

**CITY OF CRESSON, TEXAS  
AUDITED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

**Christopher A. Turner, PLLC CPA**

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**CITY OF CRESSON, TEXAS  
SEPTEMBER 30, 2020**

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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Cresson, TX

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cresson, TX, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Cresson, TX's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

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

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

#### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cresson, TX, as of September 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Other Matters***

##### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on page(s) 5-11 and 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing

standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2021, on our consideration of the City of Cresson, TX's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Cresson, TX's 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 Cresson, TX's internal control over financial reporting and compliance.

*Christopher A. Turner, PLLC CPA*

June 10, 2021

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### 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 City Council  
City of Cresson, TX

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Cresson, TX, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Cresson, TX's basic financial statements and have issued our report thereon dated June 10, 2021.

#### Internal Control over Financial Reporting

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

Our 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item 2020-001 that we consider to be significant deficiencies.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cresson, TX's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### City of Cresson, TX's Response to Findings

City of Cresson, TX's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Cresson, TX's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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

*Christopher A. Turner, PLLC CPA*

June 10, 2021

CITY OF CRESSON, TX  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Our discussion and analysis of the City of Cresson's ("the City's") financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended September 30, 2020. Please read it in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

**FINANCIAL HIGHLIGHTS**

- The net position of the primary government totaled \$3,171,640 as of September 30, 2020. Of this amount \$292,252 is unrestricted and may be used to meet future obligations: \$217,757 in the general fund and \$74,495 in the water fund.
- The government-wide net position increased \$680,823 during the current fiscal year. Net position of general fund increased by \$57,755 from the previous year. Net position of the water fund increased by \$623,068 from the previous year.
- As of the close of the current fiscal year, the City of Cresson's governmental fund reported an ending fund balance of \$788,810.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$217,757 or approximately 28% of total general fund expenditures.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A is intended to serve as an introduction to the City's basic financial statements and provide an overview of the City's financial activities. The City's basic financial statements are comprised of the following components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, and 4) required supplementary information which includes this management discussion and analysis and the budget comparison schedule.

**Government-wide financial statements** — The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The government-wide financial statements distinguish functions of the City that are principally supported by sales taxes, franchise fees and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration and highways and streets. The business-type activity of the City consists of water, sewer, and sanitation operations.

- a. The Statement of Net Position presents information for all the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Net Position combines and consolidates governmental funds with capital assets and long-term obligation. Other non-

CITY OF CRESSON, TX  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020

financial factors should also be taken into consideration, such as changes in the condition of the City's infrastructure (i.e. roads, drainage improvements, storm and sewer lines, etc.), to assess the overall health or financial conditions of the City.

- b. The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All the current year's revenues and expenses are considered regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected state taxes). Both the Statement of Net Position and the Statement of Activities are prepared utilizing the accrual basis of accounting.

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

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

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains the general governmental fund. information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General fund, which is a major fund.

**Proprietary Funds** — Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses one enterprise fund to account for its water, sewer, and sanitation operations.



CITY OF CRESSON, TX  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer, and sanitation departments, and are a major fund of the City.

**Notes to the Financial Statements** — The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-29 of this report.

**Analysis of Significant Budget Variances**

Actual expenditures were \$253,361 under budget. However, the City did not budget for transfers to other funds which was over a budgeted amount by \$636,676. In addition, the actual revenues exceeded the budget by \$181,328.

**City Highlights**

The City of Cresson, TX maintained a net position of \$3,171,640 as of September 30, 2020.

**Statement of Net Position**

Included below is a Statement of Net Position as of September 30, 2020 and 2019 for the City of Cresson, TX. The format allows the reader to view the overall financial position of the City.

**Table I**  
**Summary of Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Current and Other Assets	\$ 1,043,340	\$ 1,150,198	\$ 183,943	\$ 303,344	\$ 1,227,283	\$ 1,453,542
Capital Assets	1,123,684	1,008,769	1,455,734	758,013	2,579,418	1,766,782
Total Assets	<u>2,167,024</u>	<u>2,158,967</u>	<u>1,639,677</u>	<u>1,061,357</u>	<u>3,806,701</u>	<u>3,220,324</u>
Liabilities						
Total Liabilities	<u>525,613</u>	<u>575,311</u>	<u>109,448</u>	<u>154,195</u>	<u>635,061</u>	<u>729,506</u>
	<u>525,613</u>	<u>575,311</u>	<u>109,448</u>	<u>154,195</u>	<u>635,061</u>	<u>729,506</u>
Net Position						
Invested in Capital Assets	852,601	703,182	1,455,734	758,013	2,308,335	1,461,195
Restricted	320,142	491,920	-	-	320,142	491,920
Unrestricted	468,668	388,554	74,495	149,149	543,163	537,703
Total Net Position	<u>\$ 1,641,411</u>	<u>\$ 1,583,656</u>	<u>\$ 1,530,229</u>	<u>\$ 907,162</u>	<u>\$ 3,171,640</u>	<u>\$ 2,490,818</u>

The composition of net position and the changes in net position over time serve as a useful indicator of the government's financial position. The City's assets as of September 30, 2020 exceeded liabilities by \$3,171,640. As of September 30, 2020, the City reported positive balances in three categories of the net position: for the government as a whole \$3,171,640, for the Governmental funds \$1,641,411, and Enterprise fund \$1,530,229.

CITY OF CRESSON, TX  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020

The largest portion of the City's net position in the amount of \$2,308,280 reflects its investments in capital assets (e.g., equipment and infrastructure) net of related debt. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

The second category of net position, Restricted Net Assets, represents the net position that is subject to external or internal restrictions on how assets may be used. Unrestricted Net Assets totaled \$468,668. Restricted Net Assets of \$320,142 are detailed in Note 8 of the related notes to the financial statements regarding the nature of these restrictions.

**Government Activities – Statement of Net Position**

Current and other assets increased for the government activities due to an increase cash collection in sales tax revenues from the prior year and liabilities decreased from the prior year due to the City is paying additional principle on its long-term debt.

Current and other assets totaling \$1,043,340 consist of cash and cash equivalents in the amount of \$421,717, restricted cash in the amount of \$571,053 and receivables net of allowances in the amount of \$50,570.

Capital assets totaling \$1,123,684 (net of accumulated depreciation) represents the City's investment in capital assets necessary to provide services to citizens of the City of Cresson, TX.

Liabilities totaling \$525,613 consist of accrued liabilities in the amount of \$4,530, deposits from contractor in the amount of \$250,000, and long-term debt in the amount of \$271,083.

**Business Activities – Statement of Net Position**

Current and other assets totaling \$183,943 consist of cash and cash equivalents in the amount of \$95,296 and receivables net of allowances in the amount of \$88,647.

Capital assets totaling \$1,455,734 (net of accumulated depreciation) represents the City's investment in capital assets necessary to provide services to citizens of the City of Cresson, TX.

Liabilities totaling \$109,448 consist of accrued liabilities in the amount of \$18,343, deposits from customers in the amount of \$89,104, and due to other funds in the amount of \$2,001.

Capital assets increased in business-type activities due to the finishing of a well project from grant funds received during the year.

**Statement of Activities**

Governmental and business-type activities increased the City's net position by \$680,768. A Statement of Activities for the City of Cresson, TX is presented below listing the major categories of revenues and expenses for the years ended September 30, 2020 and 2019.

**CITY OF CRESSON, TX  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**Table II  
Statement of Activities, Changes in Net Position**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Revenues						
<b>PROGRAM REVENUES</b>						
Charges for Services	\$ 55,964	\$ 116,965	\$ 491,493	\$ 501,430	\$ 547,457	\$ 618,395
Capital Projects Grant	260,250	-	-	-	260,250	-
<b>GENERAL REVENUES</b>						
Sales Taxes	590,191	483,095	-	-	590,191	483,095
Franchise Taxes	60,068	58,177	-	-	60,068	58,177
Hotel/Motel Taxes	11,342	10,650	-	-	11,342	10,650
Investment Earnings	2,180	1,516	247	172	2,427	1,688
Miscellaneous Income						
Miscellaneous Income	60,883	10,325	1,100	36,520	61,983	46,845
<b>Total Revenues</b>	<u>1,040,878</u>	<u>680,728</u>	<u>492,840</u>	<u>538,122</u>	<u>1,533,718</u>	<u>1,218,850</u>
<b>EXPENSES</b>						
General Government	318,919	399,842	-	-	318,919	399,842
Streets	-	52,120	-	-	-	52,120
Water and Sanitation						
Water and Sanitation	-	-	533,976	544,632	533,976	544,632
<b>Total Expenses</b>	<u>318,919</u>	<u>451,962</u>	<u>533,976</u>	<u>544,632</u>	<u>852,895</u>	<u>996,594</u>
<b>OPERATING TRANSFERS IN (OUT)</b>	<u>(664,204)</u>	<u>-</u>	<u>664,204</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	<u>57,755</u>	<u>228,766</u>	<u>623,068</u>	<u>(6,510)</u>	<u>680,823</u>	<u>222,256</u>
Net Position - Beginning	1,583,656	1,304,067	907,161	984,249	2,490,817	2,288,316
Prior Period Adjustments	-	50,823	-	(70,577)	-	(19,754)
<b>NET POSITION - ENDING</b>	<u>\$ 1,641,411</u>	<u>\$ 1,583,656</u>	<u>\$ 1,530,229</u>	<u>\$ 907,162</u>	<u>\$ 3,171,640</u>	<u>\$ 2,490,818</u>

**Governmental Activities**

General revenues for governmental activities totaled \$1,040,878 of which 57% was sales tax, 25% was capital projects grant, 6% was franchise revenues, and 5% was charges for services. Charges for services consist of licenses and permit fee charges.

For fiscal year 2020, expenses for governmental activities totaled \$318,919. The City's largest funded program is for highways and streets (12%). The governmental activities had an increase to net assets of \$57,755 compared to the prior year of \$228,766. This was due mostly to a decrease in charges for services and an increase in transfers to other funds.

**Business-type Activities**

While water revenues and expenditures both decreased over the prior year, the current year net asset increased in the water department net position was \$623,068 which is more than the operating loss from the prior year of \$6,510 due to the transfers in from the general and grant fund accounts.

**CITY OF CRESSON, TX  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**Capital Assets**

At the end of the fiscal year 2020, the City had \$2,579,363 invested in capital assets including land, construction in progress, buildings, infrastructure, and equipment as shown below, net of depreciation:

**Capital Assets:**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Land	\$ 570,590	\$ 570,590	\$ 25,878	\$ 25,878	\$ 596,468	\$ 596,468
Construction in Progress	-	27,528	-	2,000	-	29,528
Buildings	-	-	-	-	-	-
Infrastructure	512,159	396,240	1,376,936	712,073	1,889,095	1,108,313
Equip., Furn., Soft.	40,934	14,409	52,920	18,062	93,854	32,471
	<u>\$ 1,123,683</u>	<u>\$ 1,008,767</u>	<u>\$ 1,455,734</u>	<u>\$ 758,013</u>	<u>\$ 2,579,417</u>	<u>\$ 1,766,780</u>

The net change in capital assets from the prior year was due to an increase in accumulated depreciation in the amount of \$46,489 for the general fund and \$63,722 and the completion of a major project for the water and sewer fund. There were no dispositions during the current fiscal year. Additional information on the City's capital assets can be found in Note 3, page 25 of this report.

**ECONOMIC FACTORS**

The City's elected and appointed officials considered many factors when setting the fiscal year 2020-2021 budget, rates, and fees that will be charged for the business-type activities. One of those factors is the economy. The population growth experienced by the City has stimulated local business and development activity, and the community has placed additional demands on the City to maintain or enhance services provided to the City's citizens. The reasonable costs of living and homes priced below the national average continue to make the City an attractive area for new business locations and relocations. The City continues to attract new and existing companies due to the strategy of working diligently with corporation on relocation incentives.

These indicators are considered when adopting the general fund budget for next fiscal year. The 2020-2021 revenues are budgeted at \$1,271,760 which consists of \$717,810 for the general fund and \$553,950 for the water and sewer fund, a decrease of \$207,240 from the current fiscal year due to no grant funds are expected to be received in the next budget year.

A wastewater treatment plant in the new Cresson Crossroads development will be completed when the current system reaches capacity which is expected to begin in 2021 and be completed

CITY OF CRESSON, TX  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020

in 2022. A municipal utility district has been created to contract for the construction of the plant and it will be paid for by the developer.

During the fiscal year 2020, the City continued to pay \$1,000 per month extra principal on its building note using accumulated cash. The City's plan is to continue this additional principal payment in 2021.

**REQUEST FOR INFORMATION**

This 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 Cresson, at P.O. Box 619, Cresson, Texas 76035, or call (817) 396-4729.

**CITY OF CRESSON, TX  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2020**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 421,717	\$ 95,296	\$ 517,013
Receivable from Other Funds	2,001	-	2,001
Receivables, Net of Allowance	48,569	88,647	137,216
<b>TOTAL CURRENT ASSETS</b>	<u>472,287</u>	<u>183,943</u>	<u>656,230</u>
<b>RESTRICTED ASSETS</b>			
Restricted Cash	571,053	-	571,053
<b>TOTAL RESTRICTED ASSETS</b>	<u>571,053</u>	<u>-</u>	<u>571,053</u>
<b>CAPITAL ASSETS</b>			
Non-Depreciable Assets	570,590	25,878	596,468
Depreciable Assets, Net of Depreciation	553,094	1,429,856	1,982,950
	<u>1,123,684</u>	<u>1,455,734</u>	<u>2,579,418</u>
<b>TOTAL ASSETS</b>	<u>2,167,024</u>	<u>1,639,677</u>	<u>3,806,701</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accrued Liabilities	4,530	18,343	22,873
Deposit from Contractor	250,000	-	250,000
Due to Other Funds	-	2,001	2,001
Customer Deposits	-	89,104	89,104
Current Portion of Long Term Debt	23,915	-	23,915
<b>TOTAL CURRENT LIABILITIES</b>	<u>278,445</u>	<u>109,448</u>	<u>387,893</u>
<b>LONG TERM LIABILITIES</b>			
Note Payable, Land and Building	247,168	-	247,168
<b>TOTAL LONG TERM LIABILITIES</b>	<u>247,168</u>	<u>-</u>	<u>247,168</u>
<b>TOTAL LIABILITIES</b>	<u>525,613</u>	<u>109,448</u>	<u>635,061</u>
<b>NET POSITION</b>			
Invested in Capital Assets, Net of Related Debt	852,601	1,455,734	2,308,335
Restricted	320,142	-	320,142
Unrestricted	468,668	74,495	543,163
<b>TOTAL NET POSITION</b>	<u>\$ 1,641,411</u>	<u>\$ 1,530,229</u>	<u>\$ 3,171,640</u>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

**CITY OF CRESSON, TX  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>		<u>Total</u>
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Primary Government Business-type Activities</u>	
<b>PRIMARY GOVERNMENT</b>						
<b>GOVERNMENTAL ACTIVITIES</b>						
General Government	\$ 305,148	\$ 55,964	\$ 260,250	\$ 11,066	\$ -	\$ 11,066
Debt Service	13,771	-	-	(13,771)	-	(13,771)
<b>TOTAL GOVERNMENT</b>	<u>318,919</u>	<u>55,964</u>	<u>260,250</u>	<u>(2,705)</u>	<u>-</u>	<u>(2,705)</u>
<b>BUSINESS-TYPE ACTIVITIES</b>						
Water Department	533,976	491,493	-	-	(42,483)	(42,483)
<b>TOTAL BUSINESS-TYPE</b>	<u>533,976</u>	<u>491,493</u>	<u>-</u>	<u>-</u>	<u>(42,483)</u>	<u>(42,483)</u>
<b>TOTAL ACTIVITY</b>	<u>\$ 852,895</u>	<u>\$ 547,457</u>	<u>\$ 260,250</u>	<u>\$ (2,705)</u>	<u>\$ (42,483)</u>	<u>\$ (45,188)</u>
<b>GENERAL REVENUES</b>						
Sales Taxes				590,191	-	590,191
Franchise Fees				60,068	-	60,068
Hotel/Motel Tax				11,342	-	11,342
Miscellaneous Revenue				60,883	1,100	61,983
Investment Earnings				2,180	247	2,427
Transfers				(664,204)	664,204	-
<b>TOTAL GENERAL REVENUES</b>				<u>60,460</u>	<u>665,551</u>	<u>726,011</u>
<b>TOTAL GENERAL REVENUES AND OTHER SOURCES</b>						
<b>CHANGE IN NET POSITION</b>				57,755	623,068	680,823
<b>NET POSITION - BEGINNING</b>				1,583,656	907,161	2,490,817
Prior Period Adjustments				-	-	-
<b>NET POSITION - ENDINGS</b>				<u>\$ 1,641,411</u>	<u>\$ 1,530,229</u>	<u>\$ 3,171,640</u>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

**CITY OF CRESSON, TX  
BALANCE SHEET - GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2020**

	<b>General Fund</b>	<b>Total Governmental Fund</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 421,717	\$ 421,717
Due from Water Fund	2,001	2,001
Receivables	48,569	48,569
Restricted Cash	571,053	571,053
<b>TOTAL ASSETS</b>	<b>\$ 1,043,340</b>	<b>\$ 1,043,340</b>
 <b>LIABILITIES</b>		
Accrued Liabilities	\$ 4,530	\$ 4,530
Deposits from Developer	250,000	250,000
<b>TOTAL LIABILITIES</b>	<b>254,530</b>	<b>254,530</b>
 <b>FUND BALANCES</b>		
Restricted	320,142	320,142
Unassigned	468,668	468,668
<b>TOTAL FUND BALANCES</b>	<b>788,810</b>	<b>788,810</b>
 <b>TOTAL LIABILITIES AND FUND BALANCES</b>	 <b>\$ 1,043,340</b>	 <b>\$ 1,043,340</b>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements



**CITY OF CRESSON, TX  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2020**

<b>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS</b>	<b>\$ 788,810</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the end of the year, the cost of these assets was \$1,752,458 and the accumulated depreciation was \$628,774. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net position.	1,123,684
Long term debt is not reported in the governmental funds. At the end of the year the balance of long term debt was \$271,083. The net effect of including the beginning balance of long term debt in the governmental activities is to decrease net position.	(271,083)
<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 1,641,411</u></b>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

**CITY OF CRESSON, TX**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

		<b>General Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Sales Taxes - Unrestricted	\$ 393,461		
Sales Taxes - Restricted for Streets	196,730	\$ 590,191	\$ 590,191
Franchise Fees		60,068	60,068
Hotel/Motel Taxes - Restricted		11,342	11,342
Licenses and Permits		55,964	55,964
Capital Grant Revenue		260,250	260,250
Investment Earnings		2,180	2,180
Miscellaneous Income		60,883	60,883
<b>TOTAL REVENUES</b>		<b>1,040,878</b>	<b>1,040,878</b>
<b>EXPENDITURES</b>			
General Government		258,659	258,659
Capital Outlay		188,933	188,933
Debt Service Principal	34,504		
Debt Service Interest	13,771	48,275	48,275
<b>TOTAL EXPENDITURES</b>		<b>495,867</b>	<b>495,867</b>
Excess (Deficiency) of Revenues over (under) Expenditures		<b>545,011</b>	<b>545,011</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating Transfer out		636,676	636,676
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>		<b>636,676</b>	<b>636,676</b>
<b>NET CHANGE IN FUND BALANCE</b>		<b>(91,665)</b>	<b>(91,665)</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>		<b>880,475</b>	<b>880,475</b>
<b>FUND BALANCE - END OF YEAR</b>		<b>\$ 788,810</b>	<b>\$ 788,810</b>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

**CITY OF CRESSON, TX  
 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, 2020**

<b>TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS</b>	<b>\$</b>	<b>(91,665)</b>
Current year capital outlays 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 2019 capital outlays is an increase of \$188,933.		188,933
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.		(46,489)
Transfers of fixed assets are expenditures when they occur in the fund financial statements, but they should be shown as increases in transfers between funds. The City had \$27,528 in construction in progress carried over from 2019 that has been moved to the Business Activities in the Governmental Activities.		(27,528)
Debt service payments are shown as expenditures in the governmental funds but in the government-wide statements the amount is shown as a reduction of long-term debt. The net effect of removing the debt service principal expense is an increase in net position.		34,504
<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b><u>57,755</u></b>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

**CITY OF CRESSON, TX  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
SEPTEMBER 30, 2020**

	<u>Business-type Activities</u>
	<u>Water and Sewer Revenue Fund</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and Cash Equivalents	\$ 95,296
Receivable from General Fund	-
Accounts Receivable, Net of Uncollectible Allowance	88,647
<b>TOTAL CURRENT ASSETS</b>	<u>183,943</u>
<b>NONCURRENT ASSETS</b>	
<b>CAPITAL ASSETS</b>	
Land and Improvements	25,878
Infrastructure and Equipment, Net of Accumulated Depreciation	1,429,856
<b>TOTAL NONCURRENT ASSETS</b>	<u>1,455,734</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,639,677</u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accrued Liabilities	\$ 18,343
Due to General Fund	2,001
Customer Deposits	89,104
<b>TOTAL LIABILITIES</b>	<u>109,448</u>
<b>NET POSITION</b>	
Invested in Capital Assets, Net of Related Debt	1,455,734
Unrestricted	74,495
<b>TOTAL NET POSITION</b>	<u>\$ 1,530,229</u>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

**CITY OF CRESSON, TX**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**NET ASSETS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<b>Business-type Activities</b>
	<b>Water and Sewer Revenue Fund</b>
<b>OPERATING REVENUES</b>	
Charge for Services	\$ 491,493
Other Revenue	1,100
Interest Earnings	247
<b>TOTAL OPERATING REVENUES</b>	<b>492,840</b>
<b>OPERATING EXPENSES</b>	
Personnel Services - Salaries and Wages	66,191
Operations	270,851
Maintenance and Supplies	133,212
Depreciation	63,722
<b>TOTAL OPERATING EXPENSES</b>	<b>533,976</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>(41,136)</b>
<b>OTHER FINANCING SOURCES (USES)</b>	
Transfers In	664,204
<b>CHANGE IN NET POSITION</b>	623,068
<b>TOTAL NET POSITION - BEGINNING</b>	907,161
<b>TOTAL NET POSITION - ENDING</b>	<b>\$ 1,530,229</b>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

**CITY OF CRESSON, TX  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
YEAR ENDED SEPTEMBER 30, 2020**

	<b>Business-type Activities</b>
	<b>Water and Sewer Revenue Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Customers	\$ 527,112
Cash Paid to Employees	(66,191)
Cash Payments to Suppliers for Goods and Services	(483,710)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(22,789)</b>
<b>CASH FLOWS FROM NONCAPITAL AND FINANCING ACTIVITIES</b>	
Due To or From Other Funds	-
Transfers In	747,797
Transfers Out	(83,593)
<b>NET CASH PROVIDED (USED) BY NONCAPITAL AND FINANCING ACTIVITIES</b>	<b>664,204</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital Expenditures	(761,443)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(761,443)</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	(120,028)
<b>CASH - BEGINNING OF YEAR</b>	215,324
<b>CASH - END OF YEAR</b>	<b>\$ 95,296</b>
 <b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>	
Operating Income (Loss)	\$ (41,136)
Adjustments to reconcile operating income to net cash provided by	
Operations	
Depreciation	63,722
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	(628)
Increase (decrease) in accounts payable and other liabilities	(44,747)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ (22,789)</b>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

CITY OF CRESSON, TX  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020

**Note 1 – Summary of Significant Accounting Policies**

**Introduction**

The financial statements of the City of Cresson, Texas (City) are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply 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. 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 of Cresson, Texas.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2020.

**Financial Reporting Entity**

The City is a Type A general law municipal corporation operating under the applicable laws and regulations of the State of Texas. It has a Mayor – Council form of government with the mayor and five council members elected by registered voters of the City for two-year terms. The mayor and council have the authority to make decisions, appoint administrators and managers, and significantly influence operations. They also have the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." The accompanying financial statements included the accounts of all City operations. There are no component units included within the reporting entity.

**Basis of Presentation – Government-Wide Statements**

The government-wide financial statements (the statement of net position and the statement of changes in net position) report information for all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, is removed from these statements. Governmental activities, which normally are supported by taxes and governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided

CITY OF CRESSON, TX  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020

by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Proprietary, fiduciary fund financial statements, and component units of City report use this same focus and basis of accounting as a for profit business although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met. The City of Cresson assessed no property taxes during the year ended September 30, 2020.

Governmental fund financial statements report using the current financial resources measurements focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include sales and use taxes, hotel/motel taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in the proprietary fund financial statements include revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

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



CITY OF CRESSON, TX  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020

*Governmental Funds*

Fund Financial Statements

Fund financial statements are provided for governmental and proprietary funds.

Major Governmental Fund

*General Fund*

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Other Governmental Fund

*Special Revenue Fund*

Special revenue funds are used in governmental reporting to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. There is no special revenue fund presented for September 30, 2020.

*Capital Project Fund*

Capital project funds are used in governmental reporting to account for financial resources to be used for the acquisition or construction of major capital facilities. There is no capital project fund presented for September 30, 2020.

Proprietary Funds

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position, and cash flow. The City's only proprietary fund is the Water Department Fund. All assets and liabilities are included on the Statement of Net Position.

Budgets, Budgetary Accounting and Control

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

- a. Formal budgetary integration is employed as a management control device during the year for the General Fund.
- b. The budget for the general fund operations is prepared on the cash basis. Revenues are budgeted in the year receipt is expected and by source. Expenditures are budgeted in the year that the applicable invoices are expected to be paid.

The City of Cresson prepares its annual budget on a basis (budget basis) which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the City's method (budget basis) in the Budgetary Comparison.

CITY OF CRESSON, TX  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the proprietary fund considers all highly liquid investments, including restricted assets, with a maturity of three months or less, when purchased, to be cash equivalents.

Capital Assets and Depreciation

The City's property, equipment, and infrastructure with useful lives of more than one year are started at historical costs and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Proprietary capital assets are also reported in the fund financial statements. Donated assets are started at fair value on the date donated. The City generally capitalizes assets with cost of one thousand or more and with a useful life of two years or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extended useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Infrastructure	20
Buildings and improvements	10-50
Machinery and equipment	7-20

Estimates

The preparation of general-purpose financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and the assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the general financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Note 2 – Collateralization of Deposits**

At year-end, the carrying amount of the City's deposits, presented as cash equivalents (checking accounts) consists of \$644,578 plus restricted cash of \$443,488. The bank balances were fully covered by federal depository insurance and pledged security at the year end.

The terms of the City's depository pledge agreement require pledged collateral of at least 102% of the total deposits requiring collateral and this requirement was met throughout the entire fiscal year. In addition, the pledged collateral consists of securities of the type permitted by the provisions of the Public Funds Collateral Act, Title 10, Chapter 2257 of the

CITY OF CRESSON, TX  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2020

Texas Government Code. They are held in custody and safekeeping by The Federal Reserve Bank Operating Circular 7.

**Note 3 – Changes in Capital Assets**

The City's fixed assets activity during the year was as follows:

	Balance September 30, 2019	Increases	Decreases	Balance September 30, 2020
<b>Governmental Activities</b>				
Depreciable Capital Assets				
Equipment	\$ -	\$ 10,501	\$ -	\$ 10,501
Furniture and Fixtures	43,237	-	-	43,237
Infrastructure	934,497	158,433	-	1,092,930
Vehicles	15,200	20,000	-	35,200
Less Accumulated Depreciation	<u>582,285</u>	<u>46,489</u>	<u>-</u>	<u>628,774</u>
Net Depreciable Capital Assets	410,649	142,445	-	553,094
Non-Depreciable Capital Assets				
Land	570,590	-	-	570,590
Construction in Progress	<u>27,528</u>	<u>-</u>	<u>27,528</u>	<u>-</u>
Total Non-Depreciable Capital Assets	<u>598,118</u>	<u>-</u>	<u>27,528</u>	<u>570,590</u>
Total Governmental Activities	<u>\$ 1,008,767</u>	<u>\$ 142,445</u>	<u>\$ 27,528</u>	<u>\$ 1,123,684</u>
<b>Business-Type Activities</b>				
Depreciable Capital Assets				
Equipment	\$ 54,862	\$ 37,685	\$ -	\$ 92,547
Infrastructure	1,217,302	725,758	-	1,943,060
Accumulated Depreciation	<u>542,029</u>	<u>63,722</u>	<u>-</u>	<u>605,751</u>
Net Depreciable Capital Assets	730,135	699,721	-	1,429,856
Non-Depreciable Capital Assets				
Land	25,878	-	-	25,878
Construction in Progress	<u>2,000</u>	<u>-</u>	<u>2,000</u>	<u>-</u>
Total Non-Depreciable Capital Assets	<u>27,878</u>	<u>-</u>	<u>2,000</u>	<u>25,878</u>
Total Business-Type Activities	<u>\$ 758,013</u>	<u>\$ 699,721</u>	<u>\$ 2,000</u>	<u>\$ 1,455,734</u>
Primary Government Net Capital Assets	<u>\$ 1,766,780</u>	<u>\$ 842,166</u>	<u>\$ 29,528</u>	<u>\$ 2,579,418</u>

Depreciation expense is charged as direct expense to programs of the primary government as follows:

<b>Governmental Activities</b>	
General Government and Administration	\$ 46,489
Total Depreciation Expense	<u>\$ 46,489</u>
<b>Business-Type Activities</b>	
Water	\$ 63,722
Total Depreciation Expense	<u>\$ 63,722</u>

CITY OF CRESSON, TX  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2020

**Note 4 – Insurance in Force**

An umbrella policy is issued by TML-Municipal Liability Joint Self Insurance fund. The policy renewed October 1, 2020.

Coverage	Limit per Occurrence	Deductible
General Liability	\$5,000,000	None
Error & Omissions Liability	\$1,000,000	\$1,000
Automobile Liability	\$1,000,000	\$10,000
Real and Personal Property	\$3,198,086	\$250
Flood	\$1,500,000	\$10,000
Earthquake	\$3,198,086	\$10,000
Boiler and Machinery	\$100,000	\$250

In addition, the City has a \$50,000 surety bond covering all three employees and the required workers compensation insurance, and cyber liability coverage.

The cost for insurance coverage for the year ended September 30, 2020 was \$6,278.

**Note 5 – Thrash Lease Obligation**

On July 30, 2008, the City (lessee) entered into a twelve-year ground lease agreement with Christine Thrash Family Limited Partnership (lessor) for the lease of 4.44 acres on which the Wastewater Treatment Facility is located. Remaining lease obligation are as follows:

Period Ended	Amount
July 31, 2020	<u>\$19,980</u>
Total	<u>\$19,980</u>

If the lease is extended in 2021, the amount will be \$22,200 per year for the first four-year extension and \$24,420 per year for the second four-year extension after July 30, 2020.

In addition, the City is responsible for all improvements, all operating expenses pertaining to the lease, and the removal of all improvements at the end of the lease.

**Note 6 – Operating Leases**

The City is leasing a copier/printer under an operating lease with a term of 5 years, beginning December 2017 financed through U. S. Bank with option to renew and upgrade the copier. Monthly lease payments are \$416 per month including print and scan usage under a maintenance contract. The City has paid \$5,757 to U. S. Bank as of September 30, 2019.

CITY OF CRESSON, TX  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2020

**Note 7 – Long Term Debt**

On December 19, 2012, the City borrowed \$575,000 to purchase real property. The loan is classified as a direct borrowing and bears interest at 4.75% with monthly payments of \$3,023 beginning January 19, 2013, maturing December 19, 2030 and is secured by the real estate. The note maturity is as follows:

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	23,915	12,360	36,275
2022	25,076	11,199	36,275
2023	26,293	9,982	36,275
2024	27,570	8,705	36,275
2025	28,908	7,367	36,275
2026 - 2030	139,321	14,806	154,127
	<u>\$ 271,083</u>	<u>\$ 64,419</u>	<u>\$ 335,502</u>

During fiscal year 2020, the City paid \$34,504 principal and \$13,771 interest on the note.

**Note 8 – Fund Balance**

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, requires governmental fund balances to be reported as non-spendable, restricted, committed, assigned or unassigned. The City Council of the City of Cresson has reported its governmental fund balance as follows:

*Non-spendable:* There is no non-spendable fund balance.

*Restricted:* Total restricted cash and fund balance is \$571,053 and \$320,142 as of September 30, 2020, respectively. Restricted cash consists of the following:

- (1) \$192,576 is restricted by Texas state code to be used for the growth of tourism. The income is generated from hotel/motel taxes which amounted to \$11,342 for the year ended September 30, 2020 – the entire amount was unspent for its restricted purpose and added to the accumulated previous balance.
- (2) A portion of the local sales tax revenue is restricted for repairs of existing City streets. A portion of the 2020 revenue and some of the accumulated revenue from prior years was spent for the purpose for which it is restricted resulting in an accumulated balance of \$127,566 restricted for repairs and maintenance of existing streets.
- (3) During the prior year, the City received a deposit of \$250,000 from a developer to insure the completion of the wastewater treatment plant in the new Cresson Crossroads development. The deposit is in a separate bank account and is restricted by the City for that purpose and has earned interest of \$911 since the opening of the account. Once construction is complete, the deposit will be refunded to the contractor.

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020

*Committed:* There is no committed funded balance as of September 30, 2020.

*Assigned:* There are no assigned funded balances as of September 30, 2020.

*Unassigned:* \$467,757 is the fund balance that is not in any of the above categories.

**Note 9 – Related Party Transactions**

The City is a party to an agreement dated January 23, 2007 with Vail Management Company whereby the City is to reimburse Vail for its costs to construct a water system on 297.25 acres known as the Motorsport Ranch (MSR) development. The City is to remit 70% of net water revenue from MSR to Vail for a period of twenty years.

The amount remitted to Vail Management during the year September 30, 2020 was \$9,917. At the end of the twenty years, the City's obligation under this agreement will be considered paid in full. The City has no other obligations other than to pay for operating expenses and repairs to the water system.

Jack Farr, a city councilman, is the President and owner of Vail Management Company.

**Note 10 – Customer Deposits Liability**

The City began charging a refundable deposit to utility customers in recent years. The amount in Customer Deposits is based on records the City found beginning in fiscal year-end 2012. Since prior year records were not available the amount may still be understated; however, it is not likely to be material to the financial statements taken as a whole.

**Note 11 – General Fund Receivables**

Receivables at the year-end consist of the following amounts expected to be fully collectible:

Fines and Fees Receivable	\$5,428
Hotel Tax Receivable	\$3,040
Sales Tax Receivable	<u>\$40,101</u>
Total	<u>\$48,569</u>

**Note 12 – Restricted Sales Taxes**

During the year, the City collected \$196,730 in sales taxes restricted for maintenance and repairs on existing streets and spent \$158,432 for restricted purpose, resulting in a remaining balance of \$127,566 available to be spent at a future date for the restricted purpose.

**Note 13 – Interfund Balances**

The City's general fund is due \$2,001 from the water and sewer department. The \$2,001 receivable is shown as an asset on the government wide statement of net position for

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 FOR THE YEAR ENDED SEPTEMBER 30, 2020

presentation purposes to avoid a negative balance in the business-activities liability balances. The \$2,001 balance due to the general fund is presented as a payable under the business-activities column in the government-wide statement of net position.

**Note 14 - Bluebonnet Hills Water Corporation**

In November 2016, the City contracted with Bluebonnet Hills Water Corporation (BBH) to operate their system for existing BBH customers until the system and assets can be formally transferred to the City. The City assumed full control over BBH customer billing and collection on November 6, 2020.

**Note 15 – Operating Transfers**

The City from time to time makes transfers between funds based on the individual fund's needs. The City's transfers to and from are as follows:

	In	Out
General Fund		
Transfer to Hotel/Motel	\$ -	\$ 403,954
Transfer to Water and Sewer	-	192,568
Hotel/Motel Fund		
Transfer from General Fund	403,954	-
Grant Fund		
Transfer to Water and Sewer Fund	-	260,250
Water and Sewer		
Transfer from General Fund	192,568	-
Transfer from Grant Fund	260,250	-
	\$ 856,772	\$ 856,772

**Note 16 – Subsequent Events**

The City has evaluated all other events and transactions occurring subsequent to September 30, 2020, as of June 10, 2021, date the financial statements were available to be issued. Based on management's review, there are currently no such events which need to be accounted for or disclosed in the financial statements.

## Required Supplementary Information



**CITY OF CRESSON, TEXAS  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND ASSETS  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Budgeted Items		Actual Amount	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Fees	\$ 71,700	\$ 71,700	\$ 116,032	\$ 44,332
Permits	66,150	66,150	55,964	(10,186)
Tax Revenue	592,000	592,000	601,533	9,533
Other Income	129,700	129,700	267,349	137,649
<b>Total Revenues</b>	<u>859,550</u>	<u>859,550</u>	<u>1,040,878</u>	<u>181,328</u>
<b>Expenditures</b>				
Current Operating Expenses				
General Government	368,775	368,775	258,659	110,116
Debt Service	48,276	48,276	48,275	1
Capital Outlay				
Park Improvements	100,000	100,000	-	100,000
Street Improvements	229,700	229,700	188,933	40,767
<b>Total Expenditures</b>	<u>746,751</u>	<u>746,751</u>	<u>495,867</u>	<u>250,884</u>
<b>Excess of Revenues and Expenditures     Before Transfers</b>	112,799	112,799	545,011	432,212
<b>Operating Transfers out</b>	-	-	(636,676)	(636,676)
<b>Excess of Revenues over Expenditures</b>	112,799	112,799	(91,665)	(204,464)
<b>Fund Balance- Beginning of Year</b>	880,475	880,475	880,475	-
Prior Period Adjustment	-	-	-	-
<b>Fund Balance- End of Year</b>	<u>\$ 993,274</u>	<u>\$ 993,274</u>	<u>\$ 788,810</u>	<u>\$ (204,464)</u>

1. The Original and Final Budget were the same.

See Independent Auditors' Report and Notes to the Financial Statements

**CITY OF CRESSON, TX**  
**SCHEDULE OF FINDINGS – FINANCIAL STATEMENT AUDIT**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**Current Audit Matters**

**Reference 2020-001**

**Condition**

The following account balances required adjusting entries on the City's financial statements:

1. Grant revenues in the amount of \$260,250 was understated due to the omission of recording the revenues during the year in the amount of \$244,025 and misclassifying revenues as expense reductions in the amount of \$16,225.
2. Expenditures for capital improvements paid out of the grant fund for the water and sewer fund in the amount of \$220,750 were omitted during the year and \$39,500 was classified as another expense incorrectly.
3. Bank reconciliations and other monitoring procedures for the grant fund did not detect the missing revenues and expenses and misclassifications noted in items 1 and 2.

**Criteria**

All financial statement accounts should be properly reconciled and stated prior to close of the City's books at month and year end by the City's Finance Department staff. City management is responsible for establishing effective internal controls over financial policies.

**Cause**

Bank reconciliation procedures do not require the printing of the reconciliation statement but rather the writing of reconciled, initialing, and dating the bank statement. Bank reconciliation procedures also do not require management's review of the bank reconciliation procedure by having management sign off on the bank reconciliation worksheet. Lack of reconciliation of grant revenues to grant draw reports.

**Effect**

Potentially material misstatements in the financial statements or material instances of assets due to error of fraud could occur and not be prevented or detected in a timely manner.

**Recommendation**

The mayor should review all bank reconciliation reports, grant revenue draws, and other revenue and expense items to the general ledger for potential adjusting entries at the end of each month and year end as part of the ongoing closing process. Generally accepted accounting principles should be applied to produce fairly stated financial statements.

**Views of Responsible Officials and Planned Corrective Actions:**

1. The mayor will review all bank reconciliation reports now required to be printed and attached to the bank statements for final review and approval.
2. All revenues will be reviewed against related support and compared to the general ledger each month as part of the closing process.
3. Grant revenues and expenses will flow through the bank accounts designated for grant funds and draw reports will be matched to the general ledger as part of the closing process.
4. Grant funds used for the purposes of other funds will be transferred from one bank account to the other if permissible by the granting agency and paid from the respective fund's bank account.

**Prior Audit Matters**

None

