$ 912,788
Sewer sales	436,981
Late fees	54,157
Utility billing surcharge	58,556
Miscellaneous revenue	26,333
Total operating revenues	1,488,815
OPERATING EXPENSES	
Water department expenses	348,021
Wastewater department expenses	282,398
Water plant department expenses	772,475
Utility billing department expenses	113,489
Depreciation expense	312,015
Total operating expenses	1,828,398
Operating income (loss)	(339,583)
NONOPERATING REVENUES (EXPENSES)	
Interest expense	(230,880)
Interest income	13,963
Transfers from (to) other funds	(460,000)
Grant and contribution revenue	1,042,568
Total nonoperating revenues (expenses)	365,651
Change in net position	26,068
Total net position - beginning of year	10,693,605
Total net position - end of year	\$ 10,719,673

The accompanying notes are an integral part of this statement.

CITY OF CISCO, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 1,499,403
Cash payments to suppliers for goods and services	(1,011,466)
Cash payments to employees for services (and related benefit payments)	(480,731)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>7,206</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Cash received from (paid to) restricted assets	2,625,708
Cash received from state and federal grants and contributions	1,042,568
Cash received from (paid to) other funds	(460,000)
Cash received from flood expense insurance recovery	1,108,253
Cash payments for retirement of long-term debt	(342,348)
Cash payments for interest and related fees	(230,148)
Cash payments for property, plant and equipment	(3,690,702)
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>53,331</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment income	13,963
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>13,963</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	74,500
Cash and cash equivalents - beginning of year	1,594,686
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,669,186</u>
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (339,583)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	312,015
Change in net pension assets, liabilities and deferred resources	16,665
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	601
Increase (decrease) in accounts payable	4,538
Increase (decrease) in accrued liabilities	2,983
Increase (decrease) in meter deposits	9,987
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 7,206</u>

The accompanying notes are an integral part of this statement.

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CITY OF CISCO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE YEAR ENDED SEPTEMBER 30, 2019

I. Summary of significant accounting policies

The City of Cisco, Texas (the "City") is a charter city in which citizen elect the mayor at large and six council members. The financial statements of the City are prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). The City's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements. Proprietary funds apply only those Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

A. Reporting entity

For financial reporting purposes, the City includes all funds and account groups for which the City is considered to be financially accountable. The criteria used by the City for including activities in preparing its financial statements are in conformity with GASB Statement 14, "The Financial Reporting Entity."

The accompanying financial statements present the City's primary government and component unit over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships).

The Cisco Development Corporation (the "CDC") and the Cisco 4A Development Corporation (the "CDC4A") are non-profit corporations specifically governed by Sections 4A and 4B of the Development Corporation Act of 1979, Tex. Rev. Civ. Stat. Ann. Art 5190.6. The CDC and CDC4A were organized exclusively for the purposes of benefitting and accomplishing public purposes of the City by promoting, assisting and enhancing economic development activities for the City as provided by the Development Corporation Act of 1979. The CDC and CDC4A do not meet the criteria for blending and are, therefore, reported discretely using a government fund type.

B. Government-wide and fund financial statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the City and its component unit(s) nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, franchise fees, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support. The *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. Examples include fees charged for use of the public swimming pool, fines, sanitation charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. Examples include grants under the U.S. Department of Agriculture Rural Development Program. If a revenue is not a program revenue, it is a general revenue used to support all of the City's functions. Taxes are always general revenues.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Position as internal balances and on the Statement of Activities as interfund transfers. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for City

operations, they are not included in the government-wide statements. The City considers some governmental and enterprise funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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 use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the City to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

D. Fund accounting

The City reports the following major governmental funds:

1. **The General Fund** – The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

2. **Water and Sewer Enterprise Funds** - The City's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund.

The City reports the following non-major governmental funds:

3. **The Airport Special Revenue Fund** – The City's activities for which it supports and maintains the local public airport is accounted for through a special revenue fund.

E. Pensions

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

F. Other accounting policies

1. For purposes of the statement of cash flows for proprietary and similar fund-types, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. The City reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, and water/sewer pipe fittings. Supplies are recorded as expenditures when they are consumed.
3. 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 recognized 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.

4. The City's policy does permit employees to accumulate unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.
5. Capital assets, which include land, buildings, furniture and equipment and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs 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.

Buildings, furniture and equipment of the City and the component units is depreciated using the straight line method over the following estimated useful lives:

<u>Asset:</u>	<u>Years</u>
Buildings	40
Water/Sewer Infrastructure	20 - 100
Building Improvements	40
Streets	20
Vehicles	5
Equipment	10
Technology Equipment	5

6. Governmental fund balances are classified into the following categories:

Non-spendable fund balances include amounts that are not in spendable form (i.e. inventory or prepaid items) or amounts that are required to be maintained intact legally or contractually (i.e. principal in an endowment fund)

Restricted fund balances include amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed fund balances include amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

Assigned fund balances are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

City policies concerning fund balances are as follows:

The City's Unassigned General Fund Balance will be maintained to provide the City with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Unassigned General Fund Balance may only be appropriated by resolution of the City Council.

Fund Balance of the City may be committed for a specific source by formal action of the City Council. Amendments or modifications of the committed fund balance must also be approved by formal action of the City Council.

When it is appropriate for fund balance to be assigned, only the City Council has the authority to assign fund balance by formal council action.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

At September 30, 2019, none of the City's fund balances were committed or assigned.

7. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first unless unrestricted assets will have to be returned because they were not used.

II. Stewardship, compliance, and accountability

A. Budgetary data

The City Secretary submits an annual budget to the City Council in accordance with the City Charter. In August, the City Council adopts annual fiscal year budgets for specified City funds. Budgets for the general fund are adopted on a basis consistent with U.S. generally accepted accounting principles. The budget is properly amended throughout the year.

B. Excess of expenditures over appropriations by more than \$2,500

Department	Amt Over Budget	Variance Description
None.		

C. Deficit fund equity

None.

III. Detailed notes on all funds

A. Deposits and investments

City Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits - State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the City complies with this law, it has no custodial credit risk for deposits.

Foreign Currency Risk - The City limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by not investing in any foreign currency.

City Policies and Legal and Contractual Provisions Governing Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

As of September 30, 2019, the City had the following investments.

Investment Type	Investment Maturities (in years)				
	Fair Value	Less than 1 Year	1-5	6-10	More Than 10
Certificate of Deposit	\$ 160,213	\$ 160,213			
Investment Pools	66,868	66,868			
Total	\$ 227,081	\$ 227,081			

Additional policies and contractual provisions governing deposits and investments for the City are specified below:

Credit Risk - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the City limits investments in certificates of deposit or publicly funded investment pools to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of September 30, 2019, the City's investments in certificates of deposit and investment pools were rated A1 by Standard and Poor's.

Custodial Credit Risk for Investments - To limit the risk that, in the even of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the City requires counterparties to register the securities in the name of the City and hand them over to the City or its designated agent. This included securities in securities lending transactions. All of the securities are in the City's name and held by the City or its agent.

Concentration of Credit Risk - To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the City limits investments to less than 5% of its total investments. The City further limits investments in a single issuer when they would cause investment risk to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%.

Interest Rate Risk - To limit the risk that changes in interest rates will adversely affect the fair value of investments, the City requires at least half of the investment portfolio to have maturities of less than one year on a weighted average maturity basis.

Foreign Currency Risk for Investments - The City limits the risk that changes in exchange rates will adversely affect the fair value of an investment by limiting all investments denominated in a foreign currency to zero.

B. Property taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

C. Delinquent taxes receivable

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. Interfund balances and transfers

Interfund balances at September 30, 2019 consisted of the following individual fund balances:

None.

Interfund transfers for the year ended September 30, 2019 consisted of the following individual amounts:

Fund	Transfer In	Transfer Out	Purpose
Airport Fund	\$ 1,402		Operating deficit transfer.
General Fund	460,000		Operating deficit transfer.
General Fund		1,402	Operating deficit transfer.
Water and Sewer Fund		460,000	Operating deficit transfer.
Total	\$ 461,402	\$ 461,402	

E. Disaggregation of receivables and payables

Receivables at September 30, 2019 were as follows:

	Property Taxes	Other Government	Accounts	Total Receivables
Governmental Activities:				
General Fund	\$ 73,748	\$ 87,757	\$ 62,987	\$ 224,492
Component Unit		32,802	73,041	105,843
Total Governmental Activities	<u>\$ 73,748</u>	<u>\$ 120,559</u>	<u>\$ 136,028</u>	<u>\$ 330,335</u>
Business-type Activities:				
Water and Sewer Fund			\$ 178,432	\$ 178,432
Total Business-type Activities			<u>\$ 178,432</u>	<u>\$ 178,432</u>

Payables at September 30, 2019 were as follows:

	Accounts	Salaries and Benefits	Accrued Interest	Total Payables
Governmental Activities:				
General Fund	\$ 316,652	\$ 26,993	\$ 2,889	\$ 346,534
Total Governmental Activities	<u>\$ 316,652</u>	<u>\$ 26,993</u>	<u>\$ 2,889</u>	<u>\$ 346,534</u>
Business-type Activities:				
Water and Sewer Fund	\$ 75,187	\$ 7,125	\$ 35,025	\$ 117,337
Total Business-type Activities	<u>\$ 75,187</u>	<u>\$ 7,125</u>	<u>\$ 35,025</u>	<u>\$ 117,337</u>

F. Capital asset activity

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

	Balance 9/30/18	Additions	Deletions	Balance 9/30/19
Governmental activities:				
Land	\$ 482,698			\$ 482,698
Infrastructure - streets and bridges	20,503,352	210,170		20,713,522
Buildings and improvements	510,317	126,360		636,677
Furniture and equipment	2,559,921	174,430		2,734,351
Totals	24,056,288	510,960		24,567,248
Less accum depreciation for:				
Infrastructure - streets and bridges	19,233,700	79,954		19,313,654
Buildings and improvements	265,814	19,640		285,454
Furniture and equipment	1,792,716	165,814		1,958,530
Total accum depreciation	21,292,230	265,408		21,557,638
Governmental activities capital assets, net	\$ 2,764,058	\$ 245,552		\$ 3,009,610
Business-type activities:				
Land	\$ 58,022			\$ 58,022
Infrastructure	15,079,949			15,079,949
Furniture and equipment	732,879	31,001		763,880
Construction-in-progress	6,413,706	2,551,448		8,965,154
Totals	22,284,556	2,582,449		24,867,005
Less accum depreciation for:				
Infrastructure	5,189,410	288,203		5,477,613
Furniture and equipment	642,700	23,812		666,512
Total accum depreciation	5,832,110	312,015		6,144,125
Business-type activities capital assets, net	\$ 16,452,446	\$ 2,270,434		\$ 18,722,880

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

Governmental activities:	
Administration	\$ 4,926
Police and municipal court	36,427
Animal control	10,927
Fire	52,750
Streets	155,279
Parks and recreation	5,099
Total depreciation expense - governmental activities	<u>\$ 265,408</u>
Business-type activities:	
Water and sewer	\$ 312,015
Total depreciation expense - business-type activities	<u>\$ 312,015</u>

G. Bonds and notes payable

In March, 2001, the City Council passed an ordinance authorizing the issuance of the City of Cisco, Texas Waterworks and Sewer System Revenue Bonds Series 2001 in the amount of \$1,433,000 for the purpose of improving and extending the City's water and sewer system. The bonds are to pay interest at the rate of 4.5% semiannually on each January 10th and July 10th each year until fully retired in 2040.

In February, 2008, the City Council passed an ordinance authorizing the issuance of the City of Cisco, Texas Combination Tax and Revenue Certificate of Obligation, Series 2008 in the amount of \$2,200,000 for the purpose of improving its water treatment facilities. The bonds are interest-free and principal is due annually beginning February 15, 2011 and continuing on each succeeding February 15th until fully retired in 2038.

In February, 2008 the City Council passed an ordinance authorizing the issuance of the City of Cisco, Texas Combination Tax and Revenue Certificate of Obligation, Series 2008-A in the amount of \$3,000,000 for the purpose of improving its water treatment facility. The bonds bear interest rates varying from 1.80% - 4.20% due in semiannual installments on each February 15th and August 15th beginning in 2009 and continuing each succeeding year until fully retired in 2038.

In May, 2014 the City Council passed an ordinance authorizing the issuance of the City of Cisco, Texas Combination Tax and Surplus Revenue Certificate of Obligation, Series 2014 in the amount of \$475,000 for the purpose of improving its water distribution system. The bonds bear interest rates varying from 0.00% - 2.24% due in semiannual installments on each February 15th and August 15th beginning in 2014 and continuing each succeeding year until fully retired in 2024.

In January, 2016, the City Council passed an ordinance authorizing the issuance of Public Property Finance Contract #7273 in the amount of \$1,443,750 for the purpose of acquiring and installing electronic water meters through-out the city. The contract was issued in February, 2016 and bears an interest rate of 3.99% due in semi-annual installments on each February 4th and August 4th beginning in 2016 and continuing each succeeding year until fully retired in 2031.

In February, 2017, the City Council passed an ordinance authorizing the issuance of Public Property Finance Contract #7719 in the amount of \$75,000 for the purpose of acquiring a sewer machine. The contract was issued in May, 2017 and bears an interest rate of 3.80% due in annual installments on each March 24th beginning in 2018 and continuing each succeeding year until fully retired in 2020.

In May, 2018 the City Council passed an ordinance authorizing the issuance of the City of Cisco, Texas Combination Tax and Surplus Revenue Certificate of Obligation, Series 2018A in the amount of \$4,565,000 for the purpose of improving its water distribution system. The bonds bear interest rates varying from 0.00% due in semiannual installments on each February 15th beginning in 2020 and continuing each succeeding year until fully retired in 20249.

In May, 2018 the City Council passed an ordinance authorizing the issuance of the City of Cisco, Texas Combination Tax and Surplus Revenue Certificate of Obligation, Series 2018B in the amount of \$1,550,000 for the purpose of improving its water distribution system. The bonds bear interest rates varying from 0.76% - 2.13% due in semiannual installments on each February 15th and August 15th beginning in 2019 and continuing each succeeding year until fully retired in 2049.

In July, 2018, the City Council passed an ordinance authorizing the issuance of Public Property Finance Contract #8304 in the amount of \$50,500 for the purpose of acquiring a fire truck. The contract was issued in July, 2018 and bears an interest rate of 4.30% due in annual installments on each July 30th beginning in 2019 and continuing each succeeding year until fully retired in 2022.

In October, 2018, the City Council passed an ordinance authorizing the issuance of Public Property Finance Contract #8419 in the amount of \$56,796 for the purpose of compact track loader. The contract was issued in October, 2018 and bears an interest rate of 4.93% due in annual installments on each October 31st beginning in 2019 and continuing each succeeding year until fully retired in October 2023.

A summary of changes in general long-term debt for the year ended September 30, 2019 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 9/30/18	Issued	Retired	Amounts Outstanding 9/30/19
Utility System Revenue Bonds, Series 1986	6.13%	\$ 390,000	\$ 152,000		\$ 18,000	\$ 134,000
Waterworks and Sewer System Revenue Bonds, Series 2001	4.5%	\$ 1,433,000	843,000		30,000	813,000
Combination Tax and Revenue Certificates of Obligation, Series 2008	0.0%	\$ 2,200,000	1,500,000		75,000	1,425,000
Combination Tax and Revenue Certificates of Obligation, Series 2008-A	1.80% to 4.20%	\$ 3,000,000	2,365,000		80,000	2,285,000
Combination Tax and Surplus Revenue Certificates of Obligation, Series 2014	0.00% to 2.24%	\$ 475,000	295,000		45,000	250,000
Combination Tax and Revenue Certificates of Obligation, Series 2018A	0.00%	\$ 4,565,000	4,565,000			4,565,000
Combination Tax and Revenue Certificates of Obligation, Series 2018B	0.76% to 2.13%	\$ 1,550,000	1,550,000			1,550,000
Public Property Finance Contract	3.99%	\$ 1,443,750	1,258,421		79,411	1,179,010
Public Property Finance Contract	3.80%	\$ 75,000	30,441		14,937	15,504
Public Property Finance Contract	4.30%	\$ 50,500	50,500		11,839	38,661
Public Property Finance Contract	4.93%	\$ 57,796	0	57,796		57,796
Bond Discount, Series 2018A			(95,301)		(3,125)	(92,176)
Bond Discount, Series 2018B			(26,441)		(867)	(25,574)
			<u>\$ 12,487,620</u>	<u>\$ 57,796</u>	<u>\$ 350,195</u>	<u>\$ 12,195,221</u>

H. Capital leases

The City entered into a capital lease agreement dated November 10, 2015, for the acquisition of a new vibratory soil compactor in the amount of \$132,800. The City agreed to make monthly installment payments beginning December 10, 2015 of \$1,378 including imputed interest at 2.5%. Since the risks and benefits of ownership were assumed by the City, the lease has been accounted for as a capital lease which is in substance a purchase.

The City entered into a capital lease agreement dated November 16, 2015, for the acquisition of a new vibratory soil compactor in the amount of \$226,300. The City agreed to make monthly installment payments beginning December 16, 2015 of \$1,314 including imputed interest at 2.5%. Since the risks and benefits of ownership were assumed by the City, the lease has been accounted for as a capital lease which is in substance a purchase.

A summary of changes in general long-term capital leases payable for the year ended September 30, 2019 is as follows:

Payee	Interest Rate Payable	Amounts Outstanding 09/30/18	Issued	Retired	Amounts Outstanding 09/30/19
AimBank	3.10%	\$ 7,870		\$ 7,870	\$ 0
Welch State Bank	3.32%	13,482		13,482	0
Caterpillar Financial	3.20%	29,472		29,472	0
Caterpillar Financial	2.50%	92,862		15,591	77,271
Caterpillar Financial	2.50%	197,543		11,882	185,661
		<u>\$ 341,229</u>		<u>\$ 78,297</u>	<u>\$ 262,932</u>

I. Debt service requirements - bonds, notes and capital leases

The annual debt service requirements to maturity for long-term bonds and notes payable as of September 30, 2019 are as follows:

Year Ending September 30,	Principal	Interest	Total
2020	\$ 545,938	\$ 218,082	\$ 764,020
2021	536,811	206,749	743,560
2022	550,370	195,336	745,706
2023	548,108	183,212	731,320
2024	555,452	171,097	726,549
2025-29	2,722,497	680,673	3,403,170
2030-34	2,512,795	393,858	2,906,653
2035-39	2,146,000	152,128	2,298,128
2040-44	1,080,000	55,484	1,135,484
2045-49	115,000	19,441	1,134,441
	<u>\$ 12,312,971</u>	<u>\$ 2,276,060</u>	<u>\$ 14,589,031</u>

The annual future minimum lease requirements long-term capital leases as of September 30, 2019 are as follows:

Year Ending September 30,	Total Lease Payments	Less: Incremental Value of Interest	Present Value of Minimum Lease Payments
2020	\$ 29,549	\$ (6,008)	\$ 23,541
2021	240,384	(993)	239,391
	<u>\$ 269,933</u>	<u>\$ (7,001)</u>	<u>\$ 262,932</u>

J. Accumulated unpaid vacation and sick leave benefits

Employees can accumulate a maximum of 80 hours vacation time. Such accruals are reflected in the respective columns of the statement of net position for both the governmental and business-type funds as a non-current liability. A maximum of 6 days sick leave per year may be accumulated by each employee; however, employees are not paid for the accumulated sick leave upon retirement or other separation of employment.

K. Retirement Plan - Texas Municipal Retirement System

Plan Description

The City participates as one of approximately 900 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 can be obtained at www.tmr.com.

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

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provision are adopted by the governing board 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.

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

	Plan Year 2018
Employee deposit rate	5.0%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated service credit	100% repeating
Annuity increase (to retirees)	50% of CPI repeating

Contributions

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

Employees of the City were required to contribute 5.0% of their annual gross earnings during the fiscal year. The contribution rates for the City were 6.04% and 6.56% in calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the year ended September 31, 2019 were \$93,048 and were equal to the required contributions.

Net Pension Liability

Actuarial assumptions. The Total Pension Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

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

Actuarial assumptions used in the December 31, 2018, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Health post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2018 valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

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

<i>Changes in the Net Pension Liability (Asset)</i>	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/17	\$ 3,500,546	\$ 3,602,650	\$ (102,104)
Changes for the year:			
Service cost	150,031		150,031
Interest	236,994		236,994
Change in benefit terms			
Difference between expected/actual experience	(50,024)		(50,024)
Changes in assumptions			
Contributions - employer		77,200	(77,200)
Contributions - employee		66,209	(66,209)
Net investment income		(107,854)	107,854
Benefit payments, including refunds of employee contributions	(129,066)	(129,066)	0
Administrative expenses		(2,086)	2,086
Other charges		(109)	109
Net changes	207,935	(95,706)	303,641
Balance at 12/31/18	\$ 3,708,481	\$ 3,506,944	\$ 201,537

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
Net pension liability / (asset)	\$ 678,431	\$ 201,537	\$ (193,218)

Pension plan fiduciary net position. Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

Changes Since the Prior Actuarial Valuation. There were no changes of actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

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

For the year ended September 30, 2019, the City recognized pension expense of \$160,451.

At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience (net of current year amortization)	\$ 42,781	\$ 38,882
Changes in actuarial assumptions		
Differences between projected and actual investment earnings (net of current year amortization)	186,904	
Contributions subsequent to the measurement date	69,892	
Total	\$ 299,577	\$ 38,882

\$69,892 reported as deferred outflows of resources related to pension 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 pension will be recognized in pension expense as follows:

Fiscal year ended September 30,	
2020	\$ 76,189
2021	\$ 31,699
2022	\$ 12,709
2023	\$ 70,206
2024	\$ 0
Thereafter	\$ 0

L. Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Waterworks General Obligation and System Revenue Bonds and Loans	\$ 12,487,620	\$ 57,796	\$ 350,195	\$ 12,195,221	\$ 545,938
Capital Leases	341,229		78,297	262,932	23,541
Compensated absences	36,362	44,391	36,362	44,391	0
Customer Deposits	163,807	20,650	10,663	173,794	0
Net Pension Liability	0	344,946	143,409	201,537	0
Total	\$ 13,029,018	\$ 467,783	\$ 618,926	\$ 12,877,875	\$ 569,479

M. Deferred inflow of resources

Deferred inflow of resources at the fund level at year-end consisted of the following:

	Unavailable Tax Revenue
General Fund	\$ 73,748

N. Unearned revenue

On June 27, 2018, the City entered into a loan-forgiveness grant program with the Texas Water Development Board for \$10,787,600 with the proceeds to be used to construct a new water treatment facility. A portion of the funds were used to retire existing debt with remaining used to finance the completion of the project. Loan-forgiveness grant funds totaling \$4,302,300 were set aside in restricted cash and considered unearned at September 30, 2019.

O. Risk financing

The City is exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; and errors or omissions. The City has purchased commercial insurance with the Texas Municipal League intergovernmental risk pool to insure against these losses. The annual premium assessed by the risk pool is subject to adjustment each year on the anniversary date of the policy based on updated exposure information and changes in rating. Coverages are as follows as of September 30, 2019: general liability coverage - \$500,000 per occurrence, \$1,000,000 annual aggregate; law enforcement liability coverage - \$500,00 per occurrence, \$1,000,000 annual aggregate; errors and omissions - \$1,000,000 per claim, \$2,000,000 annual aggregate; aviation liability coverage - \$1,000,000 per occurrence, \$2,000,000 annual aggregate; automobile liability - \$25,000 per occurrence, \$500,000 annual aggregate; auto physical damage - actual cash value; property and equipment hazards - \$3,211,100 blanket limit.

P. Notes receivable

The CDC entered into several long-term notes receivable contracts with various individuals and businesses for economic development activities. The purposes of all loans are for start-up capital infusions for new business ventures and for facilities acquisitions. Interest rates on the loans are all 0%. Of the outstanding loans receivable, 100% of the ending balances are considered current.

Following is the summarized activity of the notes receivable for the year:

Beginning Balance	Loans Advanced	Loans Retired	Ending Balance
\$ 246,002	\$ 300,000	\$ 53,802	\$ 492,200

Q. Subsequent events

Management has evaluated subsequent events through October 13, 2020; the date which the financial statements were available for distribution.

The COVID-19 pandemic sweeping across the country has resulted in mandatory closure of many businesses during the months of March, April and May, 2020 resulting in layoffs of much of the workforce. The economic effects of those closures could potentially affect collectibility of future revenue billings, tax assessments, sales tax revenues and franchise tax fees of the City due to the economic impact on unemployment of the City's customers and taxpayers.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

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CITY OF CISCO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES				
Ad valorem taxes (including penalties and interest)	\$ 1,195,739	\$ 1,200,739	\$ 1,122,910	\$ (77,829)
Sales and hotel/motel tax	610,000	620,000	518,680	(101,320)
Franchise taxes	150,000	150,000	151,376	1,376
Sanitation fees	644,513	685,967	607,382	(78,585)
Municipal court fines and fees	277,000	439,799	443,494	3,695
Licenses and permits	27,640	29,270	19,954	(9,316)
Rent/leases	59,650	61,125	59,254	(1,871)
Oil and gas royalties	3,000	2,400	2,115	(285)
Interest	500	825	4,611	3,786
Grants and contributions	29,050	226,977	230,489	3,512
Miscellaneous	149,825	255,971	143,475	(112,496)
TOTAL REVENUES	3,146,917	3,673,073	3,303,740	(369,333)
EXPENDITURES				
Administrative	757,203	1,001,152	750,708	250,444
Police and municipal court	878,406	1,255,455	1,156,441	99,014
Animal control	49,145	59,144	53,064	6,080
Fire	346,427	497,088	460,303	36,785
Streets	715,342	851,761	781,265	70,496
Parks and recreation	75,696	94,904	76,038	18,866
Sanitation	454,920	598,836	596,989	1,847
Airport	-	-	-	-
Economic development	-	-	-	-
TOTAL EXPENDITURES	3,277,139	4,358,340	3,874,808	483,532
EXCESS REVENUE OVER (UNDER) EXPENDITURES	(130,222)	(685,267)	(571,068)	114,199
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	51,037	549,000	458,598	(90,402)
Gain on sale of assets	(1,500)	55,582	55,582	-
Proceeds from capital lease	-	-	57,796	57,796
TOTAL OTHER FINANCING SOURCES (USES)	49,537	604,582	571,976	(32,606)
EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(80,685)	(80,685)	908	81,593
FUND BALANCE - BEGINNING	121,971	121,971	121,971	-
FUND BALANCE - ENDING	\$ 41,286	\$ 41,286	\$ 122,879	\$ 81,593

CITY OF CISCO, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Plan Year Ended December 31,				
	2018	2017	2016	2015	2014
Total Pension Liability					
Service cost	\$ 150,031	\$ 117,060	\$ 112,983	\$ 104,045	\$ 87,458
Interest (on the total pension liability)	236,994	215,422	183,166	180,168	176,191
Changes of benefit terms	-	299,201	-	-	-
Difference between expected and actual experience	(50,024)	89,791	(6,074)	(73,338)	(90,402)
Change of assumptions	-	-	-	44,629	-
Benefit payments, including refunds of employee contributions	(129,066)	(109,262)	(117,635)	(122,826)	(126,626)
Net Change in Total Pension Liability	<u>207,935</u>	<u>612,212</u>	<u>172,440</u>	<u>132,678</u>	<u>46,621</u>
Total Pension Liability - Beginning	3,500,546	2,888,334	2,715,894	2,583,216	2,536,595
Total Pension Liability - Ending (a)	<u>\$ 3,708,481</u>	<u>\$ 3,500,546</u>	<u>\$ 2,888,334</u>	<u>\$ 2,715,894</u>	<u>\$ 2,583,216</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 77,200	\$ 30,367	\$ 27,143	\$ 34,001	\$ 34,608
Contributions - employee	66,209	62,332	59,779	56,301	48,347
Net investment income	(107,854)	440,623	203,391	4,489	167,030
Benefit payments, including refunds of employee contributions	(129,066)	(109,262)	(117,635)	(122,826)	(126,626)
Administrative expense	(2,086)	(2,285)	(2,298)	(2,734)	(1,744)
Other	(109)	(116)	(124)	(135)	(143)
Net Change in Plan Fiduciary Net Position	<u>(95,706)</u>	<u>421,659</u>	<u>170,256</u>	<u>(30,904)</u>	<u>121,472</u>
Plan Fiduciary Net Position - Beginning	3,602,650	3,180,991	3,010,735	3,041,639	2,920,167
Plan Fiduciary Net Position - Ending (b)	<u>\$ 3,506,944</u>	<u>\$ 3,602,650</u>	<u>\$ 3,180,991</u>	<u>\$ 3,010,735</u>	<u>\$ 3,041,639</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 201,537</u>	<u>\$ (102,104)</u>	<u>\$ (292,657)</u>	<u>\$ (294,841)</u>	<u>\$ (458,423)</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	94.57%	102.92%	110.13%	110.86%	117.75%
Covered Payroll	\$ 1,324,190	\$ 1,246,649	\$ 1,195,583	\$ 1,126,030	\$ 966,942
Net Pension Liability as a Percentage of Covered Payroll	15.22%	-8.19%	-24.48%	-26.18%	-47.41%

CITY OF CISCO, TEXAS
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Fiscal Year Ended September 30,				
	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 93,048	\$ 64,040	\$ 29,690	\$ 28,599	\$ 32,892
Contributions in relation to actuarially determined contribution	<u>(93,048)</u>	<u>(64,040)</u>	<u>(29,690)</u>	<u>(28,599)</u>	<u>(32,892)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,448,805	\$ 1,266,043	\$ 1,241,917	\$ 1,162,168	\$ 1,046,867
Contributions as a percentage of covered payroll	6.42%	5.06%	2.39%	2.46%	3.14%

CITY OF CISCO, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Budget

The official budget was prepared for adoption for all Governmental Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data.:

- a. Prior to September 20 of the preceding fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Council is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Council.

Once a budget is approved, it can be amended at function and fund level only by approval of a majority of the members of the Council. Amendments are presented to the Council at its regular meetings.

Each amendment must have Council approval. Such amendments are made before the fact, are reflected in the official minutes of the Council and are not made after fiscal year end as required by law.

Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level.

Budgeted amounts are as amended by the Council. All budget appropriations lapse at year end.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at September 30, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

Defined Benefit Pension Plan

Changes of benefit terms.

There were no changes of benefit terms or other inputs that affected measurement of the total pension liability during the measurement period.

Changes of assumptions.

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION

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Independent Auditor's Report

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENTAL AUDITING STANDARDS

City Commission
City of Cisco, Texas
P.O. Box 110
Cisco, Texas 76437

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Cisco, 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 my report thereon dated October 13, 2020.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I identified deficiencies in internal control that I consider to be material weaknesses listed as item 2018-1 on the accompanying Schedule of Findings and Questioned Costs. However, other material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cisco, Texas' financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cameron L. Gulley
Certified Public Accountant

October 13, 2020

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CITY OF CISCO, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Finding	Statement of Condition	Material Weakness?	Questioned Costs
2018-1	<p data-bbox="310 443 1084 495">Internal Control Over Financial Reporting - Inaccurate General Ledger Account Balances</p> <p data-bbox="310 527 1130 804">A significant number of transactions related to the City's loan-forgiveness and loan activities were not recorded into the accounting records for the year. Particularly, a loan payoff to First Financial Bank for \$4.1 million was not posted from proceeds received from the Texas Water Development Board (TWDB) for new loans issued and loan-forgiveness grant funds received. New loans issued totaling \$6.1 million were also not recorded or any of the associated loan-forgiveness funds received by the City totaling \$10.8 million. Subsequent expense outlays from those funds for plant upgrades were also not recorded in the accounting records. Total capital expenditure outlays not recorded totaled approximately \$3.4 million. Audit adjusting entries were proposed to post and correct all those unrecorded transactions.</p> <p data-bbox="310 835 380 861"><u>Status:</u></p> <p data-bbox="310 892 1110 1056">The issue continued for the current year under audit where activities related to the TWDB loan proceeds were not properly reflected as cash transfers between bank accounts but, rather, were recorded as grant proceeds with an offsetting accounting entry recorded as a "clearing" accounts receivable for nearly \$2.5 million. See continuation finding 2018-1 on the accompanying Schedule of Findings and Questioned Costs.</p>	Yes	None
2018-2	<p data-bbox="310 1108 1101 1161">Internal Control Over Financial Reporting - Failure to Make Budget Amendments Timely</p> <p data-bbox="310 1192 1127 1245">During the year, the City's total expenditures of the General Fund exceeded the final amended budget significantly in the following departments:</p> <p data-bbox="310 1276 1105 1329">General administration by \$45,947, police and municipal court by \$30,685, fire by \$130,759 and sanitation by \$122,856.</p> <p data-bbox="310 1360 380 1386"><u>Status:</u></p> <p data-bbox="310 1417 1130 1444">General Fund budgetary amounts were within the current year final amended budget.</p>	No	None

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CITY OF CISCO, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

I. Summary of Auditor's Results

A. Financial Statements

Type of auditor's report issued: Unmodified.

Internal control over financial reporting:
 Material weakness(es) identified? Yes. 2018-1.
 Significant deficiency(ies) identified that are not considered to be material weaknesses? None.

Noncompliance material to financial statements noted? No.

B. Federal Awards

Type of auditor's report issued on compliance for major programs: Unmodified.

Internal control over major programs:
 Material weakness(es) identified? No.
 Significant deficiency(ies) identified that are not considered to be material weaknesses? None.

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200? No.

Major programs are as follows:

14.228 - Community Development Block Grant \$ 583,500.

Threshold used to distinguish between type A and type B programs: \$ 750,000.

Auditee qualified as low-risk auditee? Yes.

II. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

2018-1	Internal Control Over Financial Reporting - Inaccurate General Ledger Account Balances (continuation finding)	
	Criteria	Proper internal controls over financial reporting should ensure that all financial data is accurate for users and stakeholders of the City's finances.
	Statement of Condition	A significant number of transactions related to the City's loan-forgiveness and loan activities were not properly recorded in the general ledger accounting system. Transfers between restricted and non-restricted cash accounts were treated as revenues and the offsetting entry to a "clearing" accounts receivable account. Erroneous "clearing" receivable balances in the water and sewer fund totaled \$2.4 million and grant revenue was also over-stated by nearly \$2.5 million resulting in inaccurate financial statements for the year under audit. Proposed audit adjusting entries were prepared and posted which correctly stated the transactions removing the erroneously accrued revenue and receivable balances.
	Questioned Costs	None.

Cause and Effect	The failure to record the transactions from TWDB appeared to be caused from new bank and escrow accounts which were set up to handle the new TWDB grant and loan funds. Transfers between the escrow and construction accounts were posted but not with the correct accounting treatment. Rather than just recording the reduction in cash from the escrow accounts and increasing the cash into the construction accounts, the City recorded two separate transactions (1) recording the receipt into the construction accounts with the offset to grant revenue and (2) recording the disbursement from the escrow account with the offset to a "clearing" receivable account. Numerous "correcting" in and out entries were posted by the City in an attempt to correct but the result was that a trail that was inaccurate and difficult to follow.
Recommendations	I recommend that better training be obtained in order to handle the complexities of the various grant and loan projects currently ongoing within the City. The accounting treatments for the various projects are complex in nature and are, in many cases, beyond the level of expertise that the current staff has been trained.

III. Findings and Questioned Costs for Federal Awards

None.

CITY OF CISCO, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2019

2018-1	<p>We have received and posted audit adjustments proposed to correct the transactions related to the TWDB loan and loan-forgiveness program. Future transactions between escrow and construction accounts related to that loan/loan-forgiveness program will be posted and properly recorded in our general ledger system.</p> <p>Contact representative: Dalas Vaughn, finance director P.O. Box 110 Cisco, Texas 76437 (254) 442-2110</p> <p>Expected implementation date: Immediately</p>
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FEDERAL AWARDS SECTION

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Independent Auditor's Report

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE

City Commission
City of Cisco, Texas
P.O. Box 110
Cisco, Texas 76437

Report on Compliance for Each Major Federal Program

I have audited the City of Cisco, Texas' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2019. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the City's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as I consider necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In my opinion, the City of Cisco, Texas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2019.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Cameron L. Gulley
Certified Public Accountant

October 13, 2020

CITY OF CISCO, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through Texas Department of Agriculture:			
Community Development Block Grant	14.228	7217057	\$ 329,000
Community Development Block Grant	14.228	7217069	254,500
Total Passed through Texas Department of Agriculture			<u>583,500</u>
Total U.S. Department of Housing and Urban Development			<u>583,500</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY			
Direct Programs:			
Emergency Management Performance Grant Program	97.067	N/A	459,068
Total Direct Programs			<u>459,068</u>
Total Federal Emergency Management Agency			<u>459,068</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,042,568</u></u>

The accompanying notes are an integral part of this statement.

CITY OF CISCO, TEXAS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

1. For all federal programs, the City uses the fund types specified in accordance with the Governmental Accounting Standards Board. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in both governmental and proprietary fund types.

2. The accompanying schedule of expenditures of federal awards included the federal grant activity of the City and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.