



CITY OF CRESSON, TX

AUDITED FINANCIAL STATEMENTS FOR THE YEAR
ENDED SEPTEMBER 30, 2022

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CITY OF CRESSON, TX
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 3, 2022

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CITY OF CRESSON, TX
CITY DIRECTORY

MAYOR
Teena Conway

CITY COUNCIL
Ron Becker, Mayor Pro Tem
Lisa Clement
Jeff Keeney
Gary Robertson
Melanie Athey

CITY OFFICIALS
Katy Froyd, City Secretary
Shane Shearman, Utility Clerk
Victor Petty, Public Works Director

Christopher A. Turner, PLLC CPA

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Texarkana, TX 75503

Office 903-280-7409

INDEPENDENT AUDITOR'S REPORT

To the City Council and Honorable Mayor Conway
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, 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, 2022, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Cresson, TX, as of September 30, 2022, 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 on pages 6 - 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 January 22, 2024, 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

January 22, 2024

Christopher A. Turner, PLLC CPA

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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 and Honorable Mayor Conway
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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Cresson, TX, as of and for the year ended September 30, 2022, 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 January 22, 2024.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I identified certain deficiencies in internal control, described in the accompanying schedule of findings as item 2022-001 that I consider to be significant deficiencies.

Report on 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, 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 our audit, and accordingly, I 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* and which are described in the accompanying schedule of findings.

City of Cresson, TX's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Cresson, TX's response to the findings identified in our audit and described in the accompanying schedule of findings. The City of Cresson, TX's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

January 22, 2024

CITY OF CRESSON, TX
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

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, 2022. 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 \$5,263,669 as of September 30, 2022. Of this amount \$1,505,344 is unrestricted and may be used to meet future obligations: \$1,223,979 in the government activities and \$281,365 in the business activities.
- The government-wide net position increased \$1,284,076 during the current fiscal year. Net position of governmental activities increased by \$1,330,636 from the previous year. Net position of the business activities decreased by \$46,550 from the previous year.
- The fund balance of the governmental funds totaled \$2,533,354 as of September 30, 2022. Of this amount \$1,223,979 is unassigned and may be used to meet future obligations and was 48 percent of the fund balances.
- The net position of the water fund totaled \$1,539,791 as of September 30, 2022. Of this amount \$281,265 is unrestricted and may be used to meet future obligations. The remaining \$1,258,526 is in net investments in capital assets.

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, 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-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.

Proprietary Funds — Enterprise funds are used to report the same functions presented as business-type activities in 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 date provided in the government-wide and fund financial statements. The notes on the financial statements can be found on pages 20-27 of this report.

Analysis of Significant Budget Variances

Actual expenditures were \$159,364 in excess of the budget. However, the City did not budget for transfers to other funds which was over the budgeted amount by \$402,556. Expenditures before transfers were under the budgeted expenditures by \$243,192. In addition, the actual revenues exceeded the budget by \$843,355. Revenues exceeded the budget due to an increase in the amount of sales tax collected, permits, grants, and fees collected during the year.

City Highlights

The City of Cresson, TX maintained a net position of \$5,263,669 as of September 30, 2022.

Statement of Net Position

Included below is a Statement of Net Position as of September 30, 2022 and 2021 for the City of Cresson, TX. The format allows the reader to view the overall financial position of the City.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Current and Other Assets	\$ 2,534,121	\$ 1,672,732	\$ 399,538	\$ 337,646	\$ 2,933,659	\$ 2,010,378
Capital Assets	1,409,348	1,226,899	1,300,985	1,419,058	2,710,333	2,645,957
Total Assets	<u>3,943,469</u>	<u>2,899,631</u>	<u>1,700,523</u>	<u>1,756,704</u>	<u>5,643,992</u>	<u>4,656,335</u>
Liabilities						
Total Liabilities	<u>219,591</u>	<u>506,389</u>	<u>160,732</u>	<u>170,353</u>	<u>380,323</u>	<u>676,742</u>
Net Position						
Invested in Capital Assets	1,190,524	977,081	1,258,526	1,357,003	2,449,050	2,334,084
Restricted	1,309,375	434,978	-	-	1,309,375	434,978
Unrestricted	1,223,979	981,183	281,265	229,348	1,505,244	1,210,531
Total Net Position	<u>\$ 3,723,878</u>	<u>\$ 2,393,242</u>	<u>\$ 1,539,791</u>	<u>\$ 1,586,351</u>	<u>\$ 5,263,669</u>	<u>\$ 3,979,593</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, 2022 exceeded liabilities by \$3,723,878. As of September 30,

2022, the City reported positive balances in three categories of the net position: for the government as a whole the net position balance was \$5,263,669, for the Governmental funds \$3,723,878, and Enterprise fund \$1,539,791.

The largest portion of the City's net position in the amount of \$2,449,050 reflects its net investments in capital assets (e.g., equipment and infrastructure). 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 \$1,309,375 and the nature of the restrictions is detailed in Note 6 of the related notes to the financial statements. The reason for the increase from the prior year is that the City collected more sales tax that was allocated to the street and maintenance fund in the amount of \$419,656, hotel fund in the amount of \$205,279, and transfers to a sweep account for FDIC limitations in the amount of \$684,440.

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 \$2,534,121 consist of cash and cash equivalents in the amount of \$887,083, restricted cash in the amount of \$1,309,375, due from other funds in the amount of \$2,001, and receivables net of allowances in the amount of \$138,726.

Capital assets totaling \$1,409,348 (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.

Liabilities totaling \$219,591 consist of accrued liabilities in the amount of \$767, right to use liability in the amount of \$7,832, and long-term debt in the amount of \$218,824. Liabilities decreased due mostly to deposits from a contractor in the amount of \$250,000 was paid back to the contractor plus interest in the amount of \$1,152.

Business Activities – Statement of Net Position

Current and other assets totaling \$399,538 consist of cash and cash equivalents in the amount of \$310,891 and receivables net of allowances in the amount of \$88,647.

Capital assets totaling \$1,300,985 (net of accumulated depreciation) represent the City's investment in capital assets necessary to provide services to citizens of the City of Cresson, TX. No new assets were purchased for the water and sewer fund for the current year.

Liabilities totaling \$160,732 consist of accrued liabilities in the amount of \$23,180, deposits from customers in the amount of \$93,092, right to use liability in the amount of \$42,459, and due to other funds in the amount of \$2,001.

Statement of Activities

Governmental and business-type activities increased the City's net position by \$1,284,076. 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, 2022 and 2021.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Revenues						
PROGRAM REVENUES						
Charges for Services	\$ 121,561	\$ 117,749	\$ 558,044	\$ 539,476	\$ 679,605	\$ 657,225
Grant Revenues	214,439	204,308	-	-	214,439	204,308
GENERAL REVENUES						
Sales Taxes	1,217,597	924,314	-	-	1,217,597	924,314
Franchise Taxes	69,305	65,274	-	-	69,305	65,274
Hotel/Motel Taxes	17,210	12,349	-	-	17,210	12,349
Investment Earnings	353	1,225	267	160	620	1,385
Miscellaneous Income	277,416	78,712	2,696	2,823	280,112	81,535
Total Revenues	<u>1,917,881</u>	<u>1,403,931</u>	<u>561,007</u>	<u>542,459</u>	<u>2,478,888</u>	<u>1,946,390</u>
EXPENSES						
General Government	502,876	539,235	-	-	502,876	539,235
Water and Sanitation	-	-	691,936	599,202	691,936	599,202
Total Expenses	<u>502,876</u>	<u>539,235</u>	<u>691,936</u>	<u>599,202</u>	<u>1,194,812</u>	<u>1,138,437</u>
OPERATING TRANSFERS IN (OUT)	<u>(84,369)</u>	<u>(112,865)</u>	<u>84,369</u>	<u>112,865</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	1,330,636	751,831	(46,560)	56,122	1,284,076	807,953
Net Position - Beginning	2,393,242	1,641,411	1,586,351	1,530,229	3,979,593	3,171,640
NET POSITION - ENDING	<u>\$ 3,723,878</u>	<u>\$ 2,393,242</u>	<u>\$ 1,539,791</u>	<u>\$ 1,586,351</u>	<u>\$ 5,263,669</u>	<u>\$ 3,979,593</u>

Governmental Activities

General revenues for governmental activities totaled \$1,720,945 of which 71% was sales tax, 1% was grants revenues, 1% was hotel revenues, 4% was franchise revenues, 16% was for other revenues, and 7% was charges for services. Charges for services consist of licenses and permit fee charges.

For the fiscal year September 30, 2022, expenses for governmental activities totaled \$502,876. The City's largest funded program is for highways and streets (4% of overall expenses and 69% of the capital assets of the city). The governmental activities had an increase to net assets of \$1,330,636 compared to the prior year of \$751,831. 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 decreased in the water department net position was \$46,560 which is less than the operating income from the prior year of \$56,122 which was primarily due to the decrease in transfers in from the general and grant fund accounts and an increase to the current year operating expenses in excess of the increase in revenues.

Capital Assets

As of September 30, 2022 the City had \$2,876,667 invested in capital assets including land, right to use asset, buildings, infrastructure, and equipment as shown below, net of depreciation:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Land	\$ 570,590	\$ 570,590	\$ 25,878	\$ 25,878	\$ 596,468	\$ 596,468
Right to Use Assets	3,297	7,090	52,180	66,788	55,477	73,878
Infrastructure	804,509	613,345	1,182,571	1,279,754	1,987,080	1,893,099
Equipment, Furniture, Software	30,952	35,874	40,356	46,638	71,308	82,512
	<u>\$ 1,409,348</u>	<u>\$ 1,226,899</u>	<u>\$ 1,300,985</u>	<u>\$ 1,419,058</u>	<u>\$ 2,710,333</u>	<u>\$ 2,645,957</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. Additional information on the City's capital assets can be found in Note 3, page 23 of this report.

ECONOMIC FACTORS

The City's elected and appointed officials considered many factors when setting the fiscal year 2022-23 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 2022-23 revenues are budgeted at \$1,618,520 which consists of \$1,074,520 for the general fund and \$544,000 for the water and sewer fund, an increase of \$543,975 from the current fiscal year due to an increase in sales tax revenues miscellaneous revenues expected to be received in the next budget year.

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, 2022

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 1,084,019	\$ 310,891	\$ 1,394,910
Receivable from Other Funds	2,001	-	2,001
Receivables, Net of Allowance	138,726	88,647	227,373
TOTAL CURRENT ASSETS	1,224,746	399,538	1,624,284
RESTRICTED ASSETS			
Restricted Cash	1,309,375	-	1,309,375
TOTAL RESTRICTED ASSETS	1,309,375	-	1,309,375
CAPITAL ASSETS			
Non-Depreciable Assets	570,590	25,878	596,468
Depreciable Assets, Net of Depreciation	838,758	1,275,107	2,113,865
TOTAL ASSETS	3,943,469	1,700,523	5,643,992
LIABILITIES			
CURRENT LIABILITIES			
Accrued Liabilities	767	23,180	23,947
Due to Other Funds	-	2,001	2,001
Customer Deposits	-	93,092	93,092
Current Portion of Right to Use Liability	2,165	20,544	22,709
Current Portion of Long Term Debt	26,557	-	26,557
TOTAL CURRENT LIABILITIES	29,489	138,817	168,306
LONG TERM LIABILITIES			
Right to Use Liability	-	21,915	21,915
Note Payable, Land and Building	190,102	-	190,102
TOTAL LONG TERM LIABILITIES	190,102	21,915	212,017
TOTAL LIABILITIES	219,591	160,732	380,323
NET POSITION			
Net Investment in Capital Assets	1,190,524	1,258,526	2,449,050
Restricted	1,309,375	-	1,309,375
Unrestricted	1,223,979	281,265	1,505,244
TOTAL NET POSITION	\$ 3,723,878	\$ 1,539,791	\$ 5,263,669

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, 2022

	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Governmental Activities	Primary Government Business-type Activities	
				Operating Grants and Contributions	Governmental Activities
PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES					
General Government	\$ 490,928	\$ 121,561	\$ (154,928)	\$ -	\$ (154,928)
Debt Service	11,948	-	(11,948)	-	(11,948)
TOTAL GOVERNMENT	502,876	121,561	(166,876)	-	(166,876)
BUSINESS-TYPE ACTIVITIES					
Water Department	691,936	558,044	-	(133,892)	(133,892)
TOTAL BUSINESS-TYPE	691,936	558,044	-	(133,892)	(133,892)
TOTAL ACTIVITY	\$ 1,194,812	\$ 679,605	\$ (166,876)	\$ (133,892)	\$ (300,768)
GENERAL REVENUES					
Sales Taxes			1,217,597	-	1,217,597
Franchise Fees			69,305	-	69,305
Hotel/Motel Tax			17,210	-	17,210
Miscellaneous Revenue			277,416	2,696	280,112
Investment Earnings			353	267	620
Transfers			(84,369)	84,369	-
TOTAL GENERAL REVENUES			1,497,512	87,332	1,584,844
TOTAL GENERAL REVENUES AND OTHER SOURCES					
CHANGE IN NET POSITION			1,330,636	(46,560)	1,284,076
NET POSITION - BEGINNING			2,393,242	1,586,351	3,979,593
NET POSITION - ENDINGS			\$ 3,723,878	\$ 1,539,791	\$ 5,263,669

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

CITY OF CRESSON, TX

BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2022

	<u>General Fund</u>	<u>Total Governmental Fund</u>
ASSETS		
Cash and Cash Equivalents	\$ 1,084,019	\$ 1,084,019
Due from Water Fund	2,001	2,001
Receivables	138,726	138,726
Restricted Cash	1,309,375	1,309,375
TOTAL ASSETS	<u>\$ 2,534,121</u>	<u>\$ 2,534,121</u>
LIABILITIES		
Accrued Liabilities	\$ 767	\$ 767
TOTAL LIABILITIES	<u>767</u>	<u>767</u>
FUND BALANCES		
Restricted	1,309,375	1,309,375
Unassigned	1,223,979	1,223,979
TOTAL FUND BALANCES	<u>2,533,354</u>	<u>2,533,354</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,534,121</u>	<u>\$ 2,534,121</u>

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 AS OF SEPTEMBER 30, 2022

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 2,533,354
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 \$2,148,216 and the accumulated depreciation was \$727,983. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net position.	1,395,167
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.	14,181
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 \$2,165. The net effect of including the beginning balance of long term debt in the governmental activities is to decrease net position.	(2,165)
Long term debt is not reported in the governmental funds. At the end of the year the balance of long term debt was \$216,659. The net effect of including the beginning balance of long term debt in the governmental activities is to decrease net position.	(216,659)
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 3,723,878</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 BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

		General Fund	Total Governmental Funds
REVENUES			
Sales Taxes - Unrestricted	\$ 811,908		
Sales Taxes - Restricted for Streets	<u>405,688</u>	\$ 1,217,596	\$ 1,217,596
Franchise Fees		69,305	69,305
Hotel/Motel Taxes - Restricted		17,210	17,210
Licenses and Permits		121,561	121,561
Grant Revenue		214,439	214,439
Investment Earnings		353	353
Miscellaneous Income		<u>277,416</u>	<u>277,416</u>
TOTAL REVENUES		<u>1,917,880</u>	<u>1,917,880</u>
EXPENDITURES			
General Government		448,333	448,333
Capital Outlay		230,710	230,710
Debt Service Principal	25,327		
Debt Service Interest	<u>11,948</u>	<u>37,275</u>	<u>37,275</u>
TOTAL EXPENDITURES		<u>716,318</u>	<u>716,318</u>
Excess (Deficiency) of Revenues over (under) Expenditures		<u>1,201,562</u>	<u>1,201,562</u>
OTHER FINANCING SOURCES (USES)			
Transfers in		318,187	318,187
Transfers out		<u>(402,556)</u>	<u>(402,556)</u>
TOTAL OTHER FINANCING SOURCES (USES)		<u>(84,369)</u>	<u>(84,369)</u>
NET CHANGE IN FUND BALANCE		1,117,193	1,117,193
FUND BALANCE - BEGINNING OF YEAR		<u>1,416,161</u>	<u>1,416,161</u>
FUND BALANCE - END OF YEAR		<u>\$ 2,533,354</u>	<u>\$ 2,533,354</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 BALANCE TO STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2022

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 1,117,193
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 2022 capital outlays is an increase of \$230,710.	230,710
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.	(44,467)
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.	1,873
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.	25,327
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,330,636</u>

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

CITY OF CRESSON, TX

PROPRIETARY FUND – STATEMENT OF FUND NET POSITION
AS OF SEPTEMBER 30, 2022

	Business-type Activities
	Water and Sewer Revenue Fund
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 310,891
Accounts Receivable, Net of Uncollectible Allowance	88,647
TOTAL CURRENT ASSETS	<u>399,538</u>
NONCURRENT ASSETS	
CAPITAL ASSETS	
Land and Improvements	25,878
Infrastructure and Equipment, Net of Accumulated Depreciation	1,275,107
TOTAL NONCURRENT ASSETS	<u>1,300,985</u>
TOTAL ASSETS	<u>\$ 1,700,523</u>
LIABILITIES	
CURRENT LIABILITIES	
Accrued Liabilities	\$ 23,180
Due to General Fund	2,001
Current Portion of Right to Use Liability	20,544
Customer Deposits	93,092
TOTAL LIABILITIES	<u>138,817</u>
LONG TERM LIABILITIES	
Right to Use Liability	21,915
TOTAL LONG TERM LIABILITIES	<u>21,915</u>
TOTAL LIABILITIES	<u>160,732</u>
NET POSITION	
Net Investment in Capital Assets	1,258,526
Unrestricted	281,265
TOTAL NET POSITION	<u>\$ 1,539,791</u>

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

CITY OF CRESSON, TX

PROPRIETARY FUND – STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Business-type Activities
	Water and Sewer Revenue Fund
OPERATING REVENUES	
Charge for Services	\$ 558,044
Other Revenue	2,696
Interest Earnings	267
TOTAL OPERATING REVENUES	<u>561,007</u>
OPERATING EXPENSES	
Personnel Services - Salaries and Wages	138,963
Operations	240,253
Maintenance and Supplies	194,648
Amortization of ROUA	14,608
Depreciation	103,464
TOTAL OPERATING EXPENSES	<u>691,936</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(130,929)</u>
OTHER FINANCING SOURCES (USES)	
Transfers In	84,369
CHANGE IN NET POSITION	(46,560)
TOTAL NET POSITION - BEGINNING	1,586,351
TOTAL NET POSITION - ENDING	<u>\$ 1,539,791</u>

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

CITY OF CRESSON, TX

PROPRIETARY FUND – STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Business-type Activities
	Water and Sewer Revenue Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 563,210
Cash Paid to Employees	(138,963)
Cash Payments to Suppliers for Goods and Services	(427,129)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(2,882)</u>
CASH FLOWS FROM NONCAPITAL AND FINANCING ACTIVITIES	
Transfers In/Out - Net	84,369
NET CASH PROVIDED (USED) BY NONCAPITAL AND FINANCING ACTIVITIES	<u>84,369</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Right of Use Liability Payments	(19,596)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(19,596)</u>
NET INCREASE (DECREASE) IN CASH	61,891
CASH - BEGINNING OF YEAR	249,000
CASH - END OF YEAR	<u>\$ 310,891</u>
Reconciliation of operating income (loss) to net cash provided by operating activities	
Operating Income (Loss)	\$ (130,929)
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	9,975
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (2,882)</u>

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, 2022

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, 2022.

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 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 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 in 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, 2022.

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

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, 2022.

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, 2022.

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 in 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 a 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 statement of cash flows purposes, 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 stated at historical costs and comprehensively reported in 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 a 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 \$1,197,974 plus restricted cash of \$1,309,375. 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 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:

	<u>Balance</u> <u>September 30, 2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>September 30, 2022</u>
Governmental Activities				
Depreciable Capital Assets				
Equipment	\$ 10,501	\$ -	\$ -	\$ 10,501
Furniture and Fixtures	43,237	-	-	43,237
Infrastructure	1,243,797	230,710	-	1,474,507
Vehicles	35,200	-	-	35,200
Right to use Asset	14,181	-	-	14,181
Less Accumulated Amortization of ROUA	7,091	3,794	-	10,885
Less Accumulated Depreciation	683,516	44,467	-	727,983
Net Depreciable Capital Assets	<u>656,309</u>	<u>182,449</u>	<u>-</u>	<u>838,758</u>
Non-Depreciable Capital Assets				
Land	570,590	-	-	570,590
Total Non-Deprecable Capital Assets	<u>570,590</u>	<u>-</u>	<u>-</u>	<u>570,590</u>
Total Governmental Activities	<u>\$ 1,226,899</u>	<u>\$ 182,449</u>	<u>\$ -</u>	<u>\$ 1,409,348</u>
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	-	29,216
Less Accumulated Depreciation	709,215	103,465	-	812,680
Net Depreciable Capital Assets	<u>1,393,180</u>	<u>(118,073)</u>	<u>-</u>	<u>1,275,107</u>
Non-Depreciable Capital Assets				
Land	25,878	-	-	25,878
Total Non-Deprecable Capital Assets	<u>25,878</u>	<u>-</u>	<u>-</u>	<u>25,878</u>
Total Business-Type Activities	<u>\$ 1,419,058</u>	<u>\$ (118,073)</u>	<u>\$ -</u>	<u>\$ 1,300,985</u>
Primary Government Net Capital Assets	<u>\$ 2,645,957</u>	<u>\$ 64,376</u>	<u>\$ -</u>	<u>\$ 2,710,333</u>

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

Governmental Activities	
General Government and Administration	\$ 48,261
Total Depreciation Expense - Governmental Activities	<u>\$ 48,261</u>
Business-Type Activities	
Water	\$ 118,073
Total Depreciation Expense - Business-Type Activities	<u>\$ 118,073</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 lease amount was \$22,200 per year for the year ended September 30, 2022 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 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. 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 Right to Use Liability (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/or upgrade the copier. Monthly lease payments are \$416 per month including print and scan usage under a maintenance contract. This lease 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.

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	\$3,288,779	\$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, 2022 was \$11,268.

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 loan 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 2022, the City paid \$25,327 principal and \$11,948 interest on the note.

Governmental activities long-term debt transactions for the year ending September 30, 2022 are summarized below:

Governmental Activities	October 1, 2021	Additions	Retirements	September 30, 2022	Due within one year
Right to Use Payable	\$ 7,832	\$ -	\$ 5,667	\$ 2,165	\$ 2,165
Note Payable	241,986	-	25,327	216,659	26,557
	<u>\$ 251,839</u>	<u>\$ -</u>	<u>\$ 30,994</u>	<u>\$ 218,824</u>	<u>\$ 28,722</u>

Business-type transactions for the year ended September 30, 2022 long-term debts are summarized as following:

Business-Type Activities	October 1, 2021	Additions	Retirements	September 30, 2022	Due within one year
Right to Use Payable	\$ 62,055	\$ -	\$ 19,596	\$ 42,459	\$ 20,543
	<u>\$ 62,055</u>	<u>\$ -</u>	<u>\$ 19,596</u>	<u>\$ 42,459</u>	<u>\$ 20,543</u>

The governmental activities note maturity is as follows:

Fiscal Year Ended	Principal	Interest	Total
2023	26,557	9,718	36,275
2024	27,846	8,429	36,275
2025	29,198	7,077	36,275
2026	30,616	5,659	36,275
2027	32,102	4,173	36,275
2027 - 2030	70,340	3,600	73,940
	<u>\$216,659</u>	<u>\$ 38,656</u>	<u>\$ 255,315</u>

The annual requirements for governmental activities for the right to use asset liability, as of September 30, 2022 is as follows:

Fiscal Year Ended	Principal	Interest	Total
2023	2,165	22	2,187
	<u>\$ 2,165</u>	<u>\$ 22</u>	<u>\$ 2,187</u>

The annual requirements for business-type activities for the right to use asset liability, as of September 30, 2022 is as follows:

Fiscal Year Ended	Principal	Interest	Total
2023	20,544	1,657	22,201
2024	21,915	284	22,199
	<u>\$ 42,459</u>	<u>\$ 1,941</u>	<u>\$ 44,400</u>

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 \$1,309,375 as of September 30, 2022. Restricted cash consists of the following:

1. \$205,279 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 \$17,210 for the year ended September 30, 2022 – 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 2022 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 \$419,656 restricted for repairs and maintenance of existing streets.
3. During the prior year, the City transferred funds to a restricted account for the purpose of creating security for funds in excess of the FDIC limits. The fund balance as of September 30, 2022 was \$684,440.

Committed: There is no committed funded balance as of September 30, 2022.

Assigned: There are no assigned funded balances as of September 30, 2022.

Unassigned: \$1,223,979 is the fund balance that is not in any of the above categories.

Note 7 – 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 the previous 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 8 – General Fund Receivables

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

Sales Tax Receivables	\$	127,068
Franchise Tax Receivable		6,571
Hotel Tax Receivables		5,087
		\$ 138,726

Note 9 – Restricted Sales Taxes

The beginning restricted balance of unspent funds from September 30, 2021 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 10 – 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 payable under the business-activities column in the government-wide statement of net position.

Note 11 - 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 12 – 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:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund		
Transfer to Water and Sewer	\$ -	\$ 84,369
Water and Sewer Fund		
Transfer from General Fund	84,369	-
	<u>\$ 84,369</u>	<u>\$ 84,369</u>

Note 13 – Subsequent Events

The City has evaluated all other events and transactions occurring subsequent to September 30, 2022, as of January 22, 2024, the date the financial statements were available to be issued. Based on the City's management's review, there are currently no such events which need to be accounted for or disclosed in the financial statements.

CITY OF CRESSON, TX

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Budgeted Items		Actual Amount	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Fees	\$ 74,200	\$ 74,200	\$ 277,416	\$ 203,216
Permits	56,700	56,700	121,561	64,861
Tax Revenue	870,620	870,620	1,304,111	433,491
Other Income	73,025	73,025	214,792	141,767
Total Revenues	1,074,545	1,074,545	1,917,880	843,335
Expenditures				
Current Operating Expenses				
General Government	764,090	764,090	448,333	315,757
Debt Service	36,275	36,275	37,275	(1,000)
Capital Outlay				
Park Improvements	5,000	5,000	-	5,000
Street Improvements	154,145	154,145	230,710	(76,565)
Total Expenditures	959,510	959,510	716,318	243,192
Excess of Revenues and Expenditures				
Before Transfers	115,035	115,035	1,201,562	1,086,527
Operating Transfers out	-	-	(84,369)	(84,369)
Excess of Revenues over Expenditures	115,035	115,035	1,117,193	1,002,158
Fund Balance- Beginning of Year	1,416,161	1,416,161	1,416,161	-
Fund Balance- End of Year	\$ 990,797	\$ 1,531,196	\$ 2,533,354	\$ 1,002,158

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

CITY OF CRESSON, TX

SCHEDULE OF FINDINGS – FINANCIAL STATEMENT AUDIT

FOR THE YEAR ENDED SEPTEMBER 30, 2022

Current Audit Matters

Finding No. Finding

2022-001 Internal Control Deficiency related to bank reconciliations and recording of all transactions for grant accounts.

Criteria

The Organization's processes and controls require all bank accounts to be reconciled in a timely manner and to be provided by the accounting department to the mayor for review and approval.

Condition

Internal control deficiencies related to cash:

- A. Bank reconciliation procedures were not complied with in that the bank reconciliation for the grant funds did not take place each month and the mayor did not review the statements along with the reconciliation worksheet.
- B. The mayor did not review the bank statements each month to identify checking account errors such as errors in recording checks and deposits.

Effect

Material misstatements of the assets, liabilities, expenses, and revenues could occur. Fraudulent activities could occur and not be prevented or detected in a timely manner.

Cause

The City did not record all transactions related to the grant account and as such a material adjusting entry was needed to correct the cash balance for the grant accounts and revenues. The cash account for grants and revenues were misstated in the amount of \$208,217 which required an adjusting entry to be proposed to correct both general ledger account balances.

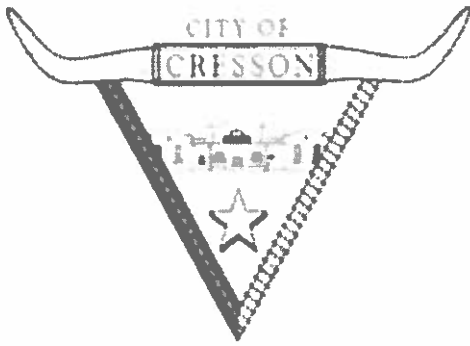
Recommendation

The bank statements should be reviewed before and after reconciliations have been performed by the mayor. All bank statements should be reconciled each month and reviewed by the mayor or council member. General ledger activity should be compared to the bank transactions for the grant account each month.

Views of Responsible Officials

See Corrective Action Plan

CITY OF CRESSON, TX
CORRECTIVE ACTION PLAN



City of Cresson

P.O. Box 619

Cresson, Texas 76035

Findings Related to the Financial Statements

2022-001 – Significant Deficiency in Internal Controls – Unreconciled cash balances and understatement of revenues and cash balances.

Concur: The City's secretary will establish a process to ensure checks and deposits for the grant account are entered on a timely basis into the accounting system completely and that the bank reconciliations are performed monthly. The City's mayor will review the grant bank statements prior to and after the reconciliation of the grant account to determine if there are any discrepancies noted and have the secretary make corrections.

Contact Person: Teena Conway, Mayor, City of Cresson, TX 817-914-8554

CITY OF CRESSON, TX

SCHEDULE OF PRIOR YEAR FINDINGS – FINANCIAL STATEMENT AUDIT
FOR THE YEAR ENDED SEPTEMBER 30, 2022

Prior Audit Matters

No matters or findings noted in prior year.

