

CITY OF CRESSON
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 516,443	\$ 516,443
Due from water fund	4,945	\$ 4,945
Receivables (Note 16)	7,466	7,466
Cash restricted for tourism	118,486	118,486
Total assets	\$ 647,340	\$ 647,340
 LIABILITIES		
Accrued liabilities	\$ 6,938	\$ 6,938
Total liabilities	6,938	6,938
 FUND BALANCES		
Restricted for tourism and streets	118,486	118,486
Assigned to grant match (Note 9)	57,000	57,000
Unassigned	464,916	464,916
Total fund balances	640,402	640,402
Total liabilities and fund balances	\$ 647,340	\$ 647,340

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, 2014

Total Fund Balances - Governmental Funds	\$	640,402
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 \$1,414,179 and the accumulated depreciation was \$323,995. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net position.		1,090,184
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 2014 capital outlays is to increase net position.		2,936
Long term debt is not reported in the governmental funds. At the beginning of the year the balance of long term debt was \$568,981. The net effect of including the beginning balance of long term debt in the governmental activities is to decrease net position.		(568,981)
The 2014 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(45,040)
The City paid principal in the amount of \$113,309 during the year. The net effect of reclassifying debt service expenditures to long term debt is to increase net position.		113,309
Net Position of Governmental Activities	<u>\$</u>	<u>1,232,810</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, 2014

	General Fund	Total Governmental Funds
Revenues:		
Sales taxes - unrestricted	\$ 321,082	
Sales taxes - restricted for streets (Note 17)	<u>80,270</u>	\$ 401,352
Franchise taxes	54,275	54,275
Hotel/motel taxes - restricted (Note 9)	26,155	26,155
Licenses and permits	25,428	25,428
Investment earnings	1,567	1,567
Miscellaneous income	<u>17,179</u>	<u>17,179</u>
Total revenues	<u>525,956</u>	<u>525,956</u>
Expenditures:		
General government	207,988	207,988
Water and sanitation (paid by general fund - Note 14)	17,760	17,760
Streets and highways	73,301	73,301
Capital outlay (Note 3)	2,939	2,939
Debt service principal	113,307	
Debt service interest	<u>25,968</u>	<u>139,275</u>
Total expenditures	<u>441,263</u>	<u>441,263</u>
Excess (deficiency) of revenues over (under) expenditures	84,693	84,693
Other Financing Sources (Uses):		
Transfers in from water fund	510	510
Interfund correction	(5,561)	(5,561)
Transfer out to water fund	<u>(102,652)</u>	<u>(102,652)</u>
Total other financing sources (uses)	<u>(107,703)</u>	<u>(107,703)</u>
Net change in fund balance	(23,010)	(23,010)
Fund balance - beginning of year	670,312	670,312
Prior period adjustment (Note 15)	<u>(6,900)</u>	<u>(6,900)</u>
Fund balance - end of year	<u>\$ 640,402</u>	<u>\$ 640,402</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, 2014

Total Net Change in Fund Balances - Governmental Funds	\$	(23,010)
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.		2,939
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.		(45,040)
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.		113,307
Change in Net Position of Governmental Activities	<u>\$</u>	<u>48,196</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, 2014

	Business-type Activities	Water and Sewer Revenue Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,547	
Accounts receivable, net of uncollectible allowance	9,011	
Total current assets	17,558	
Noncurrent assets:		
Capital assets:		
Land and improvements	25,878	
Machinery and equipment, net	481,913	
Total noncurrent assets	507,791	
Total assets	525,349	
 LIABILITIES		
Current liabilities:		
Due to general fund	\$ 4,945	
Customer deposits payable (Note 13)	7,692	
Total liabilities	12,637	
 NET POSITION		
Invested in capital assets, net of related debt	507,791	
Unrestricted	4,921	
Total net position	\$ 512,712	

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	\$ 96,541
Charges for sanitation services	98,193
Other revenue	17
Total operating revenues	194,751
OPERATING EXPENSES:	
Personnel services - salaries and wages	27,216
Purchased professional and technical services	97,442
Purchased property services	17,583
Other operating services	55,013
Supplies and other purchases	7,480
Depreciation	43,633
Total operating expenses	248,367
Income (loss) before transfers	(53,616)
Non-operating transfers in	102,652
Non-operating transfers out	(510)
Interfund correction	5,561
Change in net position	54,087
Total net position - beginning	456,984
Prior period adjustment	1,641
Total net position - ending	\$ 512,712

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, 2014

	Business Type Activities
	Water and Sewer Revenue Fund
Cash flows from operating activities:	
Cash received from customers	\$ 194,278
Cash payments to suppliers for goods and services	(199,201)
Net cash provided (used) by operating activities	(4,923)
Cash flows from capital activities	
Cash used for purchase of water equipment	(102,652)
Net cash provided (used) by capital activities	(102,652)
Cash flows from noncapital financing activities:	
Redeposit of check from prior year	1,641
Cash received from customer deposits	4,636
Net cash transferred in from governmental funds	102,142
Net cash provided (used) by noncapital financing activities	108,419
Net increase (decrease) in cash	844
Cash - beginning of year	7,703
Cash - end of year	\$ 8,547
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ (53,616)
Adjustments to reconcile operating income to net cash provided by operations:	
Depreciation	43,633
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	(471)
Increase (decrease) in accounts payable	5,531
Net cash provided (used) by operating activities	\$ (4,923)

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, 2014

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, 2014.

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 position) 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, 2014

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, 2014.

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, 2014

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 \$8,547 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, 2014

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 \$524,990, and the bank balance totals \$643,476. The bank balance was fully covered by federal depository insurance and pledged securities both at year end and during May 2014 when the highest cash balance was \$867,311.

The terms of the City's depository pledge agreement require pledged collateral of at least 102% of the total deposits requiring collateral and this requirement was met throughout the entire fiscal year. In addition, the pledged collateral consists of securities of the type permitted by the provisions of the Public Funds Collateral Act, Title 10, Chapter 2257 of the Texas Government Code. They are held in custody and safekeeping by The Federal Reserve Bank under the terms of Federal Reserve Bank Operating Circular 7.

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2014

Note 3 - Changes in Capital Assets

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

	Depreciable Capital Assets					Non Depreciable Capital Assets	
	Equipment, Furniture & Software	Infrastructure	Vehicles	Building	Water System	Land	Totals
<i>Governmental Activities</i>							
Balance, September 30, 2013	\$29,326	\$652,459	\$ 15,200	\$ 282,038	\$ -	\$435,156	\$ 1,414,179
Increases	2,936	-	-	-	-	-	2,936
Decreases	-	-	-	-	-	-	-
Balance, September 30, 2014	<u>32,262</u>	<u>652,459</u>	<u>15,200</u>	<u>282,038</u>	<u>-</u>	<u>435,156</u>	<u>1,417,115</u>
Accumulated Depreciation:							
Balance, September 30, 2013	12,450	303,529	6,841	1,175	-	-	323,995
Increases	3,075	31,875	3,039	7,051	-	-	45,040
Decreases	-	-	-	-	-	-	-
Balance, September 30, 2014	<u>15,525</u>	<u>335,404</u>	<u>9,880</u>	<u>8,226</u>	<u>-</u>	<u>-</u>	<u>369,035</u>
Capital assets, net	<u>\$16,737</u>	<u>\$317,055</u>	<u>\$ 5,320</u>	<u>\$ 273,812</u>	<u>\$ -</u>	<u>\$435,156</u>	<u>\$ 1,048,080</u>
<i>Business-Type Activities</i>							
Balance, September 30, 2013	\$47,051	\$ -	\$ -	\$ -	\$ 754,391	\$ 25,878	\$ 827,320
Increases	-	-	-	-	102,652	-	102,652
Decreases	-	-	-	-	-	-	-
Balance, September 30, 2014	<u>47,051</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>857,043</u>	<u>25,878</u>	<u>929,972</u>
Accumulated Depreciation:							
Balance, September 30, 2013	18,071	-	-	-	360,477	-	378,548
Increases	4,600	-	-	-	39,033	-	43,633
Decreases	-	-	-	-	-	-	-
Balance, September 30, 2014	<u>22,671</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>399,510</u>	<u>-</u>	<u>422,181</u>
Capital assets, net	<u>\$24,380</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 457,533</u>	<u>\$ 25,878</u>	<u>\$ 507,791</u>
Primary Government							
Capital assets, net	<u>\$41,117</u>	<u>\$317,055</u>	<u>\$ 5,320</u>	<u>\$ 273,812</u>	<u>\$ 457,533</u>	<u>\$461,034</u>	<u>\$ 1,555,871</u>

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

Governmental activities:

General government and administration	\$ 13,165
Roads and streets	<u>31,875</u>
Total depreciation expense-Governmental activities	<u>\$ 45,040</u>

Business-type activities:

Water	<u>\$ 43,633</u>
Total depreciation expense-Business-type activities	<u>\$ 43,633</u>

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2014

Note 4 - Interfund Transfers

The following is a summary of Interfund transfers at September 30, 2014:

<u>To (from) General Fund</u>	<u>To (from) Water Department</u>	
(\$102,652)	\$102,652	To WF to purchase Generator
\$ 510	(\$ 510)	To correct GF revenue in wrong account

Note 5 – Insurance in Force

An umbrella policy is issued by TML-Municipal Liability Joint Self Insurance fund. The policy renewed October 1, 2014.

<u>Coverage</u>	<u>Limit per Occurrence 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, 2014 is \$5,224.

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, 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>\$ 97,680</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 \$2,542.

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2014

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
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	12,030	24,245	36,275
2020-2024	69,503	111,872	181,375
2025-2029	88,093	93,282	181,375
2030-2034	111,656	69,719	181,375
2035-2039	131,587	49,788	181,375
	<u>\$ 455,674</u>	<u>\$ 451,202</u>	<u>\$ 906,876</u>

During fiscal year 2014, the City paid \$113,307 principal and \$25,968 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: \$111,517 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 \$26,155 at September 30, 2014. In addition a portion of the local sales tax revenue is restricted for repairs of existing City streets. During 2014 \$6,969 of that revenue remained unspent for the purpose for which it is restricted. Therefore the accumulated balance restricted for streets is \$6,969.

Committed: There is no committed fund balance.

Assigned: The City has assigned \$57,000 for matching funds as required by the terms of the grant awarded for fiscal year 2015.

Unassigned: \$464,916 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, 2014

Note 10 – Contracts in Progress

The City has the following contracts in progress as of September 30, 2014 which represent liabilities incurred during or prior to 2013 which may be paid out of the 2015 or later operating budgets:

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 accumulated project cost paid by City - \$16,280
Remaining project costs as of September 30, 2014 - \$9,120

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 - \$7,065

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 around \$50,000 sales tax revenues from the State Comptroller in excess of the normal monthly amount of \$33,000 or less. During December 2013 and January 2014 another \$68,000 was received in excess of the normal amount, for an accumulated total of over \$100,000. It is possible that the City will have to repay all or some of this in the future. However, 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, 2014 was \$4,253. 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 based on records the City found beginning in fiscal 2012. Since prior year records were not available the amount may still be 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, 2014

Note 14 – Water and Sanitation Expenses Paid by General Fund

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

Trash lease expense	\$17,600
Professional fees (legal and engineering)	<u>40,400</u>
Total	<u>\$60,000</u>

Note 15 – Prior Period Adjustment

The City voided a check written in a prior period. The effect of voiding the check was an increase to cash and to net position in the amount of \$1,641 in the Water Fund.

In addition, the City determined that a portion of the receivable due from a developer would never be collected. Therefore a prior period adjustment to decrease net position in the general fund is reported for fiscal year 2014.

Note 16 – General Fund Receivables

Receivables at 9/30/14 consist of the following amounts expected to be fully collectible:

Hotel Motel tax receivable	\$7,467
Total	<u>\$7,467</u>

Note 17 – Restricted Sales Taxes

During the year the City collected \$80,270 in sales taxes restricted for maintenance and repairs on existing streets and spent \$73,301 for the restricted purpose. There is a \$6,969 balance remaining in this account to be spent at a future date for the restricted purpose.

Note 18 – Interfund Balances

During the year the general fund paid payroll taxes on payroll expense incurred by the water fund. The amount is shown as due to general fund from water fund. The amount may or may not ever be paid as the water fund operations are normally supplemented by the general fund. The amount is recorded primarily for recordkeeping purposes.

Note 19 – Subsequent Events

The City has evaluated all other events and transactions occurring subsequent to September 30, 2014 as of January 15, 2015 which is the date the financial statements were available to be 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, 2014

	Budgeted Amounts		Actual GAAP Basis	Variance Positive (Negative)
	Original	Final		
Revenues:				
Sales taxes	\$ 295,000	355,000	\$ 401,352	46,352
Franchise taxes	51,500	49,500	54,275	4,775
Hotel/motel taxes - restricted	22,000	26,000	26,155	155
Licenses and permits	22,600	14,200	25,428	11,228
Investment earnings	1,500	1,500	1,567	67
Miscellaneous income	1,800	7,800	17,179	9,379
Total revenues	<u>394,400</u>	<u>454,000</u>	<u>525,956</u>	<u>71,956</u>
Expenditures:				
General government	213,886	218,996	207,988	11,008
Water and sanitation (paid by general fund)	17,760	17,760	17,760	-
Streets and highways	116,000	141,000	73,301	67,699
Generator (from assigned fund balance)	200,000	100,000	-	100,000
Contingency	16,079	29,668	-	29,668
Capital outlay	-	-	2,939	(2,939)
Debt service	36,275	140,275	139,275	1,000
Total expenditures	<u>600,000</u>	<u>647,699</u>	<u>441,263</u>	<u>206,436</u>
Excess of revenues over expenditures	(205,600)	(193,699)	84,693	278,392
Other Financing Sources (Uses):				
Transfers in from water fund	-	-	510	510
Interfund correction	-	-	(5,561)	(5,561)
Transfer to water fund	-	-	(102,652)	(102,652)
Total other financing sources (uses)	-	-	<u>(107,703)</u>	<u>(107,703)</u>
Budget and actual excess (deficit)	<u>(205,600)</u>	<u>(193,699)</u>	(23,010)	<u>170,689</u>
Fund balance - beginning of year			670,312	
Prior period adjustment			(6,900)	
Fund balance - end of year			<u>\$ 640,402</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, 2014

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, 2014, 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 January 15, 2015.

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.

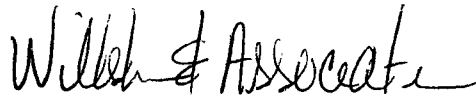
Compliance and Other Matters

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 January 15, 2015.

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

January 15, 2015

CITY OF CRESSON
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
SEPTEMBER 30, 2015

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CITY OF CRESSON, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2015
(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, 2015. 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 \$1,797,134 at September 30, 2015. Of this amount \$487,804 is unrestricted and may be used to meet future obligations: \$480,632 in the general fund and \$7,172 in the water fund.
- The government-wide net position increased (decreased) \$51,612 during the current fiscal year. Net position of general fund increased by \$96,788 from the previous year. Net position of the water fund increased (decreased) (\$45,176) 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 \$641,593.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$440,632 or approximately 138% 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, 2015 (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, 2015 (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 are 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 \$1,797,134 as of September 30, 2015.

The largest portion of the City's net position (64%) 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, 2015 (Unaudited)

Table I
Summary Statement of Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 693,507	647,340	19,066	12,613	\$ 712,573	\$ 659,953
Capital assets	1,115,548	1,048,082	460,364	507,791	1,575,912	1,555,873
Total assets	<u>1,809,055</u>	<u>1,695,422</u>	<u>479,430</u>	<u>520,404</u>	<u>2,288,485</u>	<u>2,215,826</u>
Liabilities	479,457	462,612	11,894	7,692	491,351	470,304
Total liabilities	<u>479,457</u>	<u>462,612</u>	<u>11,894</u>	<u>7,692</u>	<u>491,351</u>	<u>470,304</u>
Net Position:						
Invested in capital assets	688,005	592,408	460,364	507,791	1,148,369	1,100,199
Restricted	160,961	118,486	-	-	160,961	118,486
Unrestricted	480,632	521,916	7,172	4,921	487,804	526,837
Total net position	<u>\$ 1,329,598</u>	<u>\$ 1,232,810</u>	<u>\$ 467,536</u>	<u>\$ 512,712</u>	<u>\$ 1,797,134</u>	<u>\$ 1,745,522</u>

As of September 30, 2015, the City is able to report positive balances in three categories of net position: for the government as a whole \$1,797,134 and separately for the Governmental funds \$1,329,598 and Enterprise fund \$467,536.

Governmental and business-type activities increased the City's net position by \$51,612. 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, 2015 (Unaudited)

Table II

Statement of Activities, Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 25,361	\$ 25,428	\$ 194,237	\$ 194,734	\$ 219,598	\$ 220,162
Capital projects grant	77,189	-	-	-	77,189	-
General revenues:						
Sales taxes	257,902	401,352	-	-	257,902	401,352
Franchise fees	51,692	54,275	-	-	51,692	54,275
Hotel/motel taxes	10,772	26,155	-	-	10,772	26,155
Investment earnings	1,275	1,565	-	-	1,275	1,565
Miscellaneous inc	8,473	17,179	-	17	8,473	17,196
Total revenues	<u>432,664</u>	<u>525,954</u>	<u>194,237</u>	<u>194,751</u>	<u>626,901</u>	<u>720,705</u>
Expenses:						
General government	254,733	264,880	-	-	254,733	264,880
Streets	64,862	105,175	-	-	64,862	105,175
Water and sanitation	17,760	-	237,934	248,367	255,694	248,367
Total expenses	<u>337,355</u>	<u>370,055</u>	<u>237,934</u>	<u>248,367</u>	<u>575,289</u>	<u>618,422</u>
Other increases (decreases)						
Interfund correction	-	(5,561)	-	5,561	-	-
Transfers (out) in	1,479	(102,142)	(1,479)	102,142	-	-
Total other decreases	1,479	(107,703)	(1,479)	107,703	-	-
Increase in net position	96,788	48,196	(45,176)	54,087	51,612	102,283
Net position - beginning	1,232,810	1,191,514	512,712	456,984	1,745,522	1,648,498
Prior period adjustment	-	(6,900)	-	1,641	-	(5,259)
Net position - ending	<u>\$ 1,329,598</u>	<u>\$ 1,232,810</u>	<u>\$ 467,536</u>	<u>\$ 512,712</u>	<u>\$ 1,797,134</u>	<u>\$ 1,745,522</u>

For fiscal year 2015, revenue from governmental activities totaled \$432,664. Sales tax is the largest component of revenue (60%). Charges for services account for 6%.

For fiscal year 2015, expenses for governmental activities totaled \$337,355. 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, 2015 (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 \$61,600 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 2015, the City had \$1,575,912 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	
	2015	2014	2015	2014	2015	2014
Land	\$ 435,156	\$ 435,156	\$ 25,878	\$ 25,878	\$ 461,034	\$ 461,034
Construction in progress	112,646	-	-	-	112,646	-
Buildings	266,761	273,812	-	-	266,761	273,812
Vehicles	2,280	5,320	-	-	2,280	5,320
Infrastructure	285,181	317,055	-	-	285,181	317,055
Equipment, furniture, software	13,524	16,739	19,834	24,380	33,358	41,119
Water system	-	-	414,652	457,533	414,652	457,533
	<u>\$ 1,115,548</u>	<u>\$ 1,048,082</u>	<u>\$ 460,364</u>	<u>\$ 507,791</u>	<u>\$ 1,575,912</u>	<u>\$ 1,555,873</u>

The capital asset additions during the current fiscal year included \$112,646 construction in progress which was funded in part by grant money along with the City's matching portion.

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, 2015 (Unaudited)

ECONOMIC FACTORS

The City's elected and appointed officials considered many factors when setting the fiscal year 2015-2016 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 2015-2016 revenues are budgeted at \$400,090, a 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 2016 the City will receive the balance of a \$275,000 Community Development Block Grant to extend the eight-inch water lines and hydrants across Highway 377.

During fiscal year 2015 the City paid \$1,000 per month in extra principal on its building note using accumulated cash.

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.

INDEPENDENT AUDITORS' REPORT

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, 2015, 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, 2015, 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 December 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 and 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

December 15, 2015

CITY OF CRESSON
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 473,704	\$ 12,333	\$ 486,037
Grant receivable	61,957	-	61,957
Due to general fund from water fund	3,973	(3,973)	-
Receivables, net of allowance	6,593	10,706	17,299
Total current assets	<u>546,227</u>	<u>19,066</u>	<u>565,293</u>
Restricted Assets:			
Cash for tourism and streets	147,280	-	147,280
Total restricted assets	<u>147,280</u>	<u>-</u>	<u>147,280</u>
Capital assets:			
Land	435,156	25,878	461,034
Construction in progress (Note 18)	112,646	-	112,646
Depreciable, net of depreciation (Note 3)	567,746	434,486	1,002,232
	<u>1,115,548</u>	<u>460,364</u>	<u>1,575,912</u>
Total assets	<u>1,809,055</u>	<u>479,430</u>	<u>2,288,485</u>
LIABILITIES			
Current liabilities:			
Accrued liabilities	51,914	1,737	53,651
Customer deposits (Note 13)	-	10,157	10,157
Current portion of long term debt	10,438	-	10,438
Total current liabilities	<u>62,352</u>	<u>11,894</u>	<u>74,246</u>
Long term liabilities:			
Note payable, land and building (Note 8)	417,105	-	417,105
Total long term liabilities	<u>417,105</u>	<u>-</u>	<u>417,105</u>
Total liabilities	<u>479,457</u>	<u>11,894</u>	<u>491,351</u>
NET POSITION			
Invested in capital assets, net of related debt	688,005	460,364	1,148,369
Restricted for grant project	13,681	-	13,681
Restricted for tourism and streets	147,280	-	147,280
Unrestricted	480,632	7,172	487,804
Total net position	<u>\$ 1,329,598</u>	<u>\$ 467,536</u>	<u>\$ 1,797,134</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, 2015

	Net (Expense) Revenue and Changes in Net Position					
	Expenses	Program revenues		Primary Government		
		Charges for Services	Capital Projects Grant	Governmental Activities	Business-type Activities	Total
Primary Government:						
Governmental Activities						
General government	\$ (234,589)	\$ 25,361	\$ -	\$ (209,228)	-	(209,228)
Debt service	(20,144)	-	-	(20,144)	-	(20,144)
Water and sanitation (paid by general fund - Note 14)	(17,760)	-	77,189	59,429	-	59,429
Streets	(64,862)	-	-	(64,862)	-	(64,862)
Total governmental	(337,355)	25,361	77,189	(234,805)	-	(234,805)
Business-type activities:						
Water Department	(237,934)	194,237	-	-	(43,697)	(43,697)
Total business-type	(237,934)	194,237	-	-	(43,697)	(43,697)
Total Activity	\$ (575,289)	\$ 219,598	\$ 77,189	\$ (234,805)	\$ (43,697)	\$ (278,502)
General revenues						
Sales taxes				257,902	-	257,902
Franchise taxes				51,692	-	51,692
Hotel/motel tax				10,772	-	10,772
Miscellaneous revenue				8,473	-	8,473
Investment earnings				1,275	-	1,275
Total general revenues				330,114	-	330,114
Transfers				1,479	(1,479)	-
Total general revenues and other sources				331,593	(1,479)	330,114
Change in net position				96,788	(45,176)	51,612
Net position - beginning				1,232,810	512,712	1,745,522
Net position - ending				\$ 1,329,598	\$ 467,536	\$ 1,797,134

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

CITY OF CRESSON
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 473,704	\$ -	\$ 473,704
Due from water fund	3,973	-	3,973
Grant receivable		61,957	61,957
Receivables (Note 15)	6,593	-	6,593
Cash restricted for tourism & streets	147,280	-	147,280
Total assets	<u>\$ 631,550</u>	<u>\$ 61,957</u>	<u>\$ 693,507</u>
LIABILITIES			
Accrued liabilities	\$ 3,638	\$ 48,276	\$ 51,914
Total liabilities	<u>3,638</u>	<u>48,276</u>	<u>51,914</u>
FUND BALANCES			
Restricted for tourism and streets	147,280	-	147,280
Restricted for grant project	-	13,681	13,681
Assigned to grant match (Note 9)	40,000	-	40,000
Unassigned	440,632	-	440,632
Total fund balances	<u>627,912</u>	<u>13,681</u>	<u>641,593</u>
Total liabilities and fund balances	<u>\$ 631,550</u>	<u>\$ 61,957</u>	<u>\$ 693,507</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, 2015

Total Fund Balances - Governmental Funds	\$	641,593
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 \$1,417,115 and the accumulated depreciation was \$369,035. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net position.		1,048,082
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 2015 capital outlays is to increase net position.		112,646
Long term debt is not reported in the governmental funds. At the beginning of the year the balance of long term debt was \$455,674. The net effect of including the beginning balance of long term debt in the governmental activities is to decrease net position.		(455,674)
The 2015 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(45,180)
The City paid principal in the amount of \$28,131 during the year. The net effect of reclassifying debt service expenditures to long term debt is to increase net position.		28,131
Net Position of Governmental Activities	\$	<u>1,329,598</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, 2015

	General Fund	Capital Projects Fund	Total Governmenta Funds
Revenues:			
Sales taxes - unrestricted	\$ 210,716		
Sales taxes - restricted for streets (Note 16)	<u>47,186</u>	\$ 257,902	-
Franchise taxes	51,692	-	51,692
Hotel/motel taxes - restricted (Note 9)	10,772	-	10,772
Licenses and permits	25,361	-	25,361
Grant revenue	-	\$ 77,189	77,189
Investment earnings	1,275	-	1,275
Miscellaneous income	<u>8,473</u>	-	<u>8,473</u>
Total revenues	<u>355,475</u>	<u>77,189</u>	<u>432,664</u>
Expenditures:			
General government	221,283	-	221,283
Water and sanitation (paid by general fund - Note 14)	17,760	-	17,760
Streets and highways	32,988	-	32,988
Capital outlay (Note 3)	-	112,646	112,646
Debt service principal	28,131	-	-
Debt service interest	<u>20,144</u>	<u>48,275</u>	<u>48,275</u>
Total expenditures	<u>320,306</u>	<u>112,646</u>	<u>432,952</u>
Excess (deficiency) of revenues over (under) expenditures	35,169	(35,457)	(288)
Other Financing Sources (Uses):			
Transfers in from water fund	1,479	-	1,479
Transfers out to capital projects fund	(49,138)	-	(49,138)
Transfer in from general fund	<u>-</u>	<u>49,138</u>	<u>49,138</u>
Total other financing sources (uses)	<u>(47,659)</u>	<u>49,138</u>	<u>1,479</u>
Net change in fund balance	(12,490)	13,681	1,191
Fund balance - beginning of year	<u>640,402</u>	<u>-</u>	<u>640,402</u>
Fund balance - end of year	<u>\$ 627,912</u>	<u>\$ 13,681</u>	<u>\$ 641,593</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, 2015

Total Net Change in Fund Balances - Governmental Funds	\$	1,191
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.		112,646
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.		(45,180)
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.		28,131
Change in Net Position of Governmental Activities	<u>\$</u>	<u>96,788</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, 2015

	Business-type Activities
	Water and Sewer Revenue Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 12,333
Accounts receivable, net of uncollectible allowance	10,706
Total current assets	23,039
Noncurrent assets:	
Capital assets:	
Land and improvements	25,878
Machinery and equipment, net	434,486
Total noncurrent assets	460,364
Total assets	483,403
 LIABILITIES	
Current liabilities:	
Due to general fund	\$ 3,973
Accrued liabilities	1,737
Customer deposits payable (Note 13)	10,157
Total liabilities	15,867
 NET POSITION	
Invested in capital assets, net of related debt	460,364
Unrestricted	7,172
Total net position	\$ 467,536

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, 2015

	Business-type Activities
	Water and Sewer Revenue Fund
OPERATING REVENUES	
Charges for water services	\$ 86,221
Charges for sanitation services	107,994
Other revenue	22
Total operating revenues	194,237
OPERATING EXPENSES:	
Personnel services - salaries and wages	18,239
Purchased professional and technical services	105,376
Purchased property services	20,173
Other operating services	38,758
Supplies and other purchases	7,961
Depreciation	47,427
Total operating expenses	237,934
Income (loss) before transfers	(43,697)
Non-operating transfers out	(1,479)
Change in net position	(45,176)
Total net position - beginning	512,712
Total net position - ending	\$ 467,536

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, 2015

	Business Type Activities
	Water and Sewer Revenue Fund
Cash flows from operating activities:	
Cash received from customers	\$ 192,520
Cash payments to suppliers for goods and services	<u>(190,269)</u>
Net cash provided (used) by operating activities	<u>2,251</u>
Cash flows from noncapital financing activities:	
Cash received from customer deposits	2,535
Net cash transferred out to governmental funds	<u>(1,000)</u>
Net cash provided (used) by noncapital financing activities	1,535
Net increase (decrease) in cash	3,786
Cash - beginning of year	<u>8,547</u>
Cash - end of year	<u><u>\$ 12,333</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ (45,176)
Adjustments to reconcile operating income to net cash provided by operations:	
Depreciation	47,427
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	-
Increase (decrease) in accounts payable	<u> </u>
Net cash provided (used) by operating activities	<u><u>\$ 2,251</u></u>

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, 2015

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, 2015.

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 position) 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

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2015

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 during the year ended September 30, 2015.

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 one capital project fund presented for September 30, 2015.

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2015

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. The City's only proprietary fund is the Water Department fund. All assets and liabilities are included on the Statement of Net Position.

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 \$12,333 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:

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

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2015

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

At year-end, the carrying amount of the City's deposits, presented as cash equivalents (checking accounts) consists of unrestricted funds of \$486,037 and restricted cash of \$147,280. The bank balances were fully covered by federal depository insurance and pledged securities both at year end and during May 2015 when the highest combined cash balances amounted to \$667,302.

The terms of the City's depository pledge agreement require pledged collateral of at least 102% of the total deposits requiring collateral and this requirement was met throughout the entire fiscal year. In addition, the pledged collateral consists of securities of the type permitted by the provisions of the Public Funds Collateral Act, Title 10, Chapter 2257 of the Texas Government Code. They are held in custody and safekeeping by The Federal Reserve Bank under the terms of Federal Reserve Bank Operating Circular 7.

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2015

Note 3 - Changes in Capital Assets

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

	Depreciable Capital Assets				Non Depreciable Capital Assets			Totals
	Equipment, Furniture & Software	Infrastructure	Vehicles	Building	Water System	Water Line Crossing Construction in Progress	Land	
Governmental Activities								
Balance, September 30, 2014	\$32,264	\$652,459	\$15,200	\$282,038	\$ -	\$ -	\$ 435,156	\$ 1,417,117
Increases	-	-	-	-	-	-	-	-
Decreases	-	-	-	-	-	-	-	-
Balance, September 30, 2015	<u>32,264</u>	<u>652,459</u>	<u>15,200</u>	<u>282,038</u>	<u>-</u>	<u>-</u>	<u>435,156</u>	<u>1,417,117</u>
Accumulated Depreciation:								
Balance, September 30, 2014	15,525	335,404	9,880	8,226	-	-	-	369,035
Increases	3,215	31,874	3,040	7,051	-	-	-	45,180
Decreases	-	-	-	-	-	-	-	-
Balance, September 30, 2015	<u>18,740</u>	<u>367,278</u>	<u>12,920</u>	<u>15,277</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>414,215</u>
Capital assets, net	<u>\$13,524</u>	<u>\$285,181</u>	<u>\$ 2,280</u>	<u>\$266,761</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 435,156</u>	<u>\$ 1,002,902</u>
Capital Projects Fund								
Balance, September 30, 2014	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Increases	-	-	-	-	-	112,646	-	112,646
Decreases	-	-	-	-	-	-	-	-
Balance, September 30, 2015	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>112,646</u>	<u>-</u>	<u>112,646</u>
Accumulated Depreciation:								
Balance, September 30, 2014	-	-	-	-	-	-	-	-
Increases	-	-	-	-	-	-	-	-
Decreases	-	-	-	-	-	-	-	-
Balance, September 30, 2015	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 112,646</u>	<u>\$ -</u>	<u>\$ 112,646</u>
Business-Type Activities								
Balance, September 30, 2014	\$47,051	\$ -	\$ -	\$ -	\$857,043	\$ -	\$ 25,878	\$ 929,972
Increases	-	-	-	-	-	-	-	-
Decreases	-	-	-	-	-	-	-	-
Balance, September 30, 2015	<u>47,051</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>857,043</u>	<u>-</u>	<u>25,878</u>	<u>929,972</u>
Accumulated Depreciation:								
Balance, September 30, 2014	22,671	-	-	-	399,510	-	-	422,181
Increases	4,546	-	-	-	42,881	-	-	47,427
Decreases	-	-	-	-	-	-	-	-
Balance, September 30, 2015	<u>27,217</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>442,391</u>	<u>-</u>	<u>-</u>	<u>469,608</u>
Capital assets, net	<u>\$19,834</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$414,652</u>	<u>\$ -</u>	<u>\$ 25,878</u>	<u>\$ 460,364</u>
Primary Government								
Capital assets, net	<u>\$33,358</u>	<u>\$285,181</u>	<u>\$ 2,280</u>	<u>\$266,761</u>	<u>\$414,652</u>	<u>\$ -</u>	<u>\$ 461,034</u>	<u>\$ 1,575,912</u>

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2015

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

Governmental activities:	
General government and administration	\$ 13,306
Roads and streets	<u>31,874</u>
Total depreciation expense-Governmental activities	<u>\$ 45,180</u>
 Business-type activities:	
Water	<u>\$ 47,427</u>
Total depreciation expense-Business-type activities	<u>\$ 47,427</u>

Note 4 - Interfund Transfers

The following is a summary of interfund transfers at September 30, 2015:

<u>To (from)</u> <u>General Fund</u>	<u>To (from) Capital</u> <u>Projects Fund</u>	<u>To (from)</u> <u>Water Fund</u>	<u>Purpose</u>
(\$49,138)	\$49,138	none	Net amount of grant revenue less expenses
\$ 1,479	none	(\$ 1,479)	Transfer deposits made in wrong account

Note 5 – Insurance in Force

An umbrella policy is issued by TML-Municipal Liability Joint Self Insurance fund. The policy renewed October 1, 2015.

<u>Coverage</u>	<u>Limit per Occurrence Deductible</u>	
General Liability	\$5,000,000	None
Errors & Omissions Liability	\$1,000,000	\$1,000
Automobile Liability	\$1,000,000	\$25,000
Real and Personal Property	\$1,686,540	\$250

In addition the City has a \$50,000 surety bond covering all three employees and the required workers compensation insurance.

The cost for insurance coverage for the year ended September 30, 2015 was \$6,210.

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, 2017	\$19,980
July 30, 2018	19,980
July 30, 2019	19,980
July 30, 2020	<u>19,980</u>
Total	<u>\$ 79,920</u>

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2015

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 2015. Monthly lease payments are \$222 and the annual expense is \$2,667.

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
2016	10,436	25,839	36,275
2017	10,942	25,333	36,275
2018	11,474	24,801	36,275
2019	12,030	24,245	36,275
2020	12,615	23,660	36,275
2021-2025	72,877	108,498	181,375
2026-2030	92,370	89,005	181,375
2031-2035	117,077	64,298	181,375
2036-2042	87,720	24,039	111,759
	<u>\$ 427,541</u>	<u>\$ 409,719</u>	<u>\$ 837,260</u>

During fiscal year 2054, the City paid \$28,131 principal and \$20,144 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: \$121,256 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 \$9,739 at September 30, 2015 – all of which was unspent for its restricted purpose.

In addition a portion of the local sales tax revenue is restricted for repairs of existing City streets. During 2015 \$19,055 of that revenue remained unspent for the purpose for which it is restricted resulting in an accumulated balance of \$26,024 restricted for streets.

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2015

For 2015 a balance of \$13,681 in the capital projects fund remained which is restricted for that project.

Committed: There is no committed fund balance.

Assigned: The City has assigned \$40,000 for matching funds as required by the terms of the grant awarded for fiscal year 2016.

Unassigned: \$440,632 is the balance that is not in any of the above categories.

Note 10 – Contracts in Progress

The City has the following contracts in progress as of September 30, 2015 which represent liabilities incurred during or prior to 2013 which may be paid out of the 2016 or later operating budgets:

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 accumulated project cost paid by City - \$16,280
Remaining project costs as of September 30, 2015 - \$9,120

377 Bypass Project Preliminary Engineering
Total Project Cost – not to exceed \$25,000 for Basic Services
Remaining cost to City as of September 30, 2015 - \$7,065

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 around \$50,000 sales tax revenues from the State Comptroller in excess of the normal monthly amount of \$33,000 or less. During December 2013 and January 2014 another \$68,000 was received in excess of the normal amount, for an accumulated total of over \$100,000. During fiscal year 2015 the City had to repay \$8,358. It is possible that the City will have to repay additional amounts in the future. However, no additional requests from the State 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 to Vail Management during the year September 30, 2014 was \$1,032. 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.

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2015

Note 13 – Customer Deposits Liability

The City began charging a refundable deposit to utility customers in recent years. The amount in Customer Deposits is based on records the City found beginning in fiscal 2012. Since prior year records were not available the amount may still be understated; however it is not likely to be material to the financial statements taken as a whole.

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	\$17,600
Professional fees (legal and engineering)	<u>44,000</u>
Total	<u>\$61,600</u>

Note 15 – General Fund Receivables

Receivables at 9/30/15 consist of the following amounts expected to be fully collectible:

Hotel Motel tax receivable	\$6,593
Total	<u>\$6,593</u>

Note 16 – Restricted Sales Taxes

During the year the City collected \$51,580 in sales taxes restricted for maintenance and repairs on existing streets and spent \$32,525 for the restricted purpose. The net amount remaining of \$19,055 is added to the prior year balance of \$6,969 for a total accumulated balance of \$26,024 available to be spent at a future date for the restricted purpose.

Note 17 – Interfund Balances

During the year the general fund paid payroll taxes on payroll expense incurred by the water fund. The amount is shown as due to general fund from water fund. The amount may or may not ever be paid as the water fund operations are normally supplemented by the general fund. The amount is recorded primarily for recordkeeping purposes.

Note 18 – Construction in Progress

During the year the City incurred expenditures for a long-term construction project and also received reimbursement for those expenditures under a grant contract. The City expected the project to be completed in early 2016 and has accounted for the project under the percentage of completion method.

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2015

Note 19 – Subsequent Events

The City has evaluated all other events and transactions occurring subsequent to September 30, 2015 as of December 15, 2015 which is the date the financial statements were available to be 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, 2015

	Budgeted Amounts		Actual GAAP Basis	Variance Positive (Negative)
	Original	Final		
Revenues:				
Sales taxes	\$ 343,000	343,000	\$ 257,902	(85,098)
Franchise taxes	52,870	52,870	51,692	(1,178)
Hotel/motel taxes - restricted	23,000	23,000	10,772	(12,228)
Licenses and permits	17,200	17,200	25,361	8,161
Investment earnings	1,500	1,500	1,275	(225)
Miscellaneous income	6,015	6,015	8,473	2,458
Total revenues	<u>443,585</u>	<u>443,585</u>	<u>355,475</u>	<u>(88,110)</u>
Expenditures:				
General government	216,946	216,946	221,283	(4,337)
Water and sanitation (paid by general fund)	17,760	17,760	17,760	-
Streets and highways	103,000	103,000	32,988	70,012
Debt service	48,276	48,276	48,275	1
Total expenditures	<u>385,982</u>	<u>385,982</u>	<u>320,306</u>	<u>65,676</u>
Excess of revenues over expenditures	57,603	57,603	35,169	(22,434)
Other Financing Sources (Uses):				
Transfers in from water fund	-	-	1,479	1,479
Transfer out to capital projects fund	-	-	(49,138)	(49,138)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(47,659)</u>	<u>(47,659)</u>
Budget and actual excess (deficit)	<u>57,603</u>	<u>57,603</u>	(12,490)	<u>(70,093)</u>
Fund balance - beginning of year			<u>640,402</u>	
Fund balance - end of year			<u>\$ 627,912</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, 2015

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, 2015, 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 December 15, 2015.

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.

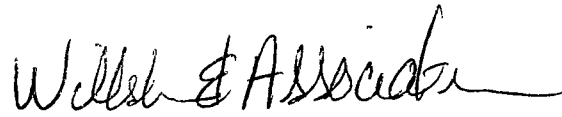
Compliance and Other Matters

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 December 15, 2015.

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

December 15, 2015

City of Cresson
Audited Financial Statements
for the year ended September 30, 2016

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CITY OF CRESSON, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2016
(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, 2016. 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 \$2,007,837 at September 30, 2016. Of this amount \$506,363 is unrestricted and may be used to meet future obligations: \$493,141 in the general fund and \$13,222 in the water fund.
- The government-wide net position increased \$210,703 during the current fiscal year. Net position of general fund decreased by \$93,705 from the previous year. Net position of the water fund increased 304,408 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 \$676,636.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$493,131 or approximately 149% 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, 2016 (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, 2016 (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 are 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 - 31 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 \$2,007,837 as of September 30, 2016.

The largest portion of the City's net position (66%) 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, 2016 (Unaudited)

Table I
Summary Statement of Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 695,839	693,507	31,859	19,066	\$ 727,698	\$ 712,573
Capital assets	958,482	1,115,548	758,721	460,364	1,717,203	1,575,912
Total assets	1,654,321	1,809,055	790,580	479,430	2,444,901	2,288,485
Liabilities	418,428	479,457	18,636	11,894	437,064	491,351
Total liabilities	418,428	479,457	18,636	11,894	437,064	491,351
Net Position:						
Invested in capital assets	559,257	688,005	758,722	460,364	1,317,979	1,148,369
Restricted	183,495	160,961	-	-	183,495	160,961
Unrestricted	493,141	480,632	13,222	7,172	506,363	487,804
Total net position	\$ 1,235,893	\$ 1,329,598	\$ 771,944	\$ 467,536	\$ 2,007,837	\$ 1,797,134

As of September 30, 2016, the City is able to report positive balances in three categories of net position: for the government as a whole \$2,007,837 and separately for the Governmental funds \$1,235,893 and Enterprise fund \$771,944.

Governmental and business-type activities increased the City's net position by \$210,703. 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, 2016 (Unaudited)

Table II
Statement of Activities, Changes in Net Position

	Governmental		Business-Type		Total	
	Activities		Activities		Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 43,368	\$ 25,361	\$ 200,391	\$ 194,237	\$ 243,759	\$ 219,598
Capital projects grant	197,811	77,189	-	-	197,811	77,189
General revenues:						
Sales taxes	305,250	257,902	-	-	305,250	257,902
Franchise fees	51,511	51,692	-	-	51,511	51,692
Hotel/motel taxes	6,509	10,772	-	-	6,509	10,772
Investment earnings	1,486	1,275	-	-	1,486	1,275
Miscellaneous inc	7,728	8,473	-	-	7,728	8,473
Total revenues	613,663	432,664	200,391	194,237	814,054	626,901
Expenses:						
General government	252,051	254,733	-	-	252,051	254,733
Streets	77,298	64,862	-	-	77,298	64,862
Water and sanitation	17,760	17,760	256,242	237,934	274,002	255,694
Total expenses	347,109	337,355	256,242	237,934	603,351	575,289
Other increases (decreases)						
Transfers (out) in	(360,259)	1,479	360,259	(1,479)	-	-
Total other decreases	(360,259)	1,479	360,259	(1,479)	-	-
Increase in net position	(93,705)	96,788	304,408	(45,176)	210,703	51,612
Net position - beginning	1,329,598	1,232,810	467,536	512,712	1,797,134	1,745,522
Net position - ending	\$ 1,235,893	\$ 1,329,598	\$ 771,944	\$ 467,536	\$ 2,007,837	\$ 1,797,134

For fiscal year 2016, revenue from governmental activities totaled \$613,663. Sales tax is the largest component of revenue (50%). Charges for services account for 7%.

For fiscal year 2016, expenses for governmental activities totaled \$347,109. 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, 2016 (Unaudited)

Business-type Activities

While water revenues and expenditures both increased over the prior year, the current year increase in the water department net position is due to a transfer in from the governmental funds of \$360,259 which was the completed infrastructure constructed by funds from a grant and from the general fund match. Excluding the transfer in of the infrastructure, the water fund operations generated a loss of \$55,851.

Also in the current year water department expenses were paid out of the General Fund and amounted to \$17,760 for the Thrash lease.

Capital Assets

At the end of the fiscal year 2016, the City had \$1,717,203 invested in capital assets including land, buildings, infrastructure and equipment as shown below:

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

	Governmental		Business-Type		Total	
	Activities		Activities		Primary	
	2016	2015	2016	2015	2016	2015
Land	\$ 435,156	\$ 435,156	\$ 25,878	\$ 25,878	\$ 461,034	\$ 461,034
Construction in progress	-	112,646	-	-	-	112,646
Buildings	259,710	266,761	-	-	259,710	266,761
Vehicles	-	2,280	-	-	-	2,280
Infrastructure	253,307	285,181	717,019	414,652	970,326	699,833
Equipment, furniture, software	10,309	13,524	15,824	19,834	26,133	33,358
	<u>\$ 958,482</u>	<u>\$ 1,115,548</u>	<u>\$ 758,721</u>	<u>\$ 460,364</u>	<u>\$ 1,717,203</u>	<u>\$ 1,575,912</u>

The capital asset additions during the current fiscal year consisted of additional capital outlay of \$247,613 for the grant project construction which was funded in part by grant money along with the City's matching portion. The current year capital outlay along with the \$112,646 of construction in progress totals the \$360,259 overall addition to infrastructure in the Water fund, reduced only by the accumulated depreciation for all assets.

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, 2016 (Unaudited)

ECONOMIC FACTORS

The City's elected and appointed officials considered many factors when setting the fiscal year 2016-2017 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 2016-2017 revenues are budgeted at \$403,625, an increase from the current fiscal year.

Phase II and Phase III of the generator project will be paid for as the City has available funds.

For fiscal year 2017 the City expects to receive a donation of the Bluebonnet Hills Water Supply Corporation assets, including land, building, infrastructure and customers. The City expects a net increase in water revenue due to this acquisition, without any anticipated additional costs to the City.

During fiscal year 2016 the City continued to pay \$1,000 per month extra principal on its building note using accumulated cash.

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.

INDEPENDENT AUDITORS' REPORT

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, 2016, 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, 2016, 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 December 7, 2016 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

December 7, 2016

CITY OF CRESSON
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 507,137	\$ 23,695	\$ 530,832
Due to general fund from water fund	3,973	-	3,973
Receivables, net of allowance	1,234	8,164	9,398
Total current assets	<u>512,344</u>	<u>31,859</u>	<u>544,203</u>
Restricted Assets:			
Restricted cash (Note 9)	183,495	-	183,495
Total restricted assets	<u>183,495</u>	<u>-</u>	<u>183,495</u>
Capital assets:			
Land	435,156	25,878	461,034
Depreciable, net of depreciation (Note 3)	523,326	732,843	1,256,169
	<u>958,482</u>	<u>758,721</u>	<u>1,717,203</u>
Total assets	<u>1,654,321</u>	<u>790,580</u>	<u>2,444,901</u>
LIABILITIES			
Current liabilities:			
Accrued liabilities	4,853	5,847	10,700
Deposit from contractor (Note 18)	14,350	-	14,350
Customer deposits (Note 13)	-	12,789	12,789
Current portion of long term debt	10,942	-	10,942
Total current liabilities	<u>30,145</u>	<u>18,636</u>	<u>48,781</u>
Long term liabilities:			
Note payable, land and building (Note 8)	388,283	-	388,283
Total long term liabilities	<u>388,283</u>	<u>-</u>	<u>388,283</u>
Total liabilities	<u>418,428</u>	<u>18,636</u>	<u>437,064</u>
NET POSITION			
Invested in capital assets, net of related debt	559,257	758,721	1,317,978
Restricted (Note 9)	183,495	-	183,495
Unrestricted	493,141	13,222	506,363
Total net position	<u>\$ 1,235,893</u>	<u>\$ 771,943</u>	<u>\$ 2,007,836</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, 2016

Net (Expense) Revenue and
Changes in Net Position

	Program revenues			Primary Government		
	Expenses	Charges for Services	Capital Projects Grant	Governmental Activities	Business-type Activities	Total
Primary Government:						
Governmental Activities						
General government	\$ (232,094)	\$ 43,368	\$ 197,811	\$ 9,085	-	9,085
Debt service	(19,957)	-	-	(19,957)	-	(19,957)
Water and sanitation (paid by general fund - Note 14)	(17,760)	-	-	(17,760)	-	(17,760)
Streets	(77,298)	-	-	(77,298)	-	(77,298)
Total governmental	(347,109)	43,368	197,811	(105,930)	-	(105,930)
Business-type activities:						
Water Department	(256,242)	200,391	-	-	(55,851)	(55,851)
Total business-type	(256,242)	200,391	-	-	(55,851)	(55,851)
Total Activity	\$ (603,351)	\$ 243,759	\$ 197,811	\$ (105,930)	\$ (55,851)	\$ (161,781)
General revenues						
Sales taxes				305,250	-	305,250
Franchise taxes				51,511	-	51,511
Hotel/motel tax				6,509	-	6,509
Miscellaneous revenue				7,728	-	7,728
Investment earnings				1,486	-	1,486
Total general revenues				372,484	-	372,484
Transfers				(360,259)	360,259	-
				12,225	360,259	372,484
Total general revenues and other sources						
Change in net position				(93,705)	304,408	210,703
Net position - beginning				1,329,598	467,536	1,797,134
Net position - ending				\$ 1,235,893	\$ 771,944	\$ 2,007,837

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

CITY OF CRESSON
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 507,137	\$ -	\$ 507,137
Due from water fund	3,973	-	3,973
Receivables (Note 15)	1,234	-	1,234
Restricted cash (Note 9)	183,495	-	183,495
	<u>695,839</u>	<u>-</u>	<u>695,839</u>
Total assets	<u>\$ 695,839</u>	<u>\$ -</u>	<u>\$ 695,839</u>
LIABILITIES			
Accrued liabilities	\$ 4,853	\$ -	\$ 4,853
Deposit from contractor (Note 18)	14,350	-	14,350
Total liabilities	<u>19,203</u>	<u>-</u>	<u>19,203</u>
FUND BALANCES			
Restricted for tourism and streets	183,495	-	183,495
Unassigned	493,141	-	493,141
	<u>676,636</u>	<u>-</u>	<u>676,636</u>
Total fund balances	<u>676,636</u>	<u>-</u>	<u>676,636</u>
Total liabilities and fund balances	<u>\$ 695,839</u>	<u>\$ -</u>	<u>\$ 695,839</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, 2016

Total Fund Balances - Governmental Funds	\$ 676,636
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 \$1,529,763 and the accumulated depreciation was \$414,215. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net position.	1,115,548
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 2016 capital outlays is to increase net position.	211,492
The construction in progress was completed during the year and the entire accumulated amount of \$324,138 was transferred out of the governmental fund and into the proprietary fund resulting in a decrease in net position.	(324,138)
Long term debt is not reported in the governmental funds. At the beginning of the year the balance of long term debt was \$427,543. The net effect of including the beginning balance of long term debt in the governmental activities is to decrease net position.	(427,543)
The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(44,420)
The City paid principal in the amount of \$28,318 during the year. The net effect of reclassifying debt service expenditures to long term debt is to increase net position.	28,318
Net Position of Governmental Activities	<u>\$ 1,235,893</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, 2016

	General Fund	Capital Projects Fund	Total Governmenta Funds
Revenues:			
Sales taxes - unrestricted	\$ 244,200		
Sales taxes - restricted for streets (Note 16)	<u>61,050</u>	\$ 305,250	\$ 305,250
Franchise fees	51,511	-	51,511
Hotel/motel taxes - restricted (Note 9)	6,509	-	6,509
Licenses and permits	43,368	-	43,368
Grant revenue	-	\$ 197,811	197,811
Investment earnings	1,486	-	1,486
Miscellaneous income	<u>7,728</u>	-	<u>7,728</u>
Total revenues	<u>415,852</u>	<u>197,811</u>	<u>613,663</u>
Expenditures:			
General government	219,548	-	219,548
Water and sanitation (paid by general fund - Note 14)	17,760	-	17,760
Streets and highways	45,424	-	45,424
Capital outlay (Note 3)	-	211,492	211,492
Debt service principal	28,318	-	-
Debt service interest	<u>19,957</u>	-	<u>48,275</u>
Total expenditures	<u>331,007</u>	<u>211,492</u>	<u>542,499</u>
Excess (deficiency) of revenues over (under) expenditures	84,845	(13,681)	71,164
Other Financing Sources (Uses):			
Transfers out to water fund	<u>(36,121)</u>	-	<u>(36,121)</u>
Total other financing sources (uses)	<u>(36,121)</u>	-	<u>(36,121)</u>
Net change in fund balance	48,724	(13,681)	35,043
Fund balance - beginning of year	<u>627,912</u>	<u>13,681</u>	<u>641,593</u>
Fund balance - end of year	<u>\$ 676,636</u>	<u>\$ -</u>	<u>\$ 676,636</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, 2016

Total Net Change in Fund Balances - Governmental Funds	\$	35,043
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 2016 capital outlays is to increase net position.		211,492
The construction in progress was completed during the year and the entire accumulated amount of \$324,138 was transferred out of the governmental fund and into the proprietary fund resulting in a decrease in net position.		(324,138)
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.		(44,420)
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.		28,318
Change in Net Position of Governmental Activities	\$	<u>(93,705)</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, 2016

	Business-type Activities
	Water and Sewer Revenue Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 23,695
Accounts receivable, net of uncollectible allowance	8,163
Total current assets	31,858
Noncurrent assets:	
Capital assets:	
Land and improvements	25,878
Infrastructure and equipment, net of accumulated depreciation	732,844
Total noncurrent assets	758,722
Total assets	790,580
 LIABILITIES	
Current liabilities:	
Due to general fund	\$ 3,973
Accrued liabilities	1,874
Customer deposits payable (Note 13)	12,789
Total liabilities	18,636
 NET POSITION	
Invested in capital assets, net of related debt	758,722
Unrestricted	13,222
Total net position	\$ 771,944

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, 2016

	Business-type Activities
	Water and Sewer Revenue Fund
OPERATING REVENUES	
Charges for water services	\$ 85,890
Charges for sanitation services	114,452
Other revenue	49
Total operating revenues	200,391
OPERATING EXPENSES:	
Personnel services - salaries and wages	25,176
Purchased professional and technical services	107,171
Purchased property services	12,401
Other operating services	44,324
Supplies and other purchases	5,268
Depreciation	61,902
Total operating expenses	256,242
Income (loss) before transfers	(55,851)
Non-operating transfers in	360,259
Change in net position	304,408
Total net position - beginning	467,536
Total net position - ending	\$ 771,944

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, 2016

	Business Type Activities
	Water and Sewer Revenue Fund
Cash flows from operating activities:	
Cash received from customers	\$ 203,207
Cash payments to suppliers for goods and services	(194,477)
Net cash provided (used) by operating activities	8,730
Cash flows from noncapital financing activities:	
Cash received from customer deposits	2,632
Net cash provided (used) by noncapital financing activities	2,632
Net increase (decrease) in cash	11,362
Cash - beginning of year	12,333
Cash - end of year	\$ 23,695
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ (55,851)
Adjustments to reconcile operating income to net cash provided by operations:	
Depreciation	61,902
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	2,542
Increase (decrease) in accounts payable	137
Net cash provided (used) by operating activities	\$ 8,730

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, 2016

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, 2016.

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 position) 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

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2016

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 during the year ended September 30, 2016.

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 one capital project fund presented for September 30, 2016.

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2016

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. The City's only proprietary fund is the Water Department fund. All assets and liabilities are included on the Statement of Net Position.

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.

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:

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

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2016

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

At year-end, the carrying amount of the City's deposits, presented as cash equivalents (checking accounts) consists of unrestricted funds of \$530,832 and restricted cash of \$183,495. The bank balances were fully covered by federal depository insurance and pledged securities both at year end and during December 2015 when the highest combined cash balances amounted to \$850,536.

The terms of the City's depository pledge agreement require pledged collateral of at least 102% of the total deposits requiring collateral and this requirement was met throughout the entire fiscal year. In addition, the pledged collateral consists of securities of the type permitted by the provisions of the Public Funds Collateral Act, Title 10, Chapter 2257 of the Texas Government Code. They are held in custody and safekeeping by The Federal Reserve Bank under the terms of Federal Reserve Bank Operating Circular 7.

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2016

Note 3 - Changes in Capital Assets

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

	Depreciable Capital Assets				Non Depreciable Capital Assets		Totals
	Equipment, Furniture & Software	Infrastructure	Vehicles	Building	Water Line Crossing Construction in Progress	Land	
<i>Governmental Activities</i>							
Balance, September 30, 2015	\$ 32,264	\$ 652,459	\$ 15,200	\$ 282,038	\$ -	\$ 435,156	\$ 1,417,117
Increases	-	-	-	-	-	-	-
Decreases	-	-	-	-	-	-	-
Balance, September 30, 2016	<u>32,264</u>	<u>652,459</u>	<u>15,200</u>	<u>282,038</u>	<u>-</u>	<u>435,156</u>	<u>1,417,117</u>
Accumulated Depreciation:							
Balance, September 30, 2015	18,740	367,278	12,920	15,277	-	-	414,215
Increases	3,215	31,874	2,280	7,051	-	-	44,420
Decreases	-	-	-	-	-	-	-
Balance, September 30, 2016	<u>21,955</u>	<u>399,152</u>	<u>15,200</u>	<u>22,328</u>	<u>-</u>	<u>-</u>	<u>458,635</u>
Capital assets, net	<u>\$ 10,309</u>	<u>\$ 253,307</u>	<u>\$ -</u>	<u>\$ 259,710</u>	<u>\$ -</u>	<u>\$ 435,156</u>	<u>\$ 958,482</u>
<i>Capital Projects Fund</i>							
Balance, September 30, 2015	\$ -	\$ -	\$ -	\$ -	\$ 112,646	\$ -	\$ 112,646
Increases	-	-	-	-	-	-	-
Decreases	-	-	-	-	(112,646)	-	(112,646)
Balance, September 30, 2016	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Accumulated Depreciation:							
Balance, September 30, 2015	-	-	-	-	-	-	-
Increases	-	-	-	-	-	-	-
Decreases	-	-	-	-	-	-	-
Balance, September 30, 2016	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<i>Business-Type Activities</i>							
Balance, September 30, 2015	\$ 47,051	\$ 857,043	\$ -	\$ -	\$ -	\$ 25,878	\$ 929,972
Increases	-	360,259	-	-	-	-	360,259
Decreases	-	-	-	-	-	-	-
Balance, September 30, 2016	<u>47,051</u>	<u>1,217,302</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,878</u>	<u>1,290,231</u>
Accumulated Depreciation:							
Balance, September 30, 2015	27,217	442,391	-	-	-	-	469,608
Increases	4,010	57,892	-	-	-	-	61,902
Decreases	-	-	-	-	-	-	-
Balance, September 30, 2016	<u>31,227</u>	<u>500,283</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>531,510</u>
Capital assets, net	<u>\$ 15,824</u>	<u>\$ 717,019</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,878</u>	<u>\$ 758,721</u>
<i>Primary Government</i>							
Capital assets, net	<u>\$ 26,133</u>	<u>\$ 970,326</u>	<u>\$ -</u>	<u>\$ 259,710</u>	<u>\$ -</u>	<u>\$ 461,034</u>	<u>\$ 1,717,203</u>

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2016

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

<i>Governmental activities:</i>	
General government and administration	\$ 12,546
Roads and streets	<u>31,874</u>
Total depreciation expense-Governmental activities	<u>\$ 44,420</u>
 <i>Business-type activities:</i>	
Water	<u>\$ 61,902</u>
Total depreciation expense-Business-type activities	<u>\$ 61,902</u>

Note 4 - Interfund Transfers

The following is a summary of interfund transfers at September 30, 2016:

<u>To (from)</u> <u>General Fund</u>	<u>To (from) Capital</u> <u>Projects Fund</u>	<u>To (from)</u> <u>Water Fund</u>	<u>Purpose</u>
(\$36,121)	(\$324,138)	\$360,259	To transfer completed project costs

Note 5 – Insurance in Force

An umbrella policy is issued by TML-Municipal Liability Joint Self Insurance fund. The policy renewed October 1, 2016.

<u>Coverage</u>	<u>Limit per Occurrence Deductible</u>	
General Liability	\$5,000,000	None
Errors & Omissions Liability	\$1,000,000	\$1,000
Automobile Liability	\$1,000,000	\$10,000
Real and Personal Property	\$1,703,904	\$250

In addition the City has a \$50,000 surety bond covering all three employees and the required workers compensation insurance.

The cost for insurance coverage for the year ended September 30, 2016 was \$6,431.

Note 6 – Thrash Lease Obligation

On July 30, 2008 the City (lessee) entered into a twelve-year 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, 2018	\$19,980
July 30, 2019	19,980
July 30, 2020	<u>19,980</u>
Total	<u>\$ 59,940</u>

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2016

If the lease is extended in 2021 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 2016. Monthly lease payments are \$222 and the annual expense is \$2,664.

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
2017	10,942	25,333	36,275
2018	11,474	24,801	36,275
2019	12,030	24,245	36,275
2020	12,615	23,660	36,275
2021	13,227	23,048	36,275
2022-2026	76,415	104,960	181,375
2027-2031	96,854	84,521	181,375
2032-2036	122,761	64,298	187,059
2037-2042	42,907	8,485	51,392
	<u>\$ 399,225</u>	<u>\$ 383,351</u>	<u>\$ 782,576</u>

During fiscal year 2016, the City paid \$28,318 principal and \$19,957 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: Total restricted cash and fund balance is \$183,495 as of September 30, 2016 and consists of the following:

- (1) \$127,021 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 \$6,509 at September 30, 2016 – of which \$4,733 was unspent for its restricted purpose.

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2016

(2) A portion of the local sales tax revenue is restricted for repairs of existing City streets. During 2016 \$16,100 of that revenue remained unspent for the purpose for which it is restricted resulting in an accumulated balance of \$42,124 restricted for repairs and maintenance of existing streets.

(3) The City received a \$14,350 deposit from a contractor in advance of an anticipated construction of a cul-de-sac in a new housing development. The deposit is in a separate bank account and is restricted by the City for that purpose. If the construction does not occur, the deposit will be refunded to the contractor.

Committed: There is no committed fund balance.

Assigned: There is no assigned fund balance.

Unassigned: \$493,141 is the fund balance that is not in any of the above categories.

Note 10 – Contracts in Progress

The City has the following contracts in progress as of September 30, 2016 which represent liabilities incurred during or prior to 2013 which may be paid out of the 2017 or later operating budgets:

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 accumulated project cost paid by City - \$16,280

Remaining project costs as of September 30, 2015 - \$9,120

377 Bypass Project Preliminary Engineering

Total Project Cost – not to exceed \$25,000 for Basic Services

Remaining cost to City as of September 30, 2015 - \$7,065

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 around \$50,000 sales tax revenues from the State Comptroller in excess of the normal monthly amount of \$33,000 or less. During December 2013 and January 2014 another \$68,000 was received in excess of the normal amount, for an accumulated total of over \$100,000. During fiscal year 2015 the City had to repay \$8,358. It is possible that the City will have to repay additional amounts in the future. However, no additional requests from the State 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 to Vail Management during the year September 30, 2016 was \$4,207. At the end of

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2016

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 based on records the City found beginning in fiscal 2012. Since prior year records were not available the amount may still be understated; however it is not likely to be material to the financial statements taken as a whole.

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	<u>\$17,600</u>
Total	<u>\$17,600</u>

Note 15 – General Fund Receivables

Receivables at 9/30/16 consist of the following amounts expected to be fully collectible:

Hotel Motel tax receivable	<u>\$1,234</u>
Total	<u>\$1,234</u>

Note 16 – Restricted Sales Taxes

During the year the City collected \$61,050 in sales taxes restricted for maintenance and repairs on existing streets and spent \$44,950 for the restricted purpose. The net amount remaining of \$16,100 is added to the prior year balance of \$26,024 for a total accumulated balance of \$42,124 available to be spent at a future date for the restricted purpose.

Note 17 – Interfund Balances

During the year the general fund paid payroll taxes on payroll expense incurred by the water fund. The amount is shown as due to general fund from water fund. The amount is expected to be repaid in the 2017 fiscal year.

Note 18 - Deposit from Contractor

The City received a \$14,350 deposit from a contractor in advance of an anticipated construction of a cul-de-sac in a new housing development. The deposit is in a separate bank account and is restricted by the City for that purpose. If the construction does not occur, the deposit will be refunded to the contractor.

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2016

Note 19 – Subsequent Events

The City has evaluated all other events and transactions occurring subsequent to September 30, 2016 as of January 10, 2017 which is the date the financial statements were available to be 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 - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts		Actual GAAP Basis	Variance Positive (Negative)
	Original	Final		
Revenues:				
Sales taxes	\$ 255,000	255,000	\$ 305,250	50,250
Franchise taxes	52,575	52,575	51,511	(1,064)
Hotel/motel taxes - restricted	14,000	14,000	6,509	(7,491)
Licenses and permits	13,900	13,900	43,368	29,468
Investment earnings	1,100	1,100	1,486	386
Miscellaneous income	23,515	23,515	7,728	(15,787)
Total revenues	<u>360,090</u>	<u>360,090</u>	<u>415,852</u>	<u>55,762</u>
Expenditures:				
General government	218,279	221,184	219,548	1,636
Water and sanitation (paid by general fund)	17,760	17,760	17,760	-
Streets and highways	65,500	65,500	45,424	20,076
Debt service	48,276	48,276	48,275	1
Total expenditures	<u>349,815</u>	<u>352,720</u>	<u>331,007</u>	<u>21,713</u>
Excess of revenues over expenditures	10,275	7,370	84,845	77,475
Other Financing Sources (Uses):				
Transfer out to water fund	-	-	(36,121)	(36,121)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(36,121)</u>	<u>(36,121)</u>
Budget and actual excess (deficit)	<u>10,275</u>	<u>7,370</u>	48,724	<u>41,354</u>
Fund balance - beginning of year			<u>627,912</u>	
Fund balance - end of year			<u>\$ 676,636</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, 2016

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, 2016, 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 December 7, 2016.

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.

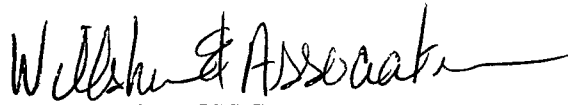
Compliance and Other Matters

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 December 7, 2016.

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" with a long horizontal flourish extending to the right.

Willsher & Associates, PLLC
Certified Public Accountants
Granbury, Texas

December 7, 2016