



**FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2019**

**CITY OF COFFEE CITY, TEXAS
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FOR THE YEAR ENDED JUNE 30, 2019**

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DAVID K. GODWIN
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Coffee City, Texas as of and for the year ended June 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 opinions 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 from material misstatement.

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

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 unit, each major fund, and the aggregate remaining fund information of the City of Coffee City, Texas, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows and respective budgetary comparison for the General Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 4 through 12, and the budgetary comparison information, on page 22, 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 procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to 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.

Restatement of Net Position for Coffee City Economic Development Corporation

As part of my audit of the June 30, 2019 financial statements, I also audited the adjustments described in Note 2, on page 35 that were applied to restate the 2018 financial statements. In my opinion, such adjustments are appropriate and have been properly applied. I was not engaged to audit, review, or apply any procedures to the 2018 financial statements of the City other than with respect to the adjustment, and accordingly, I do not express an opinion or any other form of assurance on the 2018 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated November 9, 2020, on my consideration of the City of Coffee City, Texas' 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 of Coffee City, Texas' internal control over financial reporting and compliance.



David K. Godwin
Certified Public Accountant

Tyler, Texas
November 9, 2020

Management's Discussion and Analysis



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**Management's Discussion and Analysis
For Year Ended June 30, 2019
(Unaudited)**

The Management Discussion and Analysis of the City of Coffee City's (City) annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2019. Please read in conjunction with the City's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

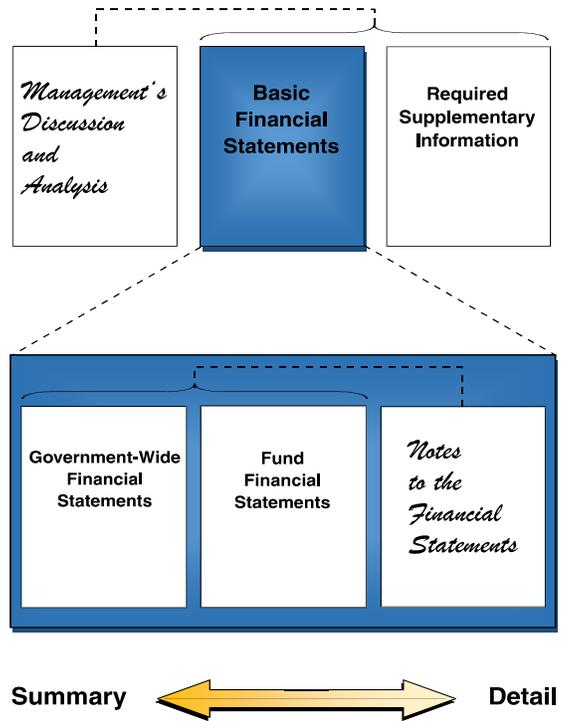
- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$1,221,736 (Net Position). Of this amount, \$446,829 (Unrestricted Net Position) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net position decreased by \$177,943.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$391,651. Of this amount, \$313,567 is unassigned and available for use within the City's fund designation and fiscal policies.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$391,651, or 80% of the total general fund expenditures.
- The City had no long-term debt at the end of 2019.
- The Coffee City Economic Development Corporation's total net position increased by \$48,936.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City’s annual report consists of a series of financial statements, notes to those statements, and other supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are Government-Wide Financial Statements that provide both long-term and short-term information about the City’s overall financial status.
- The remaining statements are Fund Financial Statements that focus on individual parts of the government, reporting the City’s operations in more detail than the Government-Wide Statements.
 - The Governmental Funds Statements tell how general government services were financed in the short term as well as what remains for future spending.
 - Proprietary Fund Statements offer financial information about the internal service fund used to report activities that provide services to organizations within the City. *The City had no active proprietary funds during the fiscal year.*

Figure A-1 Required Components of the City’s Annual Financial Report



The basic financial statements include notes that explain information contained within the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 (above) shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 (next page) summarizes the major features of the City’s financial statements, including the portion of the City’s government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

**FIGURE A-2
MAJOR FEATURES OF THE CITY'S GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

<i>Type of Statement</i>	Government-Wide	Governmental Funds	Proprietary Funds
<i>Scope</i>	Entire City's (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses.
<i>Required financial statements</i>	• Statement of net position	• Balance sheet	• Statement of net position
	• Statement of activities	• Statement of revenues, expenditures and changes in fund balances	• Statement of revenues, expenses and changes in fund net position • Statement of cash flows
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
<i>Type of flow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-Wide Statements

The Government-Wide Statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two Government-Wide Statements report the City's net position and how it has changed. Net position, the difference between the City's assets and liabilities, is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, you need to consider additional non-financial factors such as changes in the City's tax base.

The Government-Wide Financial Statements of the City include the governmental activities. The City's basic activities include general government, municipal court, public safety, emergency services, highways and streets, and community center. Fines, forfeitures and taxes finance most of these activities.

Fund Financial Statements

The Fund Financial Statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices used by the City to track specific sources and uses of funding for specified activities.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has one fund type:

- Governmental funds—Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the year-end balances that are available for spending. Consequently, the Governmental Fund Statements provide a detailed short-term view that helps you determine the level of financial resources that can be spent in the near term to finance the City's programs. Because this information does not encompass the additional long-term focus of the Government-Wide Statements, we provide additional information at the bottom of the Governmental Fund Statements, or on the subsequent page, that explains the relationship (or differences) between them.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$1,221,739 as of June 30, 2019.

The largest portion of the City's net position, 57%, or \$696,518, reflects its investments in capital assets (e.g., land, building, equipment, vehicles, improvements and infrastructure), less any outstanding debt used in acquiring those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated to repay these liabilities.

CITY OF COFFEE CITY'S NET POSITION

	Governmental Activities	
	2019	2018
Current and Other Assets	\$ 565,155	\$ 753,899
Capital Assets	696,518	697,686
Total Assets	1,261,673	1,451,585
Non-Current Liabilities	-	-
Other Liabilities	39,937	51,906
Total Liabilities	39,937	51,906
Net Position:		
Invested in Capital Assets,		
Net of Related Debt	696,518	697,686
Restricted	78,389	191,776
Unrestricted	446,829	510,217
Total Net Position	\$ 1,221,736	\$ 1,399,679

A small portion of net position, \$78,389, is restricted for use by the municipal court along with infrastructure repairs and maintenance. The remaining balance of unrestricted net position, \$446,829, may be used to meet the government's ongoing obligations to citizens and creditors.

As of June 30, 2019, the City is able to report positive balances in all three categories of net position, for the government as a whole, as well as for its component unit. In the prior fiscal year, the City also reported positive balances in all three categories of net position.

Analysis of the City's Operations - Overall the City had a decrease in net position of \$177,943.

Governmental Activities: Net position for the governmental activities decreased by \$177,943. Net position invested in capital assets, net of related debt, decreased by \$1,168 due to capital asset additions being less than depreciation expenses and disposals. The remaining change in net position is due to lower than expected revenue collections and exceeding budgeted expenditures.

Total revenues for the governmental activities decreased from the previous year by \$673,381, primarily due to a decrease in grant receipts and permit fees, and State portion of fines and forfeitures included in revenue in the prior year. General revenue decreased \$38,006 during 2019, primarily due to lower sales tax collections.

The following table provides a summary of the City's operations for the year ended June 30, 2019, with comparative totals for the year ended June 30, 2018.

CITY OF COFFEE CITY'S CHANGES IN NET POSITION

	Governmental Activities	
	2019	2018
Revenues:		
Operating Revenues:		
Charges for Services	\$ 120,916	\$ 517,100
Other	-	239,191
General Revenues:		
Sales Taxes	143,102	199,661
Franchise Taxes	17,098	16,090
Miscellaneous	33,532	15,987
Total Revenues	314,648	988,029
Expenses:		
General Government	160,783	203,251
Municipal court	106,038	-
Public Safety	179,743	329,095
Emergency Services	24,560	77,137
Highways and Streets	10,524	-
Community Center	12,062	-
Economic Development	-	57,698
Total Expenses	493,710	667,181
Increase (Decrease) in Total Revenues	(179,062)	320,848
NONOPERATING		
REVENUES (EXPENSES)		
Interest Income	1,119	679
Interest Expense	-	-
Total Non-operating Revenue (Expense)	1,119	679
OTHER FINANCING SOURCES (USES)		
Operating Transfers from Other Funds	-	-
Operating Transfers to Other Funds	-	-
Total Other Financing Sources (Uses)	-	-
Change in Net Position	(177,943)	321,527
Net Position – Beginning	1,399,679	1,078,152
Net Position – Ending	\$ 1,221,736	\$ 1,399,679

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$391,651; of this total amount, \$313,262, constitutes a surplus in unassigned fund balance.

In the general fund, the City's original budget planned for an increase in the fund balance on a budget basis.

Actual revenues in all categories were lower than the final budgeted amounts by a total of \$199,759. Actual expenditures not including transfers were higher than final budgeted amounts by a total of \$84,442.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2019, amounts to \$696,518 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, equipment, improvements, vehicles, and infrastructure. The total decrease in capital assets for the current fiscal year was \$1,168, or 0.2%.

Major capital asset additions during fiscal year 2019 included \$40,500 for police vehicles.

CAPITAL ASSETS AT YEAR-END AND ACCUMULATED DEPRECIATION

	Governmental Activities	
	2019	2018
Land	\$ 56,129	\$ 56,129
Construction in Progress	-	-
Buildings and Improvements	391,529	393,301
Equipment	63,434	61,928
Infrastructure	230,191	230,191
Vehicles	464,056	448,556
Accumulated Depreciation	(508,821)	(492,419)
 Total	 \$ 696,518	 \$ 697,686

Additional information on the City's capital assets can be found in Note 2 on page 34 in the notes of this report.

DEBT ADMINISTRATION

At the end of the current and prior fiscal years, the City had no bonded or long-term debt.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the City of Coffee City, Attn: City Secretary at 7019 Pleasant Road, Coffee City, Texas 75763.

Basic Financial Statements

Government-Wide Financial Statements

CITY OF COFFEE CITY, TEXAS
STATEMENT OF NET POSITION
JUNE 30, 2019

	PRIMARY GOVERNMENT		COMPONENT UNIT
	GOVERNMENTAL	TOTAL	EDC
	ACTIVITIES		
ASSETS			
Cash and cash equivalents	\$ 293,129	\$ 293,129	\$ 230,909
Investments	112,817	112,817	-
Receivables (net of allowances):			
Sales taxes	24,584	24,584	9,834
Franchise taxes	1,058	1,058	-
Fines and forfeitures	133,567	133,567	-
Capital assets:			
Land and other non-depreciated assets	56,129	56,129	-
Other capital assets - net of depreciation	640,389	640,389	254,440
Total assets	<u>1,261,673</u>	<u>1,261,673</u>	<u>495,183</u>
LIABILITIES			
Accounts payable and accrued liabilities	<u>39,937</u>	<u>39,937</u>	<u>500</u>
Total liabilities	<u>39,937</u>	<u>39,937</u>	<u>500</u>
NET POSITION			
Investment in capital assets, net of related debt	696,518	696,518	254,440
Restricted for municipal court	23,632	23,632	-
Restricted for infrastructure	54,757	54,757	-
Unrestricted	<u>446,829</u>	<u>446,829</u>	<u>240,243</u>
Total net position	<u>\$ 1,221,736</u>	<u>\$ 1,221,736</u>	<u>\$ 494,683</u>

**CITY OF COFFEE CITY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

FUNCTIONS / PROGRAMS	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		COMPONENT UNIT
	EXPENSES	CHARGES FOR SERVICES	GOVERNMENTAL ACTIVITIES	TOTAL	
Primary government:					
Governmental activities:					
General government	\$ 160,783	\$ 9,000	\$ (151,783)	\$ (151,783)	
Municipal court	106,038	105,991	(47)	(47)	
Public Safety	179,743	-	(179,743)	(179,743)	
Emergency services	24,560	-	(24,560)	(24,560)	
Highways and streets	10,524	-	(10,524)	(10,524)	
Community center	12,062	5,925	(6,137)	(6,137)	
Total governmental activities	<u>493,710</u>	<u>120,916</u>	<u>(372,794)</u>	<u>(372,794)</u>	
Total primary government	\$ <u>493,710</u>	\$ <u>120,916</u>	\$ <u>(372,794)</u>	\$ <u>(372,794)</u>	
Component unit:					
Coffee City Economic Development Corporation	\$ 51,585	\$ 24,926			\$ (26,659)
Total component unit	\$ <u>51,585</u>	\$ <u>24,926</u>			\$ <u>(26,659)</u>
General revenues:					
Sales taxes			143,102	143,102	57,160
Franchise taxes			17,098	17,098	-
Hotel occupancy taxes			-	-	18,435
Investment earnings			1,119	1,119	-
Miscellaneous local and intermediate revenue			33,532	33,532	-
Transfers			-	-	-
Total general revenues and transfers			<u>194,851</u>	<u>194,851</u>	<u>75,595</u>
Change in net position			(177,943)	(177,943)	48,936
Net position - beginning			1,399,679	1,399,679	445,747
Net position - ending			\$ <u>1,221,736</u>	\$ <u>1,221,736</u>	\$ <u>494,683</u>

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

Fund Financial Statements

**CITY OF COFFEE CITY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019**

	<u>MAJOR FUND</u>	
	GENERAL	TOTAL
	FUND	GOVERNMENTAL
		FUNDS
ASSETS		
Cash	\$ 293,129	\$ 293,129
Investments	112,817	112,817
Receivables (net of allowances):		
Sales taxes	24,584	24,584
Franchise taxes	1,058	1,058
Fines and forfeitures	<u>133,567</u>	<u>133,567</u>
Total assets	<u>\$ 565,155</u>	<u>\$ 565,155</u>
LIABILITIES		
Accounts payable	<u>\$ 39,937</u>	<u>\$ 39,937</u>
Total liabilities	<u>39,937</u>	<u>39,937</u>
DEFERRED INFLOWS (OF RESOURCES)		
Fines, forfeitures and warrants	<u>133,567</u>	<u>133,567</u>
Total deferred inflows	<u>133,567</u>	<u>133,567</u>
FUND BALANCES		
Restricted fund balance:		
Municipal court technology	13,233	13,233
Municipal court security	10,399	10,399
Infrastructure	54,757	54,757
Unassigned fund balance	<u>313,262</u>	<u>313,262</u>
Total fund balances	<u>391,651</u>	<u>391,651</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 565,155</u>	<u>\$ 565,155</u>

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

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

Total fund balances - governmental funds	\$ 391,651
Capital assets used in governmental activities are not financial resources and, therefore, are not reported on the governmental funds balance sheet.	696,518
Outstanding fines, forfeitures and warrants are a long-term asset and not available to pay for current period expenditures and therefore is deferred in the funds.	<u>133,567</u>
Net position of governmental activities	<u><u>\$ 1,221,736</u></u>

CITY OF COFFEE CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	<u>MAJOR FUND</u>	
	<u>GENERAL FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES		
Taxes:		
Sales	\$ 143,102	\$ 143,102
Franchise	17,098	17,098
Fines and forfeitures	256,183	256,183
Charges for services	5,925	5,925
Special events	9,000	9,000
Interest income	1,119	1,119
Miscellaneous	33,532	33,532
	<u>465,959</u>	<u>465,959</u>
Total revenues		
EXPENDITURES		
General government	156,465	156,465
Municipal court	106,038	106,038
Public safety	196,685	196,685
Emergency services	21,636	21,636
Highways and streets	5,729	5,729
Community center	5,989	5,989
	<u>492,542</u>	<u>492,542</u>
Total expenditures		
Excess (deficiency) of revenues over (under) expenditures	<u>(26,583)</u>	<u>(26,583)</u>
OTHER FINANCING SOURCES (USES)		
Operating transfers from other funds	-	-
Operating transfers to other funds	-	-
	<u>-</u>	<u>-</u>
Total other financing sources (uses)		
Net change in fund balances	(26,583)	(26,583)
Fund balances - beginning of year	<u>418,234</u>	<u>418,234</u>
Fund balances - end of year	<u>\$ 391,651</u>	<u>\$ 391,651</u>

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

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

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net change in fund balances - total governmental funds	\$ (26,583)
The depreciation of capital assets used in governmental activities is not reported in the funds.	(40,306)
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide statement of activities.	39,138
The portion of fines, forfeitures and warrants receivable which are measurable and available are recognized as revenue in the funds. The remainder of the receivables are deferred and, therefore, are not reported in the governmental activities.	<u>(150,192)</u>
Change in net position of governmental activities	<u><u>\$ (177,943)</u></u>

**CITY OF COFFEE CITY, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019**

	BUDGET AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		(UNFAVORABLE)
REVENUES				
Taxes:				
Sales	\$ 199,500	\$ 199,500	\$ 143,102	\$ (56,398)
Franchise	16,100	16,100	17,098	998
Fines and forfeitures	392,890	392,890	256,183	(136,707)
Charges for services	1,800	1,800	5,925	4,125
Special events	10,000	10,000	9,000	(1,000)
Interest income	-	-	1,119	1,119
Miscellaneous	45,428	45,428	33,532	(11,896)
Total revenues	<u>665,718</u>	<u>665,718</u>	<u>465,959</u>	<u>(199,759)</u>
EXPENDITURES				
General government	152,950	152,950	156,465	(3,515)
Municipal court	57,950	57,950	106,038	(48,088)
Public safety	145,700	145,700	196,685	(50,985)
Emergency services	10,000	10,000	21,636	(11,636)
Highways and streets	34,000	34,000	5,729	28,271
Community center	7,500	7,500	5,989	1,511
Total expenditures	<u>408,100</u>	<u>408,100</u>	<u>492,542</u>	<u>(84,442)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>257,618</u>	<u>257,618</u>	<u>(26,583)</u>	<u>(284,201)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers from other funds	-	-	-	-
Operating transfers to other funds	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues & other sources over expenditures & other (uses)	<u>\$ 257,618</u>	<u>\$ 257,618</u>	<u>(26,583)</u>	<u>\$ (284,201)</u>
Fund balance - beginning of year			<u>418,234</u>	
Fund balance - end of year			<u>\$ 391,651</u>	

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

Notes to the Financial Statements

CITY OF COFFEE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The City of Coffee City, Texas (City) was incorporated in 1969, under Article 1133 of the State of Texas, which allows towns with populations of 250-10,000 to incorporate without a city charter. The City is a Type A general law city and operates under the Mayor-Alderman form of government with the mayor and five (5) aldermen elected at large.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The accounting and reporting framework and the more significant accounting principles and practices of the City are discussed in subsequent sections of this Note. The remainder of the Notes is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended June 30, 2019.

Discretely Presented Component Unit

The City, for financial purposes, includes all of the funds and account groups relevant to the operations of the City. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City.

The financial statements of a city normally include those of separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board. Based on these criteria, the financial activities of the Coffee City Economic Development Corporation is included in the financial statements as a discretely presented component unit of the City.

Coffee City Economic Development Corporation (EDC) is a nonprofit corporation created and organized under the constitution and laws of the State of Texas, particularly the Development Corporation Act of 1979, Article 5190.6 (the "Act"), Vernon's Annotated Texas Civil Statutes, as amended for the promotion and/or development of new and/or expanding employment rolls within the City. The EDC is governed by Section 4A of the Act and is a constituted authority and instrumentality of the City.

The EDC was created in 2010 to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body is governed by a seven (7) member board of directors appointed and approved by the City Council.

CITY OF COFFEE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Government-Wide and Fund Financial Statements - continued

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government. Governmental activities include programs supported primarily by taxes, other intergovernmental revenues, and fines, and are to be reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity.

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Interfund activities between governmental funds appear as due to/due froms on the governmental fund balance sheet and as other resources and other uses on the governmental fund statement of revenues, expenditures and changes in fund balance. All interfund transactions between governmental funds are eliminated on the government-wide statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue 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.

CITY OF COFFEE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued

Governmental fund financial statements are reported using 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 taxes. Tax revenue and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. 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.

The EDC is 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.

CITY OF COFFEE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued

The City reports the following major governmental funds:

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.

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

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

Cash and Cash Equivalents

The City’s cash and cash equivalents includes amounts on hand and in demand deposits.

Investments

State statutes and the City’s investment policy authorize the City to invest in obligations of the U.S. Treasury, State of Texas obligations, certificates of deposit, commercial paper, corporate bonds, repurchase agreements, and mutual funds.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at year-end are referred to as either “Due to/from Other Funds” (i.e. the current portion of the interfund loan) or “Advances to/from Other Funds” (i.e. the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “Due to/from Other Funds.”

The City does not currently levy taxes on real property, therefore, has no property taxes receivable.

Long-Term Liabilities

In the government-wide 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.

In the fund financial statements, governmental fund types report the face amount of the debt issued as Other Financing Sources and debt payments as Expenditures.

CITY OF COFFEE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance-continued

Capital Assets

Capital assets, which include land, buildings, equipment, and infrastructure (roads and bridges), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the City as assets with an initial, individual cost of \$1,000 or more and an estimated useful life in excess of one (1) year. Such assets are recorded at historical cost where records are available or at an estimated fair market value at the date of acquisition where no historical records exist. Donated capital assets are recorded at estimated fair market value at the date of donation. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide statements regardless of their amount.

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, equipment and infrastructure of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building and improvements	20-50
Infrastructure	20-50
Equipment	5
Vehicles	5

In the case of initial capitalization of general infrastructure assets (i.e., those reported by the governmental activities), public domain property including roads, bridges, curbs and gutters, streets and sidewalks and similar assets prior to June 30, 2017 have not been capitalized by the City. Additional capital assets, constructed or acquired each period subsequent to June 30, 2017, are capitalized and reported at historical cost.

CITY OF COFFEE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities, and Net Position or Equity - continued

Fund Balance Classification

The City has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the City Council, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the City Council takes the same highest level action to remove or change the constraint.

Assigned fund balance – amounts the City Council intends to use for a specific purpose. Intent can be expressed by the Mayor or the City Secretary, through which the City Council has delegated the authority.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). When it is appropriate for fund balance to be assigned, the City Council designated the authority to the Mayor and the City Secretary (such as the purchase of fixed assets, construction, debt service, or for other purposes).

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.

CITY OF COFFEE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities, and Net Position or Equity - continued

Compensated Absences

Compensated vacations are granted to all full-time regular employees of the City. After the completion of a probationary six (6) months of employment, vacation is granted for employees. Regular employees earn six (6) days of vacation per year, after three years, twelve (12) days per year, and after six (6) years of employment, the employee will receive three (3) weeks of vacation. Five (5) days of vacation leave may be carried from one calendar year to the next and upon termination of employment, any earned and unused vacation is paid.

Sick leave is accrued at the rate of six (6) days per year. Sick leave accrues from year to year up to a maximum of thirty (30) days. Upon termination of employment, any earned and unused sick leave is not paid.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one (1) item, which arises only under a modified accrual basis of accounting that qualify for reporting in this category. Accordingly, the item is unavailable revenue, and are reported only in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

CITY OF COFFEE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Stewardship, Compliance, and Accountability

Budgetary Data

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund. The City holds a public hearing on the proposed budget prior to its adoption. All appropriations lapse at fiscal year-end.

The budget is legally enacted and once approved, can only be amended by approval of a majority of the Council members. Amendments are presented to the Council at its regular meetings.

Expenditures in Excess of Budgeted Amounts

The following is a summary of expenditures in excess of appropriations for the General Fund:

<u>Department</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Variance</u>
General government	\$ 156,465	\$ 152,950	\$ (3,515)
Municipal court	\$ 106,038	\$ 57,950	\$ (48,088)
Public safety	\$ 196,685	\$ 145,700	\$ (50,985)
Emergency services	\$ 21,636	\$ 10,000	\$ (11,636)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF COFFEE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2: DETAILED NOTES ON ALL FUNDS

Deposits

The City's balances were completely covered by federal deposit insurance or collateralized at June 30, 2019. The City's deposits are categorized to give an indication of the level of risk assumed by the City at fiscal year-end. The categories are described as follows:

Category 1 - Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 - Uncollateralized.

Deposits categorized by level of risk for cash and cash equivalents are as follows:

<u>Primary Government</u>	<u>Bank Balance</u>	<u>Category</u>			<u>Carrying Amount</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
<i>Governmental activities:</i>					
General fund	\$ 293,129	\$ 250,000	\$ 43,129	\$ -	\$ 293,129
<u>Component Unit</u>					
EDC	230,909	230,909	-	-	230,909
Total	<u>\$ 524,038</u>	<u>\$ 480,909</u>	<u>\$ 43,129</u>	<u>\$ -</u>	<u>\$ 524,038</u>

Investments

The City is required by The Public Funds Investment Act ("Act") to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

**CITY OF COFFEE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Investments - continued

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

The City's certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the State. The FDIC currently insures the first \$250,000 of the City's deposits at each financial institution. Deposit balances over \$250,000 are insured by the collateral pool. As of June 30, 2019, the carrying amount of the City's certificates of deposit was \$112,817.

Receivables

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

	Governmental General Fund	Total	Component Unit EDC
Receivables			
Taxes	\$ 25,642	\$ 25,642	\$ 9,834
Fines	247,346	247,346	-
Gross receivables	272,988	272,988	9,834
Less: Allowance for uncollectables	(113,779)	(113,779)	-
Total	\$ 159,209	\$ 159,209	\$ 9,834

CITY OF COFFEE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Capital Assets

The following is a summary of the changes in the capital assets during the fiscal year:

<u>Primary Government</u>	<u>Balance 6/30/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2019</u>
<i>Governmental activities</i>				
<u>Non-depreciable assets:</u>				
Land	\$ 56,129	\$ -	\$ -	\$ 56,129
<u>Depreciable assets:</u>				
Buildings and improvements	393,301	7,228	9,000	391,529
Equipment	61,928	1,506	-	63,434
Infrastructure	230,191	-	-	230,191
Vehicles	448,556	40,500	25,000	464,056
Accumulated depreciation	<u>(492,419)</u>	<u>(40,306)</u>	<u>(23,904)</u>	<u>(508,821)</u>
Governmental activities, net	<u>697,686</u>	<u>8,928</u>	<u>10,096</u>	<u>696,518</u>
Capital assets, net	<u>\$ 697,686</u>	<u>\$ 8,928</u>	<u>\$ 10,096</u>	<u>\$ 716,710</u>

Depreciation expense for governmental activities was charged to Functions/Programs as follows:

Administration	\$ 3,800
Public safety	20,719
Emergency services	4,919
Highways and streets	4,795
Community center	<u>6,073</u>
Total depreciation expense	<u>\$ 40,306</u>

<u>Component Unit</u>	<u>Balance 6/30/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2019</u>
<u>Non-depreciable assets:</u>				
Land	\$ -	\$ -	\$ -	\$ -
<u>Depreciable assets:</u>				
Equipment	-	64,400	-	64,400
Buildings	220,176	-	-	220,176
Accumulated depreciation	<u>(19,265)</u>	<u>(10,871)</u>	<u>-</u>	<u>(30,136)</u>
Component unit, net	<u>\$ 200,911</u>	<u>\$ 53,529</u>	<u>\$ -</u>	<u>\$ 254,440</u>

CITY OF COFFEE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters for which the City carries commercial insurance. There have been no significant reductions in insurance coverage during the year ending June 30, 2019.

The City is a member of the Texas Municipal League (TML) Intergovernmental Risk Pool, a public entity risk pool, participating in workers' compensation, general liability, law enforcement liability, errors and omissions liability, automobile liability, automobile physical damage, real and personal property coverage, and employee health insurance.

Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the state and federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial. No reportable litigation was pending against the City as of June 30, 2019.

Related Parties

In the ordinary course of business, the City has and expects to continue to have transactions with its employees and elected officials. In the opinion of management, such transactions were on substantially the same terms, including interest rates and collateral, as those prevailing at the time of comparable transactions with other persons and did not involve more than a normal risk of collectibility or present any other unfavorable features to the City.

Restatement of Net Position for Coffee City Economic Development Corporation

Prior financial statements presented the EDC's fiscal yearend as December 31, 2017; however, the effective bylaws of the EDC state that its fiscal year runs concurrently with the City. An adjustment of \$2,119 was prepared to correct beginning net position of the EDC, which accumulated six (6) months of transactions from January 1, 2018 to June 30, 2018, effectively aligning the EDC's fiscal yearend with the City at June 30, 2019.

CITY OF COFFEE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Accounting Standards

The GASB has issued the following Statement(s) which were implemented during the current fiscal year as shown below:

GASB Statement No. 83, *“Certain Asset Retirement Obligations”* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This Statement will become effective June 30, 2019. All applicable provisions have been included in the City’s financial statements as of June 30, 2019.

GASB Statement No. 88, *“Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.”* The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. All applicable provisions have been included in the City’s financial statements as of June 30, 2019.

GASB Statement No. 90, *“Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61.”* The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. All applicable provisions have been included in the City’s financial statements as of June 30, 2019.

The GASB has issued the following Statements which will become effective in future years as shown below:

GASB Statement No. 84, *“Fiduciary Activities.”* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Management has not yet determined the impact of this Statement on the financial statements.

CITY OF COFFEE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Accounting Standards – continued

GASB Statement No. 87, *“Leases.”* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Management has not yet determined the impact of this Statement on the financial statements.

GASB Statement No. 89, *“Accounting for Interest Cost Incurred before the End of a Construction Period.”* The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 91, *“Conduit Debt Obligations.”* The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

OMB Circular A-133 – State of Texas Single Audit Circular

The City did not expend \$750,000 or more in federal or state awards during 2019. As a result, a Single Audit in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular was not required for the year ended June 30, 2019.

Subsequent Events

On October 20, 2020, the EDC sold property included on the 2019 financial statements for \$175,000.

Management has evaluated subsequent events through November 9, 2020, which is the date the financial statements were made available to management.

Compliance and Internal Control



DAVID K. GODWIN
CERTIFIED PUBLIC ACCOUNTANT

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

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

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, each major fund, and the aggregate remaining fund information of the City of Coffee City, Texas (City), as of and for the year ended June 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 November 9, 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies, 2019-003 and 2019-004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2019-001 and 2019-002.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



David K. Godwin
Certified Public Accountant

Tyler, Texas
November 9, 2020

**CITY OF COFFEE CITY, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019**

2019-001 Significant Deficiency

Condition:

During inspection of records, nine (9) invoices selected for review could not be located by the City.

Criteria:

Chapter 552 of the Texas Local Government Code requires that most city records be open to public inspection.

Cause of Condition:

Access to records is not limited to appropriate personnel by the City.

Potential Effect of Condition:

Inability to provide public records could lead to fines and penalties under Texas Local Government Code.

Recommendation 2019-001.01

In order to maintain integrity of the City's public records and documents, the City should implement standardized filing practices and also limit access to appropriate personnel.

Management Response **Agree** **Disagree**

Corrective Action Plan

Individual Responsible	Douglas Davis, City Secretary	Estimated Implementation Date	November 9, 2020
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To ensure integrity of the City's public records and documents, the City will limit access to appropriate personnel. In addition, the City will work with key personnel to develop procedures that outline standardized filing practices.

**CITY OF COFFEE CITY, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019**

2019-002 Significant Deficiency

Condition:

During inspection of records, two (2) invoices selected for review could not be located by the Economic Development Corporation.

Criteria:

Chapter 552 of the Texas Local Government Code requires that most city records be open to public inspection.

Cause of Condition:

Access to records is not limited to appropriate personnel by the Economic Development Corporation.

Potential Effect of Condition:

Inability to provide public records could lead to fines and penalties under Texas Local Government Code.

Recommendation 2019-002.01

In order to maintain integrity of the Economic Development Corporation's public records and documents, the Economic Development Corporation should implement standardized filing practices and also limit access to appropriate personnel.

Management Response **Agree** **Disagree**

Corrective Action Plan

Individual Responsible	Sandy Atteberry, EDC Treasurer	Estimated Implementation Date	November 9, 2020
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To ensure integrity of the Economic Development Corporation's public records and documents, the Economic Development Corporation will limit access to appropriate personnel. In addition, the Economic Development Corporation will work with key personnel to develop procedures that outline standardized filing practices.

**CITY OF COFFEE CITY, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019**

2019-003 Significant Deficiency

Condition:

Segregation of duties problems account for the number one internal control weakness in organizations, allowing a trusted individual access to assets while maintaining the capability of concealing their activity. The City Secretary has administrative abilities, including check signing authority, over the City's bank accounts while also being charged with performance of check processing duties and preparing bank reconciliations.

Criteria:

Segregation of duties is a key component of effective internal controls for cash handling and disbursement activities.

Cause of Condition:

Current City practices rely on dual authentication of check disbursements that include the City Secretary as an authorized signer.

Potential Effect of Condition:

Without proper oversight of cash handling and disbursement activities, there is a risk that financial misstatements and/or misappropriation of assets could occur and go undetected.

Recommendation 2019-003.01

Mitigating controls over the lack of segregation of duties should be established to require an individual, independent of the check preparation and bank reconciliation processes, to substantiate supporting documentation provided for cash handling and disbursement activities.

Typical mitigating controls and oversight activities include documenting detailed review of invoices, bank drafts and bank reconciliations to ensure effective controls are maintained over the cash handling and disbursement activities, in addition to safeguarding the individual responsible for these functions.

Management Response **Agree** **Disagree**

Corrective Action Plan

Individual Responsible	Douglas Davis, City Secretary	Estimated Implementation Date	November 9, 2020
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Invoices are currently reviewed by the City Council; however, an additional layer of internal control will be added to include documentation of this review through initials of the reviewer on invoices.

Additionally, the City will design, implement, and document a monthly review of bank reconciliations and electronic bank drafts to enhance oversight of future disbursement activities.

**CITY OF COFFEE CITY, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019**

2019-004 Significant Deficiency

Condition:

Segregation of duties problems account for the number one internal control weakness in organizations, allowing a trusted individual access to assets while maintaining the capability of concealing their activity. The Economic Development Corporation Treasurer has administrative abilities, including check signing authority, over the Economic Development Corporation bank accounts while also being charged with performance of check processing duties and preparing bank reconciliations.

Criteria:

Segregation of duties is a key component of effective internal controls for cash handling and disbursement activities.

Cause of Condition:

Current Economic Development Corporation practices rely on dual authentication of check disbursements that include the Treasurer as the second signee.

Potential Effect of Condition:

Without proper oversight of cash handling and disbursement activities, there is a risk that financial misstatements and/or misappropriation of assets could occur and go undetected.

Recommendation 2019-004.01

Mitigating controls over the lack of segregation of duties should be established to require an individual, independent of the check preparation and bank reconciliation processes, to substantiate supporting documentation provided for cash handling and disbursement activities.

Typical mitigating controls and oversight activities include documenting detailed review of invoices, bank drafts and bank reconciliations to ensure effective controls are maintained over the cash handling and disbursement activities, in addition to safeguarding the individual responsible for these functions.

Management Response	x	Agree		Disagree
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Corrective Action Plan

Individual Responsible	Sandy Atteberry, EDC Treasurer	Estimated Implementation Date	November 9, 2020
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Invoices are currently reviewed by the EDC Board; however, an additional layer of internal control will be added to include documentation of this review through initials of the reviewer on invoices.

Additionally, the EDC will design, implement, and document a monthly review of bank reconciliations and electronic bank drafts to enhance oversight of future disbursement activities.

**CITY OF COFFEE CITY, TEXAS
SUMMARY SCHEDULE OF PRIOR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

2018-1 Significant Deficiency
Corrective Action Plan
The Mayor has instructed the City Secretary to create line items for grant revenue and expenditures. In addition, the City has plans to begin monitoring the budget through QuickBooks.
Remediation Status
COMPLETE