

**CITY OF CRESSON, TEXAS
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

**Christopher A. Turner, PLLC CPA
5411 Plaza Drive, Suite F
Texarkana, TX 75503**

**CITY OF CRESSON, TEXAS
SEPTEMBER 30, 2021**

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Cresson, TX

Report on the Audit of the Financial Statements

Opinions

I 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, 2021, 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.

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, each major fund, and the aggregate remaining fund information of the City of Cresson, TX, as of September 30, 2021, 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.

Basis for Opinions

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. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the City of Cresson, TX and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Cresson, TX's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 City of Cresson, TX's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Cresson, TX's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that I identified during the audit.

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) 4–10 and 29 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated March 31, 2023, on my consideration of the City of Cresson, TX's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 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 City of Cresson, TX's internal control over financial reporting and compliance.

Christopher A. Turner, PLLC CPA

Christopher A. Turner, PLLC CPA
March 31, 2023

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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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Cresson, TX, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise City of Cresson, TX's basic financial statements, and have issued my report thereon dated March 31, 2023.

Report on Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered City of Cresson, TX's internal control over financial reporting (internal control) as a basis for designing 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 City of Cresson, TX's internal control. Accordingly, I do not express an opinion on the effectiveness of 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.

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. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Cresson, TX'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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

Christopher A. Turner, PLLC CPA
March 31, 2023

CITY OF CRESSON, TX
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

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, 2021. 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 \$3,979,593 as of September 30, 2021. Of this amount \$1,210,531 is unrestricted and may be used to meet future obligations: \$981,183 in the government activities and \$229,348 in the business activities.
- The government-wide net position increased \$807,953 during the current fiscal year. Net position of governmental activities increased by \$751,831 from the previous year. Net position of the business activities increased by \$56,122 from the previous year.
- The net position of the governmental funds totaled \$1,416,161 as of September 30, 2021. Of this amount \$981,183 is unassigned and may be used to meet future obligations and was 69 percent of the fund balances.
- The net position of the water fund totaled \$1,586,351 as of September 30, 2021. Of this amount \$229,348 is unrestricted and may be used to meet future obligations. The remaining \$1,357,003 is in investments in capital assets, net of related debt.

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

CITY OF CRESSON, TX
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

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-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 government-wide financial statements. However, unlike 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.

CITY OF CRESSON, TX
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

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.

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 \$23,912 under budget. However, the City did not budget for transfers to other funds which was over the budgeted amount by \$112,865. In addition, the actual revenues exceeded the budget by \$686,122. Revenues exceeded the budget due to an increase in the amount of sales tax collected, permits, and grant funds received during the year.

City Highlights

The City of Cresson, TX maintained a net position of \$3,979,593 as of September 30, 2021.

Statement of Net Position

Included below is a Statement of Net Position as of September 30, 2021 and 2020 for the City of Cresson, TX. The format allows the reader to view the overall financial position of the City.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Current and Other Assets	\$ 1,672,732	\$ 1,043,340	\$ 337,646	\$ 183,943	\$ 2,010,378	\$ 1,227,283
Capital Assets	1,226,899	1,123,684	1,419,058	1,455,734	2,645,957	2,579,418
Total Assets	<u>2,899,631</u>	<u>2,167,024</u>	<u>1,756,704</u>	<u>1,639,677</u>	<u>4,656,335</u>	<u>3,806,701</u>
Liabilities						
Total Liabilities	<u>506,389</u>	<u>525,613</u>	<u>170,353</u>	<u>109,448</u>	<u>676,742</u>	<u>635,061</u>
Net Position						
Invested in Capital Assets	977,081	852,601	1,357,003	1,455,734	2,334,084	2,308,335
Restricted	434,978	320,142	-	-	434,978	320,142
Unrestricted	981,183	468,668	229,348	74,495	1,210,531	543,163
Total Net Position	<u>\$ 2,393,242</u>	<u>\$ 1,641,411</u>	<u>\$ 1,586,351</u>	<u>\$ 1,530,229</u>	<u>\$ 3,979,593</u>	<u>\$ 3,171,640</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, 2021 exceeded liabilities by \$3,979,593. As of September 30, 2021, the City reported positive balances in three categories of the net position: for the government as a whole the net position balance was \$3,979,593, for the Governmental funds \$2,393,242, and Enterprise fund \$1,586,351.

CITY OF CRESSON, TX
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

The largest portion of the City's net position in the amount of \$2,334,084 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. Restricted Net Assets totaled \$434,978 and the nature of the restrictions are detailed in Note 6 of the related notes to the financial statements.

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, permits, and grant 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 \$1,672,732 consist of cash and cash equivalents in the amount of \$894,690, restricted cash in the amount of \$684,978, due from other funds in the amount of \$2,001, and receivables net of allowances in the amount of \$91,063.

Capital assets totaling \$1,226,899 (net of accumulated depreciation) represent the City's investment in capital assets necessary to provide services to citizens of the City of Cresson, TX. Capital assets increased during the year due to new road improvements and the recording of a right to use asset as a result of the new accounting for leases pronouncement.

Liabilities totaling \$506,389 consist of accrued liabilities in the amount of \$6,571, deposits from contractor in the amount of \$250,000, right to use liability in the amount of \$7,832, and long-term debt in the amount of \$241,986.

Business Activities – Statement of Net Position

Current and other assets totaling \$337,646 consist of cash and cash equivalents in the amount of \$248,999 and receivables net of allowances in the amount of \$88,647.

Capital assets totaling \$1,419,058 (net of accumulated depreciation) represent the City's investment in capital assets necessary to provide services to citizens of the City of Cresson, TX. Capital asset increased during the year due to the new lease accounting rules in which a right to use assets and its related liability are to be recognized.

Liabilities totaling \$170,353 consist of accrued liabilities in the amount of \$15,048, deposits from customers in the amount of \$90,889, right to use liability in the amount of \$62,055, and due to other funds in the amount of \$2,001.

**CITY OF CRESSON, TX
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

Statement of Activities

Governmental and business-type activities increased the City's net position by \$807,953. 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, 2021 and 2020.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Revenues						
PROGRAM REVENUES						
Charges for Services	\$ 117,749	\$ 55,964	\$ 539,476	\$ 491,493	\$ 657,225	\$ 547,457
Grant Revenues	204,308	260,250	-	-	204,308	260,250
GENERAL REVENUES						
Sales Taxes	924,314	590,191	-	-	924,314	590,191
Franchise Taxes	65,274	60,068	-	-	65,274	60,068
Hotel/Motel Taxes	12,349	11,342	-	-	12,349	11,342
Investment Earnings	1,225	2,180	160	247	1,385	2,427
Miscellaneous Income	78,712	60,883	2,823	1,100	81,535	61,983
Total Revenues	1,403,931	1,040,878	542,459	492,840	1,946,390	1,533,718
EXPENSES						
General Government	539,235	318,919	-	-	539,235	318,919
Water and Sanitation	-	-	599,202	533,976	599,202	533,976
Total Expenses	539,235	318,919	599,202	533,976	1,138,437	852,895
OPERATING TRANSFERS IN (OUT)	(112,865)	(664,204)	112,865	664,204	-	-
CHANGE IN NET POSITION	751,831	57,755	56,122	623,068	807,953	680,823
Net Position - Beginning	1,641,411	1,583,656	1,530,229	907,161	3,171,640	2,490,817
NET POSITION - ENDING	\$ 2,393,242	\$ 1,641,411	\$ 1,586,351	\$ 1,530,229	\$ 3,979,593	\$ 3,171,640

Governmental Activities

General revenues for governmental activities totaled \$1,403,931 of which 67% was sales tax, 15% was grants revenues, 5% was franchise revenues, 5% was for other revenues, and 8% was charges for services. Charges for services consist of licenses and permit fee charges.

For the fiscal year September 30, 2021, expenses for governmental activities totaled \$539,235. The City's largest funded program is for highways and streets (7%). The governmental activities had an increase to net assets of \$751,831 compared to the prior year of \$57,755. This was due mostly to an increase in sales tax revenues, permits, grant revenues, and a reduction in transfers to other funds.

Business-type Activities

While water revenues and expenditures both increased over the prior year, the current year net asset increased in the water department net position was \$56,122 which is less than the operating income from the prior year of \$623,068 which was primarily due to the decrease in transfers in from the general and grant fund accounts.

**CITY OF CRESSON, TX
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

Capital Assets

At the end of the fiscal year 2021, the City had \$2,645,957 invested in capital assets including land, right to use asset, buildings, infrastructure, and equipment as shown below, net of depreciation:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Land	\$ 570,590	\$ 570,590	\$ 25,878	\$ 25,878	\$ 596,468	\$ 596,468
Right to Use Assets	7,090	-	66,788	-	73,878	-
Infrastructure	613,345	512,159	1,279,754	1,376,936	1,893,099	1,889,095
Equipment, Furniture, Software	35,874	40,934	46,638	52,920	82,512	93,854
	<u>\$ 1,226,899</u>	<u>\$ 1,123,683</u>	<u>\$ 1,419,058</u>	<u>\$ 1,455,734</u>	<u>\$ 2,645,957</u>	<u>\$ 2,579,417</u>

The net change in capital assets from the prior year for governmental activities was due to an increase in fixed assets during the year for road improvements and the recording of the right to use assets. Additional information on the City's capital assets can be found in Note 3, pages 24 - 25 of this report.

ECONOMIC FACTORS

The City's elected and appointed officials considered many factors when setting the fiscal year 2021-2022 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 corporations on relocation incentives.

These indicators are considered when adopting the general fund budget for the next fiscal year. The 2021-2022 revenues are budgeted at \$1,618,545 which consists of \$1,074,545 for the general fund and \$544,000 for the water and sewer fund, an increase of \$346,165 from the current fiscal year due to an increase in sales tax revenues expected to be received in the next budget year.

During the fiscal year of September 30, 2021, the City paid \$1,000 per month extra in principal on its building note using accumulated cash for five months. The City's plan is to resume this additional principal payment in 2022.

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

CITY OF CRESSON, TX
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

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, 2021**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 894,690	\$ 248,999	\$ 1,143,689
Receivable from Other Funds	2,001	-	2,001
Receivables, Net of Allowance	91,063	88,647	179,710
TOTAL CURRENT ASSETS	987,754	337,646	1,325,400
RESTRICTED ASSETS			
Restricted Cash	684,978	-	684,978
TOTAL RESTRICTED ASSETS	684,978	-	684,978
CAPITAL ASSETS			
Non-Depreciable Assets	570,590	25,878	596,468
Depreciable Assets, Net of Depreciation	656,309	1,393,180	2,049,489
	1,226,899	1,419,058	2,645,957
TOTAL ASSETS	2,899,631	1,756,704	4,656,335
LIABILITIES			
CURRENT LIABILITIES			
Accrued Liabilities	6,571	15,408	21,979
Deposit from Contractor	250,000	-	250,000
Due to Other Funds	-	2,001	2,001
Customer Deposits	-	90,889	90,889
Current Portion of Right to Use Liability	6,317	19,596	25,913
Current Portion of Long Term Debt	25,327	-	25,327
TOTAL CURRENT LIABILITIES	288,215	127,894	416,109
LONG TERM LIABILITIES			
Right to Use Liability	1,515	42,459	43,974
Note Payable, Land and Building	216,659	-	216,659
TOTAL LONG TERM LIABILITIES	218,174	42,459	260,633
TOTAL LIABILITIES	506,389	170,353	676,742
NET POSITION			
Net Investment in Capital Assets	977,081	1,357,003	2,334,084
Restricted	434,978	-	434,978
Unrestricted	981,183	229,348	1,210,531
TOTAL NET POSITION	\$ 2,393,242	\$ 1,586,351	\$ 3,979,593

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, 2021

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	
PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES						
General Government	\$ 527,056	\$ 117,749	\$ 204,308	\$ (204,999)	\$ -	\$ (204,999)
Debt Service	12,179	-	-	(12,179)	-	(12,179)
TOTAL GOVERNMENT	<u>539,235</u>	<u>117,749</u>	<u>204,308</u>	<u>(217,178)</u>	<u>-</u>	<u>(217,178)</u>
BUSINESS-TYPE ACTIVITIES						
Water Department	599,202	539,476	-	-	(59,726)	(59,726)
TOTAL BUSINESS-TYPE	<u>599,202</u>	<u>539,476</u>	<u>-</u>	<u>-</u>	<u>(59,726)</u>	<u>(59,726)</u>
TOTAL ACTIVITY	<u>\$ 1,138,437</u>	<u>\$ 657,225</u>	<u>\$ 204,308</u>	<u>\$ (217,178)</u>	<u>\$ (59,726)</u>	<u>\$ (276,904)</u>
GENERAL REVENUES						
Sales Taxes				924,314	-	924,314
Franchise Fees				65,274	-	65,274
Hotel/Motel Tax				12,349	-	12,349
Miscellaneous Revenue				78,712	2,823	81,535
Investment Earnings				1,225	160	1,385
Transfers				(112,865)	112,865	-
TOTAL GENERAL REVENUES				<u>969,009</u>	<u>115,848</u>	<u>1,084,857</u>
TOTAL GENERAL REVENUES AND OTHER SOURCES						
CHANGE IN NET POSITION				751,831	56,122	807,953
NET POSITION - BEGINNING				1,641,411	1,530,229	3,171,640
NET POSITION - ENDINGS				<u>\$ 2,393,242</u>	<u>\$ 1,586,351</u>	<u>\$ 3,979,593</u>

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

**CITY OF CRESSON, TX
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2021**

	General Fund	Total Governmental Fund
ASSETS		
Cash and Cash Equivalents	\$ 894,690	\$ 894,690
Due from Water Fund	2,001	2,001
Receivables	91,063	91,063
Restricted Cash	684,978	684,978
TOTAL ASSETS	\$ 1,672,732	\$ 1,672,732
LIABILITIES		
Accrued Liabilities	\$ 6,571	\$ 6,571
Deposits from Developer	250,000	250,000
TOTAL LIABILITIES	256,571	256,571
FUND BALANCES		
Restricted	434,978	434,978
Unassigned	981,183	981,183
TOTAL FUND BALANCES	1,416,161	1,416,161
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,672,732	\$ 1,672,732

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, 2021**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 1,416,161
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 \$1,917,506 and the accumulated depreciation was \$683,516. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net position.	1,219,809
Certain Lease Expenditures are additions to Right of Use Assets and therefore not reported as expenditures in governmental activities. The net effect of right of use expenditures are increases to net position for governmental activities.	7,090
Right to use liabilities are not are not reported in the governmental funds. At the end of the year the balance of long term debt was \$7,832. The net effect of including the beginning balance of long term debt in the governmental activities is to decrease net position.	(7,832)
Long term debt is not reported in the governmental funds. At the end of the year the balance of long term debt was \$241,986. The net effect of including the beginning balance of long term debt in the governmental activities is to decrease net position.	(241,986)
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 2,393,242

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, 2021

		<u>General Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Sales Taxes - Unrestricted	\$ 616,352		
Sales Taxes - Restricted for Streets	<u>307,963</u>	\$ 924,315	\$ 924,315
Franchise Fees		65,274	65,274
Hotel/Motel Taxes - Restricted		12,349	12,349
Licenses and Permits		117,749	117,749
Grant Revenue		204,308	204,308
Investment Earnings		1,225	1,225
Miscellaneous Income		78,712	78,712
TOTAL REVENUES		<u>1,403,932</u>	<u>1,403,932</u>
EXPENDITURES			
General Government		471,573	471,573
Capital Outlay		150,868	150,868
Debt Service Principal	29,096		
Debt Service Interest	<u>12,179</u>	<u>41,275</u>	<u>41,275</u>
TOTAL EXPENDITURES		<u>663,716</u>	<u>663,716</u>
Excess (Deficiency) of Revenues over (under) Expenditures		<u>740,216</u>	<u>740,216</u>
OTHER FINANCING SOURCES (USES)			
Transfers out		<u>(112,865)</u>	<u>(112,865)</u>
TOTAL OTHER FINANCING SOURCES (USES)		<u>(112,865)</u>	<u>(112,865)</u>
NET CHANGE IN FUND BALANCE		627,351	627,351
FUND BALANCE - BEGINNING OF YEAR		788,810	788,810
FUND BALANCE - END OF YEAR		<u>\$ 1,416,161</u>	<u>\$ 1,416,161</u>

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, 2021

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 627,351
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 2021 capital outlays is an increase of \$150,868.	150,868
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.	(54,742)
Amortization of leases 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 amortization is to decrease net position.	(742)
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.	29,096
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 751,831</u>

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

**CITY OF CRESSON, TX
STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2021**

	Business-type Activities
	Water and Sewer Revenue Fund
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 248,999
Accounts Receivable, Net of Uncollectible Allowance	88,647
TOTAL CURRENT ASSETS	337,646
NONCURRENT ASSETS	
CAPITAL ASSETS	
Land and Improvements	25,878
Infrastructure and Equipment, Net of Accumulated Depreciation	1,393,180
TOTAL NONCURRENT ASSETS	1,419,058
TOTAL ASSETS	\$ 1,756,704
LIABILITIES	
CURRENT LIABILITIES	
Accrued Liabilities	\$ 15,408
Due to General Fund	2,001
Current Portion of Right to Use Liability	19,596
Customer Deposits	90,889
TOTAL LIABILITIES	127,894
LONG TERM LIABILITIES	
Right to Use Liability	42,459
TOTAL LONG TERM LIABILITIES	42,459
TOTAL LIABILITIES	170,353
NET POSITION	
Net Investment in Capital Assets	1,357,003
Unrestricted	229,348
TOTAL NET POSITION	\$ 1,586,351

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

CITY OF CRESSON, TX
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Business-type Activities
	Water and Sewer Revenue Fund
OPERATING REVENUES	
Charge for Services	\$ 539,476
Other Revenue	2,823
Interest Earnings	160
TOTAL OPERATING REVENUES	542,459
OPERATING EXPENSES	
Personnel Services - Salaries and Wages	84,313
Operations	208,693
Maintenance and Supplies	188,124
Amortization of ROUA	14,608
Depreciation	103,464
TOTAL OPERATING EXPENSES	599,202
INCOME (LOSS) BEFORE TRANSFERS	(56,743)
OTHER FINANCING SOURCES (USES)	
Transfers In	112,865
CHANGE IN NET POSITION	56,122
TOTAL NET POSITION - BEGINNING	1,530,229
TOTAL NET POSITION - ENDING	\$ 1,586,351

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, 2021**

	Business-type Activities
	Water and Sewer Revenue Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 544,244
Cash Paid to Employees	(84,313)
Cash Payments to Suppliers for Goods and Services	(399,752)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	60,179
CASH FLOWS FROM NONCAPITAL AND FINANCING ACTIVITIES	
Transfers In	112,865
NET CASH PROVIDED (USED) BY NONCAPITAL AND FINANCING ACTIVITIES	112,865
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Right of Use Liability Payments	(19,340)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(19,340)
NET INCREASE (DECREASE) IN CASH	153,704
CASH - BEGINNING OF YEAR	95,295
CASH - END OF YEAR	\$ 248,999
Reconciliation of operating income (loss) to net cash provided by operating activities	
Operating Income (Loss)	\$ (56,743)
Adjustments to reconcile operating income to net cash provided by	
Operations	
Depreciation	103,464
Amortization of ROUA	14,608
Changes in assets and liabilities	
Increase (decrease) in accounts payable and other liabilities	(1,150)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 60,179

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, 2021

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, 2021.

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 by a given program

CITY OF CRESSON, TX
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

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 funds 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, 2021.

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.

Governmental Funds

Fund Financial Statements

Fund financial statements are provided for governmental and proprietary funds.

Major Governmental Fund

CITY OF CRESSON, TX
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

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, 2021.

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, 2021.

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 budget 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.

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.

CITY OF CRESSON, TX
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

Capital Assets and Depreciation

The City's property, equipment, and infrastructure with useful lives of more than one year are stated 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 stated 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.

New Accounting Policies Implementation

For 2021, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. GASB Statement No. 87 enhances the relevance and consistency of information of the government's leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. These changes were incorporated in the City's 2021 financial statements and had an no effect on the beginning net position of the General Fund and Proprietary Fund.

Note 2 – Collateralization of Deposits

At year-end, the carrying amount of the City's deposits, presented as cash equivalents (checking accounts) consists of \$1,143,689 plus restricted cash of \$684,978. The bank balances were fully covered by federal depository insurance and pledged security at the year end.

CITY OF CRESSON, TX
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

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

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. 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, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) banker's acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Public Funds Investment Act (PFIA) governs the City's investment policies and types of investments. The City's management believes that it complied with the requirements of the PFIA and the City's investment policies.

Note 3 – Changes in Capital Assets

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

	Balance September 30, 2020	Increases	Decreases	Balance September 30, 2021
Governmental Activities				
Depreciable Capital Assets				
Equipment	\$ 10,501	\$ -	\$ -	\$ 10,501
Furniture and Fixtures	43,237	-	-	43,237
Infrastructure	1,092,930	150,867	-	1,243,797
Vehicles	35,200	-	-	35,200
Right to use Asset	-	14,181	-	14,181
Less Accumulated Amortization of ROUA	-	7,091	-	7,091
Less Accumulated Depreciation	628,774	54,742	-	683,516
Net Depreciable Capital Assets	553,094	103,215	-	656,309
Non-Depreciable Capital Assets				
Land	570,590	-	-	570,590
Total Non-Depreciable Capital Assets	570,590	-	-	570,590
Total Governmental Activities	\$ 1,123,684	\$ 103,215	\$ -	\$ 1,226,899

CITY OF CRESSON, TX
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

Business-Type Activities				
Depreciable Capital Assets				
Equipment	\$ 92,547	\$ -	\$ -	\$ 92,547
Infrastructure	1,943,060	-	-	1,943,060
Right to Use Asset	-	81,396	-	81,396
Less Accumulated Amortization of ROUA	-	14,608	-	14,608
Less Accumulated Depreciation	605,751	103,464	-	709,215
Net Depreciable Capital Assets	<u>1,429,856</u>	<u>(36,676)</u>	<u>-</u>	<u>1,393,180</u>
Non-Depreciable Capital Assets				
Land	25,878	-	-	25,878
Total Non-Depreciable Capital Assets	<u>25,878</u>	<u>-</u>	<u>-</u>	<u>25,878</u>
Total Business-Type Activities	<u>\$ 1,455,734</u>	<u>\$ (36,676)</u>	<u>\$ -</u>	<u>\$ 1,419,058</u>
Primary Government Net Capital Assets	<u>\$ 2,579,418</u>	<u>\$ 66,539</u>	<u>\$ -</u>	<u>\$ 2,645,957</u>

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

Governmental Activities	
General Government and Administration	\$ 61,833
Roads and Streets	-
Total Depreciation Expense - Governmental Activities	<u>\$ 61,833</u>
Business-Type Activities	
Water	\$ 118,072
Total Depreciation Expense - Business-Type Activities	<u>\$ 118,072</u>

Thrash Lease – 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. The lease was extended in 2021, in which the monthly amount was \$22,200 per year for the year ended September 30, 2021 for the first four-year extension and will be \$24,420 per year for the second four-year extension after July 30, 2025. This lease qualifies to be under the new lease accounting rules to be treated as a right to use assets and as such the City has adopted the new leasing standard effective for the current year. In addition to the annual lease payment requirement, 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. See Note 5 regarding the current and long-term portion of the ROUL.

Copier Lease – 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. This lease also qualifies under the new leasing standards and the City has adopted the standard for the remaining life of the lease agreement which includes the current year and the subsequent year. See Note 5 regarding the current and long-term portion of the ROUL.

Note 4 – Insurance in Force

An umbrella policy is issued by TML-Municipal Liability Joint Self Insurance fund. The policy was renewed on October 1, 2021.

CITY OF CRESSON, TX
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

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, 2021 was \$9,070.

Note 5 – 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, 2042 and is secured by the real estate. During fiscal year 2021, the City paid \$29,096 principal and \$12,179 interest on the note.

Governmental activities long-term debt transactions for the year ending September 30, 2021 are summarized below:

Governmental Activities	October 1, 2020	Additions	Retirements	September 30, 2021	Due within one year
Right to Use Payable	\$ -	\$ 14,181	\$ 6,349	\$ 7,832	\$ 6,317
Note Payable	271,082	-	29,096	241,986	25,327
	<u>\$ 273,102</u>	<u>\$ 14,181</u>	<u>\$ 35,445</u>	<u>\$ 251,839</u>	<u>\$ 31,644</u>

Business-type transactions for the year ended September 30, 2021 long-term debts are summarized as following:

Business-Type Activities	October 1, 2020	Additions	Retirements	September 30, 2021	Due within one year
Right to Use Payable	\$ -	\$ 81,395	\$ 19,340	\$ 62,055	\$ 19,596
	<u>\$ -</u>	<u>\$ 81,395</u>	<u>\$ 19,340</u>	<u>\$ 62,055</u>	<u>\$ 19,596</u>

The governmental activities note maturity is as follows:

Fiscal Year Ended	Principal	Interest	Total
2022	25,327	10,948	36,275
2023	26,557	9,718	36,275
2024	27,845	8,429	36,275
2025	29,198	7,077	36,275
2026	30,616	5,659	36,275
2027 - 2030	102,442	7,773	110,215
	<u>\$ 241,986</u>	<u>\$ 49,604</u>	<u>\$ 291,590</u>

CITY OF CRESSON, TX
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

The annual requirements for governmental activities for the right to use asset liability, as of September 30, 2021 is as follows:

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	6,317	252	6,569
	\$ 6,317	\$ 252	\$ 6,569

The annual requirements for business-type activities for the right to use asset liability, as of September 30, 2021 is as follows:

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	19,596	2,604	22,200
2023	20,543	1,657	22,200
2024	21,916	284	22,200
	\$ 62,055	\$ 4,545	\$ 66,600

Note 6 – 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 \$684,978 and \$434,978 as of September 30, 2021, respectively. Restricted cash consists of the following:

1. \$188,116 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 \$12,349 for the year ended September 30, 2021 – 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 to repairs of existing City streets. A portion of the 2021 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 \$245,701 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 \$1,161 since the opening of the account. Once construction is complete, the deposit will be refunded to the contractor.

Committed: There is no committed funded balance as of September 30, 2021.

Assigned: There are no assigned funded balances as of September 30, 2021.

Unassigned: \$981,183 is the fund balance that is not in any of the above categories.

CITY OF CRESSON, TX
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

Note 7 – 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, 2021 was \$5,223. 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 former city councilman, is the President and owner of Vail Management Company.

Note 8 – 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 9 – General Fund Receivables

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

Sales Tax Receivables	\$	82,676
Franchise Tax Receivable		5,347
Hotel Tax Receivables		3,040
	\$	<u>91,063</u>

Note 10 – Restricted Sales Taxes

The beginning restricted balance of unspent funds from September 30, 2020 was \$127,566 for the City's repair and maintenance on existing streets. During the year, the City collected \$307,963 in sales taxes restricted for maintenance and repairs on existing streets and spent \$189,828 for restricted purpose, resulting in a remaining balance of \$245,701 available to be spent at a future date for the restricted purpose.

Note 11 – 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 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.

CITY OF CRESSON, TX
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

Note 12 - 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 13 – 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:

	Transfer In	Transfer Out
General Fund		
Transfer to Water and Sewer	\$ -	\$ 112,865
Water and Sewer Fund		
Transfer from General Fund	112,865	-
	\$ 112,865	\$ 112,865

Note 14 – Subsequent Events

The City has evaluated all other events and transactions occurring subsequent to September 30, 2021, as of March 31, 2023, 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, 2021**

	Budgeted Items		Actual Amount	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Fees	\$ 71,735	\$ 71,735	\$ 65,274	\$ (6,461)
Permits	45,050	45,050	117,749	72,699
Tax Revenue	580,000	580,000	936,664	356,664
Other Income	21,025	21,025	284,245	263,220
Total Revenues	<u>717,810</u>	<u>717,810</u>	<u>1,403,932</u>	<u>686,122</u>
Expenditures				
Current Operating Expenses				
General Government	339,352	443,852	471,573	(27,721)
Debt Service	48,276	41,276	41,275	1
Capital Outlay				
Park Improvements	100,000	2,500	-	2,500
Street Improvements	200,000	200,000	150,868	49,132
Total Expenditures	<u>687,628</u>	<u>687,628</u>	<u>663,716</u>	<u>23,912</u>
Excess of Revenues and Expenditures Before Transfers	110,322	30,182	740,216	710,034
Operating Transfers out	<u>-</u>	<u>-</u>	<u>(112,865)</u>	<u>(112,865)</u>
Excess of Revenues over Expenditures	110,322	30,182	627,351	597,169
Fund Balance- Beginning of Year	788,810	788,810	788,810	-
Fund Balance- End of Year	<u>\$ 990,797</u>	<u>\$ 818,992</u>	<u>\$ 1,416,161</u>	<u>\$ 597,169</u>

1. The Original changed from the Final Budget due to the City's reassessment of its current year expenditures.

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, 2021**

Current Audit Matters

No audit findings noted.

Prior Audit Matters

Reference 2020-001 Significant Deficiency in Internal Controls – Reconciliation procedures for all bank accounts and recording of revenues.

Status of Prior Finding: Resolved

