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**City of Cresson**  
**Audited Financial Statements**  
**for the year ended September 30, 2018**

## Table of Contents

## Page

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

CITY OF CRESSON, TEXAS  
Management's Discussion and Analysis  
For the Year Ended September 30, 2018  
(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, 2018. 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 \$2,012,211 at September 30, 2018. Of this amount \$271,868 is unrestricted and may be used to meet future obligations: \$201,752 in the general fund and \$70,116 in the water fund.
- The government-wide net position increased \$43,608 during the current fiscal year. Net position of general fund increased by \$61,958 from the previous year. Net position of the water fund decreased by \$18,350 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 \$632,085.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$201,752 or approximately 35% of total general fund expenditures.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

CITY OF CRESSON, TEXAS  
Management's Discussion and Analysis (**Continued**)  
For the Year Ended September 30, 2018 (Unaudited)

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.

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,

CITY OF CRESSON, TEXAS  
Management's Discussion and Analysis (**Continued**)  
For the Year Ended September 30, 2018 (Unaudited)

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 - 30 of this report.

**Analysis of Significant Budget Variances**

Significant budget variances for the year were: (1) \$135,000 variance due to expenditure in the General Fund for Land that was approved by the City Council but not budgeted because it is a capital asset; (2) \$61,000 sales tax refunded to the State was not budgeted because it was not an expected or recurring operating expenditure and (3) \$59,000 in general expenditures was over budget because of expenditures directly related to revenues - both of which increased but the budgeted increase of expenditures was restricted due to restraints on amending the revenue side. In addition, the actual revenues exceeded budget by \$179,806.

**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 and deferred inflows by \$2,012,211 as of September 30, 2018.

The largest portion of the City's net position (65%) 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, 2018 (Unaudited)

**Table I**  
**Summary Statement of Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 888,910	\$ 718,746	\$ 113,169	\$ 54,361	\$ 1,002,079	\$ 773,107
Capital assets	1,010,479	916,342	637,930	695,980	1,648,409	1,612,322
<b>Total assets</b>	<b>1,899,389</b>	<b>1,635,088</b>	<b>751,099</b>	<b>750,341</b>	<b>2,650,488</b>	<b>2,385,429</b>
Liabilities	595,224	392,881	43,053	23,945	638,277	416,826
<b>Total liabilities</b>	<b>595,224</b>	<b>392,881</b>	<b>43,053</b>	<b>23,945</b>	<b>638,277</b>	<b>416,826</b>
<b>Net Position:</b>						
Invested in capital assets	672,080	546,869	637,930	695,980	1,310,010	1,242,849
Restricted	430,333	181,779	-	-	430,333	181,779
Unrestricted	201,752	513,559	70,116	30,416	271,868	543,975
<b>Total net position</b>	<b>\$ 1,304,165</b>	<b>\$ 1,242,207</b>	<b>\$ 708,046</b>	<b>\$ 726,396</b>	<b>\$ 2,012,211</b>	<b>\$ 1,968,603</b>

As of September 30, 2018, the City is able to report positive balances in three categories of net position: for the government as a whole \$2,012,211 and separately for the Governmental funds \$1,304,165 and Enterprise fund \$708,046.

Governmental and business-type activities increased the City's net position by \$43,608. 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, 2018 (Unaudited)

Table II  
Statement of Activities, Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 111,041	\$ 78,232	\$ 316,469	\$ 237,825	\$ 427,510	\$ 316,057
Capital projects grant	-	-	-	-	-	-
<b>General revenues:</b>						
Sales taxes	365,697	284,333	-	-	365,697	284,333
Franchise fees	56,595	47,145	-	-	56,595	47,145
Hotel/motel taxes	8,928	7,613	-	-	8,928	7,613
Investment earnings	749	928	-	-	749	928
Miscellaneous Inc	36,072	6,223	-	-	36,072	6,223
<b>Total revenues</b>	<b>579,082</b>	<b>424,474</b>	<b>316,469</b>	<b>237,825</b>	<b>895,551</b>	<b>662,299</b>
<b>Expenses:</b>						
General government	353,719	285,011	-	-	353,719	285,011
Streets	101,993	113,169	-	-	101,993	113,169
Water and sanitation	-	19,980	334,819	283,373	334,819	303,353
<b>Total expenses</b>	<b>455,712</b>	<b>418,160</b>	<b>334,819</b>	<b>283,373</b>	<b>790,531</b>	<b>701,533</b>
<b>Other increases (decreases)</b>						
Sales tax refund	(61,412)	-	-	-	(61,412)	-
<b>Total other decreases</b>	<b>(61,412)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(61,412)</b>	<b>-</b>
<b>Change in net position</b>	<b>61,958</b>	<b>6,314</b>	<b>(18,350)</b>	<b>(45,548)</b>	<b>43,608</b>	<b>(39,234)</b>
<b>Net position - beginning</b>	<b>1,242,207</b>	<b>1,235,893</b>	<b>726,396</b>	<b>771,944</b>	<b>1,968,603</b>	<b>2,007,837</b>
<b>Net position - ending</b>	<b>\$ 1,304,165</b>	<b>\$ 1,242,207</b>	<b>\$ 708,046</b>	<b>\$ 726,396</b>	<b>\$ 2,012,211</b>	<b>\$ 1,968,603</b>

For fiscal year 2018, revenue from governmental activities totaled \$579,082. Sales tax is the largest component of revenue (63%). Charges for services account for 19%.

For fiscal year 2018, expenses for governmental activities totaled \$455,711. The City's largest funded program is for highways and streets (22%). The governmental activities netted a profit of \$61,958 compared to a profit in the prior year of \$6,314.



CITY OF CRESSON, TEXAS  
 Management's Discussion and Analysis (**Continued**)  
 For the Year Ended September 30, 2018 (Unaudited)

**Business-type Activities**

While water revenues and expenditures both increased over the prior year, the current year operating loss in the water department net position was \$18,350 which is less than the operating loss from the prior year of \$45,548.

Water department expenses were previously paid out of the General Fund were paid out of the water fund for the first time and amounted to \$19,980 for the Thrash lease.

**Capital Assets**

At the end of the fiscal year 2018, the City had \$1,648,409 invested in capital assets including land, buildings, infrastructure and equipment as shown below, net of depreciation:

	Governmental		Business-Type		Total	
	Activities		Activities		Primary Government	
	2018	2017	2018	2017	2018	2017
Land	\$ 570,590	\$ 435,156	\$ 25,878	\$ 25,878	\$ 596,468	\$ 461,034
Buildings	245,608	252,659			245,608	252,659
Infrastructure	189,559	221,433	599,807	656,125	789,366	877,558
Equipment, furniture, software	4,722	7,094	12,245	13,977	16,967	21,071
	<u>\$ 1,010,479</u>	<u>\$ 916,342</u>	<u>\$ 637,930</u>	<u>\$ 695,980</u>	<u>\$ 1,648,409</u>	<u>\$ 1,612,322</u>

The net increase in capital assets from the prior year was due to an increase in accumulated depreciation; \$41,298 for the general fund and \$58,050 for the water fund combined with the addition of \$135,434 land addition in the general fund. There were no recorded or unrecorded asset additions or dispositions during the current fiscal year. 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, 2018 (Unaudited)

**ECONOMIC FACTORS**

The City's elected and appointed officials considered many factors when setting the fiscal year 2018-2019 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 2018-2019 revenues are budgeted at \$571,450, an increase of \$172,175 from the current fiscal year.

A wastewater treatment plant in the new Cresson Crossroads development will be completed when the of the current system reaches capacity which is expected to happen by 2020. A municipal utility district has been created to contract for the construction of the plant and it will be paid for by the developer.

For fiscal year 2019 the City expects to receive a donation of the Bluebonnet Hills Water Supply Corporation assets, including cash, land, building, infrastructure and customers. The City expects a net increase in water revenue due to this acquisition, and believes that the cash from the Bluebonnet Hills transaction will be sufficient to cover additional repairs that will be required to the well houses and electronics.

During fiscal year 2018 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, 2018, 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 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 evaluating 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and business-type activities of the City of Cresson, Texas, as of September 30, 2018, and the respective changes in financial position and cash flows of its proprietary fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

***Required Supplementary Information***

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2019 on our consideration of the City of Cresson's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the City of Cresson's internal control over financial reporting and compliance.



Willsher & Associates, PLLC  
Certified Public Accountants  
Granbury, Texas

January 30, 2019

CITY OF CRESSON  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2018

	Primary Government		Total
	Governmental Activities	Business Type Activities	
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 455,561	\$ 82,268	\$ 537,829
Receivable from general fund (Note 13)	-	3,000	3,000
Receivables, net of allowance (Note 11)	3,016	27,901	30,917
Total current assets	<u>458,577</u>	<u>113,169</u>	<u>571,746</u>
<b>Restricted Assets:</b>			
Restricted cash (Note 8)	430,333	-	430,333
Total restricted assets	<u>430,333</u>	<u>-</u>	<u>430,333</u>
<b>Capital assets:</b>			
Land	570,591	25,878	596,469
Depreciable, net of depreciation (Note 3)	439,888	612,052	1,051,940
	<u>1,010,479</u>	<u>637,930</u>	<u>1,648,409</u>
Total assets	<u>1,899,389</u>	<u>751,099</u>	<u>2,650,488</u>
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Accrued liabilities	3,825	3,318	7,143
Deposit from contractor (Note 8)	250,000	-	250,000
Due to water fund (Note 13)	3,000	-	3,000
Customer deposits (Note 10)	-	39,735	39,735
Current portion of long term debt	12,030	-	12,030
Total current liabilities	<u>268,855</u>	<u>43,053</u>	<u>311,908</u>
<b>Long term liabilities:</b>			
Note payable, land and building (Note 7)	326,369	-	326,369
Total long term liabilities	<u>326,369</u>	<u>-</u>	<u>326,369</u>
Total liabilities	<u>595,224</u>	<u>43,053</u>	<u>638,277</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	672,080	637,930	1,310,010
Restricted	430,333	-	430,333
Unrestricted	201,752	70,116	271,868
Total net position	<u>\$ 1,304,165</u>	<u>\$ 708,046</u>	<u>\$ 2,012,211</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, 2018

	Program revenues		Net (Exp Chang
	Expenses	Charges for Services	Governmental Activities
<b>Primary Government:</b>			
<b>Governmental Activities</b>			
General government	\$ (336,517)	\$ 111,041	\$ (225,476)
Debt service	(17,201)	-	(17,201)
Streets	(101,993)	-	(101,993)
Total governmental	(455,711)	111,041	(344,670)
<b>Business-type activities:</b>			
Water Department	(334,819)	316,469	-
Total business-type	(334,819)	316,469	-
Total Activity	\$ (790,530)	\$ 427,510	\$ (344,670)
General revenues			
Sales taxes			365,697
Franchise fees			56,595
Hotel/motel tax			8,927
Miscellaneous revenue			36,072
Investment earnings			749
Total general revenues			468,040
Sales tax refund			(61,412)
Total general revenues and other sources			406,628
Change in net position			61,958
Net position - beginning			1,242,207
Net position - ending			\$ 1,304,165

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

CITY OF CRESSON  
BALANCE SHEET - GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2018

	General Fund	Total Governmental Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 455,561	\$ 455,561
Receivables (Note 11)	3,016	3,016
Restricted cash (Note 8)	<u>430,333</u>	<u>430,333</u>
Total assets	<u><u>\$ 888,910</u></u>	<u><u>\$ 888,910</u></u>
 <b>LIABILITIES</b>		
Accrued liabilities	\$ 3,825	3,825
Due to water fund	3,000	3,000
Deposit from developer (Note 8)	<u>250,000</u>	<u>250,000</u>
Total liabilities	<u><u>256,825</u></u>	<u><u>256,825</u></u>
 <b>FUND BALANCES (Note 8)</b>		
Restricted	430,333	430,333
Assigned	30,000	30,000
Unassigned	171,752	171,752
Total fund balances	<u><u>632,085</u></u>	<u><u>632,085</u></u>
Total liabilities and fund balances	<u><u>\$ 888,910</u></u>	<u><u>\$ 888,910</u></u>

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



CITY OF CRESSON  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS  
 SEPTEMBER 30, 2018

<b>Total Fund Balances - Governmental Funds</b>	\$	632,085
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 \$1,417,117 and the accumulated depreciation was \$500,775. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net position.		916,342
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 for 2018 is an increase of \$135,435.		135,435
Long term debt is not reported in the governmental funds. At the beginning of the year the balance of long term debt was \$369,473. The net effect of including the beginning balance of long term debt in the governmental activities is to decrease net position.		(369,473)
The 2018 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(41,298)
The City paid principal in the amount of \$31,074 during the year. The net effect of reclassifying debt service expenditures to long term debt is to increase net position.		31,074
<b>Net Position of Governmental Activities</b>	<u>\$</u>	<u>1,304,165</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, 2018

	General Fund	Total Governmental Funds
<b>Revenues:</b>		
Sales taxes - unrestricted	\$ 292,558	
Sales taxes - restricted for streets (Note 12)	<u>73,139</u>	\$ 365,697
Franchise fees	56,595	56,595
Hotel/motel taxes - restricted (Note 8)	8,927	8,927
Licenses and permits	111,041	111,041
Grant revenue	-	-
Investment earnings	749	749
Miscellaneous income	<u>36,072</u>	<u>36,072</u>
Total revenues	<u>579,081</u>	<u>579,081</u>
<b>Expenditures:</b>		
General government	327,093	327,093
Streets and highways	70,119	70,119
Capital outlay	135,435	135,435
Debt service principal	31,074	
Debt service interest	<u>17,201</u>	<u>48,275</u>
Total expenditures	<u>580,922</u>	<u>580,922</u>
Excess (deficiency) of revenues over (under) expenditures	(1,841)	(1,841)
<b>Other expenditures:</b>		
Sales tax refund (Note 15)	<u>(61,412)</u>	<u>(61,412)</u>
Net change in fund balance	<u>(63,253)</u>	<u>(63,253)</u>
Fund balance - beginning of year	695,338	695,338
Fund balance - end of year	<u>\$ 632,085</u>	<u>\$ 632,085</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, 2018

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	(63,253)
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 2018 capital outlays is an increase of \$135,435.		135,435
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.		(41,298)
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.		31,074
<b>Change in Net Position of Governmental Activities</b>	<u>\$</u>	<u>61,958</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, 2018

	Business-type Activities
	Water and Sewer Revenue Fund
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 82,268
Receivable from general fund	3,000
Accounts receivable, net of uncollectible allowance	27,901
Total current assets	113,169
Noncurrent assets:	
Capital assets:	
Land and improvements	25,878
Infrastructure and equipment, net of accumulated depreciation	612,052
Total noncurrent assets	637,930
Total assets	\$ 751,099
 <b>LIABILITIES</b>	
Current liabilities:	
Accrued liabilities	\$ 3,318
Customer deposits (Note 10)	39,735
Total liabilities	43,053
 <b>NET POSITION</b>	
Invested in capital assets, net of related debt	637,930
Unrestricted	70,116
Total net position	\$ 708,046

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, 2018

	Business-type Activities
	Water and Sewer Revenue Fund
<b>OPERATING REVENUES</b>	
Charges for water services	\$ 176,086
Charges for sanitation services	140,314
Other revenue	69
Total operating revenues	316,469
<b>OPERATING EXPENSES:</b>	
Personnel services - salaries and wages	42,910
Purchased professional and technical services	128,193
Purchased property services	59,891
Other operating services	34,644
Supplies and other purchases	11,130
Depreciation	58,050
Total operating expenses	334,819
Income (loss) before transfers	(18,350)
Change in net position	(18,350)
Total net position - beginning	726,396
Total net position - ending	\$ 708,046

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, 2018

	Business Type Activities
	Water and Sewer Revenue Fund
<b>Cash flows from operating activities:</b>	
Cash received from customers	\$ 303,895
Cash payments to suppliers for goods and services	(275,733)
Net cash provided (used) by operating activities	28,162
<b>Cash flows from noncapital financing activities:</b>	
Cash received from customer deposits	18,062
Net cash provided (used) by noncapital financing activities	18,062
Net increase (decrease) in cash	46,224
Cash - beginning of year	36,044
Cash - end of year	\$ 82,268
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>	
Operating income (loss)	\$ (18,350)
Adjustments to reconcile operating income to net cash provided by Operations:	
Depreciation	58,050
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	(12,584)
Increase (decrease) in accounts payable	19,108
Net cash provided (used) by operating activities	\$ 46,224
Cash and cash equivalents	\$ 82,268
Total cash	\$ 82,268

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, 2018

**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, 2018.

**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 Board ("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, 2018

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, 2018.

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 no capital project fund presented for September 30, 2018.



City of Cresson, Texas  
Notes to Basic Financial Statements  
For the year ended September 30, 2018

**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, 2018

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 \$537,829 plus restricted cash of \$430,333. The bank balances were fully covered by federal depository insurance and pledged securities at year end and during the year when the highest combined cash balances amounted to \$1,014,443.

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, 2018

**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	Land	Totals
<b>Governmental Activities</b>						
Balance, September 30, 2017	\$32,264	\$ 652,459	\$15,200	\$282,038	\$ 435,156	\$ 1,417,117
Increases	-	-	-	-	135,434	135,434
Decreases	-	-	-	-	-	-
Balance, September 30, 2018	<u>32,264</u>	<u>652,459</u>	<u>15,200</u>	<u>282,038</u>	<u>570,590</u>	<u>1,552,551</u>
Accumulated Depreciation:						
Balance, September 30, 2017	25,170	431,026	15,200	29,379	-	500,775
Increases	2,373	31,874	-	7,051	-	41,298
Decreases	-	-	-	-	-	-
Balance, September 30, 2018	<u>27,543</u>	<u>462,900</u>	<u>15,200</u>	<u>36,430</u>	<u>-</u>	<u>542,073</u>
Capital assets, net	<u>\$ 4,721</u>	<u>\$ 189,559</u>	<u>\$ -</u>	<u>\$245,608</u>	<u>\$ 570,590</u>	<u>\$ 1,010,478</u>
<b>Business-Type Activities</b>						
Balance, September 30, 2017	\$47,051	\$ 1,217,302	\$ -	\$ -	\$ 25,878	\$ 1,290,231
Increases	-	-	-	-	-	-
Decreases	-	-	-	-	-	-
Balance, September 30, 2018	<u>47,051</u>	<u>1,217,302</u>	<u>-</u>	<u>-</u>	<u>25,878</u>	<u>1,290,231</u>
Accumulated Depreciation:						
Balance, September 30, 2017	33,074	561,177	-	-	-	594,251
Increases	1,732	56,318	-	-	-	58,050
Decreases	-	-	-	-	-	-
Balance, September 30, 2018	<u>34,806</u>	<u>617,495</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>652,301</u>
Capital assets, net	<u>\$12,245</u>	<u>\$ 599,807</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,878</u>	<u>\$ 637,930</u>
<b>Primary Government</b>						
Capital assets, net	<u>\$16,966</u>	<u>\$ 789,366</u>	<u>\$ -</u>	<u>\$245,608</u>	<u>\$ 596,468</u>	<u>\$ 1,648,408</u>

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

**Governmental activities:**

General government and administration	\$ 9,424
Roads and streets	<u>31,874</u>
Total depreciation expense-Governmental activities	<u>\$ 41,298</u>

**Business-type activities:**

Water	\$ 58,050
Total depreciation expense-Business-type activities	<u>\$ 58,050</u>

City of Cresson, Texas  
Notes to Basic Financial Statements  
For the year ended September 30, 2018

**Note 4 – Insurance in Force**

An umbrella policy is issued by TML-Municipal Liability Joint Self Insurance fund. The policy renewed October 1, 2018.

<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	\$2,928,381	\$250
Boiler and Machinery	\$ 100,000	\$250

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

The cost for insurance coverage for the year ended September 30, 2018 was \$7,309.

**Note 5 – 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, 2019	\$19,980
July 30, 2020	<u>19,980</u>
Total	<u>\$ 39,960</u>

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 6 – Operating Leases**

The City is leasing a copier/printer under an operating lease with a term of 5 years, beginning December 2017. Monthly lease payments are \$416 and the annual expense is \$4,992.

City of Cresson, Texas  
Notes to Basic Financial Statements  
For the year ended September 30, 2018

**Note 7 – 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
2019	12,030	24,245	36,275
2020	12,615	23,660	36,275
2021	13,227	23,048	36,275
2022	13,870	22,405	36,275
2023	14,542	21,733	36,275
2024-2028	84,015	97,360	181,375
2029-2033	106,486	74,889	181,375
2034-2038	81,614	78,601	160,215
	<u>\$ 338,399</u>	<u>\$ 365,941</u>	<u>\$ 704,340</u>

During fiscal year 2018, the City paid \$31,074 principal and \$17,200 interest on the note.

**Note 8 – Fund Balance**

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

*Nonspendable:* There is no nonspendable fund balance.

*Restricted:* Total restricted cash and fund balance is \$430,333 as of September 30, 2018 and consists of the following:

(1) \$143,027 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 \$8,927 at September 30, 2018 -- the entire amount was unspent for its restricted purpose and added to the accumulated previous balance.

(2) A portion of the local sales tax revenue is restricted for repairs of existing City streets. A portion of the 2018 revenue and some of the accumulated revenue from prior years was spent for the purpose for which it is restricted resulting in an accumulated balance of \$37,306 restricted for repairs and maintenance of existing streets.

(3) The City repaid a \$14,350 deposit received in a prior year from a contractor in advance of an anticipated construction of a cul-de-sac in a new housing development because the project fell through. During the current year the City received a deposit of \$250,000 from a developer to insure the completion of the wastewater treatment plant in the new Cresson Crossroads development. The deposit is in a separate bank account and is restricted by the City for that purpose. Once construction is complete, the deposit will be refunded to the contractor.

City of Cresson, Texas  
Notes to Basic Financial Statements  
For the year ended September 30, 2018

*Committed:* There is no committed fund balance.

*Assigned:* The City Council has verbally assigned \$30,000 of the fund balance for new equipment.

*Unassigned:* \$171,752 is the fund balance that is not in any of the above categories.

**Note 9-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, 2018 was \$2,520. 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 10 – 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 11 – General Fund Receivables**

Receivables at year end consist of the following amounts expected to be fully collectible:

Hotel Motel tax receivable	\$2,016
Rent receivable	<u>1,000</u>
Total	<u>\$3,016</u>

**Note 12 – Restricted Sales Taxes**

During the year the City collected \$73,139 in sales taxes restricted for maintenance and repairs on existing streets and spent \$69,164 for the restricted purpose, resulting in a remaining balance of \$37,306 available to be spent at a future date for the restricted purpose.

**Note 13 – Interfund Balances**

In a prior year a \$3,000 deposit was made to the general fund that should have been made in the water fund. The amount will be repaid in the 2019 fiscal year.

City of Cresson, Texas  
Notes to Basic Financial Statements  
For the year ended September 30, 2018

**Note 14 - Bluebonnet Hills Water Corporation**

In November 2016 the City contracted with Bluebonnet Hills Water Corporation to operate their system for existing Bluebonnet Hills customers until the system and assets can be formally transferred to the City. The City received a monthly fee of \$3,000 beginning January 2017. The City anticipates the formal transfer to take place during fiscal year 2019.

**Note 15 - Sales Tax Refunded to State**

The State of Texas requested a refund of sales taxes in the amount of \$61,412 because the State discovered that they had paid the City too much in a prior year. The effect is a current year expenditure because the City had no notification of the error until the current year.

**Note 16 - Subsequent Events**

The City has evaluated all other events and transactions occurring subsequent to September 30, 2018 as of January 31, 2019 which is the date the financial statements were available to be issued. No other material events have occurred since that date that require 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, 2018

	Budgeted Amounts		Actual GAAP Basis	Variance Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Sales taxes	\$ 275,000	275,000	\$ 365,697	90,697
Franchise fees	52,950	52,950	56,595	3,645
Hotel/motel taxes - restricted	7,000	7,000	8,927	1,927
Licenses and permits	55,400	55,400	111,041	55,641
Investment earnings	1,500	1,500	749	(751)
Miscellaneous income	7,425	7,425	36,072	28,647
Total revenues	<u>399,275</u>	<u>399,275</u>	<u>579,081</u>	<u>179,806</u>
<b>Expenditures:</b>				
General government	271,900	268,280	327,093	(58,813)
Streets and highways	59,800	70,100	70,119	(19)
Capital outlay	-	-	135,435	(135,435)
Debt service	48,276	48,276	48,275	1
Total expenditures	<u>379,976</u>	<u>386,656</u>	<u>580,922</u>	<u>(194,266)</u>
Excess of revenues over expenditures	19,299	12,619	(1,841)	(14,460)
<b>Other Financing Sources (Uses):</b>				
Sales tax refund (note 15)	-	-	(61,412)	(61,412)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(61,412)</u>	<u>(61,412)</u>
Budget and actual excess (deficit)	<u>19,299</u>	<u>12,619</u>	<u>(63,253)</u>	<u>(75,872)</u>
Fund balance - beginning of year			695,338	
Fund balance - end of year			<u>\$ 632,085</u>	

Note: The budget variances shown above are discussed in detail on page 5 of this report.

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, 2018**

**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, 2018, 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 30, 2019.

**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. accordingly, we do not express an opinion on the effectiveness of the City of Cresson, Texas'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.

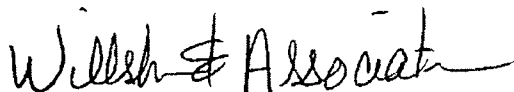
**Compliance and Other Matters**

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 30, 2019.

**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 30, 2019

**City of Cresson**

Comment Letter  
for the Year Ended September 30, 2018

**WILLSHER & ASSOCIATES, PLLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

January 30, 2019

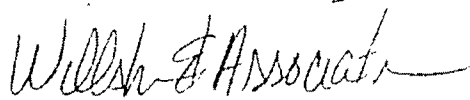
To the Mayor and City Council  
City of Cresson, Texas

In planning and performing our audit of the financial statement of the City for the year ended September 30, 2018 in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 organizations' internal control. Accordingly we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized on the attached exhibit.

This report is intended solely for the information and use of management, the City Council, and others within the City and is not intended to be and should not be used by anyone other than these specified parties.



Willsher & Associates, PLLC  
Granbury, TX

City of Cresson  
Written Comments  
For the Year Ended September 30, 2018

*Prior year comments:*

No prior year comments.

*Current year comments:*

Comment 2018-1

The City had three large dollar variances in general fund expenditures compared to actual as described on page 5 of the audited report. Also, revenues exceeded budget by a large dollar amount. The nature of the expenditure variances were non-recurring and non-operating type and the City had more than enough fund balance and unrestricted cash on hand to cover the expenditures or else they would not have been made in the current fiscal year.

Because the City is a general law form of government, they are not allowed to amend the budget for revenue increases; and because the budget must balance they could not amend the budgeted expenditures to be in excess of budgeted revenues.

We recommend the City look into other allowed methods of preparing the budget in the event these non-recurring items come up again in future years.