

**CITY OF CRESSON, TEXAS
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

Christopher A. Turner, PLLC CPA

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**CITY OF CRESSON, TEXAS
SEPTEMBER 30, 2019**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
City Council
City of Cresson, TX

Report on the Financial Statements

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, 2019, and the related notes to the financial statements, which collectively comprise the City of Cresson, TX's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each

major fund, and the aggregate remaining fund information of the City of Cresson, TX, as of September 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 – 11 and budgetary comparison information on page 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 August 25, 2020, 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 to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Cresson, TX's internal control over financial reporting and compliance.

Christopher A. Turner, PLLC CPA

August 25, 2020

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 Honorable Mayor and
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 the City of Cresson, TX, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Cresson, TX's basic financial statements, and have issued my report thereon dated August 25, 2020.

Internal Control over Financial Reporting

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

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

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 may exist that have not been identified.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express

such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

August 25, 2020

CITY OF CRESSON, TX
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

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, 2019. 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 \$2,490,817 at September 30, 2019. Of this amount \$537,703 is unrestricted and may be used to meet future obligations: \$388,554 in the general fund and \$149,149 in the water fund.
- The government-wide net position increased \$222,256 during the current fiscal year. Net position of general fund increased by \$228,766 from the previous year. Net position of the water fund decreased by \$6,510 from the previous year.
- As of the close of the current fiscal year, the City of Cresson's governmental fund reported an ending fund balance of \$880,474.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$358,554 or approximately 80% of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

- a. The Statement of Net Position presents information on all of 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

CITY OF CRESSON, TX
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

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 taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected state taxes). Both the Statement of Net Position and the Statement of Activities are prepared utilizing the accrual basis of accounting.

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

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

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

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

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

**CITY OF CRESSON, TX
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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 considered to be 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 \$4,500 under budget. In addition, the actual revenues exceeded budget by \$109,278.

City Highlights

The City of Cresson, TX maintained a net position of \$2,490,817 as of September 30, 2019.

Statement of Net Position

Included below is a Statement of Net Position as of September 30, 2019 and 2018 for the City of Cresson, TX. The format allows the reader to view the overall financial position of the City.

**Table I
Summary of Net Position**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current and Other Assets	\$ 1,150,199	\$ 888,910	\$ 303,344	\$ 220,631	\$ 1,453,543	\$ 1,109,541
Capital Assets	1,008,768	1,010,479	758,013	637,930	1,766,781	1,648,409
Total Assets	2,158,967	1,899,389	1,061,357	858,561	3,220,324	2,757,950
Liabilities						
Total Liabilities	575,311	595,224	154,195	46,039	729,506	641,263
	<u>575,311</u>	<u>595,224</u>	<u>154,195</u>	<u>46,039</u>	<u>729,506</u>	<u>641,263</u>
Net Position						
Invested in Capital Assets	703,181	672,080	758,013	637,930	1,461,194	1,310,010
Restricted	491,920	430,333	-	-	491,920	430,333
Unrestricted	388,554	201,752	149,149	70,116	537,703	271,868
Prior Period Adjustments	-	-	-	276,203	-	276,203
Total Net Position	\$ 1,583,655	\$ 1,304,165	\$ 907,162	\$ 984,249	\$ 2,490,817	\$ 2,288,414

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, 2019 exceeded liabilities by \$2,490,817. As of September 30, 2019, the City is able to report positive balances in three categories of the net position: for the government as a whole \$2,490,817 and separately for the Governmental funds \$1,583,655 and Enterprise fund \$907,162.

**CITY OF CRESSON, TX
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

The largest portion of the City's net position in the amount of \$1,461,194 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 \$491,920 and the nature of the restrictions are detailed in Note 8 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 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 \$1,150,199 consist of cash and cash equivalents in the amount of \$215,325 and receivables net of allowances in the amount of \$88,019.

Capital assets totaling \$758,013 (net of accumulated depreciation) represents the City's investment in capital assets necessary to provide services to citizens of the City of Cresson, TX.

Liabilities totaling \$575,311 consist of accrued liabilities in the amount of \$19,724, deposits from contractor in the amount of \$250,000, and long-term debt in the amount of \$305,587.

Business Activities – Statement of Net Position

Current and other assets totaling \$303,344 consist of cash and cash equivalents in the amount of \$607,709, due from other funds in the amount of \$2,001, receivables net of allowances in the amount of \$48,569, and restricted cash in the amount of \$491,920.

Capital assets totaling \$1,008,768 (net of accumulated depreciation) represents the City's investment in capital assets necessary to provide services to citizens of the City of Cresson, TX.

Liabilities totaling \$154,195 consist of accrued liabilities in the amount of \$97,490, deposits from customers in the amount of \$54,704, and due to other funds in the amount of \$2,001.

The Business-Type Activities have been restated due to the non-inclusion of the activity from Bluebonnet Hills. As a result, the 2018 balances changed as follows: current assets increased by \$107,462, no change to capital assets, liabilities increased by \$2,986, and net position increased by \$104,476.

**CITY OF CRESSON, TX
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Capital assets increased in business-type activities due to a prior period error correction in the accumulated depreciation. The error was due to an acceleration of depreciation on an asset placed in service in 2008 with life expectancy of 20 years.

Statement of Activities

Governmental and business-type activities increased the City's net position by \$222,256. 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, 2019 and 2018.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenues						
Program Revenues						
Charges for Services	\$ 116,965	\$ 111,041	\$ 501,430	\$ 426,935	\$ 618,395	\$ 537,976
Capital Projects Grant	-	-	-	-	-	-
General Revenues						
Sales Taxes	483,095	365,697	-	-	483,095	365,697
Franchise Taxes	58,177	56,595	-	-	58,177	56,595
Hotel/Motel Taxes	10,650	8,928	-	-	10,650	8,928
Investment Earnings	1,516	749	172	91	1,688	840
Miscellaneous Income	10,325	36,072	36,520	48,785	46,845	84,857
Total Revenues	680,728	579,082	538,122	475,811	1,218,850	1,054,893
Expenses						
General Government	399,842	353,719	-	-	399,842	353,719
Streets	52,120	101,993	-	-	52,120	101,993
Water and Sanitation	-	-	544,632	607,206	544,632	607,206
Total Expenses	451,962	455,712	544,632	607,206	996,594	1,062,918
Other Increases (Decreases)						
Sales Tax Refund	-	(61,412)	-	-	-	(61,412)
Total Other Decreases	-	(61,412)	-	-	-	(61,412)
Change in Net Position	228,766	61,958	(6,510)	(131,395)	222,256	(69,437)
Net Position - Beginning	1,304,067	1,242,207	984,249	1,115,644	2,288,316	2,357,851
Prior Period Adjustments	50,823	-	(70,577)	-	(19,754)	-
Net Position - Ending	\$1,583,656	\$1,304,165	\$ 907,162	\$ 984,249	\$2,490,818	\$2,288,414

Governmental Activities

General revenues for governmental activities totaled \$680,728 of which 71% was sales tax and 17% was charges for services. Charges for services consist of licenses and permit fee charges.

For fiscal year 2019, expenses for governmental activities totaled \$451,962. The City's largest funded program is for highways and streets (12%). The governmental activities had an increase to net assets of \$228,766 compared to the prior year of \$61,958.

**CITY OF CRESSON, TX
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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 \$6,510 which is less than the operating loss from the prior year of \$131,395.

Capital Assets

At the end of the fiscal year 2019, the City had \$1,766,780 invested in capital assets including land, construction in progress, buildings, infrastructure, and equipment as shown below, net of depreciation:

Capital Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Land	\$ 570,591	\$ 570,590	\$ 25,878	\$ 25,878	\$ 596,469	\$ 596,468
Construction in Progress	\$ 27,528	\$ -	\$ 2,000	\$ -	\$ 29,528	\$ -
Buildings	238,557	245,608	-	-	238,557	245,608
Infrastructure	157,683	189,559	712,072	599,807	869,755	789,366
Equip., Furn., Soft.	14,409	4,722	18,062	12,245	32,471	16,967
	<u>\$1,008,768</u>	<u>\$1,010,479</u>	<u>\$ 758,012</u>	<u>\$ 637,930</u>	<u>\$1,766,780</u>	<u>\$1,648,409</u>

The net increase in capital assets from the prior year was due to an increase in accumulated depreciation; \$40,212 for the general fund and \$62,887. There were no dispositions during the current fiscal year. Additional information on the City's capital assets can be found in Note 3, page 25 of this report.

ECONOMIC FACTORS

The City's elected and appointed officials considered many factors when setting the fiscal year 2019-2020 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.

These indicators are taken into account when adopting the general fund budget for next fiscal year. The 2019-2020 revenues are budgeted at \$652,650, a decrease of \$5,680 from the current fiscal year.

A wastewater treatment plant in the new Cresson Crossroads development will be completed when the current system reaches capacity which is expected to happen by 2022. A municipal

**CITY OF CRESSON, TX
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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

For the fiscal year 2020, the City expects to receive a donation of the Bluebonnet Hills Water Supply Corporation assets, including additional cash, land, building, infrastructure, and customers. The City expects a net increase in water revenue due to this acquisition and believes that the cash from the Bluebonnet Hills transaction will be sufficient to cover additional repairs that will be required to the well houses and electronics.

During the fiscal year 2019, the City continued to pay \$1,000 per month extra principal on its building note using accumulated cash.

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, 2019**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 607,709	\$ 215,325	\$ 823,034
Receivable from Other Funds	2,001	-	2,001
Receivables, Net of Allowance	48,569	88,019	136,588
TOTAL CURRENT ASSETS	<u>658,279</u>	<u>303,344</u>	<u>961,623</u>
RESTRICTED ASSETS			
Restricted Cash	491,920	-	491,920
TOTAL RESTRICTED ASSETS	<u>491,920</u>	<u>-</u>	<u>491,920</u>
CAPITAL ASSETS			
Non-Depreciable Assets	598,119	27,878	625,997
Depreciable Assets, Net of Depreciation	410,649	730,135	1,140,784
	<u>1,008,768</u>	<u>758,013</u>	<u>1,766,781</u>
TOTAL ASSETS	<u>2,158,967</u>	<u>1,061,357</u>	<u>3,220,324</u>
LIABILITIES			
CURRENT LIABILITIES			
Accrued Liabilities	19,724	97,490	117,214
Deposit from Contractor	250,000	-	250,000
Due to Other Funds	-	2,001	2,001
Customer Deposits	-	54,704	54,704
Current Portion of Long Term Debt	22,240	-	22,240
TOTAL CURRENT LIABILITIES	<u>291,964</u>	<u>154,195</u>	<u>446,159</u>
LONG TERM LIABILITIES			
Note Payable, Land and Building	283,347	-	283,347
TOTAL LONG TERM LIABILITIES	<u>283,347</u>	<u>-</u>	<u>283,347</u>
TOTAL LIABILITIES	<u>575,311</u>	<u>154,195</u>	<u>729,506</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	703,181	758,013	1,461,194
Restricted	491,920	-	491,920
Unrestricted	388,554	149,149	537,703
TOTAL NET POSITION	<u>\$ 1,583,655</u>	<u>\$ 907,162</u>	<u>\$ 2,490,817</u>

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

CITY OF CRESSON, TX
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Governmental Activities	Primary Government Business-type Activities	Total
PRIMARY GOVERNMENT					
GOVERNMENTAL ACTIVITIES					
General Government	\$ 384,474	\$ 116,965	\$ (267,509)	\$ -	\$ (267,509)
Debt Service	15,368	-	(15,368)	-	(15,368)
Streets	52,120	-	(52,120)	-	(52,120)
TOTAL GOVERNMENT	<u>451,962</u>	<u>116,965</u>	<u>(334,997)</u>	<u>-</u>	<u>(334,997)</u>
BUSINESS-TYPE ACTIVITIES					
Water Department	544,632	501,430	-	(43,202)	(43,202)
TOTAL BUSINESS-TYPE	<u>544,632</u>	<u>501,430</u>	<u>-</u>	<u>(43,202)</u>	<u>(43,202)</u>
TOTAL ACTIVITY	<u>\$ 996,594</u>	<u>\$ 618,395</u>	<u>\$ (334,997)</u>	<u>\$ (43,202)</u>	<u>\$ (378,199)</u>
GENERAL REVENUES					
Sales Taxes			483,095	-	483,095
Franchise Fees			58,177	-	58,177
Hotel/Motel Tax			10,650	-	10,650
Miscellaneous Revenue			10,325	36,520	46,845
Investment Earnings			1,516	172	1,688
TOTAL GENERAL REVENUES			<u>563,763</u>	<u>36,692</u>	<u>600,455</u>
TOTAL GENERAL REVENUES AND OTHER SOURCES					
CHANGE IN NET POSITION			228,766	(6,510)	222,256
NET POSITION - BEGINNING			1,304,067	984,249	2,288,316
Prior Period Adjustments			50,823	(70,577)	(19,754)
NET POSITION - ENDINGS			<u>\$ 1,583,656</u>	<u>\$ 907,162</u>	<u>\$ 2,490,818</u>

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

**CITY OF CRESSON, TX
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2019**

	<u>General Fund</u>	<u>Total Governmental Fund</u>
ASSETS		
Cash and Cash Equivalents	\$ 607,709	\$ 607,709
Due from Water Fund	2,001	2,001
Receivables	48,569	48,569
Restricted Cash	491,920	491,920
TOTAL ASSETS	<u>\$ 1,150,199</u>	<u>\$ 1,150,199</u>
 LIABILITIES		
Accrued Liabilities	\$ 19,725	\$ 19,725
Deposits from Developer	250,000	250,000
TOTAL LIABILITIES	<u>269,725</u>	<u>269,725</u>
 FUND BALANCES		
Restricted	491,920	491,920
Assigned	20,000	20,000
Unassigned	368,554	368,554
TOTAL FUND BALANCES	<u>880,474</u>	<u>880,474</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 1,150,199</u>	 <u>\$ 1,150,199</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 ASSETS
SEPTEMBER 30, 2019**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 880,474
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 \$1,591,053 and the accumulated depreciation was \$582,285. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net position.	1,008,768
Long term debt is not reported in the governmental funds. At the end of the year the balance of long term debt was \$305,587. The net effect of including the beginning balance of long term debt in the governmental activities is to decrease net position.	(305,587)
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,583,655</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
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

		<u>General Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Sales Taxes - Unrestricted	\$ 379,013		
Sales Taxes - Restricted for Streets	<u>104,082</u>	\$ 483,095	\$ 483,095
Franchise Fees		58,177	58,177
Hotel/Motel Taxes - Restricted		10,650	10,650
Licenses and Permits		116,965	116,965
Investment Earnings		1,516	1,516
Miscellaneous Income		<u>10,325</u>	<u>10,325</u>
TOTAL REVENUES		<u>680,728</u>	<u>680,728</u>
EXPENDITURES			
General Government		344,264	344,264
Streets and Highways		52,120	52,120
Capital Outlay		38,503	38,503
Debt Service Principal	32,907		
Debt Service Interest	<u>15,368</u>	<u>48,275</u>	<u>48,275</u>
TOTAL EXPENDITURES		<u>483,162</u>	<u>483,162</u>
Excess (Deficiency) of Revenues over (under) Expenditures		<u>197,566</u>	<u>197,566</u>
NET CHANGE IN FUND BALANCE		197,566	197,566
FUND BALANCE - BEGINNING OF YEAR		632,085	632,085
Prior Period Adjustments		50,823	50,823
FUND BALANCE - END OF YEAR		<u>\$ 880,474</u>	<u>\$ 880,474</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, 2019

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$	197,566
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2019 capital outlays is an increase of \$38,503.		38,503
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.		(40,210)
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.		32,907
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>228,766</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, 2019**

	Business-type Activities
	Water and Sewer Revenue Fund
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 215,325
Receivable from General Fund	-
Accounts Receivable, Net of Uncollectible Allowance	88,019
TOTAL CURRENT ASSETS	303,344
NONCURRENT ASSETS	
CAPITAL ASSETS	
Land and Improvements	27,878
Infrastructure and Equipment, Net of Accumulated Depreciation	730,135
TOTAL NONCURRENT ASSETS	758,013
TOTAL ASSETS	\$ 1,061,357
LIABILITIES	
CURRENT LIABILITIES	
Accrued Liabilities	\$ 97,490
Due to Water Fund	2,001
Customer Deposits	54,704
TOTAL LIABILITIES	154,195
NET POSITION	
Invested in Capital Assets, Net of Related Debt	758,013
Unrestricted	149,149
TOTAL NET POSITION	\$ 907,162

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

CITY OF CRESSON, TX
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Business-type Activities
	Water and Sewer Revenue Fund
OPERATING REVENUES	
Charge for Services	\$ 501,430
Other Revenue	36,520
Interest Earnings	172
TOTAL OPERATING REVENUES	538,122
OPERATING EXPENSES	
Personnel Services - Salaries and Wages	57,023
Operations	324,372
Maintenance and Supplies	100,350
Depreciation	62,887
TOTAL OPERATING EXPENSES	544,632
INCOME (LOSS) BEFORE TRANSFERS	(6,510)
CHANGE IN NET POSITION	(6,510)
TOTAL NET POSITION - BEGINNING	984,249
Prior Period Adjustments	(70,577)
TOTAL NET POSITION - ENDING	\$ 907,162

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, 2019**

	Business-type Activities
	Water and Sewer Revenue Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 491,748
Cash Paid to Employees	(57,023)
Cash Payments to Suppliers for Goods and Services	(403,896)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	30,829
CASH FLOWS FROM NONCAPITAL AND FINANCING ACTIVITIES	
Due To or From Other Funds	2,000
NET CASH PROVIDED (USED) BY NONCAPITAL AND FINANCING ACTIVITIES	2,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Expenditures	(9,811)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(9,811)
NET INCREASE (DECREASE) IN CASH	23,018
CASH - BEGINNING OF YEAR	192,307
CASH - END OF YEAR	\$ 215,325
Reconciliation of operating income (loss) to net cash provided by operating activities	
Operating Income (Loss)	\$ (6,510)
Adjustments to reconcile operating income to net cash provided by	
Operations	
Depreciation	62,887
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	(59,695)
Increase (decrease) in accounts payable and other liabilities	34,147
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 30,829

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, 2019

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 requires disclosures, of the City's financial activities for the fiscal year ended September 30, 2019.

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 of 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

CITY OF CRESSON, TX
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

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 to expenses. Proprietary and fiduciary fund financial statements and financial statement of city component units also reported using this same focus and basis of accounting 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, 2019.

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 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

CITY OF CRESSON, TX
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

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.

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, 2019.

Proprietary Funds

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

Budgets, Budgetary Accounting and Control

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

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

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

CITY OF CRESSON, TX
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Cash and Cash Equivalents

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

Capital Assets and Depreciation

The City's property, plant, 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.

Note 2 – Deposits

At year-end, the carrying amount of the City's deposits, presented as cash equivalents (checking accounts) consists of \$823,034 plus restricted cash of \$491,920. The bank balances were fully covered by federal depository insurance and pledged security at the year end and during the year when the highest combined cash balances amounted to \$1,314,954.

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

CITY OF CRESSON, TX
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

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.

Note 3 – Changes in Capital Assets

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

	<u>Balance</u> <u>September 30, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>September 30, 2019</u>
Governmental Activities				
Depreciable Capital Assets				
Furniture and Fixtures	\$ 32,263	\$ 4,160	\$ -	\$ 36,423
Office Equipment and Software	-	6,814	-	6,814
Infrastructure	652,459	-	-	652,459
Vehicles	15,200	-	-	15,200
Buildings	282,038	-	-	282,038
Less Accumulated Depreciation	542,073	40,212	-	582,285
Net Depreciable Capital Assets	<u>439,887</u>	<u>(29,238)</u>	<u>-</u>	<u>410,649</u>
Non-Depreciable Capital Assets				
Land	570,591	-	-	570,591
Construction in Progress	-	27,528	-	27,528
Total Non-Depreciable Capital Assets	<u>570,591</u>	<u>27,528</u>	<u>-</u>	<u>598,119</u>
Total Governmental Activities	<u>\$ 1,010,478</u>	<u>\$ (1,710)</u>	<u>\$ -</u>	<u>\$ 1,008,768</u>
Business-Type Activities				
Depreciable Capital Assets				
Equipment	\$ 47,051	\$ 7,811	\$ -	\$ 54,862
Infrastructure	1,217,302	-	-	1,217,302
Accumulated Depreciation	652,301	62,887	173,159	542,029
Net Depreciable Capital Assets	<u>612,052</u>	<u>(55,076)</u>	<u>(173,159)</u>	<u>730,135</u>
Non-Depreciable Capital Assets				
Land	25,878	-	-	25,878
Construction in Progress	-	2,000	-	2,000
Total Non-Depreciable Capital Assets	<u>25,878</u>	<u>2,000</u>	<u>-</u>	<u>27,878</u>
Total Business-Type Activities	<u>\$ 637,930</u>	<u>\$ (53,076)</u>	<u>\$ (173,159)</u>	<u>\$ 758,013</u>
Primary Government Net Capital Assets	<u>\$ 1,648,408</u>	<u>\$ (54,786)</u>	<u>\$ (173,159)</u>	<u>\$ 1,766,781</u>

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

Governmental Activities	
General Government and Administration	\$ 8,338
Roads and Streets	31,874
Total Depreciation Expense	<u>\$ 40,212</u>
Business-Type Activities	
Water	\$ 62,887
Total Depreciation Expense	<u>\$ 62,887</u>

CITY OF CRESSON, TX
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019

Note 4 – Insurance in Force

An umbrella policy is issued by TML-Municipal Liability Joint Self Insurance fund. The policy renewed October 1, 2019.

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	\$3,110,036	\$250
Boiler and Machinery	\$100,000	\$1,000

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, 2019 was \$2,800.

Note 5 – Thrash Lease Obligation

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

Period Ended	Amount
July 30, 2020	<u>\$19,980</u>
Total	<u>\$19,980</u>

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

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

Note 6 – Operating Leases

The City is leasing a copier/printer under an operating lease with a term of 5 years, beginning December 2017. Monthly lease payments are \$416. The City has paid \$5,691 as of September 30, 2019. The minimum lease payments to made are as follows: 2020 - \$4,992, 2021 - \$4,992 and 2022 - \$4,992.

CITY OF CRESSON, TX
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019

Note 7 – Long Term Debt

On December 19, 2012, the City borrowed \$575,000 to purchase real property. The loan 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. The note maturity is as follows:

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	22,240	14,035	36,275
2021	23,319	12,956	36,275
2022	24,452	11,824	36,276
2023	25,639	10,636	36,275
2024	56,883	9,392	66,275
Thereafter	183,054	26,642	209,696
	<u>\$ 335,587</u>	<u>\$ 85,485</u>	<u>\$ 421,072</u>

During fiscal year 2019, the City paid \$32,907 principal and \$15,368 interest on the note.

Note 8 – Fund Balance

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

Nonspendable: There is no nonspendable fund balance.

Restricted: Total restricted cash and fund balance is \$491,920 as of September 30, 2019 and consists of the following:

- (1) \$157,652 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 \$9,625 on September 30, 2019 – the entire amount was unspent for its restricted purpose and added to the accumulated previous balance.
- (2) A portion of the local sales tax revenue is restricted for repairs of existing City streets. A portion of the 2019 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 \$89,268 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 on city owned property at City Hall. The deposit is in a separate bank account and is restricted by the City for that purpose. Once construction is complete, the deposit will be refunded to the contractor.

Committed: There is no committed funded balance.

CITY OF CRESSON, TX
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Assigned: The City Council has verbally assigned \$20,000 of the fund balance for the new equipment.

Unassigned: \$358,178 is the fund balance that is not in any of the above categories.

Note 9 – Related Party Transactions

The City is a party to an agreement dated January 23, 2007 with Vail Management Company whereby the City is to reimburse Vail for its costs to construct a water system in 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 City has a payable due to Vail Management Company in the amount of \$78,135 of which \$63,074 is in principal and \$15,061 is in interest. The City has paid \$4,053 to Vail Management during the year ended September 30, 2019. At the end of the twenty years, the City's obligation under this agreement will be considered paid in full. The City has no other obligations other than to pay for operating expenses and repairs to the water system.

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

Note 10 – Customer Deposits Liability

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

Note 11 – General Fund Receivables

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

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

Note 12 – Restricted Sales Taxes

During the year, the City collected \$104,082 in sales taxes restricted for maintenance and repairs on existing streets and spent \$52,120 for restricted purpose, resulting in a remaining balance of \$89,268 available to be spent at a future date for the restricted purpose.

CITY OF CRESSON, TX
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Note 13 – Interfund Balances

The City's general fund is due \$2,001 from the water and sewer department. The \$2,001 receivable is shown as an asset on the government wide statement of net position for presentation purposes to avoid a negative balance in the business-activities asset balances. The \$2,001 balance due to the general fund is presented as a payable under the business-activities column in the government-wide statement of net position.

Note 14 - Bluebonnet Hills Water Corporation

In November 2016, the City contracted with Bluebonnet Hills Water Corporation to operate their system for existing Bluebonnet Hills customers until the system and assets can be formally transferred to the City. The City received a monthly fee of \$3,000 beginning January 2017. The City anticipates the formal transfer to take place during the fiscal year 2020.

Note 15 – Prior Period Adjustment

The City discovered errors in prior financial statements and have made prior period adjustments to correct those errors. The City has discovered that franchise tax receivables was understated by \$6,660, sales tax receivables were understated by \$44,163 for the government-activities and have adjusted the net assets. As a result of the adjustment, the net assets for the government activities has increase by \$50,823. The City has also discovered that for the business-type activities the water and sewer department has understated its liabilities related to the VMC agreement at Note 9 in the prior period in the amount of \$70,577 and has adjusted its net assets. As a result, the net assets for the business-type activities has decreased by \$70,577.

Note 15 – Subsequent Events

The City has evaluated all other events and transactions occurring subsequent to September 30, 2019 as of August 25, 2020 which is the date the financial statements were available to be issued. No other material events have occurred since that date that require recognition or disclosure in the financial statements.

Required Supplementary Information

Supplementary Information for the Required Supplementary Information is provided in the form of a separate document. This document is available on the company's website at www.abc.com. The document contains the following information:

- Supplementary Information for the Required Supplementary Information
- Supplementary Information for the Required Supplementary Information
- Supplementary Information for the Required Supplementary Information

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**CITY OF CRESSON, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND ASSETS
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Budgeted Items		Actual Amount	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Fees	\$ 58,250	\$ 58,250	\$ 58,177	\$ (73)
Permits	95,400	95,400	116,965	21,565
Tax Revenues	407,000	407,000	493,745	86,745
Other Income	10,800	10,800	11,841	1,041
Total Revenues	<u>571,450</u>	<u>571,450</u>	<u>680,728</u>	<u>109,278</u>
Expenditures				
Current Operating Expenses				
General Government	381,081	381,081	396,384	(15,303)
Debt Service	48,276	48,276	48,275	1
Capital Outlay				
Street Improvements	100,000	100,000	38,503	61,497
Total Expenditures	<u>529,357</u>	<u>529,357</u>	<u>483,162</u>	<u>46,195</u>
Excess of Revenues over Expenditures	42,093	42,093	197,566	155,473
Fund Balance- Beginning of Year	632,085	632,085	632,085	-
Prior Period Adjustment	-	-	50,823	50,823
Fund Balance- End of Year	<u>\$ 674,178</u>	<u>\$ 674,178</u>	<u>\$ 880,474</u>	<u>\$ 206,296</u>

1. The Original and Final Budget were the same.

See Independent Auditors' Report and Notes to the Financial Statements

