

CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2

HOOD, JOHNSON AND PARKER COUNTIES, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Cresson Crossroads Municipal Utility District No. 2
Hood, Johnson and Parker Counties, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and major fund of Cresson Crossroads Municipal Utility District No. 2 (the "District") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the District as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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.

Board of Directors
Cresson Crossroads Municipal Utility District No. 2

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide an assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

November 15, 2023

**CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2023**

Management's discussion and analysis of Cresson Crossroads Municipal Utility District No. 2's (the "District") financial performance provides an overview of the District's financial activities for the year ended June 30, 2023. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Fund Balance Sheet and (2) the Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. This report also includes required and other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes all the District's assets, liabilities and, if applicable, deferred inflows and outflows of resources, 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 District is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District's net position changed during the current year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include 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 District has one governmental fund type. The General Fund accounts for developer advances, service revenues, operating costs and general expenditures.

**CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2023**

FUND FINANCIAL STATEMENTS (Continued)

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District’s governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information (“RSI”) and other supplementary information. A budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District’s financial position. In the case of the District, liabilities exceeded assets by \$688,745 as of June 30, 2023. This is the District’s first audit. In future years a comparative analysis of government-wide changes in net position will be presented. The following table provides a summary of the Statement of Net Position for the year ended June 30, 2023:

**CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2023**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of the Statement of Net Position
	2023
Current and Other Assets	\$ 178,795
Capital Assets (Net of Accumulated Depreciation)	18,460,316
Total Assets	\$ 18,639,111
Due to Developer	\$ 19,193,293
Other Liabilities	134,563
Total Liabilities	\$ 19,327,856
Net Position:	
Net Investment in Capital Assets	\$ (476,796)
Unrestricted	(211,949)
Total Net Position	\$ (688,745)

The following table provides a summary of the District's operations for the year ended June 30, 2023, which is the initial audit period for the District.

	Summary of the Statement of Activities
	2023
Total Revenues	\$ 418,670
Expenses for Services	836,563
Change in Net Position	\$ (417,893)
Net Position, Inception	(270,852)
Net Position, Ending	\$ (688,745)

**CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2023**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUND

The District's General Fund fund balance as of June 30, 2023, was a balance of \$44,232, an increase of \$293,824 for the year. The District used developer advances to pay for current year operating costs.

CAPITAL ASSETS

Capital assets as of June 30, 2023 total \$18,460,316 (net of accumulated depreciation) and include water and wastewater facilities and buildings which the District will be responsible for maintaining. Additional information on the District's capital assets can be found on Note 6 of this report.

Capital Assets At Year-End, Net of Accumulated Depreciation	
	2023
Capital Assets, Net of Accumulated Depreciation:	
Water System	\$ 12,075,685
Wastewater System	6,084,945
Buildings	299,686
Total Net Capital Assets	\$ 18,460,316

LONG-TERM DEBT

As of June 30, 2023, the District did not have any outstanding long-term bond debt.

As of June 30, 2023, the District recorded an amount due to Developer of \$19,193,293 which consists of payments for operating advances made by the Developer as well as expenditures made on behalf of the District for water and wastewater facilities for which the District has not sold bonds.

**CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2023**

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors adopted an unappropriated budget for the current year. Actual revenues were \$140,822 more than budgeted, actual expenditures were \$120,347 more than budgeted expenditures and actual advances were \$37,000 more than budgeted. This resulted in a positive variance of \$57,475. See the budget to actual comparison for more information.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Cresson Crossroads Municipal Utility District No. 2, c/o Winstead PC, Attn: Ross S. Martin, 2728 North Harwood Street, Suite 500, Dallas, Texas 75201.

CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2023

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash	\$ 13,290	\$ -0-	\$ 13,290
Receivables:			
Other	150,000		150,000
Prepaid Costs	15,505		15,505
Capital Assets (Net of Accumulated Depreciation)		18,460,316	18,460,316
TOTAL ASSETS	\$ 178,795	\$ 18,460,316	\$ 18,639,111
 LIABILITIES			
Accounts Payable	\$ 134,563	\$	\$ 134,563
Due to Developers		19,193,293	19,193,293
TOTAL LIABILITIES	\$ 134,563	\$ 19,193,293	\$ 19,327,856
 FUND BALANCE			
Nonspendable:			
Prepaid Costs	\$ 15,505	\$ (15,505)	\$
Unassigned	28,727	(28,727)	
TOTAL FUND BALANCE	\$ 44,232	\$ (44,232)	\$ -0-
 TOTAL LIABILITIES AND FUND BALANCE	\$ 178,795		
 NET POSITION			
Net Investment in Capital Assets		\$ (476,796)	\$ (476,796)
Unrestricted		(211,949)	(211,949)
TOTAL NET POSITION		\$ (688,745)	\$ (688,745)

The accompanying notes to the financial statements are an integral part of this report.

CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2023

Total Fund Balance - Governmental Fund	\$	44,232
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		18,460,316
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year-end consist of:

Due to Developer	<u>\$ (19,193,293)</u>	<u>(19,193,293)</u>
Total Net Position - Governmental Activities		<u>\$ (688,745)</u>

The accompanying notes to the financial statements are an integral part of this report.

CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2023

	General Fund	Adjustments	Statement of Activities
REVENUES			
Water Service	\$ 264,497	\$	\$ 264,497
Investment and Miscellaneous Revenues	154,173		154,173
TOTAL REVENUES	\$ 418,670	\$ - 0 -	\$ 418,670
 EXPENDITURES/EXPENSES			
Service Operations:			
Professional Fees	\$ 124,053	\$	\$ 124,053
Contracted Services	78,582		78,582
Utilities	58,700		58,700
Conservation District Fees	14,037		14,037
Repairs and Maintenance	36,998		36,998
Amortization			
Depreciation		476,796	476,796
Other	47,397		47,397
TOTAL EXPENDITURES/EXPENSES	\$ 359,767	\$ 476,796	\$ 836,563
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 58,903	\$ (476,796)	\$ (417,893)
OTHER FINANCING SOURCES (USES)			
Developer Advances	\$ 234,921	\$ (234,921)	\$ -0-
NET CHANGE IN FUND BALANCE	\$ 293,824	\$ (293,824)	\$
CHANGE IN NET POSITION		(417,893)	(417,893)
FUND BALANCE/NET POSITION - JULY 1, 2022	(249,592)	(21,260)	(270,852)
FUND BALANCE/NET POSITION - JUNE 30, 2023	\$ 44,232	\$ (732,977)	\$ (688,745)

The accompanying notes to the financial
statements are an integral part of this report.

**CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023**

Net Change in Fund Balance - Governmental Fund	\$	293,824
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated, and the depreciation expense is recorded in the Statement of Activities.		(476,796)
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Governmental funds report developer advances as other financing sources. However, in the Statement of Net Position, developer advances, net any amount paid to the developer, are recorded as a liability.		<u>(234,921)</u>
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Change in Net Position - Governmental Activities	\$	<u>(417,893)</u>
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The accompanying notes to the financial statements are an integral part of this report.

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CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1. CREATION OF DISTRICT

The City of Cresson adopted an Ordinance in December 2016 that approved a petition requesting consent to the creation of Cresson Crossroads Municipal Utility District No. 2, then located entirely within the corporate limits of the City of Cresson. The District was subsequently created by special act of the 85th Texas Legislature, effective June 9, 2017, codified as Chapter 7968, Texas Special District Local Laws Code. The District thereafter added various properties and now comprises 3,175.392 acres, located in the corporate limits and extraterritorial jurisdiction of the City of Cresson, and also located in Hood, Johnson and Parker Counties, outside of any city's jurisdiction. The District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, wastewater service, storm sewer drainage, irrigation, to construct roads, and to construct parks and recreational facilities for the residents of the District. The temporary Board of Directors held its first meeting on January 29, 2018. The District was confirmed by voters of the District on May 5, 2018 and May 4, 2019. On August 17, 2022, by an Order of the Board of Directors of the District, the District created three defined areas within the District pursuant to Subchapter J, Chapter 54, Texas Water Code.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB"). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Commission.

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District's financial statement as component units.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting ("GASB Codification").

The GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

When both restricted and unrestricted resources are available for use, generally it's the District's policy to use restricted resources first.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current period revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated to obtain net total revenues and expenses of the government-wide Statement of Activities.

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide financial statements. The fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance.

CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund

The District has one governmental fund and considers it to be a major fund.

General Fund - To account for developer advances, service revenues, operating costs and general expenditures.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both “measurable and available.” Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectable within 60 days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include taxes collected during the period and taxes collected after year-end, which were considered available to defray the expenditures of the current period. Deferred inflows related to property tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset. Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation over periods ranging from 10 to 45 years.

CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgeting

An annual unappropriated budget is adopted for the General Fund by the District’s Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The original General Fund budget for the current year was not amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents the original budget amounts compared to the actual amounts of revenues and expenditures for the current year.

Pensions

A pension plan has not been established. The District has one employee, a General Manager. The Internal Revenue Service has also determined that directors are considered “employees” for federal payroll tax purposes only. Payments are made into the social security system for the General Manager and the directors.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the 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 associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally. The District does not have any restricted fund balances.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

Unassigned: all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$13,290 and the bank balance was \$22,157. The District was not exposed to custodial credit risk at year-end.

CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District's investment policy may be more restrictive than the Public Funds Investment Act.

As of June 30, 2023, the District did not have any investments.

NOTE 4. MAINTENANCE TAX

On May 4, 2019, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.00 per \$100 of assessed valuation of taxable property within the District. The maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and wastewater system. As of June 30, 2023, the District has not levied a maintenance tax.

All property values and exempt status, if any, are determined by the appraisal district. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Taxes levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

NOTE 5. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the last three years.

CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2023, is summarized in the following table:

	July 1, 2022	Increases	Decreases	June 30, 2023
Capital Assets Subject to Depreciation				
Water System	\$ 12,388,106	\$	\$	\$ 12,388,106
Wastewater System	6,240,531			6,240,531
Buildings	308,475			308,475
Total Capital Assets Subject to Depreciation	<u>\$ 18,937,112</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 18,937,112</u>
Accumulated Depreciation				
Water System	\$	\$ 312,421	\$	\$ 312,421
Wastewater System		155,586		155,586
Buildings		8,789		8,789
Total Accumulated Depreciation	<u>\$ - 0 -</u>	<u>\$ 476,796</u>	<u>\$ - 0 -</u>	<u>\$ 476,796</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 18,937,112</u>	<u>\$ (476,796)</u>	<u>\$ - 0 -</u>	<u>\$ 18,460,316</u>

NOTE 7. BOND AUTHORIZATION

At an election May 4, 2019, voters of the District approved bonds in the amount of \$49,200,000 for the purchase or construction of water, sewer and drainage facilities and \$61,500,000 for the refunding of such bonds, and \$41,500,000 for the purchase or construction of road facilities and \$51,875,000 for the refunding of such bonds.

At an election May 6, 2023, voters of the District approved bonds for Defined Area No. 1 in the amount of \$90,425,000 for the purchase or construction of water, sewer and drainage facilities and \$113,031,250 for the refunding of such bonds, and \$40,795,000 for the purchase or construction of road facilities and \$50,993,750 for the refunding of such bonds.

At an election May 6, 2023, voters of the District approved bonds for Defined Area No. 2 in the amount of \$66,955,000 for the purchase or construction of water, sewer and drainage facilities and \$83,693,750 for the refunding of such bonds, and \$25,160,000 for the purchase or construction of road facilities and \$31,450,000 for the refunding of such bonds.

As of June 30, 2023, no elections have yet been held within Defined Area No. 3.

CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 8. WASTEWATER TREATMENT FACILITIES

On June 22, 2022, the District executed a Amended and Restated Facilities Improvement Agreement (“FIA”) with a developer (“developer”) and the City of Cresson, Texas (“City”). The agreement calls for the relocation, improvement and expansion of the Wastewater Treatment Plant (“WWTP”) to a 390,000 or more gallon per day capacity and for the District to assume responsibility for the design, engineering and construction of the WWTP improvements. Construction of the WWTP shall begin within 18 months from the execution of the agreement.

The WWTP, as improved and expanded, will be constructed on property owned by the City. Upon completion of the WWTP improvements, the City shall lease to the District the land upon which the WWTP is located. The City will have such capacity in the WWTP as is necessary to serve its existing wastewater customers, then 288 ESFCs as well as any platted lots to be provided retail wastewater service by the City, then 18 ESFCs. The City may purchase additional capacity upon payment of a connection charge and approval of available capacity.

The District will provide retail wastewater treatment services to its own customers. The District will provide the City with wholesale wastewater treatment service, and the City will provide its customers with retail wastewater treatment services. Terms of the services will be set by additional agreements currently under negotiation. The FIA has a term of 30 years unless otherwise extended or terminated pursuant to agreement among the parties thereto.

NOTE 9. UNREIMBURSED COSTS

The District has entered into certain financing and reimbursement agreements with the Developers within the District which provides for the Developers to make payments on behalf of the District for various projects and operating advances. The District has an obligation to reimburse the Developers for these costs from future bond issues to the extent approved by the Commission.

The District has recorded a liability to the Developers of \$19,193,293, of which \$256,181 is for operating advances received as of June 30, 2023. The actual amounts owed, including developer interest, will be calculated at the time debt is issued to reimburse the Developers. The following table summarizes the current year activity related to unreimbursed Developer project costs and operating advances:

Due to Developers, beginning of year	\$	18,958,372
Additions		234,921
		19,193,293
Due to Developers, end of year	\$	19,193,293

CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 10. ECONOMIC DEPENDENCY

The District's Developers own a substantial portion of the taxable property within the District. The Developers ability to make full and timely payments of taxes and provide operating advances could directly affect the District's ability to meet its financial obligations.

NOTE 11. DEFINED AREA NO. 1 AND DEFINED AREA NO. 2

At an election held on May 6, 2023, District voters authorized the issuance of new money bonds to benefit the Defined Area No. 1 in the maximum amount of \$90,425,000 for the purchase or construction of water, sewer and drainage facilities and \$113,031,250 for the refunding of such bonds, and \$40,795,000 for the purchase or construction of road facilities and \$50,993,750 for the refunding of such bonds.

At an election held on May 6, 2023, District voters authorized the issuance of new money bonds to benefit the Defined Area No. 2 in the maximum amount of \$66,955,000 for the purchase or construction of water, sewer and drainage facilities and \$83,693,750 for the refunding of such bonds, and \$25,160,000 for the purchase or construction of road facilities and \$31,450,000 for the refunding of such bonds.

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CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2023

CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2023

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Water Service	\$ 273,580	\$ 264,497	\$ (9,083)
Investment and Miscellaneous Revenues	<u>4,268</u>	<u>154,173</u>	<u>149,905</u>
TOTAL REVENUES	<u>\$ 277,848</u>	<u>\$ 418,670</u>	<u>\$ 140,822</u>
EXPENDITURES			
Service Operations:			
Professional Fees	\$ 28,808	\$ 124,053	\$ (95,245)
Contracted Services	76,112	78,582	(2,470)
Utilities	59,150	58,700	450
Conservation District Fees	17,201	14,037	3,164
Other	58,149	47,397	10,752
Capital Outlay			
TOTAL EXPENDITURES	<u>\$ 239,420</u>	<u>\$ 359,767</u>	<u>\$ (120,347)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 38,428</u>	<u>\$ 58,903</u>	<u>\$ 20,475</u>
OTHER FINANCING SOURCES(USES)			
Developer Advances	<u>\$ 197,921</u>	<u>\$ 234,921</u>	<u>\$ 37,000</u>
NET CHANGE IN FUND BALANCE	\$ 236,349	\$ 293,824	\$ 57,475
FUND BALANCE - JULY 1, 2022	<u>(249,592)</u>	<u>(249,592)</u>	
FUND BALANCE - JUNE 30, 2023	<u>\$ (13,243)</u>	<u>\$ 44,232</u>	<u>\$ 57,475</u>

See accompanying independent auditor's report.

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CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2

**SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

JUNE 30, 2023

**CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2023**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE CURRENT YEAR:

<u> X </u>	Retail Water	<u> </u>	Wholesale Water	<u> X </u>	Drainage
<u> X </u>	Retail Wastewater	<u> </u>	Wholesale Wastewater	<u> </u>	Irrigation
<u> </u>	Parks/Recreation	<u> </u>	Fire Protection	<u> </u>	Security
<u> </u>	Solid Waste/Garbage	<u> </u>	Flood Control	<u> </u>	Roads
<u> </u>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<u> </u>	Other (specify): Storm Water Detention				

2. RETAIL SERVICE PROVIDERS:

The City of Cresson and one developer provide water and wastewater services to District customers. As development progresses, water and wastewater services will be provided by The City of Cresson and the District.

a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT):

Based on the rates being charged as of June 30, 2023.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$35.00	0,000	N	\$3.00 \$3.50 \$4.00	0,001 to 5,000 5,001 to 15,000 15,001 and up
WASTEWATER:	\$25.00	0,000	N	\$3.00 \$3.50 \$4.00	0,001 to 5,000 5,001 to 15,000 15,001 and up

District employs winter averaging for wastewater usage? X
Yes No

Total monthly charges per 10,000 gallons usage: Water: \$67.50 Wastewater: \$57.50

See accompanying independent auditor's report.

**CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2023**

2. RETAIL SERVICE PROVIDERS:

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤ ³ / ₄ "	<u>284</u>	<u>174</u>	x 1.0	<u>174</u>
1"	<u>4</u>	<u>4</u>	x 2.5	<u>10</u>
1½"	<u>1</u>	<u>1</u>	x 5.0	<u>5</u>
2"	<u>10</u>	<u>10</u>	x 8.0	<u>80</u>
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u><u>299</u></u>	<u><u>189</u></u>		<u><u>269</u></u>
Total Wastewater Connections	<u><u>299</u></u>	<u><u>189</u></u>	x 1.0	<u><u>189</u></u>

3. TOTAL WATER CONSUMPTION DURING THE CURRENT YEAR ROUNDED TO THE NEAREST THOUSAND: (Unaudited)

Water Accountability Ratio: Not available
(Gallons billed /Gallons pumped)

Gallons purchased: not available

Gallons billed to customers: 25,094,000

See accompanying independent auditor's report.

CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2023

PROFESSIONAL FEES:	
Engineering	\$ 44,671
Legal	79,382
	124,053
TOTAL PROFESSIONAL FEES	\$ 124,053
CONTRACTED SERVICES:	
Bookkeeping	\$ 16,467
Operations and Billing	42,820
General Manager	19,295
	78,582
TOTAL CONTRACTED SERVICES	\$ 78,582
UTILITIES	\$ 58,700
REPAIRS AND MAINTENANCE	\$ 36,998
ADMINISTRATIVE EXPENDITURES:	
Director Fees, Including Payroll Taxes	\$ 3,575
Election Costs	10,021
Insurance	18,417
Office Supplies and Postage	1,773
Travel and Meetings	594
Other	225
	34,605
TOTAL ADMINISTRATIVE EXPENDITURES	\$ 34,605
OTHER EXPENDITURES:	
Chemicals	\$ 8,653
Laboratory Fees	1,200
Permit Fees	2,939
Conservation District Fees	14,037
	26,829
TOTAL OTHER EXPENDITURES	\$ 26,829
TOTAL EXPENDITURES	\$ 359,767

See accompanying independent auditor's report.

CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - ONE YEAR

	Amounts	Percentage of Total Revenues
	2023	2023
REVENUES		
Water Service	\$ 264,497	63.2 %
Investment and Miscellaneous Revenues	154,173	36.8
TOTAL REVENUES	\$ 418,670	100.0 %
EXPENDITURES		
Professional Fees	\$ 124,053	29.6 %
Contracted Services	78,582	18.8
Utilities	58,700	14.0
Conservation District Fees	14,037	3.4
Other	47,397	11.3
TOTAL EXPENDITURES	\$ 359,767	85.9 %
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 58,903	14.1 %
OTHER FINANCING SOURCES (USES)		
Developer Advances	\$ 234,921	
NET CHANGE IN FUND BALANCE	\$ 293,824	
BEGINNING FUND BALANCE	(249,592)	
ENDING FUND BALANCE	\$ 44,232	
TOTAL ACTIVE RETAIL WATER CONNECTIONS	189	
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	189	

See accompanying independent auditor's report.

CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JUNE 30, 2023

District Mailing Address - Cresson Crossroads Municipal Utility District No. 2
c/o Winstead PC
2728 N. Harwood Street, Suite 500
Dallas, Texas 75201

District Telephone Number - (214) 745-5353

Board Members	Term of Office (Elected or <u>Appointed</u>)	Fees of Office for the year ended <u>June 30, 2023</u>	Expense Reimbursements for the year ended <u>June 30, 2023</u>	<u>Title</u>
William D. "Bill" Cherry	05/2022 - 05/2026 (Elected)	\$ 600	\$ 80	President
Michael W. "Mike" Barrett	10/2021 - 05/2024 (Appointed)	\$ 600	\$ 8	Vice President
Rodney Mays	05/2022 - 05/2026 (Elected)	\$ 450	\$ 31	Secretary
Draze Lawliss	05/2023 - 05/2024 (Appointed)	\$ -0-	\$ -0-	Assistant Secretary
Douglas W. "Doug" Johnston (deceased)	03/2022 - 06/2023 (Appointed)	\$ 300	\$ 444	Former Assistant Secretary
Bill Martin	08/2023 - 05/2026 (Appointed)	\$ -0-	\$ -0-	Assistant Secretary

Note: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developer or with any of the District's consultants.

Submission date of most recent District Registration Form: August 2, 2023

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

CRESSON CROSSROADS MUNICIPAL UTILITY DISTRICT NO. 2
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JUNE 30, 2023

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended June 30, 2023</u>	<u>Title</u>
Winstead PC	01/29/18	\$ 79,382	General Counsel
McCall Gibson Swedlund Barfoot PLLC	02/13/23	\$ -0-	Auditor
Dye & Toverly, LLC	01/29/18	\$ 16,467	Bookkeeper
Hilltop Securities, Inc.	06/22/22	\$ -0-	Financial Advisor
Wasteline Engineering, Inc.	08/17/22	\$ 5,500	Former Engineer
Jacob & Martin	5/15/23	\$ 5,693	Engineer
Assessments of the Southwest	08/17/22	\$ -0-	Truth in Taxation Calculation
LA Services, LLC	03/23/22	\$ 53,284	Operator
Kathi Dye, CPA	01/29/18	\$ -0-	Investment Officer
Harold Sandel	05/15/23	\$ 19,295	General Manager

See accompanying independent auditor's report.

