

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the City of Cresson, at P. O. Box 619, Cresson, Texas 76035, or call (817) 396-4729.

WILLSHER & ASSOCIATES, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Honorable Bob Cornett
Members of the City Council
City of Cresson
Cresson, Texas

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Cresson, Texas, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements. These basic financial statements are the responsibility of the City of Cresson, Texas' management. Our responsibility is to express an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Cresson, Texas, as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2012, on our consideration of the City of Cresson, Texas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise City of Cresson's basic financial statements.



May 14, 2012

CITY OF CRESSON
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 483,569	\$ 4,506	\$ 488,075
Receivables, net of allowance	6,771	8,997	15,768
Total current assets	<u>490,340</u>	<u>13,503</u>	<u>503,843</u>
Restricted Assets:			
Cash for tourism	45,654		45,654
Total restricted assets	<u>45,654</u>	-	<u>45,654</u>
Capital assets:			
Land	-	25,878	25,878
Depreciable, net	430,819	393,148	823,967
	<u>430,819</u>	<u>419,026</u>	<u>849,845</u>
Total assets	<u>966,813</u>	<u>432,529</u>	<u>1,399,343</u>
LIABILITIES			
Current liabilities:			
Accounts payable	18,475	1,499	19,974
Fees and sales taxes payable	-	1,312	1,312
Total current liabilities	<u>18,475</u>	<u>2,811</u>	<u>21,286</u>
NET ASSETS			
Invested in capital assets, net of related debt	430,819	419,026	849,845
Restricted for tourism	45,654	-	45,654
Unrestricted net assets	471,869	10,693	482,562
Total net assets	<u>\$ 948,343</u>	<u>\$ 429,719</u>	<u>\$ 1,378,061</u>

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

CITY OF CRESSON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Expenses</u>	<u>Program revenues</u>
		Charges for Services
Primary Government:		
Governmental Activities		
General government	\$ (347,974)	\$ 26,270
Judicial	(200)	200
Streets	(48,390)	822
Total governmental	<u>(396,564)</u>	<u>27,292</u>
Business-type activities:		
Water Department	(212,365)	198,439
Total business-type	<u>(212,365)</u>	<u>198,439</u>
Total Activity	<u>\$ (608,929)</u>	<u>\$ 225,731</u>
General revenues		
Sales taxes		
Franchise taxes		
Hotel/motel tax		
Miscellaneous revenue		
Licenses and permits		
Investment earnings		
Transfers		
Total general revenues		
Change in net assets		
Net assets - beginning		
Net assets - ending		

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

Net (Expense) Revenue and
Changes in Net Assets

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (320,890)	-	(320,890)
-	-	-
(48,389)	-	(48,389)
(369,279)	-	(369,279)
	(13,927)	(13,927)
	-	-
-	(13,927)	(13,927)
\$ (369,279)	\$ (13,927)	\$ (383,206)
370,933	-	370,933
45,932	-	45,932
23,299	-	23,299
22,492	-	22,492
26,270	-	26,270
1,271	-	1,271
(18,092)	18,092	-
472,106	18,092	490,198
102,835	4,165	107,000
845,510	425,554	1,271,064
\$ 948,343	\$ 429,719	\$ 1,378,061

CITY OF CRESSON
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	General Fund	Total Governmental Funds
<hr/>		
ASSETS		
Cash and cash equivalents	\$ 483,571	\$ 483,571
Receivables	6,771	6,771
Cash restricted for tourism	<u>45,654</u>	<u>45,654</u>
Total assets	<u><u>\$ 535,996</u></u>	<u><u>\$ 535,996</u></u>
LIABILITIES		
Accounts payable	<u>\$ 18,475</u>	<u>\$ 18,475</u>
Total liabilities	<u>18,475</u>	<u>18,475</u>
FUND BALANCES		
Restricted for tourism	45,654	45,654
Unassigned	443,617	443,617
Assigned	<u>28,250</u>	<u>28,250</u>
Total fund balances	<u>517,521</u>	<u>517,521</u>
Total liabilities and fund balances	<u><u>\$ 535,996</u></u>	<u><u>\$ 535,996</u></u>

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

CITY OF CRESSON
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2011

Total Fund Balances – Governmental Funds	\$	517,521
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$662,940 and the accumulated depreciation was \$212,609. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net assets.		450,331
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the 2011 capital outlays is to increase net assets.		26,848
The 2011 depreciation expense increases accumulated depreciation. The net effect of the current year’s depreciation is to decrease net assets.		(35,381)
Transfers out of governmental funds decrease net assets.		(18,092)
Reimbursements of expenses from other entities increase net assets.		7,116
 Net Assets of Governmental Activities		
	\$	<u>948,343</u>

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

CITY OF CRESSON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues:			
Franchise taxes	\$ 45,932	\$ -	\$ 45,932
Sales taxes	370,933	-	370,933
Hotel/motel taxes - restricted	23,299	-	23,299
Licenses and permits	26,270	-	26,270
Fines	200	-	200
Investment earnings	1,271	-	1,271
Governmental revenue and grants	-	9,000	9,000
Other sources:			
Cash	7,117	-	7,117
Non-cash	15,375	-	15,375
Total revenues	<u>490,398</u>	<u>9,000</u>	<u>499,398</u>
Expenditures:			
General government	309,908	-	309,908
Streets and highways	21,542	-	21,542
Capital outlay	26,848	-	26,848
Total expenditures	<u>358,297</u>	<u>-</u>	<u>358,297</u>
Excess of Revenues Over Expenditures	132,101	9,000	141,101
Other Financing Sources (Uses):			
Transfers out (use)	(9,092)	(9,000)	(18,092)
Total other financing sources (uses)	<u>(9,092)</u>	<u>(9,000)</u>	<u>(18,092)</u>
Net Change in Fund Balances	123,009	-	123,009
Fund balance - beginning of year	<u>394,512</u>	<u>-</u>	<u>394,512</u>
Fund balance - end of year	<u>\$ 517,521</u>	<u>\$ -</u>	<u>\$ 517,521</u>

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

CITY OF CRESSON
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF
 ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

Total Net Change in Fund Balances – Governmental Funds	\$	123,009
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2011 capital outlays is to increase net assets.		26,848
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year’s depreciation is to decrease net assets.		(35,381)
Transfers out of governmental funds decrease net assets.		(18,092)
Reimbursements of expenses from other entities increase net assets.		6,451
Change in Net Assets of Governmental Activities		<u>\$ 102,835</u>

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

CITY OF CRESSON
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2011

	Business-type Activities
	Water and Sewer Revenue Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 4,506
Accounts receivable, net of uncollectible allowance	8,997
Total current assets	13,503
Noncurrent assets:	
Capital assets:	
Land and improvements	25,878
Machinery and equipment, net	393,148
Total noncurrent assets	419,026
Total assets	432,529
 LIABILITIES	
Current liabilities:	
Accounts payable	1,499
Sales tax payable	1,312
Total liabilities	2,811
 NET ASSETS	
Invested in capital assets, net of related debt	419,026
Unrestricted net assets	10,693
Total net assets	\$ 429,719

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

CITY OF CRESSON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Business-type Activities
	Water and Sewer Revenue Fund
OPERATING REVENUES	
Charges for water services	\$ 126,010
Charges for sanitation services	69,379
Other revenue	3,050
Total operating revenues	198,439
OPERATING EXPENSES:	
Personnel services - salaries and wages	52,322
Purchased professional and technical services	18,747
Purchased property services	90,669
Other operating services	26,355
Supplies	10,090
Depreciation	14,183
Total operating expenses	212,365
Income before transfers	(13,927)
Non-operating transfers in	18,092
Change in net assets	4,165
Total net assets - beginning	425,554
Total net assets - ending	\$ 429,719

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

CITY OF CRESSON
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2011

	Business Type Activities
	Water and Sewer Revenue Fund
Cash flows from operating activities:	
Cash received from customers	\$ 207,436
Cash payments to suppliers for goods and services	(157,128)
Cash payments to employees for services	(52,322)
Net cash provided (used) by operating activities	(2,015)
Cash flows from capital and related financing activities:	
Capital assets purchased or constructed	(23,030)
Cash transferred from governmental funds	18,092
Net cash provided (used) by capital and related financing activities	(4,938)
Net increase (decrease) in cash	(6,953)
Cash - beginning of year	11,459
Cash - end of year	\$ 4,506
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ (13,927)
Adjustments to reconcile operating income to net cash provided by operations:	
Depreciation	14,183
Changes in assets and liabilities	
Increase (decrease) in accounts payable	(2,271)
Net cash provided (used) by operating activities	\$ (2,015)

See accompanying notes to the basic financial statements.

CITY OF CRESSON, TEXAS
Notes to Basic Financial Statements
For the year ended September 30, 2011

Note 1 - Summary of Significant Accounting Policies

Introduction

The financial statements of the City of Cresson, Texas (City) are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City of Cresson, Texas.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2011.

Financial Reporting Entity

The City is a municipal corporation operating under the applicable laws and regulations of the State of Texas. It has a Mayor – Council form of government with the mayor and five council members elected by registered voters of the City. The mayor and council have the authority to make decisions, appoint administrators and managers and significantly influence operations. They also have the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Council ("GASB") in its Statement No. 14, "The Financial Reporting Entity." The accompanying financial statements include the accounts of all City operations. There are no component units included within the reporting entity.

Basis of Presentation - Government - Wide Statements

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, is removed from these statements. Governmental activities, which normally are supported by taxes and governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements and financial statement of city component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax

CITY OF CRESSON, TEXAS
Notes to Basic Financial Statements
For the year ended September 30, 2011

revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met. The City of Cresson assessed no property taxes and received State grant monies in the amount of \$9,000 during the year ended September 30, 2011.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, hotel/motel taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Governmental Funds

Fund Financial Statements

Fund financial statements are provided for governmental and proprietary funds.

Major Governmental Fund

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Other Governmental Fund

Special Revenue Fund

Special revenue funds are used in governmental reporting to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. There is no special revenue fund presented.

Capital Project Fund

Capital project funds are used in governmental reporting to account for financial resources to be used for the acquisition or construction of major capital facilities. There is a capital project fund presented.

CITY OF CRESSON, TEXAS
Notes to Basic Financial Statements
For the year ended September 30, 2011

Proprietary Funds

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow.

All assets and liabilities are included on the Statement of Net Assets.

The City has presented its only proprietary fund - the Water Department Fund.

Budgets, Budgetary Accounting and Control

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

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

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

Cash and Cash Equivalents

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

Cash and cash equivalents for the proprietary fund in the amount of \$4,506 is unrestricted.

Capital Assets and Depreciation

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Proprietary capital assets are also reported in the fund financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with cost of one thousand or more and with a useful life of two years or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and infrastructure	20
Improvements, other than buildings	10-50
Machinery, and equipment	7-20

CITY OF CRESSON, TEXAS
Notes to Basic Financial Statements
For the year ended September 30, 2011

Estimates

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

Note 2 - Deposits

Deposits are stated at cost.

At year-end, the carrying amount of the City's deposits, presented as cash equivalents (checking accounts) are unrestricted funds of \$483,576, and the bank balance totals \$565,598. The bank balance was fully covered by federal depository insurance and pledged securities.

The City's deposits are categorized to give an indication of level of risk assumed by the City at year-end. Category 1 includes those that are insured or registered or for which the City or its agent in the City's name holds the securities. Category 2 includes both uninsured and unregistered for which the counterparts trust department or agent in the City's name holds the securities. Category 3 includes both uninsured and unregistered for which the securities are held by the counterparts trust department or agent, but not in the City's name. All deposits are considered to be Category 1.

CITY OF CRESSON, TEXAS
Notes to Basic Financial Statements
For the year ended September 30, 2011

Note 3 - Changes In Capital Assets

	Capital Assets Depreciated				Capital Assets Not Depreciated		
	Equipment, Furniture & Software	Infrastructure	Vehicles	Water System	Land	Construction In Progress	Totals
Governmental Activities							
Balance, September 30, 2010	\$ 11,479	\$ 652,129	\$ -	\$ -	\$ -	\$ -	\$ 663,608
Increases	-	-	15,200	-	-	-	15,200
Decreases	-	-	-	-	-	-	-
Balance, September 30, 2011	<u>11,479</u>	<u>652,129</u>	<u>15,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>678,808</u>
Accumulated Depreciation:							
Balance, September 30, 2010	4,702	207,907	-	-	-	-	212,609
Increases	2,746	31,874	761	-	-	-	35,381
Decreases	-	-	-	-	-	-	-
Balance, September 30, 2011	<u>7,448</u>	<u>239,781</u>	<u>761</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>247,990</u>
Capital assets, net	<u>\$ 4,031</u>	<u>\$ 412,348</u>	<u>\$ 14,439</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 430,818</u>
Business-Type Activities							
Balance, September 30, 2010	\$ 18,953	\$ -	\$ -	\$ 391,580	\$ 25,878	\$ -	\$ 436,411
Increases	23,030	-	-	-	-	-	23,030
Decreases	-	-	-	-	-	-	-
Balance, September 30, 2011	<u>41,983</u>	<u>-</u>	<u>-</u>	<u>391,580</u>	<u>25,878</u>	<u>-</u>	<u>459,441</u>
Accumulated Depreciation:							
Balance, September 30, 2010	3,070	-	-	23,164	-	-	26,234
Increases	2,525	-	-	11,656	-	-	14,181
Decreases	-	-	-	-	-	-	-
Balance, September 30, 2011	<u>5,595</u>	<u>-</u>	<u>-</u>	<u>34,820</u>	<u>-</u>	<u>-</u>	<u>40,415</u>
Capital assets, net	<u>\$ 36,388</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 356,760</u>	<u>\$ 25,878</u>	<u>\$ -</u>	<u>\$ 419,026</u>
Primary Government							
Capital assets, net	<u>\$ 40,419</u>	<u>\$ 412,348</u>	<u>\$ 14,439</u>	<u>\$ 356,760</u>	<u>\$ 25,878</u>	<u>\$ -</u>	<u>\$ 849,844</u>

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

Governmental activities:

General government and administration	\$ 3,507
Roads and streets	<u>31,874</u>
Total depreciation expense-Governmental activities	<u>\$ 35,381</u>

Business-type activities:

Water	<u>\$ 14,181</u>
Total depreciation expense-Business-type activities	<u>\$ 14,181</u>

CITY OF CRESSON, TEXAS
Notes to Basic Financial Statements
For the year ended September 30, 2011

Note 4 - Interfund and Transfers

The following is a summary of interfund transfers at September 30, 2011:

Transfers from General Fund	Transfers from Capital Project Fund	Transfers to Water Department
\$ 9,092	\$ 9,000	\$18,092

The purpose of the transfers was:

The General Fund to the Water Department for operating costs. The Capital Project Fund to the Water Department for qualified engineering fees for water system project.

Note 5 – Insurance in Force

An umbrella policy is issued by TML-Municipal Liability Joint Self Insurance fund. The policy renewed October 1, 2010.

Coverage	Limit per Occurrence	Deductible
General Liability	\$5,000,000	None
Errors & Omissions Liability	\$1,000,000	\$1,000

The cost for insurance coverage for the year ended September 30, 2011 is \$3,534.

Note 6 – Subsequent Event

The City of Cresson has the responsibility to make an initial determination of the appropriateness of any proposed rate change applied for by a retail water utility service provider serving residences or businesses within the corporate limits of the City. A Proposal for Decision was submitted to the City after an evidentiary hearing was held on November 2, 2011. The retail water utility service provider has appealed to TCEQ, and final hearing is set for June 7, 2012.

Note 7 – Grant

A grant in the amount of \$350,000 was awarded to the City by the Texas Department of Rural Affairs in December, 2010 for the purposes of constructing improvements to the water system and paying engineering fees as follows:

Water Improvements – Construction	\$323,600
Water Improvements – Engineering	<u>26,400</u>
	\$350,000
Two draws on 9/26/11 were made to pay engineering costs	<u>(9,000)</u>
Balance of grant at 9/30/11	<u>\$341,000</u>

The grant expires October 22, 2012. Construction is on schedule and is expected to be completed in June, 2012.

CITY OF CRESSON, TEXAS
Notes to Basic Financial Statements
For the year ended September 30, 2011

Note 8 – Fund Balance

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

Nonspendable: There is no nonspendable fund balance..

Restricted: \$45,654 is restricted by Texas state code to be used for the growth of tourism. The income is generated from hotel/motel taxes.

Committed: There is no committed fund balance.

Assigned: \$28,250 is assigned by the City Council for the purpose of matching grant funds.

Unassigned: \$443,619 is not classified as nonspendable, restricted, committed or assigned.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CRESSON
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GOVERNMENTAL FUND
YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual GAAP Basis	Variance Positive (Negative)
	Original	Final		
Revenues:				
Franchise taxes	45,700	46,000	45,932	(68)
Sales taxes	238,300	288,300	370,933	82,633
Hotel/motel taxes - restricted	7,500	20,000	23,299	3,299
Licenses and permits	19,300	55,500	26,270	(29,230)
Fines	-	-	200	200
Investment earnings	-	500	1,271	771
Other sources	-	-	31,492	31,492
Total Revenues	<u>310,800</u>	<u>410,300</u>	<u>499,398</u>	<u>89,098</u>
Expenditures:				
General government	226,430	316,230	309,903	6,327
Streets and highways	71,000	71,000	21,542	49,458
Capital outlay	-	-	26,848	(26,848)
Total Expenditures	<u>297,430</u>	<u>387,230</u>	<u>358,292</u>	<u>28,938</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>13,370</u>	<u>23,070</u>	<u>141,106</u>	<u>118,036</u>
Other financing sources (uses)				
Transfers out (use)	-	-	(18,092)	(18,092)
Total other financing	<u>-</u>	<u>-</u>	<u>(18,092)</u>	<u>(18,092)</u>
Fund balance - beginning of year	<u>436,142</u>	<u>415,742</u>	<u>394,512</u>	<u>(21,230)</u>
Fund balance - end of year	<u>\$ 449,512</u>	<u>\$ 438,812</u>	<u>\$ 517,526</u>	<u>\$ 99,944</u>

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

WILLSHER & ASSOCIATES, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable Bob Cornett
Members of the City Council
City of Cresson
Cresson, Texas

We have audited the financial statements of the City of Cresson as of and for the year ended September 30, 2011, and have issued our report thereon dated May 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

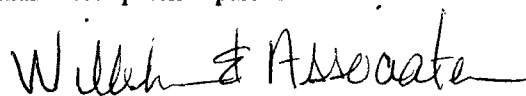
The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Cresson's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the City's management, mayor and city council members and federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.



May 14, 2012

CITY OF CRESSON
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
SEPTEMBER 30, 2012

Table of Contents

Page

Cover Sheet	1
Table of Contents	2
Management's Discussion and Analysis	3 - 9
Independent Auditors' Report	10 - 11
Financial Statements	12 - 21
Notes to Basic Financial Statements	22 - 29
Required Supplementary Information	30 - 31
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual Governmental Fund Year Ended September 30, 2012	

CITY OF CRESSON, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2012
(Unaudited)

Our discussion and analysis of the City of Cresson's ("the City's") financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended September 30, 2012. Please read it in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The City's net assets of the primary government were \$1,694,827 at September 30, 2012. Of this amount, \$680,123 is unrestricted and may be used to meet the City's future obligations. Of the \$680,123 unrestricted net assets, \$671,463 is related to governmental activities, which includes the General Fund. The \$8,660 remaining balance of unrestricted assets is related to business-type activities, which is the City's Enterprise Fund (water, garbage and sewer).
- The City's total net assets increased by \$316,765 during the current fiscal year. Net assets of governmental activities increased by \$178,394 from \$948,343 in the fiscal year ended September 30, 2011. Net assets of business-type activities increased \$138,371 from \$429,719 in the fiscal year ended September 30, 2011.
- As of the close of the current fiscal year, the City of Cresson's governmental fund reported an ending net assets of \$1,126,737.
- At the end of the current fiscal year, unrestricted net assets for the general fund was \$671,463 or approximately 59.6% of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the

CITY OF CRESSON, TEXAS
Management's Discussion and Analysis (**Continued**)
For the Year Ended September 30, 2012 (Unaudited)

financial position of the City is improving or deteriorating. The Statement of Net Assets combines and consolidates governmental funds with capital assets and long-term obligations. Other non-financial factors should also be taken into consideration, such as changes in the condition of the City's infrastructure (i.e. roads, drainage improvements, storm and sewer lines, etc.), to assess the overall health or financial conditions of the City.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected sales taxes). Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by sales taxes, franchise fees and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration and highways and streets. The business-type activity of the City consists of water, sewer and sanitation operations.

Reporting the City's Most Significant Funds

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

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

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for

CITY OF CRESSON, TEXAS
Management's Discussion and Analysis (**Continued**)
For the Year Ended September 30, 2012 (Unaudited)

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

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

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer, and Sanitation Departments, which is considered to be a major fund of the City.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 - 29 of this report.

THE CITY AS A WHOLE – Government-Wide Financial Analysis

As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the City of Cresson, assets exceeded liabilities by \$1,694,827 as of September 30, 2012.

The largest portion of the City's net assets (45%) reflects its investments in capital assets (e.g., equipment and infrastructure). The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending.

CITY OF CRESSON, TEXAS
Management's Discussion and Analysis (**Continued**)
For the Year Ended September 30, 2012 (Unaudited)

Table I
Summary of Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 734,349	\$ 535,994	\$ 10,139	\$ 13,503	\$ 744,488	\$ 549,497
Capital assets	393,388	430,819	559,430	419,026	952,818	849,845
Total assets	<u>1,127,737</u>	<u>966,813</u>	<u>569,569</u>	<u>432,529</u>	<u>1,697,306</u>	<u>1,399,343</u>
Liabilities	<u>1,000</u>	<u>18,475</u>	<u>1,479</u>	<u>2,811</u>	<u>2,479</u>	<u>21,286</u>
Total liabilities	<u>1,000</u>	<u>18,475</u>	<u>1,479</u>	<u>2,811</u>	<u>2,479</u>	<u>21,286</u>
Net Assets:						
Invested in capital assets	393,388	430,819	559,430	419,026	952,818	849,845
Restricted	61,886	45,654	-	-	61,886	45,654
Unrestricted	<u>671,463</u>	<u>471,869</u>	<u>8,660</u>	<u>10,693</u>	<u>680,123</u>	<u>482,562</u>
Total net assets	\$ <u>1,126,737</u>	\$ <u>948,343</u>	\$ <u>568,090</u>	\$ <u>429,719</u>	\$ <u>1,694,827</u>	\$ <u>1,378,061</u>

As of September 30, 2012, the City is able to report positive balances in three categories of net assets: for the government as a whole (which is \$1,694,827) and separately for the General fund (which is \$1,126,737) and Enterprise fund (which is \$568,090).

Governmental and business-type activities increased the City's net assets by \$316,766. The key elements of this increase are as follows:

CITY OF CRESSON, TEXAS
Management's Discussion and Analysis (**Continued**)
For the Year Ended September 30, 2012 (Unaudited)

Table II
Statement of Activities, Changes in Net Assets

	Governmental		Business-Type		Total	
	Activities		Activities		Primary	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 49,490	\$ 44,562	\$ 183,932	\$ 198,439	\$ 233,422	\$ 243,001
Capital grants	341,000	9,000	-	-	341,000	9,000
General revenues:						
Sales taxes	435,352	370,933	-	-	435,352	370,933
Franchise fees	67,853	45,932	-	-	67,853	45,932
Hotel/motel taxes	16,231	23,299	-	-	16,231	23,299
Investment earnings	1,516	1,271	-	-	1,516	1,271
Miscellaneous inc	13,252	22,492	-	-	13,252	22,492
Transfers (out) in	(248,568)	(18,092)	248,568	18,092	-	-
Total revenues	676,126	499,397	432,500	216,531	1,108,626	715,928
Expenses:						
General government	433,304	347,974	-	-	433,304	347,974
Judicial	-	200	-	-	-	200
Streets	64,428	48,390	-	-	64,428	48,390
Water and sanitation	-	-	294,129	212,365	294,129	212,365
Total expenses	497,732	396,564	294,129	212,365	791,861	608,929
Increase (decrease)	178,394	102,835	138,371	4,165	316,765	107,000
in net assets						
Net assets - beginning	948,343	845,510	429,719	425,554	1,378,062	1,271,061
Net assets - ending	\$ 1,126,737	\$ 948,343	\$ 568,090	\$ 429,719	\$ 1,694,827	\$ 1,378,061

For fiscal year 2012, revenue from governmental activities totaled \$676,126. Sales tax is the largest component of revenue (64.4%). Charges for services account for 7.3%.

For fiscal year 2012, expenses for governmental activities totaled \$497,732. The City's largest funded program is for highways and streets.

CITY OF CRESSON, TEXAS
Management's Discussion and Analysis (Continued)
For the Year Ended September 30, 2012 (Unaudited)

Business-type Activities

Revenue of the City's water department, the City's only business-type activity, was \$183,932, excluding transfers, for the fiscal year ended September 30, 2012. Expenses for the City's business-type activity were \$294,129, which was an increase of approximately \$81,764 as compared to the prior fiscal year. The decrease in net revenue is the result of the decrease in water consumption by customers. Unrestricted net assets of the water department were \$8,660, a decrease of \$2,033 from the prior fiscal year.

Capital Assets

At the end of the fiscal year 2012, the City had \$952,818 invested in a broad range of capital assets, including the water system, water system land, vehicle, and City streets and highways as shown below:

Table III
Capital Assets at Year-End
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Land	\$ -	\$ -	\$ 25,878	\$ 25,878	\$ 25,878	\$ 25,878
Vehicles	11,399	14,439	-	-	11,399	14,439
Infrastructure	380,474	412,348	-	-	380,474	412,348
Equipment, furniture, software	1,515	4,031	70,978	36,388	72,493	40,419
Water system	-	-	462,574	356,760	462,574	356,760
	<u>\$ 393,388</u>	<u>\$ 430,818</u>	<u>\$ 559,430</u>	<u>\$ 419,026</u>	<u>\$ 952,818</u>	<u>\$ 849,844</u>

The capital asset additions during the current fiscal year (net of depreciation) were pipelines to the water system for a net value of \$51,329, new tank for the water system for a net value of \$54,485, and engineering fees for a new water system for a net value of \$34,590 for a total fiscal year 2012 project (net of depreciation) of \$140,404. The additions for 2012 were funded by a Texas Department of Rural Affairs grant in the amount of \$350,000 (\$9,000 funded in the prior fiscal year and \$341,000 funded in the 2012 fiscal year) and the City's match funding. The project was completed in June, 2012.

CITY OF CRESSON, TEXAS
Management's Discussion and Analysis (**Continued**)
For the Year Ended September 30, 2012 (Unaudited)

Additional information on the City's capital assets can be found in Note 3, page 26 of this report.

ECONOMIC FACTORS

The City's elected and appointed officials considered many factors when setting the fiscal year 2013 budget, rates and fees that will be charged for the business-type activities. One of those factors is the economy. The population growth experienced by the City has stimulated local business and development activity, and the community has placed additional demands on the City to maintain or enhance services provided to the City's citizens. The reasonable costs of living and homes priced below the national average continue to make the City an attractive area for new business locations and relocations. The City continues to attract new and existing companies due to the strategy of working diligently with corporations on relocation incentives.

These indicators are taken into account when adopting the general fund budget for fiscal year 2013. The total 2012-2013 combined budget appropriation totals \$574,900 for its operating fund. This is approximately \$120,400 or 26.5% increase from the adopted 2011-2012 budget.

In the general fund, sales tax revenue increased 17.4% from the prior year. Expenditures increased \$101,168 or 25.5% from the prior year, and expenditures are budgeted to increase \$36,600 or 7.4% in 2012-2013.

In the enterprise fund (water department), the 2012-2013 revenue and expenditures are budgeted for \$249,600, an increase of \$65,700 or 35.7% over the 2011-2012 actual revenue, and a decrease for expenditures of \$44,730 or 15.2% decrease under the 2011-2012 actual expenditures.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the City of Cresson, at P. O. Box 619, Cresson, Texas 76035, or call (817) 396-4729.

WILLSHER & ASSOCIATES, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the City Council
Cresson, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of City of Cresson, Texas, as of and for the year ended September 30, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Cresson, Texas, as of September 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 - 9 and 31, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cresson, Texas' basic financial statements.

The introductory section 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2013, on our consideration of the City of Cresson, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Cresson, Texas' internal control over financial reporting and compliance.



Granbury, Texas
May 17, 2013

CITY OF CRESSON
STATEMENT OF NET POSITION
SEPTEMBER 30, 2012

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 668,573	\$ 5,420	\$ 673,993
Receivables, net of allowance	3,890	4,719	8,609
Total current assets	<u>672,463</u>	<u>10,139</u>	<u>682,602</u>
Restricted Assets:			
Cash for tourism	61,886	-	61,886
Total restricted assets	<u>61,886</u>	<u>-</u>	<u>61,886</u>
Capital assets:			
Land	-	25,878	25,878
Depreciable, net	393,388	533,552	926,940
	<u>393,388</u>	<u>559,430</u>	<u>952,818</u>
Total assets	<u>1,127,737</u>	<u>569,569</u>	<u>1,697,306</u>
LIABILITIES			
Current liabilities:			
Accounts payable	1,000	-	1,000
Sales taxes payable	-	1,479	1,479
Total current liabilities	<u>1,000</u>	<u>1,479</u>	<u>2,479</u>
NET ASSETS			
Invested in capital assets, net of related debt	393,388	559,430	952,818
Restricted for tourism	61,886	-	61,886
Unrestricted net assets	671,463	8,660	680,123
Total net assets	<u>\$ 1,126,737</u>	<u>\$ 568,090</u>	<u>\$ 1,694,827</u>

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

CITY OF CRESSON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Expenses</u>	<u>Program revenues</u>
		Charges for Services
Primary Government:		
Governmental Activities		
General government	\$ (433,304)	\$ 49,490
Streets	(64,428)	-
Total governmental	<u>(497,732)</u>	<u>49,490</u>
Business-type activities:		
Water Department	(294,129)	183,932
Total business-type	<u>(294,129)</u>	<u>183,932</u>
Total Activity	<u>\$ (791,861)</u>	<u>\$ 233,422</u>

General revenues

- Sales taxes
- Franchise taxes
- Hotel/motel tax
- Miscellaneous revenue
- Investment earnings

Total general revenues

- Federal revenue
- Transfers

Total general revenues and other sources

Change in net assets

Net assets - beginning

Net assets - ending

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

Net (Expense) Revenue and
Changes in Net Assets

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (383,814)	\$ -	\$ (383,814)
(64,428)	-	(64,428)
(448,242)	-	(448,242)
	(110,197)	(110,197)
-	(110,197)	(110,197)
(448,242)	(110,197)	(558,438)
435,352	-	435,352
67,853	-	67,853
16,231	-	16,231
13,252	-	13,252
1,516	-	1,516
534,204	-	534,204
341,000	-	341,000
(248,568)	248,568	-
626,636	248,568	875,204
178,394	138,371	316,765
948,343	429,719	1,378,062
\$ 1,126,737	\$ 568,090	\$ 1,694,827

CITY OF CRESSON
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	General Fund	Total Governmental Funds
<hr/>		
ASSETS		
Cash and cash equivalents	\$ 668,573	\$ 668,573
Receivables	3,890	3,890
Cash restricted for tourism	<u>61,886</u>	<u>61,886</u>
Total assets	<u><u>\$ 734,349</u></u>	<u><u>\$ 734,349</u></u>
LIABILITIES		
Accounts payable	<u>\$ 1,000</u>	<u>\$ 1,000</u>
Total liabilities	<u>1,000</u>	<u>1,000</u>
FUND BALANCES		
Restricted for tourism	61,886	61,886
Unassigned	643,213	643,213
Assigned	<u>28,250</u>	<u>28,250</u>
Total fund balances	<u><u>733,349</u></u>	<u><u>733,349</u></u>
Total liabilities and fund balances	<u><u>\$ 734,349</u></u>	<u><u>\$ 734,349</u></u>

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

CITY OF CRESSON
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

Total Fund Balances – Governmental Funds	\$ 733,349
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$678,807 and the accumulated depreciation was \$247,989. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net assets.	430,818
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year’s depreciation is to decrease net assets.	(37,430)
Net Assets of Governmental Activities	<u><u>\$ 1,126,737</u></u>

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

CITY OF CRESSON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues:			
Franchise taxes	\$ 67,853	\$ -	\$ 67,853
Sales taxes	435,352	-	435,352
Hotel/motel taxes - restricted	16,231	-	16,231
Licenses and permits	49,490	-	49,490
Investment earnings	1,516	-	1,516
Federal revenue	-	341,000	341,000
Other sources:			
Insurance proceeds	3,882	-	3,882
Contributions	5,621	-	5,621
Miscellaneous income	3,749	-	3,749
Total revenues	<u>583,694</u>	<u>341,000</u>	<u>924,694</u>
Expenditures:			
General government	395,870	-	395,870
Streets and highways	64,428	-	64,428
Total expenditures	<u>460,298</u>	<u>-</u>	<u>460,298</u>
Excess of Revenues Over Expenditures	123,396	341,000	464,396
Other Financing Sources (Uses):			
Transfers out (use)	92,432	(341,000)	(248,568)
Total other financing sources (uses)	<u>92,432</u>	<u>(341,000)</u>	<u>(248,568)</u>
Net Change in Fund Balances	215,828	-	215,828
Fund balance - beginning of year	<u>517,521</u>	<u>-</u>	<u>517,521</u>
Fund balance - end of year	<u>\$ 733,349</u>	<u>\$ -</u>	<u>\$ 733,349</u>

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

CITY OF CRESSON
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF
ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Total Net Change in Fund Balances – Governmental Funds	\$ 215,828
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year’s depreciation is to decrease net assets.	(37,430)
Rounding decrease	(4)
Change in Net Assets of Governmental Activities	<u>\$ 178,394</u>

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

CITY OF CRESSON
STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2012

	Business-type Activities
	Water and Sewer Revenue Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 5,420
Accounts receivable, net of uncollectible allowance	4,719
Total current assets	10,139
Noncurrent assets:	
Capital assets:	
Land and improvements	25,878
Machinery and equipment, net	533,552
Total noncurrent assets	559,430
Total assets	569,569
 LIABILITIES	
Current liabilities:	
Sales tax payable	1,479
Total liabilities	1,479
 NET ASSETS	
Invested in capital assets, net of related debt	559,430
Unrestricted net assets	8,660
Total net assets	\$ 568,090

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

CITY OF CRESSON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Business-type Activities
	Water and Sewer Revenue Fund
OPERATING REVENUES	
Charges for water services	\$ 92,334
Charges for sanitation services	91,576
Other revenue	22
Total operating revenues	183,932
OPERATING EXPENSES:	
Purchased professional and technical services	44,430
Purchased property services	75,944
Other operating services	56,157
Supplies and other purchases	40,820
Depreciation	76,778
Total operating expenses	294,129
Income (loss) before transfers	(110,197)
Non-operating transfers in	248,568
Change in net assets	138,371
Total net assets - beginning	429,719
Total net assets - ending	\$ 568,090

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

CITY OF CRESSON
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2012

	Business Type Activities
	Water and Sewer Revenue Fund
Cash flows from operating activities:	
Cash received from customers	\$ 187,718
Cash payments to suppliers for goods and services	(218,521)
Net cash provided (used) by operating activities	(30,804)
Cash flows from capital and related financing activities:	
Capital assets purchased or constructed	(368,209)
Cash transferred from governmental funds	341,000
Cash match transferred from governmental funds	58,927
Net cash provided (used) by capital and related financing activities	31,718
Net increase (decrease) in cash	914
Cash - beginning of year	4,506
Cash - end of year	\$ 5,420
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ (110,197)
Adjustments to reconcile operating income to net cash provided by operations:	
Depreciation	76,778
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	3,947
Increase (decrease) in accounts payable	(1,332)
Net cash provided (used) by operating activities	\$ (30,804)

See accompanying notes to the basic financial statements.

CITY OF CRESSON, TEXAS
Notes to Basic Financial Statements
For the year ended September 30, 2012

Note 1 - Summary of Significant Accounting Policies

Introduction

The financial statements of the City of Cresson, Texas (City) are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City of Cresson, Texas.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2012.

Financial Reporting Entity

The City is a municipal corporation operating under the applicable laws and regulations of the State of Texas. It has a Mayor – Council form of government with the mayor and five council members elected by registered voters of the City. The mayor and council have the authority to make decisions, appoint administrators and managers and significantly influence operations. They also have the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Council ("GASB") in its Statement No. 14, "The Financial Reporting Entity." The accompanying financial statements include the accounts of all City operations. There are no component units included within the reporting entity.

Basis of Presentation - Government - Wide Statements

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, is removed from these statements. Governmental activities, which normally are supported by taxes and governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements and financial statement of city component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax

CITY OF CRESSON, TEXAS
Notes to Basic Financial Statements
For the year ended September 30, 2012

Note 1 - Summary of Significant Accounting Policies (continued)

revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met. The City of Cresson assessed no property taxes and received State grant monies in the amount of \$431,000 during the year ended September 30, 2012.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, hotel/motel taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements include revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Governmental Funds

Fund Financial Statements

Fund financial statements are provided for governmental and proprietary funds.

Major Governmental Fund

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Other Governmental Fund

Special Revenue Fund

Special revenue funds are used in governmental reporting to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. There is no special revenue fund presented.

Capital Project Fund

Capital project funds are used in governmental reporting to account for financial resources to be used for the acquisition or construction of major capital facilities. There is a capital project fund presented.

CITY OF CRESSON, TEXAS
Notes to Basic Financial Statements
For the year ended September 30, 2012

Note 1 - Summary of Significant Accounting Policies (continued)

Proprietary Funds

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow.

All assets and liabilities are included on the Statement of Net Position.

The City has presented its only proprietary fund - the Water Department Fund.

Budgets, Budgetary Accounting and Control

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

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

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

Cash and Cash Equivalents

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

Cash and cash equivalents for the proprietary fund in the amount of \$5,420 is unrestricted.

Capital Assets and Depreciation

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Proprietary capital assets are also reported in the fund financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with cost of one thousand or more and with a useful life of two years or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and infrastructure	20
Improvements, other than buildings	10-50
Machinery, and equipment	7-20

CITY OF CRESSON, TEXAS
Notes to Basic Financial Statements
For the year ended September 30, 2012

Note 1 - Summary of Significant Accounting Policies (continued)

Estimates

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

Note 2 - Deposits

Deposits are stated at cost.

At year-end, the carrying amount of the City's deposits, presented as cash equivalents (checking accounts) are unrestricted funds of \$668,573, and the bank balance totals \$741,696. The bank balance was fully covered by federal depository insurance and pledged securities.

The City's deposits are categorized to give an indication of level of risk assumed by the City at year-end. Category 1 includes those that are insured or registered or for which the City or its agent in the City's name holds the securities. Category 2 includes both uninsured and unregistered for which the counterparts trust department or agent in the City's name holds the securities. Category 3 includes both uninsured and unregistered for which the securities are held by the counterparts trust department or agent, but not in the City's name. All deposits are considered to be Category 1.

CITY OF CRESSON, TEXAS
Notes to Basic Financial Statements
For the year ended September 30, 2012

Note 3 - Changes In Capital Assets

	Capital Assets Depreciated				Capital Assets Not Depreciated		
	Equipment, Furniture & Software	Infrastructure	Vehicles	Water System	Land	Construction In Progress	Totals
Governmental Activities							
Balance, September 30, 2011	\$ 11,479	\$ 652,129	\$ 15,200	\$ -	\$ -	\$ -	\$ 678,808
Increases	-	-	-	-	-	-	-
Decreases	-	-	-	-	-	-	-
Balance, September 30, 2012	<u>11,479</u>	<u>652,129</u>	<u>15,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>678,808</u>
Accumulated Depreciation:							
Balance, September 30, 2011	7,448	239,781	760	-	-	-	247,989
Increases	2,516	31,874	3,041	-	-	-	37,431
Decreases	-	-	-	-	-	-	-
Balance, September 30, 2012	<u>9,964</u>	<u>271,655</u>	<u>3,801</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>285,420</u>
Capital assets, net	<u>\$ 1,515</u>	<u>\$ 380,474</u>	<u>\$ 11,399</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 393,388</u>
Business-Type Activities							
Balance, September 30, 2011	\$ 41,983	\$ -	\$ -	\$ 391,580	\$ 25,878	\$ -	\$ 459,441
Increases	37,000	-	-	331,209	-	-	368,209
Decreases	-	-	-	-	-	-	-
Balance, September 30, 2012	<u>78,983</u>	<u>-</u>	<u>-</u>	<u>722,789</u>	<u>25,878</u>	<u>-</u>	<u>827,650</u>
Accumulated Depreciation:							
Balance, September 30, 2011	5,595	-	-	185,847	-	-	191,442
Increases	2,410	-	-	74,368	-	-	76,778
Decreases	-	-	-	-	-	-	-
Balance, September 30, 2012	<u>8,005</u>	<u>-</u>	<u>-</u>	<u>260,215</u>	<u>-</u>	<u>-</u>	<u>268,220</u>
Capital assets, net	<u>\$ 70,978</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 462,574</u>	<u>\$ 25,878</u>	<u>\$ -</u>	<u>\$ 559,430</u>
Primary Government							
Capital assets, net	<u>\$ 72,493</u>	<u>\$ 380,474</u>	<u>\$ 11,399</u>	<u>\$ 462,574</u>	<u>\$ 25,878</u>	<u>\$ -</u>	<u>\$ 952,818</u>

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

Governmental activities:

General government and administration	\$ 5,557
Roads and streets	<u>31,873</u>
Total depreciation expense-Governmental activities	<u>\$ 37,430</u>

Business-type activities:

Water	\$ 76,778
Total depreciation expense-Business-type activities	<u>\$ 76,778</u>

CITY OF CRESSON, TEXAS
Notes to Basic Financial Statements
For the year ended September 30, 2012

Note 4 - Interfund and Transfers

The following is a summary of interfund transfers at September 30, 2012:

Transfers:		
To (from) General Fund	To (from) Capital Project Fund	To (from) Water Department
\$ 92,432	\$ (341,000)	\$ 341,000
		(92,432)
Total Governmental Funds: \$(248,568)		<u>\$ 248,568</u>

The purpose of the transfers was:

The Water Department to the General Fund for reimbursement of operating costs. The Capital Project Fund to the Water Department for the completion of the water system project.

Note 5 – Insurance in Force

An umbrella policy is issued by TML-Municipal Liability Joint Self Insurance fund. The policy renewed October 1, 2012.

<u>Coverage</u>	<u>Limit per Occurrence</u>	<u>Deductible</u>
General Liability	\$5,000,000	None
Errors & Omissions Liability	\$1,000,000	\$1,000

The cost for insurance coverage for the year ended September 30, 2012 is \$3,769.

Note 6 – Subsequent Events

Proposed Rate Change

The City of Cresson has the responsibility to make an initial determination of the appropriateness of any proposed rate change applied for by a retail water utility service provider serving residences or businesses within the corporate limits of the City. A Proposal for Decision was submitted to the City after an evidentiary hearing was held on November 2, 2011. The City conducted additional hearings and approved a final rate that the retail water utility service provider could impose. However, the utility service provider did not approve the proposed rate and, after appealing to the TCEQ, the TCEQ now has appellate review of the City's decisions on the utility service provider's rate applications. The matter has not been resolved as of the date of issuance of this report.

Purchase of Real Estate and Debt Incurred

On December 19, 2012 the City purchased land and building at Lot 2, City Hall Addition, an addition to the City of Cresson, Hood County, Texas, according to the plat thereof recorded in Slide P-423, Plat Records, Hood County, Texas. The City will use the property as its city hall. To purchase the property, a loan in the amount of \$575,000 was secured from a local bank with annual interest rate of 4.75% and monthly payments of \$3,023 until maturity of the note on December 19, 2042. The land and building is collateral to secure the loan. Improvements to create a meeting hall have been ongoing since the purchase.

The City has evaluated all other events and transactions occurring subsequent to September 30, 2012 as

CITY OF CRESSON, TEXAS
Notes to Basic Financial Statements
For the year ended September 30, 2012

Note 6 – Subsequent Events (continued)

of May 17, 2013 which is the date the financial statements were issued. No other material events have occurred since December 31, 2012 that require recognition or disclosure in the financial statements.

Note 7 – Operating Leases

The City is leasing a copier/printer under an operating lease described as follows at September 30, 2012. Expenses incurred in the fiscal year are \$2,852. Other information follows:

<u>Date signed</u>	<u>Type of Equipment</u>	<u>Lease Term</u>	<u>Payment Periods</u>	<u>Amount Per Period</u>	<u>Months Remaining In Lease Period</u>	<u>Total Future Required Rental Cos</u>
9/3/2010	Printer/copier	60 months	Monthly	212	33	6,989

Note 8 – Grant

A grant in the amount of \$350,000 was awarded to the City by the Texas Department of Rural Affairs in December, 2010 for the purposes of constructing improvements to the water system and paying engineering fees as follows:

Water Improvements – Construction	\$323,600
Water Improvements – Engineering	<u>26,400</u>
	\$350,000
First draw in the prior fiscal year	(9,000)
The water system was completed in June, 2012, and the \$341,000 balance of the grant at the prior year end was fully disbursed.	<u>(341,000)</u>
Balance of grant at 9/30/12	<u>\$ 0</u>

Note 9 – Fund Balance

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

Nonspendable: There is no nonspendable fund balance.

Restricted: \$61,886 is restricted by Texas state code to be used for the growth of tourism. The income is

CITY OF CRESSON, TEXAS
Notes to Basic Financial Statements
For the year ended September 30, 2012

Note 9 – Fund Balance (continued)

generated from hotel/motel taxes which amounted to \$16,853 at September 30, 2012.

Committed: There is no committed fund balance.

Assigned: \$28,250 is assigned by the City Council for the purpose of matching grant funds.

Unassigned: \$643,213 is not classified as nonspendable, restricted, committed or assigned.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CRESSON
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GOVERNMENTAL FUND
YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual	Variance
	Original	Final	GAAP Basis	Positive (Negative)
Revenues:				
Franchise taxes	54,900	61,700	67,853	6,153
Sales taxes	375,000	325,000	435,352	110,352
Hotel/motel taxes - restricted	2,000	20,500	16,231	(4,269)
Licenses and permits	22,500	30,000	49,490	19,490
Investment earnings	1,300	1,600	1,516	(84)
Federal revenue	-	-	341,000	341,000
Other sources	119,200	202,500	13,252	(189,248)
Total Revenues	<u>574,900</u>	<u>641,300</u>	<u>924,694</u>	<u>283,394</u>
Expenditures:				
General government	561,390	609,346	433,304	176,042
Other governmental expenses	-	-	64,428	64,428
Contingency expenses	40,710	35,354	-	35,354
Total Expenditures	<u>602,100</u>	<u>644,700</u>	<u>497,732</u>	<u>275,824</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(27,200)</u>	<u>(3,400)</u>	<u>426,962</u>	<u>7,570</u>
Other financing sources (uses)				
Transfers out	-	-	-	-
Transfers (use)	-	-	(248,568)	(248,568)
Total other financing	-	-	(248,568)	(248,568)
Fund balance - beginning of year	<u>948,343</u>	<u>948,343</u>	<u>948,343</u>	<u>-</u>
Fund balance - end of year	<u>\$ 921,143</u>	<u>\$ 944,943</u>	<u>\$1,126,737</u>	<u>\$ (240,998)</u>

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

CITY OF CRESSON
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
SEPTEMBER 30, 2013

Table of Contents

Page

Cover Sheet	1
Table of Contents	2
Management's Discussion and Analysis	3 - 9
Independent Auditors' Report	10 - 11
Financial Statements	12 - 21
Notes to Basic Financial Statements	22 - 30
Budget Comparison	31
Report on Internal Control and Compliance	32 - 33

CITY OF CRESSON, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2013
(Unaudited)

Our discussion and analysis of the City of Cresson's ("the City's") financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended September 30, 2013. Please read it in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The net position of the primary government totaled \$1,648,497 at September 30, 2013. Of this amount, \$593,162 is unrestricted and may be used to meet future obligations: \$584,950 in the general fund and \$8,212 in the water fund.
- The government-wide net position decreased (\$54,092) during the current fiscal year. Net position of general fund increased by \$57,014 from \$178,394 in the previous year. Net position of the water fund activities decreased (\$111,106) from previous year's increase of \$138,371.
- As of the close of the current fiscal year, the City of Cresson's governmental fund reported an ending fund balance of \$670,312.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$384,950 or approximately 35% of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the

CITY OF CRESSON, TEXAS
Management's Discussion and Analysis (**Continued**)
For the Year Ended September 30, 2013 (Unaudited)

financial position of the City is improving or deteriorating. The Statement of Net Assets combines and consolidates governmental funds with capital assets and long-term obligations. Other non-financial factors should also be taken into consideration, such as changes in the condition of the City's infrastructure (i.e. roads, drainage improvements, storm and sewer lines, etc.), to assess the overall health or financial conditions of the City.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected sales taxes). Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by sales taxes, franchise fees and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration and highways and streets. The business-type activity of the City consists of water, sewer and sanitation operations.

Reporting the City's Most Significant Funds

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

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

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for

CITY OF CRESSON, TEXAS
Management's Discussion and Analysis (**Continued**)
For the Year Ended September 30, 2013 (Unaudited)

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

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

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer, and Sanitation Departments, which is considered to be a major fund of the City.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 - 29 of this report.

THE CITY AS A WHOLE – Government-Wide Financial Analysis

As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the City of Cresson, assets exceeded liabilities by \$1,648,497 as of September 30, 2013.

The largest portion of the City's net assets (59%) reflects its investments in capital assets (e.g., equipment and infrastructure). The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending.

CITY OF CRESSON, TEXAS
Management's Discussion and Analysis (**Continued**)
For the Year Ended September 30, 2013 (Unaudited)

Table I
Summary of Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 676,152	\$ 734,349	\$ 16,243	\$ 10,139	\$ 692,395	\$ 744,488
Capital assets	1,090,184	393,718	448,772	559,100	1,538,956	952,818
Total assets	1,766,336	1,128,067	465,015	569,239	2,231,351	1,697,306
Liabilities	574,823	1,000	8,031	1,479	582,854	2,479
Total liabilities	574,823	1,000	8,031	1,479	582,854	2,479
Net Assets:						
Invested in capital assets	521,201	393,718	448,772	559,100	969,973	952,818
Restricted	85,362	61,886	-	-	85,362	61,886
Unrestricted	584,950	671,463	8,212	8,660	593,162	680,453
Total net assets	\$ 1,191,513	\$ 1,127,067	\$ 456,984	\$ 568,090	\$ 1,648,497	\$ 1,695,157

As of September 30, 2013, the City is able to report positive balances in three categories of net assets: for the government as a whole \$1,648,497 and separately for the General fund \$1,191,513 and Enterprise fund \$456,984.

Governmental and business-type activities decreased the City's net assets by \$54,092. The key elements of this increase are as follows:

CITY OF CRESSON, TEXAS
Management's Discussion and Analysis (Continued)
For the Year Ended September 30, 2013 (Unaudited)

Table II
Statement of Activities, Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 37,730	\$ 49,490	\$ 199,596	183,932	\$ 237,326	\$ 233,422
Capital grants	-	341,000	-	-	-	341,000
General revenues:						
Sales taxes	346,154	435,352	-	-	346,154	435,352
Franchise fees	51,072	67,853	-	-	51,072	67,853
Hotel/motel taxes	23,514	16,231	-	-	23,514	16,231
Investment earnings	1,698	1,516	-	-	1,698	1,516
Miscellaneous inc	4,559	13,252	-	-	4,559	13,252
Transfers (out) in	(2,779)	(248,568)	2,779	248,568	-	-
Total revenues	<u>461,947</u>	<u>676,126</u>	<u>202,375</u>	<u>432,500</u>	<u>664,323</u>	<u>1,108,626</u>
Expenses:						
General government	297,799	433,304	-	-	297,799	433,304
Judicial	-	-	-	-	-	-
Streets	107,134	64,428	-	-	107,134	64,428
Water and sanitation	-	-	313,481	294,129	313,481	294,129
Total expenses	<u>404,933</u>	<u>497,732</u>	<u>313,481</u>	<u>294,129</u>	<u>718,414</u>	<u>791,861</u>
Increase (decrease) in net assets	57,014	178,394	(111,106)	138,371	(54,092)	316,765
Net assets - beginning	1,127,067	948,343	568,090	429,719	1,695,157	1,378,392
Prior period adjustment	7,432	-	-	-	7,432	-
Net assets - ending	<u>\$ 1,191,513</u>	<u>\$ 1,126,737</u>	<u>\$ 456,984</u>	<u>568,090</u>	<u>\$ 1,648,497</u>	<u>\$ 1,695,157</u>

For fiscal year 2013, revenue from governmental activities totaled \$461,947. Sales tax is the largest component of revenue (75%). Charges for services account for 8%.

For fiscal year 2013, expenses for governmental activities totaled \$404,933. The City's largest funded program is for streets.

CITY OF CRESSON, TEXAS
 Management's Discussion and Analysis (Continued)
 For the Year Ended September 30, 2013 (Unaudited)

Business-type Activities

While water revenues and expenditures both increased over the prior year, most of the current year net loss in the water department is non-cash depreciation expense.

In the prior years the general fund supplemented the water fund over \$200,000 by means of transfers. For the current year water department expenses were paid out of the General Fund and amounted to around \$54,000 for the Thrash lease and for engineering fees related to the generator project and the sewer extension project.

Capital Assets

At the end of the fiscal year 2013, the City had \$1,538,956 invested in a broad range of capital assets including the water system, infrastructure, buildings and land as shown below:

Table III
 Capital Assets at Year-End
 (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Land	\$ 435,156	\$ -	\$ 25,878	\$ 25,878	\$ 461,034	\$ 25,878
Buildings	280,863	-	-	-	280,863	-
Vehicles	8,359	11,399	-	-	8,359	11,399
Infrastructure	348,930	380,804	-	-	348,930	380,804
Equipment, furniture, software	16,876	1,515	28,980	33,947	45,856	35,462
Water system	-	-	393,914	499,275	393,914	499,275
	<u>\$ 1,090,184</u>	<u>\$ 393,718</u>	<u>\$ 448,772</u>	<u>\$ 559,100</u>	<u>\$ 1,538,956</u>	<u>\$ 952,818</u>

The capital asset additions during the current fiscal year (net of depreciation) were the city hall buildings, remodel and land for a net value of \$716,019 and net equipment of \$15,361. The additions for 2013 were funded by a loan in the amount of \$575,000 and by operating funds.

Additional information on the City's capital assets can be found in Note 3, page 26 of this report.

CITY OF CRESSON, TEXAS
Management's Discussion and Analysis **(Continued)**
For the Year Ended September 30, 2013 (Unaudited)

ECONOMIC FACTORS

The City's elected and appointed officials considered many factors when setting the fiscal year 2014 budget, rates and fees that will be charged for the business-type activities. One of those factors is the economy. The population growth experienced by the City has stimulated local business and development activity, and the community has placed additional demands on the City to maintain or enhance services provided to the City's citizens. The reasonable costs of living and homes priced below the national average continue to make the City an attractive area for new business locations and relocations. The City continues to attract new and existing companies due to the strategy of working diligently with corporations on relocation incentives.

These indicators are taken into account when adopting the general fund budget for fiscal year 2014. The 2013-2014 revenues are budgeted at \$665,500 a slight decrease from fiscal year 2013.

The City is involved with several long-term projects that will expand the infrastructure and alleviate certain fixed expenses. There are plans to obtain grant financing in the future, along with agreements with developers who share in the cost of these projects. Other projects, such as the generator project will be paid for a little at a time as the City has available funds.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the City of Cresson, at P. O. Box 619, Cresson, Texas 76035, or call (817) 396-4729.

WILLSHER & ASSOCIATES, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

**Auditor's Unmodified Opinion on Financial Statements Accompanied by Required Supplementary
Information – State of Local Government Entity**

Independent Auditors' Report

Mayor and City Council
City of Cresson
Cresson, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the business-type activities of the City of Cresson, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and the Guide require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 evaluation the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluation 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 opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and business-type activities of the City of Cresson, Texas, as of September 30, 2013, and the respective changes in financial position and cash flows of its proprietary fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Budgetary Comparison beginning on pages 3 and 31, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2014 on our consideration of the City of Cresson's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the City of Cresson's internal control over financial reporting and compliance.



Willsher & Associates, PLLC
Certified Public Accountants
Granbury, Texas

May 20, 2014

CITY OF CRESSON
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 570,882	\$ 7,703	\$ 578,585
Receivables, net of allowance	19,908	8,540	28,448
Total current assets	<u>590,790</u>	<u>16,243</u>	<u>607,033</u>
Restricted Assets:			
Cash for tourism (Note 9)	85,362	-	85,362
Total restricted assets	<u>85,362</u>	<u>-</u>	<u>85,362</u>
Capital assets:			
Land	435,156	25,878	461,034
Depreciable, net of depreciation (Note 3)	655,028	422,894	1,077,922
	<u>1,090,184</u>	<u>448,772</u>	<u>1,538,956</u>
Total assets	<u>1,766,336</u>	<u>465,015</u>	<u>2,231,351</u>
LIABILITIES			
Current liabilities:			
Accrued liabilities	5,840	5,531	11,371
Customer deposits (Note 13)	-	2,500	2,500
Current portion of long term debt	9,492	-	9,492
Total current liabilities	<u>15,332</u>	<u>8,031</u>	<u>23,363</u>
Long term liabilities:			
Note payable, land and building (Note 8)	559,491	-	559,491
Total long term liabilities	<u>559,491</u>	<u>-</u>	<u>559,491</u>
Total liabilities	<u>574,823</u>	<u>8,031</u>	<u>582,854</u>
NET POSITION			
Invested in capital assets, net of related debt	521,201	448,772	969,973
Restricted for tourism (Note 9)	85,362	-	85,362
Unrestricted	584,950	8,212	593,162
Total net position	<u>\$ 1,191,513</u>	<u>\$ 456,984</u>	<u>\$ 1,648,497</u>

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

CITY OF CRESSON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Net (Expense) Revenue and
Changes in Net Position

	Expenses	Program revenues	Primary Government		Total
		Charges for Services	Governmental Activities	Business-type Activities	
Primary Government:					
Governmental Activities					
General government	\$ (222,425)	\$ 37,730	\$ (184,696)	-	(184,696)
Debt service	(21,189)	-	(21,189)	-	(21,189)
Water and sanitation (paid by general fund - Note 14)	(54,185)	-	(54,185)	-	(54,185)
Streets	(107,134)	-	(107,134)	-	(107,134)
Total governmental	<u>(404,933)</u>	<u>37,730</u>	<u>(367,204)</u>	<u>-</u>	<u>(367,204)</u>
Business-type activities:					
Water Department	(313,481)	199,596	-	(113,885)	(113,885)
Total business-type	<u>(313,481)</u>	<u>199,596</u>	<u>-</u>	<u>(113,885)</u>	<u>(113,885)</u>
Total Activity	<u>\$ (718,414)</u>	<u>\$ 237,325</u>	<u>\$ (367,204)</u>	<u>\$ (113,885)</u>	<u>\$ (481,089)</u>
General revenues					
Sales taxes			346,154	-	346,154
Franchise taxes			51,072	-	51,072
Hotel/motel tax			23,514	-	23,514
Miscellaneous revenue			4,559	-	4,559
Investment earnings			1,698	-	1,698
Total general revenues			<u>426,997</u>	<u>-</u>	<u>426,997</u>
Transfers			(2,779)	2,779	-
			<u>424,218</u>	<u>2,779</u>	<u>426,997</u>
Total general revenues and other sources					
Change in net position			57,015	(111,106)	(54,092)
Net position - beginning			1,127,067	568,090	1,695,157
Prior period adjustment (Note 15)			7,432	-	7,432
Net position - ending			<u>\$ 1,191,514</u>	<u>\$ 456,984</u>	<u>\$ 1,648,497</u>

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

CITY OF CRESSON
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 570,882	\$ 570,882
Receivables (Note 16)	19,908	19,908
Cash restricted for tourism	<u>85,362</u>	<u>85,362</u>
Total assets	<u><u>\$ 676,152</u></u>	<u><u>\$ 676,152</u></u>
 LIABILITIES		
Accrued liabilities	<u>\$ 5,840</u>	<u>\$ 5,840</u>
Total liabilities	<u>5,840</u>	<u>5,840</u>
 FUND BALANCES		
Restricted for tourism	85,362	85,362
Assigned (Note 9)	200,000	200,000
Unassigned	384,950	384,950
Total fund balances	<u>670,312</u>	<u>670,312</u>
Total liabilities and fund balances	<u><u>\$ 676,152</u></u>	<u><u>\$ 676,152</u></u>

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

CITY OF CRESSON
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2013

Total Fund Balances - Governmental Funds	\$	670,312
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$679,138 and the accumulated depreciation was \$285,420. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net position.		393,718
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the 2013 capital outlays is to increase net position.		735,041
The 2013 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(38,575)
The City borrowed \$575,000 during the year and paid principal in the amount of \$6,017 during the year. The net effect of reclassifying other sources of revenue to long term debt is to decrease net position.		(568,983)
Net Position of Governmental Activities	\$	<u>1,191,513</u>

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

CITY OF CRESSON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	General Fund	Total Governmental Funds
Revenues:		
Sales taxes - unrestricted	\$ 283,618	
Sales taxes - restricted for streets (Note 17)	<u>62,536</u>	\$ 346,154
Franchise taxes	51,072	51,072
Hotel/motel taxes - restricted (Note 9)	23,514	23,514
Licenses and permits	37,730	37,730
Investment earnings	1,698	1,698
Miscellaneous income	<u>4,559</u>	<u>4,559</u>
Total revenues	<u>464,726</u>	<u>464,727</u>
Expenditures:		
General government	215,724	215,724
Water and sanitation (paid by general fund - Note 14)	54,185	54,185
Streets and highways	75,260	75,260
Capital outlay (Note 3)	735,041	735,041
Debt service principal	6,017	
Debt service interest	<u>21,189</u>	<u>27,206</u>
Total expenditures	<u>1,107,416</u>	<u>1,107,416</u>
Excess (deficiency) of revenues over (under) expenditures	(642,690)	(642,690)
Other Financing Sources (Uses):		
Proceeds of borrowings (Note 8)	575,000	575,000
Transfer out to water fund	<u>(2,779)</u>	<u>(2,779)</u>
Total other financing sources (uses)	572,221	572,221
Net change in fund balance	(70,469)	(70,469)
Fund balance - beginning of year	733,349	733,349
Prior period adjustment (Note 15)	7,432	7,432
Fund balance - end of year	<u>\$ 670,312</u>	<u>\$ 670,312</u>

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

CITY OF CRESSON
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

Total Net Change in Fund Balances - Governmental Funds	\$	(70,469)
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2013 capital outlays is to increase net position.		735,041
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(38,575)
Proceeds of borrowings are shown as revenues in the fund financial statements, but in the government-wide statements they are shown as long-term debt. The net effect of removing the proceeds of borrowings is to decrease net position.		(575,000)
Debt service payments are shown as expenditures in the governmental funds but in the government-wide statements the amount is shown as a reduction of long-term debt. The net effect of removing the debt service principal expense is an increase in net position.		6,017
Change in Net Position of Governmental Activities	\$	<u>57,014</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF CRESSON
STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2013

	Business-type Activities
	Water and Sewer Revenue Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 7,703
Accounts receivable, net of uncollectible allowance	8,540
Total current assets	16,243
Noncurrent assets:	
Capital assets:	
Land and improvements	25,878
Machinery and equipment, net	422,894
Total noncurrent assets	448,772
Total assets	465,015
 LIABILITIES	
Current liabilities:	
Accrued liabilities	\$ 5,531
Customer deposits payable (Note 13)	2,500
Total liabilities	8,031
 NET POSITION	
Invested in capital assets, net of related debt	448,772
Unrestricted	8,212
Total net position	\$ 456,984

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

CITY OF CRESSON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business-type Activities
	Water and Sewer Revenue Fund
OPERATING REVENUES	
Charges for water services	\$ 101,392
Charges for sanitation services	98,179
Other revenue	25
Total operating revenues	199,596
OPERATING EXPENSES:	
Personnel services - salaries and wages	21,487
Purchased professional and technical services	99,072
Purchased property services	24,629
Other operating services	48,320
Supplies and other purchases	9,645
Depreciation	110,328
Total operating expenses	313,481
Income (loss) before transfers	(113,885)
Non-operating transfers in	2,779
Change in net position	(111,106)
Total net position - beginning	568,090
Total net position - ending	\$ 456,984

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

CITY OF CRESSON
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2013

	Business Type Activities
	Water and Sewer Revenue Fund
Cash flows from operating activities:	
Cash received from customers	\$ 196,105
Cash payments to suppliers for goods and services	(196,601)
Net cash provided (used) by operating activities	(496)
Cash flows from noncapital financing activities:	
Cash transferred from governmental funds	2,779
Net cash provided (used) by noncapital financing activities	2,779
Net increase (decrease) in cash	2,283
Cash - beginning of year	5,420
Cash - end of year	\$ 7,703
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ (113,885)
Adjustments to reconcile operating income to net cash provided by operations:	
Depreciation	110,328
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	(3,490)
Increase (decrease) in accounts payable	6,552
Net cash provided (used) by operating activities	\$ (496)

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

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2013

Note 1 - Summary of Significant Accounting Policies

Introduction

The financial statements of the City of Cresson, Texas (City) are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City of Cresson, Texas.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2013.

Financial Reporting Entity

The City is a Type A general law municipal corporation operating under the applicable laws and regulations of the State of Texas. It has a Mayor – Council form of government with the mayor and five council members elected by registered voters of the City for two-year terms. The mayor and council have the authority to make decisions, appoint administrators and managers and significantly influence operations. They also have the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Council ("GASB") in its Statement No. 14, "The Financial Reporting Entity." The accompanying financial statements include the accounts of all City operations. There are no component units included within the reporting entity.

Basis of Presentation - Government - Wide Statements

The government-wide financial statements (the statement of net position and the statement of changes in net assets) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, is removed from these statements. Governmental activities, which normally are supported by taxes and governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide statements report using the economic resources measurement focus and the accrual

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2013

basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements and financial statement of city component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax

revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met. The City of Cresson assessed no property taxes and received no State grant monies during the year ended September 30, 2013.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, hotel/motel taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements include revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Governmental Funds

Fund Financial Statements

Fund financial statements are provided for governmental and proprietary funds.

Major Governmental Fund

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Other Governmental Fund

Special Revenue Fund

Special revenue funds are used in governmental reporting to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. There is no special revenue fund presented.

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2013

Capital Project Fund

Capital project funds are used in governmental reporting to account for financial resources to be used for the acquisition or construction of major capital facilities. There is no capital project fund presented.

Proprietary Funds

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow.

All assets and liabilities are included on the Statement of Net Position.

The City has presented its only proprietary fund - the Water Department Fund.

Budgets, Budgetary Accounting and Control

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

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

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

Cash and Cash Equivalents

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

Cash and cash equivalents for the proprietary fund in the amount of \$7,703 is unrestricted.

Capital Assets and Depreciation

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Proprietary capital assets are also reported in the fund financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with cost of one thousand or more and with a useful life of two years or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2013

Estimated useful lives, in years, for depreciable assets are as follows:

Infrastructure	20
Buildings and improvements	10-50
Machinery, and equipment	7-20

Estimates

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

Note 2 - Deposits

Deposits are stated at cost.

At year-end, the carrying amount of the City's deposits, presented as cash equivalents (checking accounts) are unrestricted funds of \$578,585, and the bank balance totals \$666,754. The bank balance was fully covered by federal depository insurance and pledged securities.

The City's deposits are categorized to give an indication of level of risk assumed by the City at year-end. Category 1 includes those that are insured or registered or for which the City or its agent in the City's name holds the securities. Category 2 includes both uninsured and unregistered for which the counterparts trust department or agent in the City's name holds the securities. Category 3 includes both uninsured and unregistered for which the securities are held by the counterparts trust department or agent, but not in the City's name. All deposits are considered to be Category 1.

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2013

Note 3 - Changes In Capital Assets

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

	Capital Assets Depreciated					Capital Assets Not Depreciated	
	Equipment, Furniture & Software	Infrastructure	Vehicles	Building	Water System	Land	Totals
Governmental Activities							
Balance, September 30, 2012	\$11,479	\$652,459	\$15,200	\$ -	\$ -	\$ -	\$ 679,138
Increases	17,847	-	-	282,038	-	435,156	735,041
Decreases	-	-	-	-	-	-	-
Balance, September 30, 2013	<u>29,326</u>	<u>652,459</u>	<u>15,200</u>	<u>282,038</u>	<u>-</u>	<u>435,156</u>	<u>1,414,179</u>
Accumulated Depreciation:							
Balance, September 30, 2012	9,964	271,655	3,801	-	-	-	285,420
Increases	2,486	31,874	3,040	1,175	-	-	38,575
Decreases	-	-	-	-	-	-	-
Balance, September 30, 2013	<u>12,450</u>	<u>303,529</u>	<u>6,841</u>	<u>1,175</u>	<u>-</u>	<u>-</u>	<u>323,995</u>
Capital assets, net	<u>\$16,876</u>	<u>\$348,930</u>	<u>\$ 8,359</u>	<u>\$280,863</u>	<u>\$ -</u>	<u>\$ 435,156</u>	<u>\$ 1,090,184</u>
Business-Type Activities							
Balance, September 30, 2012	\$47,051	\$ -	\$ -	\$ -	\$ 754,391	\$ 25,878	\$ 827,320
Increases	-	-	-	-	-	-	-
Decreases	-	-	-	-	-	-	-
Balance, September 30, 2013	<u>47,051</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>754,391</u>	<u>25,878</u>	<u>827,320</u>
Accumulated Depreciation:							
Balance, September 30, 2012	13,104	-	-	-	255,116	-	268,220
Increases	4,967	-	-	-	105,361	-	110,328
Decreases	-	-	-	-	-	-	-
Balance, September 30, 2013	<u>18,071</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>360,477</u>	<u>-</u>	<u>378,548</u>
Capital assets, net	<u>\$28,980</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 393,914</u>	<u>\$ 25,878</u>	<u>\$ 448,772</u>
Primary Government							
Capital assets, net	<u>\$45,856</u>	<u>\$348,930</u>	<u>\$ 8,359</u>	<u>\$280,863</u>	<u>\$ 393,914</u>	<u>\$ 461,034</u>	<u>\$ 1,538,956</u>

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

Governmental activities:

General government and administration	\$ 6,701
Roads and streets	<u>31,874</u>
Total depreciation expense-Governmental activities	<u>\$38,575</u>

Business-type activities:

Water	<u>\$ 105,361</u>
Total depreciation expense-Business-type activities	<u>\$ 105,361</u>

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2013

Note 4 - Interfund Transfers

The following is a summary of Interfund transfers at September 30, 2013 for reimbursement of operating costs:

To (from) General Fund (2,779)	To (from) Water Department \$2,779
-----------------------------------	---------------------------------------

Note 5 - Insurance in Force

An umbrella policy is issued by TML-Municipal Liability Joint Self Insurance fund. The policy renewed October 1, 2013.

<u>Coverage</u>	<u>Limit per Occurrence</u> <u>Deductible</u>	
General Liability	\$5,000,000	None
Errors & Omissions Liability	\$1,000,000	\$1,000

The cost for insurance coverage for the year ended September 30, 2013 is \$3,769.

Note 6 - Thrash Lease Obligation

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

<u>Period ended</u>	<u>Amount</u>
July 30, 2014	\$17,760
July 30, 2015	17,760
July 30, 2016	17,760
July 30, 2017	19,980
July 30, 2018	19,980
July 30, 2019	19,980
July 30, 2020	<u>19,980</u>
Total	<u>\$133,200</u>

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

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

Note 7 - Operating Leases

The City is leasing a copier/printer under an operating lease with a term of 5 years, beginning September 2010. Monthly lease payments are \$212 and the annual expense is \$2,544.

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2013

Note 8 – Long Term Debt

On December 19, 2012 the City borrowed \$575,000 to purchase real property. The loan bears interest at 4.75 percent with monthly payments of \$3,023 beginning January 19, 2013, maturing December 19, 2042 and is secured by the real estate.

The note maturity is as follows:

Fiscal Year Ended	Principal	Interest	Total
2014	9,492	26,783	36,275
2015	9,953	26,322	36,275
2016	10,436	25,839	36,275
2017	10,942	25,333	36,275
2018	11,474	24,801	36,275
2019-2023	66,284	115,091	181,375
2024-2028	84,015	97,360	181,375
2029-2033	106,486	74,889	181,375
2034-2038	134,970	46,405	181,375
2039-2042	124,931	11,912	136,843
	<u>\$ 568,983</u>	<u>\$ 474,736</u>	<u>\$ 1,043,719</u>

During fiscal year 2013, the City paid \$6,017 principal and \$21,188 interest on the note.

Note 9 – Fund Balance

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

Nonspendable: There is no nonspendable fund balance.

Restricted: \$85,362 is restricted by Texas state code to be used for the growth of tourism. The income is generated from hotel/motel taxes which amounted to \$23,514 at September 30, 2013.

Committed: There is no committed fund balance.

Assigned: The City assigned \$200,000 intended for the Generator Project for fiscal year 2014.

Unassigned: \$384,950 is the balance that is not in any of the above categories.

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2013

Note 10 – Contracts in Progress

The City has the following contracts in progress as of September 30, 2013 which represent liabilities incurred in 2013 to be paid out of the 2014 operating budget:

US 377 Sanitary Sewer and Water Crossings – Cresson One Extension
Total Project Cost - not to exceed \$80,600 with 81% to be reimbursed by Developer
Net project cost to City (19%) - \$15,314
Remaining cost to City (19%) as of September 30, 2013 - \$4,088

377 Bypass Project Preliminary Engineering
Total Project Cost – not to exceed \$25,000 for Basic Services
Remaining cost to City as of September 30, 2013 - \$9,534

These two contracts were not capital projects, but rather professional engineering expenses. No asset was acquired with respect to these two contracts.

Note 11 – Contingent Liability for Sales Taxes

In August 2013 the City received an estimated fifty thousand sales tax revenues from the State Comptroller in excess of the average monthly amount. It is possible that the City will have to repay all or some of this within the next four years. No notification had been received as of the date of this report.

Note 12-Related Party Transactions

The City is a party to an agreement dated January 23, 2007 with Vail Management Company whereby the City is to reimburse Vail for its costs to construct a water system in 297.25 acres known as the Motorsport Ranch (MSR) development. The City is to remit 70 percent of net water revenue from MSR to Vail for a period of twenty years.

The amount remitted during the year September 30, 2013 was \$3,954. At the end of the twenty years the City's obligation under this agreement will be considered paid in full. The City has no other obligation other than to pay for operating expenses and repairs to the water system.

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

Note 13 – Customer Deposits Liability

The City began charging a refundable deposit to utility customers in recent years. The amount in Customer Deposits is for the current year only. Since prior year records were not available the amount is understated; however it is not likely to be material to the financial statements taken as a whole.

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2013

Note 14 – Water and Sanitation Expenses Paid by General Fund

Expenses paid by the general fund for water and wastewater expenses were as follows:

Thrash lease expense	\$17,760
Water/Wastewater generator project	25,198
Cresson One sewer extension (net)	<u>11,226</u>
Total	<u>\$54,185</u>

Note 15 – Prior Period Adjustment

The City had an erroneous bank reconciling item from a prior period. The effect of the correction was an increase to cash and to net assets in the amount of \$7,432.

Note 16 – General Fund Receivables

Receivables at 9/30/13 consist of the following amounts expected to be fully collectible:

Cresson One receivable from developer	\$12,441
Hotel Motel tax receivable	<u>7,467</u>
Total	<u>\$19,908</u>

Note 17 – Restricted Sales Taxes

Beginning October 2012, the City collected \$62,536 in sales taxes restricted for maintenance and repairs on existing streets. During the year the city spent \$75,260 for the restricted purpose. There is a zero balance remaining in this account.

Note 18 – Subsequent Events

On September 10, 2013 the Council approved \$100,000 for the Wastewater Generator project. On February 24th, 2014 the City awarded a contract for Phase One of the Wastewater Generator Project to Circle H Contractors in the amount of \$94,003. This project was to be funded out of the City's 2014 operating budget and is near completion as of May 20, 2014.

The entire project cost is expected to be over \$500,000 and will be implemented as the City has funds.

The City has evaluated all other events and transactions occurring subsequent to September 30, 2013 as of May 20, 2014 which is the date the financial statements were issued. No other material events have occurred since that date that requires recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CRESSON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual GAAP Basis	Variance Positive (Negative)
	Original	Final		
Revenues:				
Sales taxes	\$ 375,000	325,000	\$ 346,154	21,154
Franchise taxes	54,900	61,700	51,072	(10,628)
Hotel/motel taxes - restricted	20,000	16,000	23,514	7,514
Licenses and permits	23,800	32,600	37,730	5,130
Investment earnings	1,200	1,500	1,698	198
Miscellaneous income	-	4,500	4,559	59
Total revenues	<u>474,900</u>	<u>441,300</u>	<u>464,726</u>	<u>23,426</u>
Expenditures:				
General government	256,920	207,232	215,724	(8,492)
Water and sanitation (paid by general fund)	17,760	17,760	54,185	(36,425)
Streets and highways	146,000	121,000	75,260	45,740
Generator (from assigned fund balance)	100,000	100,000	-	100,000
Contingency	40,710	35,354	-	35,354
Capital outlay	-	100,000	735,041	(635,041)
Debt service	-	28,000	27,206	794
Total expenditures	<u>561,390</u>	<u>609,346</u>	<u>1,107,416</u>	<u>(498,070)</u>
Excess of revenues over expenditures	(86,490)	(168,046)	(642,690)	(474,644)
Other Financing Sources (Uses):				
Proceeds of borrowings	-	-	575,000	575,000
Assigned fund balance (for generator)	100,000	200,000	-	(200,000)
Transfer to water fund	-	-	(2,779)	(2,779)
Total other financing sources (uses)	<u>100,000</u>	<u>200,000</u>	<u>572,221</u>	<u>372,221</u>
Budget and actual excess (deficit)	<u>13,510</u>	<u>31,954</u>	(70,469)	<u>(102,423)</u>
Fund balance - beginning of year			733,349	
Prior period adjustment			7,432	
Fund balance - end of year			<u>\$ 670,312</u>	

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

CITY OF CRESSON

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

SEPTEMBER 30, 2013

WILLSHER & ASSOCIATES, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

**Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance With
Government Auditing Standards for a Governmental Entity**

Independent Auditor's Report

To the Mayor and City Council
City of Cresson, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and business activities of the City of Cresson, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Cresson's basic financial statements, and have issued our report thereon dated May 20, 2014.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

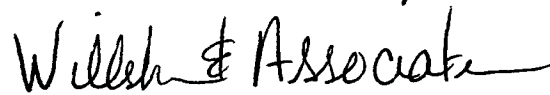
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cresson's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However we noted certain other matters that we reported to management in a separate comment letter dated May 20, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Willsher & Associates". The signature is written in a cursive, flowing style.

Willsher & Associates, PLLC
Certified Public Accountants
Granbury, Texas

May 20, 2014

CITY OF CRESSON
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
SEPTEMBER 30, 2014

Table of Contents

Page

Cover Sheet	1
Table of Contents	2
Management's Discussion and Analysis	3 - 9
Independent Auditors' Report	10 - 11
Financial Statements	12 - 21
Notes to Basic Financial Statements	22 - 30
Budget Comparison	31
Report on Internal Control and Compliance	32 - 33

CITY OF CRESSON, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2014
(Unaudited)

Our discussion and analysis of the City of Cresson's ("the City's") financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended September 30, 2014. Please read it in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The net position of the primary government totaled \$1,745,522 at September 30, 2014. Of this amount, \$526,837 is unrestricted and may be used to meet future obligations: \$521,916 in the general fund and \$4,921 in the water fund.
- The government-wide net position increased (decreased) \$97,025 during the current fiscal year. Net position of general fund increased by \$41,297 from the previous year. Net position of the water fund increased (decreased) \$55,728 from previous year.
- As of the close of the current fiscal year, the City of Cresson's governmental fund reported an ending fund balance of \$640,402.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$464,916 or approximately 105% of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the

CITY OF CRESSON, TEXAS
Management's Discussion and Analysis (**Continued**)
For the Year Ended September 30, 2014 (Unaudited)

financial position of the City is improving or deteriorating. The Statement of Net Position combines and consolidates governmental funds with capital assets and long-term obligations. Other non-financial factors should also be taken into consideration, such as changes in the condition of the City's infrastructure (i.e. roads, drainage improvements, storm and sewer lines, etc.), to assess the overall health or financial conditions of the City.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected sales taxes). Both the Statement of Net Position and the Statement of Activities are prepared utilizing the accrual basis of accounting.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by sales taxes, franchise fees and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration and highways and streets. The business-type activity of the City consists of water, sewer and sanitation operations.

Reporting the City's Most Significant Funds

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

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

CITY OF CRESSON, TEXAS
Management's Discussion and Analysis (**Continued**)
For the Year Ended September 30, 2014 (Unaudited)

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

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

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer, and Sanitation Departments, and is considered to be a major fund of the City.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 - 29 of this report.

THE CITY AS A WHOLE – Government-Wide Financial Analysis

As noted earlier, net position may serve, over time, as a useful indicator of a government's financial position. In the case of the City of Cresson, assets exceeded liabilities by \$1,745,522 as of September 30, 2014.

The largest portion of the City's net position (63%) reflects its investments in capital assets (e.g., equipment and infrastructure). The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending.

CITY OF CRESSON, TEXAS
Management's Discussion and Analysis (Continued)
For the Year Ended September 30, 2014 (Unaudited)

Table I
Summary Statement of Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 647,340	\$ 676,152	\$ 12,613	\$ 16,243	\$ 659,953	\$ 692,395
Capital assets	1,048,082	1,090,184	507,791	448,772	1,555,873	1,538,956
Total assets	<u>1,695,422</u>	<u>1,766,336</u>	<u>520,404</u>	<u>465,015</u>	<u>2,215,826</u>	<u>2,231,351</u>
Liabilities	462,612	574,823	7,692	8,031	470,304	582,854
Total liabilities	<u>462,612</u>	<u>574,823</u>	<u>7,692</u>	<u>8,031</u>	<u>470,304</u>	<u>582,854</u>
Net Position:						
Invested in capital assets	592,408	521,201	507,791	448,772	1,100,199	969,973
Restricted	118,486	85,362	-	-	118,486	85,362
Unrestricted	521,916	584,950	4,921	8,212	526,837	593,162
Total net position	<u>\$ 1,232,810</u>	<u>\$ 1,191,513</u>	<u>\$ 512,712</u>	<u>\$ 456,984</u>	<u>\$ 1,745,522</u>	<u>\$ 1,648,497</u>

As of September 30, 2014, the City is able to report positive balances in three categories of net position: for the government as a whole \$1,745,522 and separately for the General fund \$1,232,810 and Enterprise fund \$512,712.

Governmental and business-type activities increased the City's net position by \$102,283. The key elements of this increase are as follows:

CITY OF CRESSON, TEXAS
Management's Discussion and Analysis (Continued)
For the Year Ended September 30, 2014 (Unaudited)

Table II

Statement of Activities, Changes in Net Position

	Governmental		Business-Type		Total	
	Activities		Activities		Primary Government	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 25,428	\$ 37,730	\$ 194,734	\$ 199,596	\$ 220,162	\$ 237,326
General revenues:						
Sales taxes	401,352	346,154	-	-	401,352	346,154
Franchise fees	54,275	51,072	-	-	54,275	51,072
Hotel/motel taxes	26,155	23,514	-	-	26,155	23,514
Investment earnings	1,565	1,698	-	-	1,565	1,698
Miscellaneous inc	17,179	4,559	17	-	17,196	4,559
Total revenues	<u>525,954</u>	<u>464,727</u>	<u>194,751</u>	<u>199,596</u>	<u>720,705</u>	<u>664,323</u>
Expenses:						
General government	264,880	297,799	-	-	264,880	297,799
Streets	105,175	107,134	-	-	105,175	107,134
Water and sanitation	-	-	248,367	313,481	248,367	313,481
Total expenses	<u>370,055</u>	<u>404,933</u>	<u>248,367</u>	<u>313,481</u>	<u>618,422</u>	<u>718,414</u>
Other increases (decreases)						
Interfund correction	(5,561)	-	5,561	-	-	-
Transfers (out) in	<u>(102,142)</u>	<u>(2,779)</u>	<u>102,142</u>	<u>2,779</u>	-	-
Total other decreases	<u>(107,703)</u>	<u>(2,779)</u>	<u>107,703</u>	<u>2,779</u>	-	-
Increase in net position	48,196	57,015	54,087	(111,106)	102,283	(54,091)
Net position - beginning	1,191,514	1,127,067	456,984	568,090	1,648,498	1,695,157
Prior period adjustment	<u>(6,900)</u>	<u>7,432</u>	<u>1,641</u>	-	<u>(5,259)</u>	<u>7,432</u>
Net position - ending	<u>\$ 1,232,810</u>	<u>\$ 1,191,514</u>	<u>\$ 512,712</u>	<u>\$ 456,984</u>	<u>\$ 1,745,522</u>	<u>\$ 1,648,498</u>

For fiscal year 2014, revenue from governmental activities totaled \$525,954. Sales tax is the largest component of revenue (76%). Charges for services account for 5%.

For fiscal year 2014, expenses for governmental activities totaled \$370,055. The City's largest funded program is for highways and streets.

CITY OF CRESSON, TEXAS
Management's Discussion and Analysis (Continued)
For the Year Ended September 30, 2014 (Unaudited)

Business-type Activities

While water revenues and expenditures both decreased over the prior year, most of the current year net gain in the water department net position is due to a transfer in from the general fund of over \$100,000 used to purchase the generator for the wastewater plant. Most of the decrease in total expenditures is due to a reduction in depreciation expense compared to the prior year.

Also in the current year water department expenses were paid out of the General Fund and amounted to around \$60,000 for the Thrash lease and for professional fees related to the generator project and the sewer extension project.

Capital Assets

At the end of the fiscal year 2014, the City had \$1,555,873 invested in capital assets including the water system, infrastructure, buildings and land as shown below:

Table III
Capital Assets at Year-End
(Net of Depreciation)

	Governmental		Business-Type		Total	
	Activities		Activities		Primary Government	
	2014	2013	2014	2013	2014	2013
Land	\$ 435,156	\$ 435,156	\$ 25,878	\$ 25,878	\$ 461,034	\$ 461,034
Buildings	273,812	280,863	-	-	273,812	280,863
Vehicles	5,320	8,359	-	-	5,320	8,359
Infrastructure	317,055	348,930	-	-	317,055	348,930
Equipment, furniture, software	16,739	16,876	24,380	28,980	41,119	45,856
Water system	-	-	457,533	393,914	457,533	393,914
	<u>\$ 1,048,082</u>	<u>\$ 1,090,184</u>	<u>\$ 507,791</u>	<u>\$ 448,772</u>	<u>\$ 1,555,873</u>	<u>\$ 1,538,956</u>

The capital asset additions during the current fiscal year included \$101,369 (net of depreciation) for the wastewater generator and net equipment of \$2,658. The additions for 2014 were funded out of the City's accumulated cash.

Additional information on the City's capital assets can be found in Note 3, page 26 of this report.

CITY OF CRESSON, TEXAS
Management's Discussion and Analysis **(Continued)**
For the Year Ended September 30, 2014 (Unaudited)

ECONOMIC FACTORS

The City's elected and appointed officials considered many factors when setting the fiscal year 2014-2015 budget, rates and fees that will be charged for the business-type activities. One of those factors is the economy. The population growth experienced by the City has stimulated local business and development activity, and the community has placed additional demands on the City to maintain or enhance services provided to the City's citizens. The reasonable costs of living and homes priced below the national average continue to make the City an attractive area for new business locations and relocations. The City continues to attract new and existing companies due to the strategy of working diligently with corporations on relocation incentives.

These indicators are taken into account when adopting the general fund budget for next fiscal year. The 2014-2015 revenues are budgeted at \$518,585, a slight decrease from the current fiscal year.

The City is involved with several long-term projects that will expand the infrastructure and alleviate certain fixed expenses. There are agreements with developers to share in the cost of these projects. Other projects, such as Phase II and Phase III of the generator project will be paid for as the City has available funds. For fiscal year 2015 the City will receive a \$275,000 Community Development Block Grant to extend the eight-inch water lines and hydrants across Highway 377.

During fiscal year 2014 the City paid \$103,000 in extra principal on its building note using accumulated cash. They plan to pay an extra \$1,000 per month principal on the note during fiscal year 2015. In addition, the City's matching requirement for the Community Development Block Grant for fiscal 2015 is \$57,000 and is shown as assigned fund balance on page 15.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the City of Cresson, at P. O. Box 619, Cresson, Texas 76035, or call (817) 396-4729.

WILLSHER & ASSOCIATES, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Auditor's Unmodified Opinion on Financial Statements Accompanied by Required Supplementary Information – State of Local Government Entity

Independent Auditors' Report

Mayor and City Council
City of Cresson
Cresson, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the business-type activities of the City of Cresson, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and the Guide require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 evaluation the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluation 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 opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and business-type activities of the City of Cresson, Texas, as of September 30, 2014, and the respective changes in financial position and cash flows of its proprietary fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Budgetary Comparison beginning on pages 3 and 31, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2015 on our consideration of the City of Cresson's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the City of Cresson's internal control over financial reporting and compliance.



Willsher & Associates, PLLC
Certified Public Accountants
Granbury, Texas

January 15, 2015

CITY OF CRESSON
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 516,443	\$ 8,547	\$ 524,990
Due to general fund from water fund	4,945	(4,945)	
Receivables, net of allowance	7,466	9,011	16,477
Total current assets	<u>528,854</u>	<u>12,613</u>	<u>541,467</u>
Restricted Assets:			
Cash for tourism and streets (Note 9)	118,486	-	118,486
Total restricted assets	<u>118,486</u>	<u>-</u>	<u>118,486</u>
Capital assets:			
Land	435,156	25,878	461,034
Depreciable, net of depreciation (Note 3)	612,926	481,913	1,094,839
	<u>1,048,082</u>	<u>507,791</u>	<u>1,555,873</u>
Total assets	<u>1,695,422</u>	<u>520,404</u>	<u>2,215,826</u>
LIABILITIES			
Current liabilities:			
Accrued liabilities	6,938		6,938
Customer deposits (Note 13)		7,692	7,692
Current portion of long term debt	9,953	-	9,953
Total current liabilities	<u>16,891</u>	<u>7,692</u>	<u>24,583</u>
Long term liabilities:			
Note payable, land and building (Note 8)	445,721	-	445,721
Total long term liabilities	<u>445,721</u>	<u>-</u>	<u>445,721</u>
Total liabilities	<u>462,612</u>	<u>7,692</u>	<u>470,304</u>
NET POSITION			
Invested in capital assets, net of related debt	592,408	507,791	1,100,199
Restricted for tourism (Note 9)	118,486	-	118,486
Unrestricted	521,916	4,921	526,837
Total net position	<u>\$ 1,232,810</u>	<u>\$ 512,712</u>	<u>\$ 1,745,522</u>

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

CITY OF CRESSON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Net (Expense) Revenue and
Changes in Net Position

	Expenses	Program revenues Charges for Services	Primary Government		
			Governmental Activities	Business-type Activities	Total
Primary Government:					
Governmental Activities					
General government	\$ (221,154)	\$ 25,428	\$ (195,726)	-	(195,726)
Debt service	(25,966)	-	(25,966)	-	(25,966)
Water and sanitation (paid by general fund - Note 14)	(17,760)	-	(17,760)	-	(17,760)
Streets	(105,175)	-	(105,175)	-	(105,175)
Total governmental	<u>(370,055)</u>	<u>25,428</u>	<u>(344,627)</u>	<u>-</u>	<u>(344,627)</u>
Business-type activities:					
Water Department	(248,367)	194,734	-	(53,633)	(53,633)
Total business-type	<u>(248,367)</u>	<u>194,734</u>	<u>-</u>	<u>(53,633)</u>	<u>(53,633)</u>
Total Activity	<u>\$ (618,422)</u>	<u>\$ 220,162</u>	<u>\$ (344,627)</u>	<u>\$ (53,633)</u>	<u>\$ (398,260)</u>
General revenues					
Sales taxes			401,352	-	401,352
Franchise taxes			54,275	-	54,275
Hotel/motel tax			26,155	-	26,155
Miscellaneous revenue			17,179	-	17,179
Investment earnings			1,565	17	1,582
Total general revenues			<u>500,526</u>	<u>17</u>	<u>500,543</u>
Interfund correction			(5,561)	5,561	-
Transfers			(102,142)	102,142	-
			<u>392,823</u>	<u>107,720</u>	<u>500,543</u>
Total general revenues and other sources					
Change in net position			48,196	54,087	102,283
Net position - beginning			1,191,514	456,984	1,648,498
Prior period adjustment (Note 15)			(6,900)	1,641	(5,259)
Net position - ending			<u>\$ 1,232,810</u>	<u>\$ 512,712</u>	<u>\$ 1,745,522</u>

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