

CITY OF PAYNE SPRINGS, TEXAS

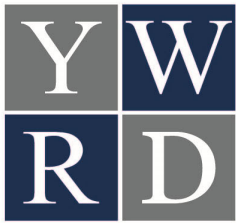
ANNUAL FINANCIAL REPORT

For the Year Ended December 31, 2020

CITY OF PAYNE SPRINGS, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended December 31, 2020

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis (unaudited)	3-8
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds	11
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	13
Notes to the Financial Statements	14-23
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	25



YWRD, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Greer Yeldell, CPA | Glen Wilson, CPA | Tracie Wood, CPA | Joyce Reeve, CPA | Brandon Diviney, CPA

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Payne Springs, Texas

We have audited the accompanying financial statements of the governmental activities and general fund of the City of Payne Springs, Texas, as of and for the year ended December 31, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 obtained is sufficient and appropriate to provide a basis for our audit opinions.

Honorable Mayor and City Council
City of Payne Springs, Texas
Page Two

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the City of Payne Springs, Texas, as of December 31, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and page 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

YWRD, P.C.

YWRD, P.C.
Certified Public Accountants

Waxahachie, Texas
August 19, 2021

CITY OF PAYNE SPRINGS, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As management of the City of Payne Springs, Texas, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2020.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent year by \$939,466 (net position). Of this amount, \$185,987 represents unrestricted net position, which may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position decreased by \$45,272.
- At the end of the current year, unassigned fund balance for the general fund was \$168,321, or 23% of the total general fund expenditures.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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 statement of net position presents financial information on all of the City's assets and liabilities, with the difference 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 activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future periods (e.g., uncollected taxes).

The government-wide financial statements distinguish functions of the City that are principally supported by sales and franchise taxes. The governmental activities of the City include general government, public safety, and public works.

The government-wide financial statements can be found on pages 9-10 of this report.

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 of the funds of the City are governmental 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 *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of 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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains one individual 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 Balance for the General Fund which is considered to be a major fund.

The basic governmental fund financial statements can be found on pages 11-13 of this report.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire 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 14-23 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the City's General fund Budget Comparison Schedule. Required supplementary information can be found on page 25 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$939,466, at the close of the most recent year.

CITY OF PAYNE SPRINGS' NET POSITION

	Governmental Activities		Total	
	2020	2019	2020	2019
Current and other assets	\$ 432,503	\$ 448,946	\$ 432,503	\$ 448,946
Capital assets	752,489	765,247	752,489	765,247
Total assets	<u>1,184,992</u>	<u>1,214,193</u>	<u>1,184,992</u>	<u>1,214,193</u>
Long term liabilities	18,118	33,143	18,118	33,143
Other liabilities	227,408	196,312	227,408	196,312
Total liabilities	<u>245,526</u>	<u>229,455</u>	<u>245,526</u>	<u>229,455</u>
Net position:				
Net investment in capital assets	716,705	726,029	716,705	726,029
Restricted	36,774	35,435	36,774	35,435
Unrestricted	185,987	223,274	185,987	223,274
Total net position	<u>\$ 939,466</u>	<u>\$ 984,738</u>	<u>\$ 939,466</u>	<u>\$ 984,738</u>

Certain reclassifications have been made to the prior year data to conform with the current year presentation.

A portion of the City's net position (76.3%) reflects its investment in capital assets (e.g., buildings, furnishings and equipment, improvements other than buildings, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (3.9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$185,987 is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors.

The City's net investment in capital assets decreased as a result of current year's depreciation exceeding capital asset additions.

At the end of the current year, the City is able to report positive balances in all reported categories of net position. The same situation held true for the prior year.

The City's overall net position decreased \$45,272 from the prior year. The reasons for this overall increase are discussed in the following section for governmental activities.

CITY OF PAYNE SPRINGS' CHANGES IN NET POSITION

	Governmental Activities		Total	
	2020	2019	2020	2019
Revenues:				
Program revenues:				
Charges for services	\$ 437,496	\$ 383,832	\$ 437,496	\$ 383,832
Operating grants and contributions	1,540	853	1,540	853
Capital grants and contributions	-	60,055	-	60,055
General revenues:				
Sales taxes	176,418	139,616	176,418	139,616
Franchise taxes	63,754	59,196	63,754	59,196
Investment earnings	2,100	4,997	2,100	4,997
Miscellaneous	5,213	3,006	5,213	3,006
Total revenues	<u>686,521</u>	<u>651,555</u>	<u>686,521</u>	<u>651,555</u>
Expenses:				
General government	148,045	193,142	148,045	193,142
Public safety	445,204	276,552	445,204	276,552
Public works	137,189	137,247	137,189	137,247
Interest	1,355	72	1,355	72
Total expenses	<u>731,793</u>	<u>607,013</u>	<u>731,793</u>	<u>607,013</u>
Change in net position	(45,272)	44,542	(45,272)	44,542
Net position - beginning, as restated	984,738	940,196	984,738	940,196
Net position - ending	<u>\$ 939,466</u>	<u>\$ 984,738</u>	<u>\$ 939,466</u>	<u>\$ 984,738</u>

Certain reclassifications have been made to the prior year data to conform with the current year presentation.

Governmental Activities. During the current year, net position for governmental activities decreased \$45,272 from the prior year for an ending balance of \$939,466.

- Charges for services increase by \$53,664 (14%) during the year. The increase is due to an increase in impound lot revenues and police fines revenues.
- Sales tax increased by \$36,802 (26%) during the year. The increase is due to an increase in the economic activity within the City.
- General government expenses decreased by \$45,097 (23%) and public safety expense increased by \$168,652 (61%) during the year.

Financial Analysis of Governmental Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City Council.

At December 31, 2020, the City's General fund reported ending fund balance of \$205,095, a decrease of \$47,539 in comparison with the prior year. Approximately 82% of this amount (\$168,321) constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is restricted to indicate that it is restricted for particular purposes (\$36,774).

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$168,321, while total fund balance decreased to \$205,095. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 22.9% of total general fund expenditures, while total fund balance represents approximately 27.9% of that same amount.

The fund balance of the City's general fund decreased \$47,539 during the current year.

General Fund Budgetary Highlights

Final budget compared to actual results. Budgeted general fund revenues of \$895,690 exceeded actual revenues of \$781,518 by \$114,172. Budgeted general fund expenditures of \$893,813 exceeded actual expenditures of \$821,881. This \$71,932 variance in expenditures was achieved due to budgeted projects not being completed during the year.

Capital Assets and Debt Administration

Capital assets. The City's investment in capital assets for its governmental activities as of December 31, 2020, amounts to \$752,489 (net of accumulated depreciation). This investment in capital assets includes buildings, furnishings and equipment, improvements other than buildings, and infrastructure. The total decrease in capital assets for the current year was approximately 1.7%.

**City of Payne Springs' Capital Assets
(net of depreciation)**

	Governmental Activities		Total	
	2020	2019	2020	2019
Buildings	\$ 195,850	\$ 202,155	\$ 195,850	\$ 202,155
Furnishings and equipment	147,636	137,761	147,636	137,761
Improvements other than buildings	10,106	12,391	10,106	12,391
Infrastructure	398,897	412,940	398,897	412,940
Total	<u>\$ 752,489</u>	<u>\$ 765,247</u>	<u>\$ 752,489</u>	<u>\$ 765,247</u>

Additional information on the City of Payne Springs capital assets can be found in note 2.C on page 20 of this report.

Long-term Debt. At the end of the current year, the City had total long-term debt outstanding of \$15,018, an decrease of \$14,715 (49%).

City of Payne Springs' Long-Term Debt

	Governmental Activities		Total	
	2020	2019	2020	2019
Note payable	\$ 15,018	\$ 29,733	\$ 15,018	\$ 29,733
Total	<u>\$ 15,018</u>	<u>\$ 29,733</u>	<u>\$ 15,018</u>	<u>\$ 29,733</u>

Additional information on the City's long term-debt can be found in Note 2.F on pages 21-22 of this report.

Economic Factors and Next Year's Budgets and Rates

General Fund revenues are budgeted to decrease (10.74%) in the 2021 budget. General fund revenues include sales tax of \$150,000 (19%), fines and forfeitures of \$384,000 (48%), and impound lot revenues of \$180,000 (23%).

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Payne Springs, Texas, 19601 CR 2529, Mabank, Texas 75156, (903) 451-9229.

CITY OF PAYNE SPRINGS, TEXAS
STATEMENT OF NET POSITION
December 31, 2020

	Governmental Activities	Total
ASSETS		
Cash	\$ 390,392	\$ 390,392
Receivables (net of allowance for uncollectibles)	42,111	42,111
Capital assets:		
Depreciable (net of accumulated depreciation)	752,489	752,489
Total Assets	1,184,992	1,184,992
LIABILITIES		
Accounts payable and other current liabilities	201,437	201,437
Accrued payroll payable	5,205	5,205
Line of credit	20,766	20,766
Noncurrent liabilities:		
Due within one year	10,413	10,413
Due in more than one year	7,705	7,705
Total Liabilities	245,526	245,526
NET POSITION		
Net investment in capital assets	716,705	716,705
Restricted for public safety	36,774	36,774
Unrestricted	185,987	185,987
Total Net Position	\$ 939,466	\$ 939,466

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

CITY OF PAYNE SPRINGS, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2020

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Total</u>
Function/Program:					
Primary government:					
Governmental activities:					
General government	\$ 148,045	\$ 12,413	\$ -	\$ (135,632)	\$ (135,632)
Public safety	445,204	425,083	1,540	(18,581)	(18,581)
Public works	137,189	-	-	(137,189)	(137,189)
Interest	1,355	-	-	(1,355)	(1,355)
10 Total governmental activities	<u>731,793</u>	<u>437,496</u>	<u>1,540</u>	<u>(292,757)</u>	<u>(292,757)</u>
Total primary government	<u>\$ 731,793</u>	<u>\$ 437,496</u>	<u>\$ 1,540</u>	<u>(292,757)</u>	<u>(292,757)</u>
General revenues:					
Sales taxes				176,418	176,418
Franchise taxes				63,754	63,754
Investment earnings				2,100	2,100
Miscellaneous				5,213	5,213
Total general revenues				<u>247,485</u>	<u>247,485</u>
Change in net position				(45,272)	(45,272)
Net position - beginning, as restated				<u>984,738</u>	<u>984,738</u>
Net position - ending				<u>\$ 939,466</u>	<u>\$ 939,466</u>

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

CITY OF PAYNE SPRINGS, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2020

	General	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 390,392	\$ 390,392
Receivables (net of allowance for uncollectibles)	42,111	42,111
Total assets	\$ 432,503	\$ 432,503
LIABILITIES		
Accounts payable and other current liabilities	\$ 201,437	\$ 201,437
Accrued payroll payable	5,205	5,205
Line of credit	20,766	20,766
Total liabilities	227,408	227,408
FUND BALANCE		
Restricted for:		
Public safety	36,774	36,774
Unassigned	168,321	168,321
Total fund balance	205,095	205,095
Total liabilities and fund balance	\$ 432,503	

Amounts reported for governmental activities in the statement of net position (page 9) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		752,489
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Due within one year	\$ (10,413)	
Due in more than one year	(7,705)	(18,118)
Net position of governmental activities (page 9)		\$ 939,466

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

CITY OF PAYNE SPRINGS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2020

	General	Total Governmental Funds
REVENUES		
Sales taxes	\$ 176,418	\$ 176,418
Franchise taxes	63,754	63,754
Licenses and permits	12,413	12,413
Fines and forfeitures	261,433	261,433
Charges for services	163,650	163,650
Investment earnings	2,100	2,100
Other	5,213	5,213
Intergovernmental	1,540	1,540
Total revenues	686,521	686,521
EXPENDITURES		
Current:		
General government	135,558	135,558
Public safety	430,084	430,084
Public works	152,348	152,348
Debt service:		
Principal retirement	14,715	14,715
Interest charges	1,355	1,355
Total expenditures	734,060	734,060
Net change in fund balance	(47,539)	(47,539)
Fund balance at beginning of year, as restated	252,634	252,634
Fund balance at end of year	\$ 205,095	\$ 205,095

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

CITY OF PAYNE SPRINGS, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2020

Amounts reported for governmental activities in the statement of activities (page 10) are different because:

Net change in fund balances-total governmental funds (page 12)	\$ (47,539)
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlay recorded as capital assets in the current period.	51,318
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds.	(64,076)
The issuance of long-term debt (e.g. line of credit and notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	
Notes payable retired	14,715
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Compensated absences	310
Change in net position of governmental activities (page 10)	\$ (45,272)

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

CITY OF PAYNE SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

NOTE 1 - 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* are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

B. Reporting entity

The City of Payne Springs, Texas (the "City") was formed as the result of an election on September 30, 1972 and is a Type "A" General Law municipality consisting of a Mayor and five City Council members. It provides the following services for its residents: general government, public safety, and public works.

The City applies the criteria set forth in GASB Statement No. 61, The Financial Reporting Entity, to determine which governmental organizations should be included in the reporting entity. The inclusion or exclusion of component units is based on the elected official's accountability to their constituents. The financial reporting entity follows the same accountability. In addition, the financial statements of the reporting entity should allow the user to distinguish between the primary government (including its blended component units, which are, in substance, part of the primary government) and discretely presented component units. Criteria for inclusion of an entity into the primary governmental unit (in blended or discrete presentation) includes, but is not limited to, legal standing, fiscal dependency, imposition of will and the primary recipient of services. The City presently has no component units included within its reporting entity.

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.

D. Basis of presentation - fund financial statements

The fund financial statements provide information about the City's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. Major individual governmental funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental fund:

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

CITY OF PAYNE SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period if received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

F. Assets, liabilities, and net position/fund balance

1. Cash and cash equivalents

The City's cash and cash equivalents are considered to be cash on hand and demand deposits.

CITY OF PAYNE SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, and net position/fund balance (continued)

2. Investments

Public funds of the City may be invested in 1) obligations of or guaranteed by governmental entities, excluding mortgage backed securities; 2) certificates of deposit; 3) fully collateralized repurchase agreements with a defined termination date; 4) commercial paper with a stated maturity of 270 days or fewer; 5) investment pools with an advisory board and are continuously rate no lower than AAA; and 6) SEC registered no-load money market mutual funds.

3. Receivables and allowances for doubtful accounts

All taxes receivables are shown net of an allowance for uncollectibles.

4. Capital assets

Capital assets, which include property, equipment, leasehold improvements, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of three years.

As the City constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at acquisition value at the date of donation.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

Capital asset class	Lives
Buildings	40
Furnishings and equipment	5-10
Improvements other than buildings	10-15
Infrastructure	30

CITY OF PAYNE SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, and net position/fund balance (continued)

5. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statements of net position.

In the fund financial statements, governmental fund types recognize debt issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Net position flow assumption

Net position represent the difference between assets and liabilities on the government-wide financial statements. Net positions are classified in the following categories:

Net investment in capital assets —This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position —This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position —This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted debt 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 statement, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

CITY OF PAYNE SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, and net position/fund balance (continued)

7. Fund balance flow assumption

The governmental fund financial statements present fund balance categorized based on the nature and extent of the constraints placed on the specific purposes for which a government's funds may be spent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance—amounts that are not in spendable form (such as inventory and prepaid items) or are required to be maintained intact.

Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance—amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint. City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance.

Assigned fund balance—amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.

Unassigned fund balance—amounts that represent fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed, or assigned. Positive balances are reported only in the General Fund.

Sometimes the City 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 City'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. Unassigned fund balance is applied last.

CITY OF PAYNE SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Revenues and expenditures/expenses

1. Program revenues

Amounts reported as program 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. Compensated absences

The City's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation from City service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable. Vacation leave shall be taken during the year following its accumulation.

NOTE 2 – 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 to it. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. At year end, the bank balance of the City's deposits was \$400,561. Of the bank balance, \$306,836 was covered by federal depository insurance and the remaining balance, \$93,725, was covered by collateral pledged in the City's name. The collateral was held in the City's name by the safekeeping department of the pledging bank's agent and had a fair value of approximately \$500,000.

CITY OF PAYNE SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

B. Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line. Below is the detail of receivables for the general fund, including the applicable allowances for uncollectible accounts:

<u>Receivables:</u>	<u>General</u>	<u>Total</u>
Taxes	\$ 42,111	\$ 42,111
Less: allowance for uncollectibles	-	-
Net total receivable	<u>\$ 42,111</u>	<u>\$ 42,111</u>

C. Capital assets

Capital asset activity for the year ended December 31, 2020 was as follows:

Governmental activities:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Buildings	252,181	-	-	252,181
Furnishings and equipment	305,734	51,318	-	357,052
Improvements other than buildings	30,711	-	-	30,711
Infrastructure	474,511	-	-	474,511
Total capital assets being depreciated	<u>1,063,137</u>	<u>51,318</u>	<u>-</u>	<u>1,114,455</u>
Less accumulated depreciation for:				
Buildings	(50,026)	(6,305)	-	(56,331)
Furnishings and equipment	(167,973)	(41,443)	-	(209,416)
Improvements other than buildings	(18,320)	(2,285)	-	(20,605)
Infrastructure	(61,571)	(14,043)	-	(75,614)
Total accumulated depreciation	<u>(297,890)</u>	<u>(64,076)</u>	<u>-</u>	<u>(361,966)</u>
Total capital assets being depreciated, net	<u>765,247</u>	<u>(12,758)</u>	<u>-</u>	<u>752,489</u>
Governmental activities capital assets, net	<u>\$ 765,247</u>	<u>\$ (12,758)</u>	<u>\$ -</u>	<u>\$ 752,489</u>

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

Governmental activities:

General government	\$ 12,797
Public safety	30,842
Public works	20,437
	<u>\$ 64,076</u>

CITY OF PAYNE SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

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 maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three years.

E. Short-term liability

Line of credit

The City maintained a line of credit of \$25,010 from a local financial institution with an interest rate of 6.00%. The outstanding balance at December 31, 2020 was \$20,766.

E. Short-term liability (continued)

The following is a summary of changes in the line of credit for the year ended December 31, 2020:

Balance, January 1, 2020		\$	9,485
Increases			29,009
Decreases			(17,728)
Balance, December 31, 2020		<u>\$</u>	<u>20,766</u>

F. Long-term liabilities

Notes payable

Notes payable currently outstanding and reported as a liability of the City's governmental activities are:

Governmental Activities:

<u>Note Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>	<u>Secured By</u>
\$ 30,033	12/11/23	5.00%	<u>\$ 15,018</u>	Purchased motor vehicle

CITY OF PAYNE SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

F. Long-term liabilities (continued)

The debt service requirements for the City's note payable is as follows:

Year Ending December 31	Note Payable	
	Governmental Activities	
	Principal	Interest
2021	\$ 7,313	\$ 988
2022	7,687	614
2023	18	-
	<u>\$ 15,018</u>	<u>\$ 1,602</u>

Compensated Absences -

Compensated absences represent the estimated liability for employees' paid time off benefits for which employees are entitled to be paid upon termination. The retirement of this liability is paid from the General Fund.

Changes in long-term liabilities

Changes in the City's long-term liability for the year ended December 31, 2020 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Notes payable	\$ 29,733	\$ -	\$ (14,715)	\$ 15,018	\$ 7,313
Compensated absences	3,410	5,301	(5,611)	3,100	3,100
Governmental activity					
Long-term liabilities	<u>\$ 33,143</u>	<u>\$ 5,301</u>	<u>\$ (20,326)</u>	<u>\$ 18,118</u>	<u>\$ 10,413</u>

Notes payable issued for governmental activity purposes are liquidated by the general fund. Governmental compensated absences will be liquidated by the general fund. Vacation leave is expected to be taken during the year following its accumulation.

CITY OF PAYNE SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

G. Related party transactions

The City leases land, used as an impound lot, from the former City Secretary and her husband, a former council member. The lease is for a period of five years, renewable in five year increments. The lease expenditure is the property taxes assessed on the property each year and an annual \$1,000 fee. During 2020, the property taxes were \$585 and the annual fee was \$1,000 for a total of \$1,585. As part of the agreement, the City must restore the property to its original condition upon termination of the lease.

H. Prior period adjustment

Corrections have been made to the governmental activities beginning net position in the government-wide financial statements and to the general fund beginning fund balance in the fund financial statements due to errors in classification and recording financial transactions in the prior period, resulting in an understatement of liabilities and an overstatement of net position and fund balance of the prior year. The change to the beginning net position and beginning fund balance as of January 1, 2020 is summarized as follows:

	Government-wide Financial Statements	Fund Financial Statements
As previously reported, January 1, 2020	\$ 1,141,987	\$ 409,883
Understatement of accounts payable and other current liabilities	(157,249)	(157,249)
Restated, January 1, 2020	\$ 984,738	\$ 252,634

REQUIRED SUPPLEMENTARY INFORMATION

GENERAL FUND

This supplementary schedule is included to supplement the basic financial statements as required by the Governmental Accounting Standards Board.

CITY OF PAYNE SPRINGS, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended December 31, 2020

	Original and Final Budgeted Amounts	Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget
REVENUES					
Sales taxes	\$ 141,000	\$ 176,418	\$ (5,244)	\$ 171,174	\$ 30,174
Franchise taxes	63,360	63,754	(1,697)	62,057	(1,303)
Licenses and permits	7,674	12,413	-	12,413	4,739
Fines and forfeitures	383,454	261,433	85,236	346,669	(36,785)
Charges for services	120,000	163,650	890	164,540	44,540
Investment earnings	6,000	2,100	-	2,100	(3,900)
Other	1,158	5,213	-	5,213	4,055
Intergovernmental	173,044	1,540	15,812	17,352	(155,692)
Total revenues	<u>895,690</u>	<u>686,521</u>	<u>94,997</u>	<u>781,518</u>	<u>(114,172)</u>
EXPENDITURES					
Current:					
General government	124,956	135,558	-	135,558	10,602
Public safety:					
Municipal court	207,077	136,343	89,077	225,420	18,343
Police	221,229	293,741	(824)	292,917	71,688
Public works	327,651	152,348	(432)	151,916	(175,735)
Debt service:					
Principal retirement	11,400	14,715	-	14,715	3,315
Interest charges	1,500	1,355	-	1,355	(145)
Total expenditures	<u>893,813</u>	<u>734,060</u>	<u>87,821</u>	<u>821,881</u>	<u>(71,932)</u>
Net change in fund balance	<u>\$ 1,877</u>	<u>\$ (47,539)</u>	<u>\$ 7,176</u>	<u>\$ (40,363)</u>	<u>\$ (42,240)</u>

NOTES TO BUDGETARY INFORMATION

1. Budgetary basis of accounting

The annual budget for the general fund is prepared on the budgetary basis of accounting. Appropriations lapse at the end of the year. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.