CITY OF TRENTON, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2020

CITY OF TRENTON, TEXAS
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INDEPENDENT AUDITORS' REPORT

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

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Trenton, Texas, as of September 30, 2020, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Other Information

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

McClanahan and Holmes, LLP
Certified Public Accountants

Bonham, Texas
November 30, 2020

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

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Trenton Community Development Corporation
ASSETS				
Cash and Cash Equivalents	$ 686,451	$ 158,132	$ 844,583	$ 205,394
Investments	12,521	-	12,521	-
Funds Held in Trust	-	-	-	15,000
Overpayment to Vendor	1,328	-	1,328	-
Intergovernmental Receivables	-	-	-	12,038
Internal Balances	111,416	(111,416)	-	-
Restricted Assets:				
Cash	-	16,151	16,151	-
Investments	-	45,554	45,554	-
Capital Assets Not Being Depreciated:				
Land	53,126	-	53,126	-
Construction in Progress	286,420	-	286,420	-
Capital Assets, Net of Accumulated Depreciation:				
Improvements	504,935	-	504,935	86,438
Buildings	63,422	-	63,422	-
Furniture, Equipment, and Vehicles	120,446	78,739	199,185	-
Utility Plant in Service	-	2,934,325	2,934,325	-
Total Assets	1,840,065	3,121,485	4,961,550	318,870
LIABILITIES				
Payroll Liabilities	1,796	1,904	3,700	-
Intergovernmental Payable	12,038	-	12,038	-
Customers' Meter Deposits	-	32,651	32,651	-
Noncurrent Liabilities:				
Due Within One Year	77,943	87,523	165,466	-
Due in More than One Year	156,470	1,174,485	1,330,955	-
Total Liabilities	248,247	1,296,563	1,544,810	-
NET POSITION				
Net Investment in Capital Assets	793,936	1,751,056	2,544,992	86,438
Restricted for:				
Debt Service	60,948	-	60,948	-
Unrestricted	736,934	73,866	810,800	232,432
Total Net Position	$ 1,591,818	$ 1,824,922	$ 3,416,740	$ 318,870

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

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

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Unit: Trenton Community Development Corporation
rimary Government								
Governmental Activities:								
General Government	$ 157,144	$ -	$ -	$ 250,260	$ 93,116	$ -	$ 93,116	$ -
Public Safety	385,765	85,037	-	-	(300,728)	-	(300,728)	-
Sanitation Contract	87,365	100,427	-	-	13,062	-	13,062	-
Street Maintenance	37,008	-	-	-	(37,008)	-	(37,008)	-
Interest	8,895	-	-	-	(8,895)	-	(8,895)	-
Total Governmental Activities	676,177	185,464	-	250,260	(240,453)	-	(240,453)	-
Business-Type Activities:								
Water and Sewer	591,045	389,727	-	-	-	(201,318)	(201,318)	-
otal Primary Government	$ 1,267,222	$ 575,191	$ -	$ 250,260	(240,453)	(201,318)	(441,771)	-
omponent Unit								
Trenton Community Development Corporation	$ 45,440	$ -	$ -	$ -				(45,440)
General Revenues								
Taxes:								
Property Tax					355,113	-	355,113	-
Sales Tax					148,818	-	148,818	74,544
Franchise Tax					28,667	-	28,667	-
Miscellaneous Revenue					23,853	5,580	29,433	16,787
Interest on Investments					2,011	376	2,387	267
Gain (Loss) on Sale of Assets					-	-	-	(91,402)
Transfers					(61,889)	61,889	-	-
Total General Revenues and Transfers					496,573	67,845	564,418	196
Change in Net Position					256,120	(133,473)	122,647	(45,244)
Net Position - Beginning					1,335,698	1,958,395	3,294,093	364,114
Net Position - Ending					$ 1,591,818	$ 1,824,922	$ 3,416,740	$ 318,870

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

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

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	$ 625,503	$ 60,948	$ 686,451
Investments	12,521	-	12,521
Overpayment to Vendor	1,328	-	1,328
Due From Other Funds	111,416	-	111,416
Total Assets	$ 750,768	$ 60,948	$ 811,716
LIABILITIES			
Payroll Liabilities	$ 1,796	$ -	$ 1,796
Intergovernmental Payable	12,038	-	12,038
Total Liabilities	13,834	-	13,834
FUND BALANCES			
Restricted Fund Balance:			
Debt Service	-	60,948	60,948
Committed Fund Balance:			
SNAP	3,018	-	3,018
Municipal Court Technology Fund	1,142	-	1,142
Unassigned Fund Balance:	732,774	-	732,774
Total Fund Balances	736,934	60,948	797,882
Total Liabilities and Fund Balances	$ 750,768	$ 60,948	$ 811,716
Fund Balances - Total Governmental Funds (above)			$ 797,882
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in government activities are not financial resources and therefore are not reported in the funds. The cost of the asset is $2,188,154 and the accumulated depreciation is $1,159,805.			1,028,349
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:			
Time Warrants Payable			(109,753)
Certificates of Obligation			(5,000)
Notes Payable			(70,995)
Capital Lease Obligations			(48,665)
Net Position of Governmental Activities			$ 1,591,818

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

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

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES			
Property Tax	$ 250,302	$ 104,811	$ 355,113
Sales Tax	148,818	-	148,818
Franchise Tax	28,667	-	28,667
Fines	38,514	-	38,514
Charges for School Resource Officer	46,523	-	46,523
Sanitation Fees and Charges	100,427	-	100,427
Intergovernmental	250,260	-	250,260
Interest	1,903	108	2,011
Payment in Lieu of Taxes-(Housing Authority)	2,106	-	2,106
Miscellaneous	6,869	-	6,869
Total Revenues	874,389	104,919	979,308
EXPENDITURES			
General Government:			
Contractual Services	8,092	-	8,092
Insurance - Property, Liability, and Workers' Compensation	18,203	-	18,203
Office	14,292	-	14,292
Professional Fees	34,952	-	34,952
Appraisal District	15,349	-	15,349
Utilities	28,664	-	28,664
Park Improvements and Maintenance	2,793	-	2,793
Other	2,757	-	2,757
Public Safety:			
Heath Insurance	19,453	-	19,453
Payroll - Police	163,842	-	163,842
Payroll - Office	40,169	-	40,169
Payroll Taxes	18,202	-	18,202
Retirement	4,238	-	4,238
Municipal Court	11,794	-	11,794
Police Department	64,176	-	64,176
Fire Department	8,989	-	8,989
Sanitation Contract	87,365	-	87,365
Street Maintenance and Equipment	9,354	-	9,354
Capital Outlay	266,326	-	266,326
Debt Service			
Principal	33,274	24,368	57,642
Interest and Fees	4,139	4,756	8,895
Total Expenditures	856,423	29,124	885,547

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

CITY OF TRENTON, TEXAS
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Modified Cash Basis (Continued)
For the Year Ended September 30, 2020

	General Fund	Debt Service Fund	Total Governmental Funds
Excess (Deficiency) of Revenues over Expenditures	17,966	75,795	93,761
OTHER FINANCING SOURCES (USES)			
Proceeds from Issuance of Long-Term Debt	5,000	-	5,000
Insurance Recoveries	14,878	-	14,878
Transfers In (Out)	-	(61,889)	(61,889)
Total Other Financing Sources (Uses)	19,878	(61,889)	(42,011)
Net Change in Fund Balances	37,844	13,906	51,750
Fund Balances - Beginning	699,090	47,042	746,132
Fund Balances - Ending	$ 736,934	$ 60,948	$ 797,882

Net Change in Fund Balances - Total Governmental Funds (above)	$	51,750
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay ($266,326) exceeded depreciation ($114,598) in the current year.		151,728
Proceeds from the issuance of debt is income in the Governmental Fund, but increases liabilities in the Statements of Net Position.		(5,000)
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		57,642
Change in Net Position - Governmental Activities	$	256,120

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

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

	Business-Type Activities
	Water and Sewer Fund
ASSETS	
Current Assets	
Cash and Cash Equivalents	$ 158,132
Restricted Assets	
Restricted Cash	16,151
Restricted Investments	45,554
Total Current Assets	219,837
Noncurrent Assets	
Capital Assets:	
Furniture, Equipment, and Vehicles	190,953
Utility Plant in Service	5,643,272
Less Accumulated Depreciation	(2,821,161)
Total Noncurrent Assets	3,013,064
Total Assets	3,232,901
LIABILITIES	
Current Liabilities	
Payroll Liabilities	1,904
Note Payable - Current	2,901
Capital Lease Obligation - Current	13,889
Time Warrants Payable - Current	53,733
Certificates of Obligation - Current	17,000
Customers' Meter Deposits	32,651
Due to Other Funds	111,416
Total Current Liabilities	233,494
Noncurrent Liabilities	
Capital Lease Obligation	62,117
Time Warrants Payable	191,368
Certificates of Obligation	921,000
Total Noncurrent Liabilities	1,174,485
Total Liabilities	1,407,979
NET POSITION	
Net Investment in Capital Assets	1,751,056
Unrestricted	73,866
Total Net Position	$ 1,824,922

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

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

	Business-Type Activities
	Water and Sewer Fund
OPERATING REVENUES	
Customer Charges	$ 389,727
Total Operating Revenues	389,727
OPERATING EXPENSES	
Payroll	143,933
Payroll Taxes	10,446
Retirement	3,038
Water and Wastewater Services	29,547
Insurance - Health	21,229
Insurance - Property, Liability, and Workers' Compensation	12,982
Utilities	42,907
Water and Sewer System Maintenance	110,525
Vehicle Expenses	10,225
Miscellaneous	4,573
Depreciation	158,133
Total Operating Expenses	547,538
Operating Income (Loss)	(157,811)
NONOPERATING REVENUES (EXPENSES)	
Insurance Recoveries	5,580
Interest Income	376
Interest Expense	(43,507)
Total Nonoperating Revenues (Expenses)	(37,551)
Income (Loss) Before Capital Contributions and Transfers	(195,362)
Transfers In	61,889
Change in Net Position	(133,473)
Net Position - Beginning	1,958,395
Net Position - Ending	$ 1,824,922

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

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

	Business-Type Activities
	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	$ 392,252
Payments to Suppliers and Service Providers	(231,988)
Payments to Employees for Salaries and Benefits	(156,804)
Net Cash Provided By (Used For) Operating Activities	3,460
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer (to) from Other Funds	75,026
Net Cash Provided By (Used For) Noncapital Financing Activities	75,026
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal Payments on Note Payable	(4,286)
Principal Payments on Time Warrants	(51,783)
Principal Payments on Certificates of Obligation	(16,000)
Interest Payments on Debt	(43,507)
Insurance Recoveries	5,580
Net Cash Provided By (Used For) Capital and Related Financing Activities	(109,996)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Interest Earnings	376
Net Cash Provided By (Used For) Investing Activities	376
Net Increase (Decrease) in Cash and Cash Equivalents	(31,134)
Cash and Cash Equivalents, Beginning	205,417
Cash and Cash Equivalents, Ending	$ 174,283
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:	
Operating Income (Loss)	$ (157,811)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:	
Depreciation	158,133
Increase (Decrease) in Payroll Liabilities	613
Increase (Decrease) in Customers' Deposits	2,525
Total Adjustments	161,271
Net Cash Provided By (Used For) Operating Activities	$ 3,460
Noncash Capital Activities:	
Acquisition of Equipment through Capital Lease Obligation	$ 76,006

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

Note 1: Summary of Significant Accounting Policies

The City of Trenton is a municipal corporation governed by elected councilmen and a mayor. The City's major operations include public safety, public works, and general government services. Additionally, the City operates a water and sewer system.

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units, and by the Financial Accounting Standards Board (when applicable). The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. The more significant accounting policies of the City are described below:

A. Financial Reporting Entity

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, a component unit is included in the accompanying financial statements.

The City of Trenton, for financial purposes, includes all of the funds relevant to the operations of the City of Trenton. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City. The component unit does not issue separately audited financial statements.

The component unit referred to above is the Trenton Community Development Corporation. The entity was incorporated under the Texas Non-Profit Corporation Act on December 10, 1998. It operates without capital stock and was formed to promote high quality development in the City of Trenton by the enhancement and expansion of the local economy through financial and other incentives. The governing body of Trenton Community Development Corporation is appointed by the City Council.

B. Basis of Presentation

Government–Wide Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity and its component unit. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Note 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid in financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements.

The City has the following major funds:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general obligation debt of governmental funds.

Proprietary Fund

Enterprise Fund - The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City's one enterprise fund is the Water and Sewer Fund which is used to account for the provision of water and sewer services to the City's residents.

C. Measurement Focus and Basis of Accounting

Measurement Focus

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined below:

In the fund financial statements, the "current financial resources" measurement focus, as applied to the modified cash basis of accounting, is used.

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting

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

D. Assets, Liabilities, and Equity

Cash and Cash Equivalents

For the purpose of financial reporting, cash includes all cash on hand, demand and savings accounts, and certificates of deposit with an original maturity of three months or less.

Investments

Investments classified in the financial statements consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for the proprietary fund. 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. The cost of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized. The City elected not to report major general infrastructure assets retroactively. Therefore, infrastructure assets acquired after October 1, 2003 will be recorded at cost.

Assets capitalized have an original cost of more than $5,000 and useful life in excess of one year. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation. The estimated useful lives are as follows:

Improvements	10-40 Years
Buildings	40-50 Years
Furniture, Equipment, and Vehicles	5-7 Years
Utility Plant In Service	10-50 Years

Long-Term Debt

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements.

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

Note 1: Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Equity (Continued)

Capital Leases

Assets held under capital leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Amortization expense is computed using the straight-line method over the useful lives of the assets and is included in depreciation expense.

Net Position/Fund Balance

Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

As of September 30, 2020, fund balances of the governmental funds are classified as follows:

Non-spendable – Amounts that cannot be spent either because they are in non-spendable 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, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The City does not have any restricted fund balances by enabling legislation.

Committed – Amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

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. Under the City's adopted policy, only the City Council may assign amounts for specific purposes.

Unassigned – All other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

Note 1: Summary of Significant Accounting Policies (Continued)

E. Revenues, Expenditures, and Expenses

Program Revenues

In the Statement of Activities, modified cash basis revenues that are derived directly from each activity or from parties outside the City's taxpayers are reported as program revenues. These include fine and sanitation revenue and specific donations. All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

Operating Revenue and Expenses

Operating revenues and expenses for the proprietary fund result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

F. Interfund Activity

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Note 2: Stewardship, Compliance, and Accountability

By its nature as a local government unit, the City and its component unit are subject to various federal, state, and local laws and contractual regulations. The following instances of noncompliance are considered material to the financial statements:

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

Object Category	Expenditures Exceeding Appropriations
Insurance – Property, Liability, and Workers' Compensation	$ 2,203
Appraisal District	1,349
Other	1,057
Payroll Taxes	1,202
Municipal Court	794
Police Department	27,176
Capital Outlay	251,126
Debt Service	13,213

Note 3: Bank Deposits and Investments

Primary Government

The City has not adopted formal deposit and investment policies other than that of the State of Texas.

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

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State or political subdivision debt obligations, surety bonds, or certain letters of credit. At September 30, 2020, the City was not exposed to custodial credit risk since deposits were insured or collateralized with a surety bond held in the name of the City.

At September 30, 2020, the carrying amount of deposits was $918,809 and the bank balance was $934,163.

The City's Certificates of Deposit totaling $58,075 are considered deposits for this footnote but are classified as investments on the face of the financial statements.

Component Unit

At September 30, 2020, the carrying amount of the Trenton Community Development Corporation's deposits was $205,394 and the bank balance was $205,394.

Note 4: Restricted Assets

The ordinance authorizing the issuance of the Certificates of Obligation provides for monthly deposits to an interest and sinking fund sufficient to pay maturing principal and interest. The Certificates were issued for the purpose of paying costs associated with the construction of improvements and extensions to the City's combined water and sewage system.

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

	Cash	Certificates of Deposit	Total
Interest and Sinking Fund	$ -	$ 29,054	$ 29,054
Customer's Meter Deposits	16,151	16,500	32,651
	$ 16,151	$ 45,554	$ 61,705

Note 5: Property Taxes

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Tax rates per $100 valuation for the 2019 levy amounted to .5876 for maintenance and operation and .2471 for interest and sinking.

Note 6: Capital Assets

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

	Balance 9/30/19	Additions	Retirements	Balance 9/30/20
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	$ 53,126	$ -	$ -	$ 53,126
Construction in Progress	20,094	266,326	-	286,420
	73,220	266,326	-	339,546
Capital Assets being Depreciated:				
Improvements	1,180,326	-	-	1,180,326
Buildings	134,234	-	-	134,234
Furniture, Equipment, and Vehicles	534,048	-	-	534,048
	1,848,608	-	-	1,848,608
Less Accumulated Depreciation for:				
Improvements	619,686	55,705	-	675,391
Buildings	67,737	3,075	-	70,812
Furniture, Equipment, and Vehicles	357,784	55,818	-	413,602
Total Accumulated Depreciation	1,045,207	114,598	-	1,159,805
Capital Assets being Depreciated, Net	803,401	(114,598)	-	688,803
Governmental Activities Capital Assets, Net	$ 876,621	$ 151,728	$ -	$1,028,349

Note 6: Capital Assets (Continued)

Business-Type Activities:	Balance 9/30/19	Additions	Retirements	Balance 9/30/20
Capital Assets, not being Depreciated:	$ -	$ -	$ -	$ -
Capital Assets being Depreciated:				
Furniture, Equipment, and Vehicles	114,947	76,006	-	190,953
Utility Plant in Service	5,643,272	-	-	5,643,272
	5,758,219	76,006	-	5,834,225
Less Accumulated Depreciation for:				
Furniture, Equipment, and Vehicles	93,786	18,428	-	112,214
Utility Plant in Service	2,569,242	139,705	-	2,708,947
	2,663,028	158,133	-	2,821,161
Capital Assets being Depreciated, Net	3,095,191	(82,127)	-	3,013,064
Business-Type Activities Capital Assets, Net	$ 3,095,191	$(82,127)	$ -	$ 3,013,064

Note 6: Capital Assets (Continued)

Component Unit:	Balance 9/30/19	Additions	Retirements	Balance 9/30/20
Capital Assets, not being Depreciated:				
Land	$ 7,500	$ -	$ (7,500)	$ -
Construction in Progress	14,944	-	(14,944)	-
	22,444	-	(22,444)	-
Capital Assets being Depreciated:				
Improvements	81,051	33,967	-	115,018
Buildings	104,108	-	(104,108)	-
	185,159	33,967	(104,108)	115,018
Less Accumulated Depreciation for:				
Improvements	23,409	5,171	-	28,580
Buildings	2,603	2,603	(5,206)	-
Total Accumulated Depreciation	26,012	7,774	(5,206)	28,580
Capital Assets being Depreciated, Net	159,147	26,193	(98,902)	86,438
Component Unit Capital Assets, Net	$ 181,591	$ 26,193	$ (121,346)	$ 86,438

Depreciation expense was charged to functions/programs in the Statement of Activities as follows:

Governmental Activities:	
General Government	$ 32,042
Public Safety	54,902
Street Maintenance	27,654
Total Depreciation Expense-Governmental Activities	$ 114,598

Note 7: Long-Term Debt

The City's long-term debt arising from cash transactions is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities. Long-term debt is comprised of the following:

Governmental Activities

Time Warrants:	Balance 9/30/20
$274,689 Time Warrants issued April 5, 2013, bear interest at 3.75% and are payable in monthly installments of $2,427 with the final payment due April 5, 2025. The warrants were used to refinance other time warrants and bonds.	$ 109,753
Total Time Warrants	$ 109,753

Note 7: Long-Term Debt (Continued)

Governmental Activities (Continued)

Certificates of Obligation:

$300,000 Certificates of Obligation issued September 15, 2020, to be used for fire station construction, bear interest at 2.25% and are payable in annual installments of $5,000 with the final payment due in 2060.	$ 5,000
Total Certificates of Obligation	$ 5,000

Notes Payable:

$42,064 Note Payable to COPsync, Inc., due in an initial installment of $10,000, then annual installments of $8,016 through March 2020, with interest at 0.00%. COPsync filed for bankruptcy and final payments are not made due to nonperformance.	$ 16,032
$67,393 Note Payable to First State Bank, due in annual installments of $15,160 through November 2023, with interest at 4.05%.	54,963
Total Notes Payable	$ 70,995

Business-Type Activities

Certificates of Obligation:

$1,034,000 Texas Combination Tax and Junior Lien Revenue Certificates of Obligation, Series 2011, bear interest at 3.5% and are payable in annual principal amounts of $16,000 to $48,000 through 2052.	$ 938,000
Total Certificates of Obligation	$ 938,000

Time Warrants:

$595,589 Time Warrants issued April 5, 2013, bear interest at 3.75% and are payable in monthly installments of $2,427 with the final payment due April 5, 2025. The warrants were used to refinance other time warrants and certificates of obligation.	$ 245,101
Total Time Warrants	$ 245,101

Note Payable:

$16,348 Note Payable to Ally Financial, due in monthly installments of $381 through May 2021, with interest at 5.540%.	$ 2,901
Total Note Payable	$ 2,901

Note 7: Long-Term Debt (Continued)

The following is a summary of changes in long-term debt for the year ended September 30, 2020:

Type of Debt	Balance 9/30/19	Additions	Retirements	Balance 9/30/20	Due Within One Year
Governmental Activities:					
Time Warrants	$ 134,121	$ -	$ 24,368	$ 109,753	$ 25,286
Certificates of Obligation	-	5,000	-	5,000	5,000
Notes Payable	84,727	-	13,732	70,995	28,966
Capital Lease	68,207	-	19,542	48,665	18,691
Total Governmental Activities:	$ 287,055	$ 5,000	$ 57,642	$ 234,413	$ 77,943
Business-Type Activities:					
Certificates of Obligation	$ 954,000	$ -	$ 16,000	$ 938,000	$ 17,000
Time Warrants	296,884	-	51,783	245,101	53,733
Note Payable	7,187	-	4,286	2,901	2,901
Capital Lease	-	76,006	-	76,006	13,889
Total Business-Type Activities:	$1,258,071	$ 76,006	$ 72,069	$1,262,008	$ 87,523

Annual debt service requirements to maturity for long-term debt are as follows:

Year Ending September 30,	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2021	$ 77,943	$ 8,353	$ 87,523	$ 44,588	$ 218,407
2022	57,585	7,637	86,305	41,210	192,737
2023	47,466	4,512	90,086	37,866	179,930
2024	48,747	3,229	93,976	34,392	180,344
2025	2,672	41	54,118	31,398	88,229
2026	-	-	18,000	29,940	47,940
2027	-	-	20,000	29,293	49,293
2028	-	-	21,000	28,624	49,624
2029	-	-	21,000	27,931	48,931
2030	-	-	22,000	27,214	49,214
2031	-	-	23,000	26,472	49,472
2032	-	-	23,000	25,703	48,703
2033	-	-	25,000	24,908	49,908
2034	-	-	27,000	24,085	51,085
2035	-	-	26,000	23,234	49,234
2036	-	-	27,000	22,352	49,352
2037	-	-	28,000	21,440	49,440
2038	-	-	29,000	20,496	49,496
2039	-	-	30,000	19,518	49,518
2040	-	-	31,000	18,507	49,507
2041	-	-	33,000	17,460	50,460
2042	-	-	34,000	16,376	50,376

Note 7: Long-Term Debt (Continued)

Year Ending	Governmental Activities		Business-Type Activities		
September 30,	Principal	Interest	Principal	Interest	Total
2043	-	-	35,000	15,255	50,255
2044	-	-	36,000	14,094	50,094
2045	-	-	38,000	12,893	50,893
2046	-	-	39,000	11,649	50,649
2047	-	-	40,000	10,362	50,362
2048	-	-	42,000	9,030	51,030
2049	-	-	43,000	7,652	50,652
2050	-	-	45,000	6,225	51,225
2051	-	-	46,000	4,748	50,748
2052	-	-	48,000	4,855	52,855
	$ 234,413	$ 23,772	$1,262,008	$ 689,770	$2,209,963

Note 8: Capital Leases

In March 2018, the City began leasing equipment under an agreement classified as a capital lease due to a bargain purchase option. In February 2019, the City began leasing equipment under an agreement classified as a capital lease due to a bargain purchase option. In October 2019, the City began leasing equipment under an agreement classified as a capital lease due to a bargain purchase option. The capital lease and accumulated amortization are as follows for the leases:

	9/30/20
Capital Lease Equipment, at Cost	$ 156,950
Less Accumulated Amortization	(45,307)
Capital Lease Equipment, Net	$ 111,643

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of September 30, 2020 are as follows:

Year Ending September 30,	Amount
2021	$ 38,251
2022	38,251
2023	25,005
2024	25,004
2025	17,311
Total Minimum Lease Payments	143,822
Less Amount Representing Interest	(19,151)
Present Value of Net Minimum Lease Payments	124,671
Less Current Maturities of Capital Lease Obligations	(32,580)
	$ 92,091

Note 9: Interfund Balances and Transfers

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

Transfers to Water and Sewer Fund From:	
Debt Service Fund	$ 61,889
Total Transferred to Water and Sewer Fund	$ 61,889

The transfers were used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

Due To/Due From's for the year ended September 30, 2020 consisted of the following:

Due to General Fund From:	
Water Sewer	$ 111,416
Total Due to General Fund	$ 111,416

$24,000 of the due to/due from was used by the City to begin the sewer development plan and paid for engineering fees. The City borrowed the proceeds from the City Park grant. $5,000 is for loan proceeds deposited into a water sewer account for a general fund project. The remaining $82,416 was used to pay the garbage fee. The balance is scheduled to be collected in the subsequent year.

Note 10: Number of Water and Sewer System Customers

At year-end, 376 customers were connected to the water system, and 349 to the sewer system.

Note 11: Pension Plan

A. Plan Description

The City of Trenton participates as one of 888 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at *www.tmrs.com.*

All eligible employees of the City are required to participate in TMRS.

B. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Note 11: Pension Plan (Continued)

Employees Covered by Benefit Terms.

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	9
Active employees	6
Total	19

C. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. The City has adopted a matching percentage of 150%. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Trenton were required to contribute 5% of their annual gross earnings during the fiscal year. The full contribution rates for the City of Trenton were 3.17% and 3.76% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2020, were $7,276 and were equal to the required contributions.

The funded status as of December 31, 2019, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2019	$ 408,696	$ 366,754	111.4%	$ (41,942)	$ 223,553	(18.8)%

Note 12: Federal Grants

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

Note 13: Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The City purchases insurance coverage through the Texas Municipal League Intergovernmental Risk Pool to limit the risk of loss in these areas. Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

Note 14: Commitments

At September 30, 2020, the City had outstanding contract commitments totaling $299,395 related to the construction of a new fire station.

Schedule 1

CITY OF TRENTON, TEXAS
Budgetary Comparison Schedule - Modified Cash Basis - General Fund
For the Year Ended September 30, 2020

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Tax	$ 252,000	$ 252,000	$ 250,302	$ (1,698)
Sales Tax	190,000	190,000	148,818	(41,182)
Franchise Tax	30,000	30,000	28,667	(1,333)
Fines	25,000	25,000	38,514	13,514
Charges for School Resource Officer	-	-	46,523	46,523
Sanitation Fees and Charges	96,000	96,000	100,427	4,427
Intergovernmental	49,000	49,000	250,260	201,260
Interest	1,000	1,000	1,903	903
Payment in Lieu of Taxes-(Housing Authority)	2,500	2,500	2,106	(394)
Miscellaneous	9,000	9,000	6,869	(2,131)
Total Revenues	654,500	654,500	874,389	219,889
Expenditures				
General Government:				
Contractual Services	10,600	10,600	8,092	2,508
Insurance - Property, Liability, and Workers' Compensation	16,000	16,000	18,203	(2,203)
Office	7,500	17,500	14,292	3,208
Professional Fees	39,500	39,500	34,952	4,548
Appraisal District	14,000	14,000	15,349	(1,349)
Utilities	37,000	37,000	28,664	8,336
Park Improvements and Maintenance	3,000	3,000	2,793	207
Other	1,700	1,700	2,757	(1,057)
Public Safety:				
Health Insurance	23,000	23,000	19,453	3,547
Payroll- Police	168,000	168,000	163,842	4,158
Payroll - Office	44,000	44,000	40,169	3,831
Payroll Taxes	17,000	17,000	18,202	(1,202)
Retirement	7,000	7,000	4,238	2,762
Municipal Court	11,000	11,000	11,794	(794)
Police Department	37,000	37,000	64,176	(27,176)
Fire Department	15,000	15,000	8,989	6,011
Sanitation Contract	96,000	96,000	87,365	8,635
Street Maintenance and Equipment	35,000	25,000	9,354	15,646
Capital Outlay	15,200	15,200	266,326	(251,126)
Debt Service				
Principal	24,200	24,200	33,274	(9,074)
Interest and Fees	-	-	4,139	(4,139)
Total Expenditures	621,700	621,700	856,423	(234,723)

CITY OF TRENTON, TEXAS
Budgetary Comparison Schedule - Modified Cash Basis - General Fund
For the Year Ended September 30, 2020

	Original Budget	Final Budget	Actual	Variance with Final Budget
Excess (Deficiency) of Revenues over Expenditures	32,800	32,800	17,966	(14,834)
Other Financing Sources (Uses)				
Proceeds from Issuance of Long-Term Debt	-	-	5,000	5,000
Insurance Recoveries	-	-	14,878	14,878
Total Other Sources (Uses)	-	-	19,878	19,878
Net Change in Fund Balance	32,800	32,800	37,844	5,044
Fund Balance - Beginning	699,090	699,090	699,090	-
Fund Balance - Ending	$ 731,890	$ 731,890	$ 736,934	$ 5,044

CITY OF TRENTON, TEXAS

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

SEPTEMBER 30, 2020

McClanahan and Holmes, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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Communication with Those Charged with Governance

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

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Trenton, Texas (the City) for the year ended September 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 20, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Trenton are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2020. We noted no transactions entered into by the City of Trenton during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the City's financial statements was:

> Management's estimate of depreciation expense. Depreciation expense is calculated on a straight-line basis, over the estimated useful lives of the City's assets. We evaluated the key factors and assumptions used to develop the depreciation method used and the estimates of useful lives of the assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached misstatements detected as a result of audit procedures were corrected by management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 30, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We were not engaged to report on the budgetary comparison information, which accompanies the financial statements but is not required supplementary information. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Trenton, Texas, as of and for the year ended September 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Trenton, Texas' internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in internal control to be significant deficiencies:

Financial Accounting and Reporting

As is common in small entities, the City does not prepare the financial statements and control the period-end financial reporting process, including controls over the selection and application of accounting principles that are in conformity with generally accepted accounting principles; controls over procedures used to analyze transactions comprising general ledger activity; controls over initiating, authorizing, recording, and processing journal entries into the general ledger; and controls over recording recurring and nonrecurring adjustments to the financial statements.

Segregation of Duties

A critical element in any internal control structure is the characteristic known as segregation of duties. Assigning different personnel the responsibility of authorizing transactions, recording transactions, and maintaining custody of assets achieve this internal control structure attribute. Due to the City's small number of personnel, there is limited segregation of duties in substantially all areas of the accounting system. To the extent possible, every effort should be made to utilize a "best practices" approach when considering controls over cash transactions and preparation of accounting records. We encourage the Council to closely monitor its financial activities which may help offset the weaknesses associated with limited segregation of duties.

Payroll Reporting:

We noted that an employee received pay related to compensatory time that was not treated as payroll, and no payroll taxes were withheld or paid. We recommend collecting and remitting the employee's portion of payroll tax, remitting the City's employer portion, and revising all applicable payroll tax forms.

Restriction on Use

This communication is intended solely for the use of the Mayor and Members of the City Council and management of the City of Trenton and is not intended to be, and should not be, used by anyone other than these specified parties.

McClanahan and Holmes, LLP
Certified Public Accountants

Bonham, Texas
November 30, 2020

CITY OF TRENTON, TEXAS
Misstatements Corrected by Management
September 30, 2020

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 1			
10-3010	Retained Earnings	$ 9,149.93	$ -
10-5078	Miscellaneous Expense	208.26	-
66000	Payroll Expenses	60.00	-
10-5051	Insurance - Health	-	1,179.69
10-5250	Police - Technology Fee Expense	-	7,938.50
10-5310	Payroll - Retirement	-	300.00
Total		$ 9,418.19	$ 9,418.19
Adjusting Journal Entries JE # 2			
10-2200	Due To Other Governments	$ 8,482.54	$ -
40-4010	Sales Tax:40-4010 4A	4,241.27	-
40-4020	Sales Tax:40-4020 4B	4,241.27	-
10-4020	Sales Tax	-	8,482.54
40-1350	Due from Other Governments	-	8,482.54
Total		$ 16,965.08	$ 16,965.08
Adjusting Journal Entries JE # 3			
10-4020	Sales Tax	$ 6,717.58	$ -
40-1350	Due from Other Governments	6,717.58	-
10-2200	Due to Other Governments	-	6,717.58
40-4010	Sales Tax:40-4010 4A	-	3,358.79
40-4020	Sales Tax:40-4020 4B	-	3,358.79
Total		$ 13,435.16	$ 13,435.16
Adjusting Journal Entries JE # 4			
20-4000	Water and Sewer Service	$ 12.64	$ -
20-4101	Meter Deposit Income: 20-4101 Revenue	19.17	-
40-4010	Sales Tax:40-4010 4A	17.31	-
40-4020	Sales Tax:40-4020 4B	2.09	-
20-4540	Interest Income:20-4540 Money Market	-	31.81
40-4110	Interest: 40-4110 4A	-	17.31
40-4120	Interest: 40-4120 4B	-	2.09
Total		$ 51.21	$ 51.21
Adjusting Journal Entries JE # 5			
10-2100	Payroll Liabilities	$ 806.23	$ -
10-2100	Payroll Liabilities	3,768.48	-
10-5301	Payroll - Child Support	-	3,768.48
66000	Payroll Expenses	-	806.23
Total		$ 4,574.71	$ 4,574.71
Adjusting Journal Entries JE # 6			
20-2100	Payroll Liabilities	$ 2,476.42	$ -
20-2100	Payroll Liabilities	3,300.00	-
20-5301	Payroll Expenses: Child Support	-	3,300.00
20-5390	Payroll Expenses	-	2,476.42
Total		$ 5,776.42	$ 5,776.42
Adjusting Journal Entries JE # 7			
40-1430	Fixed Assets Improvements	$ 19,023.50	$ -
40-5130	Economic 4B Expenses: 40-5130 Construction Projects	-	19,023.50
Total		$ 19,023.50	$ 19,023.50

CITY OF TRENTON, TEXAS
Misstatements Corrected by Management (Continued)
September 30, 2020

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 8			
10-4900	Transfers In	$ 25,535.00	$ -
10-6200	Capital Outlay Expense	30,000.00	-
10-6200	Capital Outlay Expense	203,548.38	-
20-5701	Texas Development Block Grant	25,535.00	-
20-6100	Transfers	30,000.00	-
20-6100	Transfers	203,548.38	-
10-4701	Grant Revenue: 10-4701 - Street Reconstruction	-	25,535.00
10-4900	Transfers In	-	30,000.00
10-4900	Transfers In	-	203,548.38
20-4730	Texas Development Block Grant Revenue	-	30,000.00
20-5701	Texas Development Block Grant	-	203,548.38
20-6100	Transfers	-	25,535.00
Total		$ 518,166.76	$ 518,166.76
Adjusting Journal Entries JE # 9			
20-1410	Equipment and Vehicles	$ 76,006.00	$ -
20-2555	Capital Lease Payable	-	76,006.00
Total		$ 76,006.00	$ 76,006.00
Adjusting Journal Entries JE # 10			
10-1350	Due from Water Sewer Fund	$ 5,000.00	$ -
20-5703	USDA Grant: 20-5703 Fire Station	5,000.00	-
10-5450	Proceeds From Loan	-	5,000.00
20-2210	Due To General Fund	-	5,000.00
Total		$ 10,000.00	$ 10,000.00
Adjusting Journal Entries JE # 11			
20-4700	Grant Revenue	$ 9,099.60	$ -
20-5090	Miscellaneous Expense	0.40	-
20-5701	Texas Development Block Grant	-	9,100.00
Total		$ 9,100.00	$ 9,100.00
Adjusting Journal Entries JE # 12			
10-6200	Capital Outlay Expense	$ 32,778.07	$ -
10-4701	Grant Revenue: 10-4701 - Street Reconstruction	-	1,100.00
10-5049	Engineer	-	7,500.00
10-5470	Street Maintenance	-	24,178.07
Total		$ 32,778.07	$ 32,778.07
Adjusting Journal Entries JE # 13			
10-5218	Police - Vehicle Exp and Supplies: 10-5218 TDEM Cares Act	$ 7,612.00	$ -
10-4700	Grant Revenue	-	7,612.00
Total		$ 7,612.00	$ 7,612.00
Adjusting Journal Entries JE # 14			
10-4900	Transfers In	$ 208,013.38	$ -
20-4730	Texas Development Block Grant Revenue	208,013.38	-
10-4701	Grant Revenue: 10-4701 - Street Reconstruction	-	208,013.38
20-6100	Transfers	-	208,013.38
Total		$ 416,026.76	$ 416,026.76

CITY OF TRENTON, TEXAS
Misstatements Corrected by Management (Continued)
September 30, 2020

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 15			
10-5208	Police - Vehicle Exp and Supplies: 10-5208 Investigations	$ 159.90	$ -
10-1000	140012 General Checking	-	159.90
Total		$ 159.90	$ 159.90
Adjusting Journal Entries JE # 16			
10-5411	Police Car Loan: 10-5411 - Principle	$ 1,302.14	$ -
10-5412	Police Car Loan: 10-5412 - Interest	10.57	-
10-5418	2018 Ford Interceptor Principle (Am National Leasing)	7,293.36	-
10-5418	2018 Ford Interceptor Principle (Am National Leasing)	12,248.09	-
10-5419	2018 Ford Interceptor Interest (Am National Leasing)	401.14	-
10-5419	2018 Ford Interceptor Interest (Am National Leasing)	997.41	-
10-5423	First State Bank Principle Payments	12,430.11	-
20-2510	Time Warrant -2002 (Hwy 121)	0.02	-
20-2530	Time Warrant 2011	16,000.00	-
20-2540	Time Warrant 2013	51,782.13	-
20-2550	Ally Financial Note Payable	4,286.03	-
20-5802	Interest Expense 2013 Time Warrant	61,888.79	-
20-5806	Interest Expense: 20-5806 USDA 92.04	33,110.00	-
30-5070	Time Warrant 2013 Loan 839316	24,368.06	-
30-5170	Interest Paid: 30-5170 - Loan 839316	15,168.82	-
30-6100	Transfers	61,888.79	-
10-5407	Fuel: 10-5407 Car 4017-Dodge Charger	-	1,312.71
10-5413	10-5413 Car 1547 Interceptor 2017	-	13,245.50
10-5420	American Leasing	-	7,694.50
10-5424	First State Bank Interest	-	12,430.11
20-4610	USDA Loan 92.04	-	16,415.00
20-5090	Miscellaneous Expense	-	0.02
20-5720	USDA Loan Expenses 92.04	-	32,695.00
20-5802	Interest Expense 2013 Time Warrant	-	51,782.13
20-5811	Dodge Utility	-	4,286.03
20-6100	Transfers	-	61,888.79
30-5100	Interest Paid	-	15,168.82
30-5170	Interest Paid: 30-5170 - Loan 839316	-	24,368.06
30-5170	Interest Paid: 30-5170 - Loan 839316	-	61,888.79
Total		$ 303,175.46	$ 303,175.46
Adjusting Journal Entries JE # 17			
20-2531	CPLTD Contra Time Warrant 2011	$ 17,000.00	$ -
20-2541	CPLTD Contra Time Warrant 2013	53,733.41	-
20-2551	Note Payable CPLTD Contra	2,900.89	-
20-2557	Current Portion Capital Lease Contra	13,888.98	-
20-2532	CPLTD Time Warrant 2011	-	17,000.00
20-2542	CPLTD Time Warrant 2013	-	53,733.41
20-2552	Note Payable CPLTD	-	2,900.89
20-2556	Current Portion Capital Lease	-	13,888.98
Total		$ 87,523.28	$ 87,523.28
Adjusting Journal Entries JE # 18			
40-1020	Funds Held In Trust	$ 15,000.00	$ -
40-5855	(Gain) Loss On Sale Of Assets	-	15,000.00
Total		$ 15,000.00	$ 15,000.00

CITY OF TRENTON, TEXAS
Misstatements Corrected by Management (Continued)
September 30, 2020

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 19			
40-5150	Economic 4B Expenses: 40-5150 Labor	$ 735.00	$ -
40-4021	Sales Tax: 40-4020 4B: 40-4021 Donations	-	735.00
Total		$ 735.00	$ 735.00
Adjusting Journal Entries JE # 20			
20-4000	Water and Sewer Service	$ 91,686.76	$ -
20-5500	Garbage Collection Fee	-	91,686.76
Total		$ 91,686.76	$ 91,686.76
Adjusting Journal Entries JE # 21			
10-4100	Garbage Collection	$ 8,105.90	$ -
10-4890	Insurance Claims	-	8,105.90
Total		$ 8,105.90	$ 8,105.90
Adjusting Journal Entries JE # 22			
10-1350	Due from Water Sewer Fund	$ 8,137.29	$ -
20-4000	Water and Sewer Service	8,137.29	-
10-4100	Garbage Collection	-	8,137.29
20-2210	Due to General Fund	-	8,137.29
Total		$ 16,274.58	$ 16,274.58
Adjusting Journal Entries JE # 23			
20-4101	Meter Deposit Income: 20-4101 Revenue	$ 690.00	$ -
20-5212	Meter Deposit Refund/Applied: 20-5212 Refund	110.00	-
20-2300	Meter Deposits	-	725.00
20-4000	Water and Sewer Service	-	75.00
Total		$ 800.00	$ 800.00
Adjusting Journal Entries JE # 24			
10-1601	Overpayment to Vendor	$ 1,327.88	$ -
20-5090	Miscellaneous Expense	0.20	-
20-5102	Utilities: 20-5102 Telephone	152.55	-
10-2000	Accounts Payable	-	1,327.88
20-2000	Accounts Payable	-	152.75
Total		$ 1,480.63	$ 1,480.63
Adjusting Journal Entries JE # 25			
10-5250	Police - Technology Fee Expense	$ 1,525.00	$ -
10-5250	Police - Technology Fee Expense	2,800.00	-
10-4250	Municipal Court	-	1,525.00
10-4250	Municipal Court	-	2,800.00
Total		$ 4,325.00	$ 4,325.00
Adjusting Journal Entries JE # 26			
10-5302	Payroll - Police	$ 935.58	$ -
10-5300	Payroll- Office Salaries	-	219.39
66000	Payroll Expenses	-	716.19
Total		$ 935.58	$ 935.58
Adjusting Journal Entries JE # 27			
20-5850	Depreciation Expense	$ 158,133.00	$ -
20-1450	Accumulated Depreciation	-	158,133.00
Total		$ 158,133.00	$ 158,133.00

CITY OF TRENTON, TEXAS
Misstatements Corrected by Management (Continued)
September 30, 2020

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 28			
40-5190	Depreciation Expense	$ 7,774.00	$ -
40-1440	Accumulated Depreciation Improvements	-	5,171.00
40-1445	Accumulated Depreciation Buildings	-	2,603.00
Total		$ 7,774.00	$ 7,774.00
Adjusting Journal Entries JE # 29			
40-1430	Fixed Assets Improvements	$ 14,943.50	$ -
40-1420	Construction in Progress	-	14,943.50
Total		$ 14,943.50	$ 14,943.50
Adjusting Journal Entries JE # 30			
40-1445	Accumulated Depreciation Buildings	$ 5,206.00	$ -
40-5855	(Gain) Loss On Sale Of Assets	106,402.25	-
40-1405	Land	-	7,500.00
40-1410	Buildings	-	104,108.25
Total		$ 111,608.25	$ 111,608.25