

CITY OF DODD CITY, TEXAS
ANNUAL FINANCIAL REPORT
Year Ended September 30, 2020

CITY OF DODD CITY, TEXAS
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Year Ended September 30, 2020

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of Dodd City, Texas (the City) as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Honorable Mayor and Members
of the City Council
City of Dodd City, Texas

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund of the City of Dodd City, Texas, as of September 30, 2020, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note I.

Basis of Accounting

We draw attention to Note I of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the City of Dodd City, Texas's basic financial statements. The budgetary comparison information on page 21, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

McClanahan and Holmes, LLP

Certified Public Accountants

Bonham, Texas
November 17, 2021

CITY OF DODD CITY, TEXAS
Statement of Net Position - Modified Cash Basis
September 30, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 60,530	\$ 24,964	\$ 85,494
Restricted Assets - Cash and Cash Equivalents	-	38,743	38,743
Capital Assets Not Being Depreciated:			
Land	24,830	16,912	41,742
Capital Assets, Net of Accumulated Depreciation:			
Buildings and Improvements	11,148	-	11,148
Furniture, Equipment, and Vehicles	-	-	-
Water Distribution System	-	2,193,464	2,193,464
Infrastructure	32,530	-	32,530
Total Assets	<u>129,038</u>	<u>2,274,083</u>	<u>2,403,121</u>
LIABILITIES			
Payroll Tax Payable	-	630	630
Customers' Deposits	-	29,062	29,062
Noncurrent Liabilities:			
Due Within One Year	-	38,728	38,728
Due in More Than One Year	-	1,295,110	1,295,110
Total Liabilities	<u>-</u>	<u>1,363,530</u>	<u>1,363,530</u>
NET POSITION			
Net Investment in Capital Assets	68,508	885,540	954,048
Unrestricted	<u>60,530</u>	<u>25,013</u>	<u>85,543</u>
Total Net Position	<u>\$ 129,038</u>	<u>\$ 910,553</u>	<u>\$ 1,039,591</u>

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

CITY OF DODD CITY, TEXAS
Statement of Activities - Modified Cash Basis
Year Ended September 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 69,550	\$ -	\$ -	\$ -	\$ (69,550)	\$ -	\$ (69,550)
Sanitation	20,783	21,936	-	-	1,153	-	1,153
Total Governmental Activities	<u>90,333</u>	<u>21,936</u>	<u>-</u>	<u>-</u>	<u>(68,397)</u>	<u>-</u>	<u>(68,397)</u>
Business-Type Activities:							
Water/Sewer	258,439	184,686	-	-	-	(73,753)	(73,753)
Total Business Activities	<u>258,439</u>	<u>184,686</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(73,753)</u>	<u>(73,753)</u>
Total Primary Government	<u>\$ 348,772</u>	<u>\$ 206,622</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(68,397)</u>	<u>(73,753)</u>	<u>(142,150)</u>
		General Revenues:					
		Property Taxes			53,961	-	53,961
		Sales Taxes			29,202	-	29,202
		Franchise Taxes			15,570	-	15,570
		Miscellaneous			3,771	-	3,771
		Interest on Investments			372	309	681
		Transfers			(108,995)	108,995	-
		Total General Revenues and Transfers			<u>(6,119)</u>	<u>109,304</u>	<u>103,185</u>
		Change in Net Position			<u>(74,516)</u>	<u>35,551</u>	<u>(38,965)</u>
		Net Position - Beginning			<u>203,554</u>	<u>875,002</u>	<u>1,078,556</u>
		Net Position - Ending			<u>\$ 129,038</u>	<u>\$ 910,553</u>	<u>\$ 1,039,591</u>

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

CITY OF DODD CITY, TEXAS
Balance Sheet - Modified Cash Basis
Governmental Funds
September 30, 2020

	General	Debt Service	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 60,530	\$ -	\$ 60,530
Total Assets	<u>\$ 60,530</u>	<u>\$ -</u>	<u>\$ 60,530</u>
 LIABILITIES			
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 FUND BALANCES			
Unassigned	60,530	-	60,530
Total Fund Balances	<u>60,530</u>	<u>-</u>	<u>60,530</u>
Total Liabilities and Fund Balances	<u>\$ 60,530</u>	<u>\$ -</u>	<u>\$ 60,530</u>
Total Fund Balances - Governmental Funds (above)			\$ 60,530
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in government activities are not financial resources and, therefore,			
are not reported in the funds. The detail is as follows:			
Land		\$ 24,830	
Buildings and Improvements		28,579	
Less: Accumulated Depreciation - Buildings and Improvements		(17,431)	
Furniture, Equipment, and Vehicles		37,080	
Less: Accumulated Depreciation - Furniture, Equipment, and Vehicles		(37,080)	
Infrastructure		49,076	
Less: Accumulated Depreciation - Infrastructure		<u>(16,546)</u>	68,508
Other Assets not available to pay for the current period expenditures and, therefore, are reported as unavailable revenue in the funds.			<u>-</u>
Net Position of Governmental Activities			<u>\$ 129,038</u>

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

CITY OF DODD CITY, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balances - Modified Cash Basis
Governmental Funds
Year Ended September 30, 2020

	General	Debt Service	Total Governmental Funds
REVENUES			
Property Taxes	\$ 23,958	\$ 30,003	\$ 53,961
Sales Taxes	29,202	-	29,202
Franchise Taxes	15,570	-	15,570
License and Permits	1,545	-	1,545
Sanitation Fees	21,936	-	21,936
Investment Earnings	372	-	372
Miscellaneous	2,226	-	2,226
Total Revenues	<u>94,809</u>	<u>30,003</u>	<u>124,812</u>
EXPENDITURES			
Current:			
General Government	66,932	-	66,932
Sanitation	20,783	-	20,783
Total Expenditures	<u>87,715</u>	<u>-</u>	<u>87,715</u>
Excess (Deficiency) of Revenues over Expenditures	<u>7,094</u>	<u>30,003</u>	<u>37,097</u>
OTHER FINANCING SOURCES (USES)			
Transfers Out	(78,992)	(30,003)	(108,995)
Total Other Financing Sources (Uses)	<u>(78,992)</u>	<u>(30,003)</u>	<u>(108,995)</u>
Net Change in Fund Balances	(71,898)	-	(71,898)
Fund Balances - Beginning	132,428	-	132,428
Fund Balances - Ending	<u>\$ 60,530</u>	<u>\$ -</u>	<u>\$ 60,530</u>
Net Change in Fund Balances - Total Governmental Funds			\$ (71,898)
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$2,618) exceeded capital outlays (\$ -) in the current year.			
			(2,618)
Change in Net Position of Governmental Activities			<u>\$ (74,516)</u>

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

CITY OF DODD CITY, TEXAS
Statement of Net Position - Modified Cash Basis
Proprietary Fund
September 30, 2020

	Business - Type Activities Water and Sewer
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 24,964
Restricted Cash and Cash Equivalents	38,743
Investments	-
Total Current Assets	<u>63,707</u>
Noncurrent Assets:	
Capital Assets Not Being Depreciated:	
Land	16,912
Capital Assets Being Depreciated:	
Furniture, Equipment, and Vehicles	66,220
Water Distribution System	3,164,018
Less Accumulated Depreciation	<u>(1,036,774)</u>
Total Noncurrent Assets	<u>2,210,376</u>
Total Assets	<u>2,274,083</u>
LIABILITIES	
Current Liabilities:	
Payroll Tax Payable	630
Time Warrants Payable - Current	18,728
Combination Tax and Certificates of Obligation - Current	20,000
Customer Deposits Payable - Restricted Assets	<u>29,062</u>
Total Current Liabilities	<u>68,420</u>
Noncurrent Liabilities:	
Time Warrants Payable	95,110
Combination Tax and Certificates of Obligation	<u>1,200,000</u>
Total Noncurrent Liabilities	<u>1,295,110</u>
Total Liabilities	<u>1,363,530</u>
NET POSITION	
Net Investment in Capital Assets	885,540
Unrestricted	<u>25,013</u>
Total Net Position	<u>\$ 910,553</u>

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

CITY OF DODD CITY, TEXAS
Statement of Revenues, Expenses, and Changes in Fund Net Position - Modified Cash Basis
Proprietary Fund
Year Ended September 30, 2020

	Business - Type Activities Water and Sewer Fund
OPERATING REVENUES	
Charges for Services	\$ 179,727
Miscellaneous	4,959
Total Operating Revenues	<u>184,686</u>
OPERATING EXPENSES	
Salaries	36,686
Payroll Taxes	3,088
Contract Services	14,998
Repairs and Supplies - System	25,884
Repairs - Equipment	1,120
Fuel	1,222
Professional Fees	8,841
Utilities	26,144
Insurance	434
Office Expense	7,452
Licenses and Permits	4,221
Lab Fees	5,734
Depreciation	75,783
Total Operating Expenses	<u>211,607</u>
Operating Income (Loss)	<u>(26,921)</u>
NONOPERATING REVENUES (EXPENSES)	
Investment Earnings	309
Interest Expense	(46,832)
Total Nonoperating Revenues (Expenses)	<u>(46,523)</u>
Income (Loss) Before Transfers	(73,444)
Transfers In	<u>108,995</u>
Change in Net Position	35,551
Net Position - Beginning	875,002
Net Position - Ending	<u>\$ 910,553</u>

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

CITY OF DODD CITY, TEXAS
Statement of Cash Flows - Modified Cash Basis
Proprietary Fund
Year Ended September 30, 2020

	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 190,011
Payments to Suppliers and Service Providers	(96,050)
Payments to Employees for Salaries and Benefits	(39,774)
Net Cash Provided by (Used for) Operating Activities	<u>54,187</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from Other Funds	<u>108,995</u>
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>108,995</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and Construction of Capital Assets	(101,702)
Principal Paid on Capital Debt	(37,772)
Interest Paid on Capital Debt	(46,832)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(186,306)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Investments	309
Proceeds from Sale of Investments	<u>35,677</u>
Net Cash Provided by (Used for) Investing Activities	<u>35,986</u>
Net Increase (Decrease) in Cash and Cash Equivalents	12,862
Cash and Cash Equivalents - Beginning	<u>50,845</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 63,707</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:	
Operating Income (Loss)	<u>\$ (26,921)</u>
Adjustments to Reconcile Operating Income (Loss) to Provided by (Used For) Operating Activities:	
Depreciation Expense	75,783
(Decrease) Increase in Payroll Taxes Payable	-
(Decrease) Increase in Customer Meter Deposits	<u>5,325</u>
Total Adjustments	<u>81,108</u>
Net Cash Provided by (Used For) Operating Activities	<u><u>\$ 54,187</u></u>

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

CITY OF DODD CITY, TEXAS
Notes to Financial Statements
September 30, 2020

I. Summary of Significant Accounting Policies

A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities), report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support.

B. Reporting Entity

The City of Dodd City, Texas (the City) was incorporated on July 28, 1879. The City is a municipal corporation governed by an elected mayor and six-member governing council (the Council). The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

Except for the use of the modified cash basis of accounting as discussed in Note I.E., the City complies with accounting principles generally accepted in the United States of America as applicable to governments. Accounting principles generally accepted in the United States of America include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this Note.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and proprietary fund.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds. Separate statements for each fund category – governmental and proprietary– are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

The government reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The debt service fund is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

The government reports the following major proprietary fund:

The water and sewer fund accounts for the water distribution and sewer system as well as the billings and collections for those services.

CITY OF DODD CITY, TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

I. Summary of Significant Accounting Policies (Continued)

D. Basis of Presentation – Fund Financial Statements (Continued)

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (the governmental and debt service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (the enterprise fund) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement Focus and Basis of Accounting

The City of Dodd City prepares its financial statements on the modified cash basis. The modified cash basis recognizes revenue when collected rather than when it is earned, and expenses are generally recognized when paid rather than when the obligation is incurred. Therefore, the financial statements do not reflect receivables, payables, and accrued items. Depreciation of fixed assets is presented in the government-wide statements and the proprietary fund statements. This basis is a basis of accounting other than accounting principles generally accepted in the United States of America.

In the government-wide statement of net position and the statement of activities, both governmental and business-type activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting.

All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund balance is classified as net position.

F. Budgetary Information

1. Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with the modified cash basis of accounting for the general fund and debt service fund. The appropriated budget is prepared by fund and department. After public hearings are held, the budget is adopted in September prior to the beginning of its subsequent fiscal year.

CITY OF DODD CITY, TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

I. Summary of Significant Accounting Policies (Continued)

F. Budgetary Information (Continued)

2. Excess of Expenditures over Appropriations

For the year ended September 30, 2020, the City's expenditures exceeded appropriation at the legal level of control in the General Fund as follows:

<u>Object Category</u>	<u>Expenditures Exceeding Appropriations</u>
Contract Labor	\$ 2,346
Office Expenditures	3,348
Professional Fees	22,430
Equipment Maintenance	473
Equipment Purchase	69
State Sales Tax	62
Insurance	2,898
Transfers Out	78,992

The over - expenditures were funded by available fund balance.

G. Assets, Liabilities, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

Statutes authorize the City to invest in obligations of the U.S. Treasury, direct obligations of the State of Texas, other obligations guaranteed or insured by the State of Texas or the United States, obligations of states and political subdivisions of any state meeting certain rating requirements, certificates of deposit, and fully collateralized direct repurchase agreements having a defined termination date.

At September 30, 2020, the City had invested in only certificates of deposit.

The City did not engage in repurchase or reverse repurchase agreement transactions during the current year.

3. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized. Infrastructure assets acquired since October 1, 2003 are recorded at cost.

CITY OF DODD CITY, TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

I. Summary of Significant Accounting Policies (Continued)

G. Assets, Liabilities, and Net Position/Fund Balance (Continued)

3. Capital Assets (Continued)

Property, plant, and equipment of the primary government is being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and Improvements	20-40 Years
Furniture, Equipment, and Vehicles	5 Years
Water Distribution System	30-40 Years
Infrastructure	20 Years

4. Restricted Assets

The ordinance authorizing the issuance of the Certificates of Obligation provides for monthly deposits to an interest and sinking fund sufficient to pay maturing principal and interest. The Certificates were issued for the purpose of paying cost associated with the acquisition and construction of a new waste water treatment plant for the City.

An analysis of restricted assets at September 30, 2020, follows:

<u>Proprietary Fund</u>	<u>Cash</u>
Customers Deposits	\$ 29,740
Sewer Savings Account	9,003
Total	<u>\$ 38,743</u>

5. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

6. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance.

CITY OF DODD CITY, TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

I. Summary of Significant Accounting Policies (Continued)

G. Assets, Liabilities, and Net Position/Fund Balance (Continued)

7. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation. The City does not have any restricted fund balances by enabling legislation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

H. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as programs revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

The City's property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Tax rates per \$100 valuation for the 2019 levy amounted to .1365 for maintenance and operation and .2029 for the interest and sinking fund. The 2019 assessed valuation was \$14,776,435.

3. Proprietary Fund Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer fund are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF DODD CITY, TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

II. Stewardship, Compliance, and Accountability

Violations of Legal or Contractual Provisions

Note 1.F.2, on the Excess of Expenditures Over Appropriations, describes a budgetary violation that occurred for the year ended September 30, 2020. It also explains the provision provided by law that was used to remedy the violation.

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. There were no instances of noncompliance considered material to the financial statements.

III. Detailed Notes on All Activities and Funds

A. Cash Deposits With Financial Institutions

Custodial credit risk-deposits: In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). Deposited funds may be invested in certificates of deposit in institutions that are domiciled in the State of Texas. Collateral agreements must be approved prior to deposit of funds as provided by law.

The City Council approves and designates a list of authorized depository institutions based on evaluation of solicited responses and certifications provided by financial institutions and recommendations of the City Council.

As of September 30, 2020, the City had deposits with a carrying amount of \$123,888, and the bank's balances were \$127,823. The City was not exposed to custodial credit risk since deposits are insured or collateralized with securities held by the pledging financial institution's trust department or agent in name of the City.

B. Investments

The City only invested funds in certificates of deposit issued by a state or national bank insured by FDIC.

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool.

CITY OF DODD CITY, TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

III. Detailed Notes on All Activities and Funds (Continued)

C. Capital Assets

Capital asset activity for the period ended September 30, 2020 was as follows:

Governmental Activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 24,830	\$ -	\$ -	\$ 24,830
Total Capital Assets, Not Being Depreciated	<u>24,830</u>	<u>-</u>	<u>-</u>	<u>24,830</u>
Capital Assets, Being Depreciated				
Buildings and Improvements	28,579	-	-	28,579
Furniture, Equipment, and Vehicles	37,080	-	-	37,080
Infrastructure	49,076	-	-	49,076
Total Capital Assets, Being Depreciated	<u>114,735</u>	<u>-</u>	<u>-</u>	<u>114,735</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(16,040)	(1,391)	-	(17,431)
Furniture, Equipment, and Vehicles	(37,080)	-	-	(37,080)
Infrastructure	(15,319)	(1,227)	-	(16,546)
Total Accumulated Depreciation	<u>(68,439)</u>	<u>(2,618)</u>	<u>-</u>	<u>(71,057)</u>
Total Capital Assets, Being Depreciated (Net)	<u>46,296</u>	<u>(2,618)</u>	<u>-</u>	<u>43,678</u>
Governmental Activities Capital Assets (Net)	<u>\$ 71,126</u>	<u>\$ (2,618)</u>	<u>\$ -</u>	<u>\$ 68,508</u>

Depreciation Expense was charged to the functions/programs of the governmental activities of the primary government as follows:

Governmental Activities:

General Government \$ 2,618

CITY OF DODD CITY, TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

III. Detailed Notes on All Activities and Funds (Continued)

C. Capital Assets (Continued)

Business-Type Activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 16,912	\$ -	\$ -	\$ 16,912
Construction in Progress	1,239,080	3,250	1,242,330	-
Total Capital Assets, Not Being Depreciated	<u>1,255,992</u>	<u>3,250</u>	<u>1,242,330</u>	<u>16,912</u>
Capital Assets, Being Depreciated				
Furniture, Equipment, and Vehicles	66,220	-	-	66,220
Water Distribution System	1,823,237	1,340,782	-	3,164,019
Total Capital Assets, Being Depreciated	<u>1,889,457</u>	<u>1,340,782</u>	<u>-</u>	<u>3,230,239</u>
Less Accumulated Depreciation for:				
Furniture, Equipment, and Vehicles	(66,220)	-	-	(66,220)
Water Distribution System	(894,772)	(75,783)	-	(970,555)
Total Accumulated Depreciation	<u>(960,992)</u>	<u>(75,783)</u>	<u>-</u>	<u>(1,036,775)</u>
Total Capital Assets, Being Depreciated (Net)	<u>928,465</u>	<u>(1,264,999)</u>	<u>-</u>	<u>2,193,464</u>
Governmental Activities Capital Assets (Net)	<u>\$ 2,184,457</u>	<u>\$ 1,268,249</u>	<u>\$ 1,242,330</u>	<u>\$ 2,210,376</u>

D. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases insurance coverage from commercial insurers to limit risk of loss in these areas. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. There has been no significant reduction in insurance coverage during the year ended September 30, 2020. There have been no settlements in excess of insurance coverage in any of the prior three fiscal years.

E. Long-Term Liabilities

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Presently, the City's long-term debt consists of time warrants and Certificates of Obligation.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as it is in the government-wide statements.

CITY OF DODD CITY, TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

III. Detailed Notes on All Activities and Funds (Continued)

E. Long-Term Liabilities (Continued)

The ordinance authorizing the issuance of Combination Tax and Surplus Revenue Certificates of Obligation, Taxable Series 2016, created an interest and sinking fund. The ordinance requires the City to levy and collect an amount of property tax which will be sufficient to pay principal and interest as it comes due, but never less than 2% of the original principal amount. The net revenues of the Waterworks and Sewer System are pledged to the payments of principal and interest on the Certificates as they become due to the extent the taxes shall ever be insufficient or unavailable.

Changes in the government's long-term liabilities for the year ended September 30, 2020 are as follows:

Business-Type Activities:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Time Warrants	\$ 131,610	\$ -	\$ 17,772	\$ 113,838	\$ 18,728
Certificates of Obligation	1,240,000	-	20,000	1,220,000	20,000
Total Debt	<u>\$ 1,371,610</u>	<u>\$ -</u>	<u>\$ 37,772</u>	<u>\$ 1,333,838</u>	<u>\$ 38,728</u>

Long-term debt is comprised of the following:

\$300,000, Time Warrants, dated February 23, 2006, due in monthly installments of \$2,022, through 2026, interest at 5.25%. \$ 113,838

\$1,255,000, Series 2016 Combination Tax and Surplus Revenue Certificates Of Obligation, dated November 2016, due in annual installments of \$5,000 to \$60,000 through 2056, interest from .920% to 3.65%. 1,220,000
\$ 1,333,838

CITY OF DODD CITY, TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

III. Detailed Notes on All Activities and Funds (Continued)

E. Long-Term Liabilities (Continued)

The annual requirements to retire debt obligations are as follows:

Fiscal Year Due	Principal	Interest	Total
2021	\$ 38,728	\$ 45,628	\$ 84,356
2022	39,736	44,348	84,084
2023	40,797	42,991	83,788
2024	41,915	41,559	83,474
2025	43,094	40,046	83,140
2026-2030	124,568	188,503	313,071
2031-2035	130,000	171,158	301,158
2036-2040	155,000	147,884	302,884
2041-2045	185,000	118,300	303,300
2046-2050	215,000	82,490	297,490
2051-2055	260,000	39,968	299,968
2056	60,000	2,190	62,190
	<u>\$1,333,838</u>	<u>\$ 965,065</u>	<u>\$2,298,903</u>

F. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenue/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

G. Interfund Receivables and Payables

Interfund transfers for the year ended September 30, 2020, consisted of the following individual amounts:

Transfers to Water and Sewer Fund From:	
General	\$ 78,992
Debt Service	30,003
Total Transferred to Water and Sewer Fund	<u>\$ 108,995</u>

CITY OF DODD CITY, TEXAS
Notes to Financial Statements (Continued)
September 30, 2020

III. Detailed Notes on All Activities and Funds (Continued)

G. Interfund Receivables and Payables (Continued)

During the year, transfers are used to 1) transfer to and from the Water and Sewer Fund to the General Fund for general operating expenses and sanitation revenue and 2) to transfer to and from the Debt Service Fund and General Fund to the Water and Sewer Fund to reimburse debt payments.

During the year ended September 30, 2020, the City experienced extraordinary expenses related to unanticipated and unforeseen events related to the Water System. The City transferred funds from the General Fund to the Water and Sewer Fund to help cover these unexpected expenses.

H. Number of Water and Sewer System Customers

At September 30, 2020, 238 customers were connected to the water system and 140 to the sewer system.

I. Contingencies

In the normal course of operations, the City receives grant funds from various Federal agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Accordingly, the City's compliance with applicable grant requirements has not yet been established. The amount, if any, of reimbursements which may be required by the granting agencies cannot be determined at this time.

CITY OF DODD CITY, TEXAS
Other Information
Budgetary Comparison Schedule - Modified Cash Basis - General Fund
Year Ended September 30, 2020

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Property Taxes	\$ 50,000	\$ 23,958	\$ (26,042)
Sales Taxes	10,000	29,202	19,202
Franchise Taxes	20,000	15,570	(4,430)
License and Permits	1,000	1,545	545
Sanitation Fees	21,000	21,936	936
Investment Earnings	-	372	372
Miscellaneous	-	2,226	2,226
Total Revenues	<u>102,000</u>	<u>94,809</u>	<u>(7,191)</u>
EXPENDITURES			
Animal Control	500	-	500
Appraisal and Tax Collection	2,500	1,010	1,490
Election Expenditures	1,000	-	1,000
Insurance	3,000	5,898	(2,898)
Fuel	1,700	489	1,211
Office Expenditures	3,000	6,348	(3,348)
Professional Fees	4,000	26,430	(22,430)
Street Maintenance and Improvements	12,000	3,365	8,635
Equipment Maintenance	3,000	3,473	(473)
Equipment Purchase	-	69	(69)
Contract Labor	4,500	6,846	(2,346)
State Sales Tax	1,600	1,662	(62)
Travel	1,000	800	200
Telephone and Utilities	12,000	10,542	1,458
Sanitation	21,000	20,783	217
Total Expenditures	<u>70,800</u>	<u>87,715</u>	<u>(16,915)</u>
Excess of Revenues over Expenditures	<u>31,200</u>	<u>7,094</u>	<u>(24,106)</u>
OTHER FINANCING SOURCES (USES)			
Operating Transfers In (Out)	-	(78,992)	(78,992)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(78,992)</u>	<u>(78,992)</u>
Net Change in Fund Balances	31,200	(71,898)	(103,098)
Fund Balances - Beginning of Year	132,428	132,428	-
Fund Balances - End of Year	<u>\$ 163,628</u>	<u>\$ 60,530</u>	<u>\$ (103,098)</u>