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City of Cresson
September 30, 2017

City of Cresson
Audited Financial Statements
for the year ended September 30, 2017

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CITY OF CRESSON, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2017
(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, 2017. 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 \$1,968,603 at September 30, 2017. Of this amount \$543,975 is unrestricted and may be used to meet future obligations: \$513,559 in the general fund and \$30,416 in the water fund.
- The government-wide net position decreased \$39,234 during the current fiscal year. Net position of general fund increased by \$6,314 from the previous year. Net position of the water fund decreased by \$45,548 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 \$695,338.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$513,559 or approximately 127% 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, 2017 (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.

Worksheet of revenues and expenses without Depreciation expense*

	Water and Sewer Fund
OPERATING REVENUES	
Charges for water services	\$ 119,844
Charges for sanitation services	117,947
Other revenue	34
Total operating revenues	<u>237,825</u>
OPERATING EXPENSES	
Personnel services - salaries and wages	30,640
Purchased professional and technical services	110,463
Purchased property services	28,409
Other operating services	42,956
Supplies and other purchases	8,164
Total operating expenses	<u>220,632</u>
Operating revenues less operating expenses	<u>17,193</u>

**This worksheet is not a part of the audited financial statements and is for purposes of management only.*

CITY OF CRESSON, TEXAS
Management's Discussion and Analysis (Continued)
For the Year Ended September 30, 2017 (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 and deferred inflows by \$1,968,603 as of September 30, 2017.

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

CITY OF CRESSON, TEXAS
 Management's Discussion and Analysis (Continued)
 For the Year Ended September 30, 2017 (Unaudited)

Table i
 Summary Statement of Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 718,746	\$ 695,839	\$ 54,361	\$ 31,859	\$ 773,107	\$ 727,698
Capital assets	916,342	958,482	695,980	758,721	1,612,322	1,717,203
Total assets	<u>1,635,088</u>	<u>1,654,321</u>	<u>750,341</u>	<u>790,580</u>	<u>2,385,429</u>	<u>2,444,901</u>
Liabilities	392,881	418,428	23,945	18,636	416,826	437,064
Total liabilities	<u>392,881</u>	<u>418,428</u>	<u>23,945</u>	<u>18,636</u>	<u>416,826</u>	<u>437,064</u>
Net Position						
Invested in capital assets	546,869	559,257	695,980	758,722	1,242,849	1,317,979
Restricted	181,779	183,495	-	-	181,779	183,495
Unrestricted	513,559	493,141	30,416	13,222	543,975	506,363
Total net position	<u>\$ 1,242,207</u>	<u>\$ 1,235,893</u>	<u>\$ 726,396</u>	<u>\$ 771,944</u>	<u>\$ 1,968,603</u>	<u>\$ 2,007,837</u>

As of September 30, 2017, the City is able to report positive balances in three categories of net position for the government as a whole \$1,968,603 and separately for the Governmental funds \$1,242,207 and Enterprise fund \$726,396.

Governmental and business-type activities decreased the City's net position by \$39,234. 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, 2017 (Unaudited)

Table II
Statement of Activities, Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues						
Charges for services	\$ 78,232	\$ 43,368	\$ 237,825	\$ 200,391	\$ 316,057	\$ 243,759
Capital projects grant	-	197,811	-	-	-	197,811
General revenues						
Sales taxes	284,333	305,250	-	-	284,333	305,250
Franchise fees	47,145	51,511	-	-	47,145	51,511
Hotel/motel taxes	7,613	6,509	-	-	7,613	6,509
Investment earnings	928	1,486	-	-	928	1,486
Miscellaneous inc	6,223	7,728	-	-	6,223	7,728
Total revenues	424,474	613,653	237,825	200,391	662,299	814,054
Expenses						
General government	285,011	252,051	-	-	285,011	252,051
Streets	113,169	77,298	-	-	113,169	77,298
Water and sanitation	19,980	17,760	283,373	256,242	303,353	274,002
Total expenses	418,160	347,109	283,373	256,242	701,533	603,351
Other increases (decreases)						
Transfers (out) in	-	(360,259)	-	360,259	-	-
Total other decreases	-	(360,259)	-	360,259	-	-
Change in net position	6,314	(93,705)	(45,548)	304,408	(39,234)	210,703
Net position - beginning	1,235,893	1,329,598	771,944	467,536	2,007,837	1,797,134
Net position - ending	\$ 1,242,207	\$ 1,235,893	\$ 726,396	\$ 771,944	\$ 1,968,603	\$ 2,007,837

For fiscal year 2017, revenue from governmental activities totaled \$424,474. Sales tax is the largest component of revenue (67%). Charges for services account for 18%.

For fiscal year 2017, expenses for governmental activities totaled \$418,160. The City's largest funded program is for highways and streets (27%). The governmental activities netted a small profit of \$6,314 compared to a loss in the prior year of \$93,705.

CITY OF CRESSON, TEXAS
 Management's Discussion and Analysis (Continued)
 For the Year Ended September 30, 2017 (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 \$45,548 which is less than the operating loss from the prior year of \$55,851.

Also in the current year water department expenses were paid out of the General Fund and amounted to \$19,980 for the Thrash lease

Capital Assets

At the end of the fiscal year 2017, the City had \$1,612,322 invested in capital assets including land, buildings, infrastructure and equipment as shown below.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Land	\$ 435,156	\$ 435,156	\$ 25,878	\$ 25,878	\$ 461,034	\$ 461,034
Buildings	252,659	259,710			252,659	259,710
Infrastructure	221,433	253,307	656,125	717,019	877,558	970,326
Equipment, furniture, software	7,094	10,309	13,977	15,824	21,071	26,133
	<u>\$ 916,342</u>	<u>\$ 958,482</u>	<u>\$ 695,980</u>	<u>\$ 758,721</u>	<u>\$ 1,612,322</u>	<u>\$ 1,717,203</u>

The \$104,881 decrease in capital assets from the prior year was due entirely to an increase in accumulated depreciation; \$42,140 for the general fund and \$62,741 for the water 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, 2017 (Unaudited)

ECONOMIC FACTORS

The City's elected and appointed officials considered many factors when setting the fiscal year 2017-2018 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 2017-2018 revenues are budgeted at \$399,275, a slight decrease from the current fiscal year.

Phase II and Phase III of the wastewater generator project will be completed when the of the current system reaches capacity which is expected to happen by 2020. The City plans to issue \$300,000 to 400,000 in revenue bonds in order to pay for the completion of that project. They anticipate additional revenue from the new PODS development in the amount of \$80,000 to \$100,000 annually to pay back the bonds.

For fiscal year 2018 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.

The City Council has approved the purchase of 2.3 adjoining acres in 2018 for \$135,000.

During fiscal year 2017 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, 2017, 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, 2017, 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.

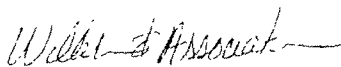
Other Matters

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 2, 2018 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 2, 2018

CITY OF CRESSON
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Current assets			
Cash and cash equivalents	\$ 535,197	\$ 36,044	\$ 571,241
Receivable from general fund (Note 15)	-	3,000	3,000
Receivables, net of allowance	1,770	15,317	17,087
Total current assets	536,967	54,361	591,328
Restricted Assets			
Restricted cash (Note 8)	181,779	-	181,779
Total restricted assets	181,779	-	181,779
Capital assets			
Land	435,156	25,878	461,034
Depreciable, net of depreciation (Note 3)	481,186	670,102	1,151,288
	916,342	695,980	1,612,322
Total assets	1,635,088	750,341	2,385,429
LIABILITIES			
Current liabilities			
Accrued liabilities	6,058	2,272	8,330
Deposit from contractor (Note 16)	14,350	-	14,350
Due to water fund (Note 15)	3,000	-	3,000
Customer deposits (Note 11)	-	21,673	21,673
Current portion of long term debt	11,474	-	11,474
Total current liabilities	34,882	23,945	58,827
Long term liabilities			
Note payable, land and building (Note 7)	357,999	-	357,999
Total long term liabilities	357,999	-	357,999
Total liabilities	392,881	23,945	416,826
NET POSITION			
Invested in capital assets, net of related debt	546,869	695,980	1,242,849
Restricted (Note 8)	181,779	-	181,779
Unrestricted	513,559	30,416	543,975
Total net position	\$ 1,242,207	\$ 726,396	\$ 1,968,603

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, 2017

Net (Expense) Revenue and
Changes in Net Position

	Program revenues		Primary Government		
	Expenses	Charges for Services	Governmental Activities	Business-type Activities	Total
Primary Government:					
Governmental Activities					
General government	\$ (266,488)	\$ 78,232	\$ (188,256)	-	(188,256)
Debt service	(18,523)	-	(18,523)	-	(18,523)
Water and sanitation (paid by general fund - Note 12)	(19,980)	-	(19,980)	-	(19,980)
Streets	(113,169)	-	(113,169)	-	(113,169)
Total governmental	<u>(418,160)</u>	<u>78,232</u>	<u>(339,928)</u>	<u>-</u>	<u>(339,928)</u>
Business-type activities:					
Water Department	(283,373)	237,825	-	(45,548)	(45,548)
Total business-type	<u>(283,373)</u>	<u>237,825</u>	<u>-</u>	<u>(45,548)</u>	<u>(45,548)</u>
Total Activity	<u>\$ (701,533)</u>	<u>\$ 316,057</u>	<u>\$ (339,928)</u>	<u>\$ (45,548)</u>	<u>\$ (385,476)</u>
General revenues					
Sales taxes			284,333	-	284,333
Franchise fees			47,145	-	47,145
Hotel/motel tax			7,613	-	7,613
Miscellaneous revenue			6,223	-	6,223
Investment earnings			928	-	928
Total general revenues			<u>346,242</u>	<u>-</u>	<u>346,242</u>
Transfers					
			<u>-</u>	<u>-</u>	<u>-</u>
Total general revenues and other sources			<u>346,242</u>	<u>-</u>	<u>346,242</u>
Change in net position			6,314	(45,548)	(39,234)
Net position - beginning			1,235,893	771,944	2,007,837
Net position - ending			<u>\$ 1,242,207</u>	<u>\$ 726,396</u>	<u>\$ 1,968,603</u>

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

CITY OF CRESSON
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 535,197	\$ 535,197
Receivables (Note 13)	1,770	1,770
Restricted cash (Note 8)	<u>181,779</u>	<u>181,779</u>
Total assets	<u>\$ 718,746</u>	<u>\$ 718,746</u>
 LIABILITIES		
Accrued liabilities	\$ 6,058	6,058
Due to water fund	3,000	3,000
Deposit from contractor (Note 16)	<u>14,350</u>	<u>14,350</u>
Total liabilities	<u>23,408</u>	<u>23,408</u>
 FUND BALANCES		
Restricted	181,779	181,779
Unassigned	513,559	513,559
Total fund balances	<u>695,338</u>	<u>695,338</u>
Total liabilities and fund balances	<u>\$ 718,746</u>	<u>\$ 718,746</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, 2017

Total Fund Balances - Governmental Funds	\$	695,338
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 \$458,635. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net position.		958,482
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 2017 is zero as there were no capital outlays.		-
Long term debt is not reported in the governmental funds. At the beginning of the year the balance of long term debt was \$399,225. The net effect of including the beginning balance of long term debt in the governmental activities is to decrease net position.		(399,225)
The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(42,140)
The City paid principal in the amount of \$29,752 during the year. The net effect of reclassifying debt service expenditures to long term debt is to increase net position.		29,752
Net Position of Governmental Activities	\$	<u>1,242,207</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, 2017

	General Fund	Total Governmental Funds
Revenues:		
Sales taxes - unrestricted	\$ 227,466	
Sales taxes - restricted for streets (Note 14)	<u>56,867</u>	\$ 284,333
Franchise fees	47,145	47,145
Hotel/motel taxes - restricted (Note 8)	7,613	7,613
Licenses and permits	78,232	78,232
Grant revenue	-	-
Investment earnings	928	928
Miscellaneous income	<u>6,223</u>	<u>6,223</u>
Total revenues	<u>424,474</u>	<u>424,474</u>
Expenditures:		
General government	256,222	256,222
Water and sanitation (paid by general fund - Note 12)	19,980	19,980
Streets and highways	81,295	81,295
Debt service principal	29,752	
Debt service interest	<u>18,523</u>	<u>48,275</u>
Total expenditures	<u>405,772</u>	<u>405,772</u>
Excess (deficiency) of revenues over (under) expenditures	18,702	18,702
Net change in fund balance	18,702	18,702
Fund balance - beginning of year	676,636	676,636
Fund balance - end of year	<u>\$ 695,338</u>	<u>\$ 695,338</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, 2017

Total Net Change in Fund Balances - Governmental Funds	\$	18,702
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 2017 capital outlays is zero as there were no capital outlays for the year		-
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		(42,140)
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.		29,752
Change in Net Position of Governmental Activities	\$	<u>6,314</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, 2017

	Business-type Activities	Water and Sewer Revenue Fund
ASSETS		
Current assets		
Cash and cash equivalents	\$ 36,044	
Receivable from general fund	3,000	
Accounts receivable, net of uncollectible allowance	15,317	
Total current assets	54,361	
Noncurrent assets:		
Capital assets:		
Land and improvements	25,878	
Infrastructure and equipment, net of accumulated depreciation	670,102	
Total noncurrent assets	695,980	
Total assets	750,341	
LIABILITIES		
Current liabilities:		
Due to general fund	\$ -	
Accrued liabilities	2,272	
Customer deposits payable (Note 11)	21,673	
Total liabilities	23,945	
NET POSITION		
Invested in capital assets, net of related debt	695,980	
Unrestricted	30,416	
Total net position	\$ 726,396	

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

CITY OF CRESSON
REVENUES, EXPENSES, AND CHANGES IN FUND
NET ASSETS
PROPRIETARY FUNDS
THE YEAR ENDED SEPTEMBER 30, 2017

	Business-type Activities	Water and Sewer Revenue Fund
REVENUES		
Fees and charges	\$ 119,844	
Fines	117,947	
Interest	34	
Total revenues	237,825	
EXPENSES		
Salaries and wages	30,640	
Contractual and technical services	110,463	
Utilities	28,409	
Supplies	42,956	
Repairs	8,164	
Depreciation	62,741	
Total expenses	283,373	
Change in fund balance before transfers	(45,548)	
Total change in fund balance	-	
Fund balance, beginning of year	(45,548)	
Fund balance, end of year	771,944	
Total fund balance	\$ 726,396	

are an integral part of this statement.

CITY OF CRESSON
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2017

	Business Type Activities
	Water and Sewer Revenue Fund
<i>Cash flows from operating activities</i>	
Cash received from customers	\$ 227,671
Cash payments to suppliers for goods and services	(224,207)
Net cash provided (used) by operating activities	3,464
<i>Cash flows from noncapital financing activities</i>	
Cash received from customer deposits	8,885
Net cash provided (used) by noncapital financing activities	8,885
Net increase (decrease) in cash	12,349
Cash - beginning of year	23,695
Cash - end of year	\$ 36,044
<i>Reconciliation of operating income (loss) to net cash provided by operating activities:</i>	
Operating income (loss)	\$ (45,548)
Adjustments to reconcile operating income to net cash provided by Operations:	
Depreciation	62,741
<i>Changes in assets and liabilities</i>	
(Increase) decrease in accounts receivable	(10,154)
Increase (decrease) in accounts payable	(3,575)
Net cash provided (used) by operating activities	\$ 3,464
Cash and cash equivalents	\$ 36,044
Total cash	\$ 36,044

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, 2017

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, 2017.

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, 2017

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, 2017.

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, 2017.

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2017

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, 2017

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 \$571,241 and restricted cash of \$347,714. The bank balances were fully covered by federal depository insurance and pledged securities at year end when the highest combined cash balances amounted to \$977,678.

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, 2017

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	Land	
Governmental Activities						
Balance, September 30, 2016	\$ 32,264	\$ 652,459	\$ 15,200	\$ 282,038	\$ 435,156	\$ 1,417,117
Increases	-	-	-	-	-	-
Decreases	-	-	-	-	-	-
Balance, September 30, 2017	<u>32,264</u>	<u>652,459</u>	<u>15,200</u>	<u>282,038</u>	<u>435,156</u>	<u>1,417,117</u>
Accumulated Depreciation:						
Balance, September 30, 2016	21,955	399,152	15,200	22,328	-	458,635
Increases	3,215	31,874	-	7,051	-	42,140
Decreases	-	-	-	-	-	-
Balance, September 30, 2017	<u>25,170</u>	<u>431,026</u>	<u>15,200</u>	<u>29,379</u>	<u>-</u>	<u>500,775</u>
Capital assets, net	<u>\$ 7,094</u>	<u>\$ 221,433</u>	<u>\$ -</u>	<u>\$ 252,659</u>	<u>\$ 435,156</u>	<u>\$ 916,342</u>
Business-Type Activities						
Balance, September 30, 2016	\$ 47,051	\$ 1,217,302	\$ -	\$ -	\$ 25,878	\$ 1,290,231
Increases	-	-	-	-	-	-
Decreases	-	-	-	-	-	-
Balance, September 30, 2017	<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, 2016	31,227	500,283	-	-	-	531,510
Increases	1,847	60,894	-	-	-	62,741
Decreases	-	-	-	-	-	-
Balance, September 30, 2017	<u>33,074</u>	<u>561,177</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>594,251</u>
Capital assets, net	<u>\$ 13,977</u>	<u>\$ 656,125</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,878</u>	<u>\$ 695,980</u>
Primary Government						
Capital assets, net	<u>\$ 21,071</u>	<u>\$ 877,558</u>	<u>\$ -</u>	<u>\$ 252,659</u>	<u>\$ 461,034</u>	<u>\$ 1,612,322</u>

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2017

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

Governmental activities:	
General government and administration	\$ 10,266
Roads and streets	<u>31,874</u>
Total depreciation expense-Governmental activities	<u>\$ 42,140</u>
Business-type activities:	
Water	<u>\$ 62,741</u>
Total depreciation expense-Business-type activities	<u>\$ 62,741</u>

Note 4 – Insurance in Force

An umbrella policy is issued by TML-Municipal Liability Joint Self Insurance fund. The policy renewed October 1, 2017.

<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

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, 2017 was \$7,436.

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, 2018	\$19,980
July 30, 2019	19,980
July 30, 2020	<u>19,980</u>
Total	<u>\$ 59,940</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.

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2017

Note 6 – Operating Leases

The City is leasing a copier/printer under an operating lease with a term of 5 years, beginning September 2017. Monthly lease payments are \$222 and the annual expense is \$2,664

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
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	13,870	22,405	36,275
2023-2027	80,124	101,251	181,375
2028-2032	101,556	79,819	181,375
2033-2037	124,577	56,798	181,375
	<u>\$ 369,473</u>	<u>\$ 356,028</u>	<u>\$ 725,501</u>

During fiscal year 2017, the City paid \$29,752 principal and \$18,523 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 \$181,779 as of September 30, 2017 and consists of the following:

(1) \$134,099 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 \$7,613 at September 30, 2017 – 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. All of the 2017 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 \$33,330 restricted for repairs and maintenance of existing streets.

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2017

(3) The City still has 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. 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: \$513,559 is the fund balance that is not in any of the above categories.

Note 9 – Contracts in Progress

The City has the following contracts in progress as of September 30, 2017 which represent liabilities incurred during or prior to 2013 which may be paid out of the 2018 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 - \$9,120

377 Bypass Project Preliminary Engineering
Total Project Cost – not to exceed \$25,000 for Basic Services
Remaining cost to City - \$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 10-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, 2017 was \$825. 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 11 – 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, 2017

Note 12 – 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>\$19,980</u>
Total	<u>\$19,980</u>

Note 13 – General Fund Receivables

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

Hotel Motel tax receivable	<u>\$1,770</u>
Total	<u>\$1,770</u>

Note 14 – Restricted Sales Taxes

During the year the City collected \$56,866 in sales taxes restricted for maintenance and repairs on existing streets and spent \$65,660 for the restricted purpose. The additional amount spent is taken from the prior year balance of \$42,124 resulting in a remaining balance of \$33,330 available to be spent at a future date for the restricted purpose.

Note 15 – Interfund Balances

During the year a \$3,000 deposit was made to the general fund that should have been made in the water fund. The amount is shown as due to water fund from general fund and will be repaid in the 2018 fiscal year.

Note 16 – Deposit from Contractor

In 2016 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. The amount is still being held as of September 30, 2017.

Note 17 – 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 2018.

City of Cresson, Texas
Notes to Basic Financial Statements
For the year ended September 30, 2017

Note 18 – Subsequent Events

The City has evaluated all other events and transactions occurring subsequent to September 30, 2017 as of January 2, 2018 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, 2017

	Budgeted Amounts		Actual GAAP Basis	Variance Positive (Negative)
	Original	Final		
Revenues:				
Sales taxes	\$ 300,000	300,000	\$ 284,332	(15,667)
Franchise fees	56,300	53,100	47,145	(5,955)
Hotel/motel taxes - restricted	14,000	14,000	7,613	(6,387)
Licenses and permits	25,600	28,825	78,232	49,407
Investment earnings	1,700	1,700	928	(772)
Miscellaneous income	6,025	6,000	6,223	223
Total revenues	<u>403,625</u>	<u>403,625</u>	<u>424,474</u>	<u>20,849</u>
Expenditures:				
General government	224,861	234,817	256,222	(21,405)
Water and sanitation (paid by general fund)	17,760	20,260	19,980	280
Streets and highways	75,800	81,460	81,295	165
Debt service	48,275	48,275	48,275	-
Total expenditures	<u>366,696</u>	<u>384,812</u>	<u>405,772</u>	<u>(20,960)</u>
Excess of revenues over expenditures	36,929	18,813	18,702	(111)
Other Financing Sources (Uses):				
Transfer out to water fund	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Budget and actual excess (deficit)	<u>36,929</u>	<u>18,813</u>	<u>18,702</u>	<u>(111)</u>
Fund balance - beginning of year			676,636	
Fund balance - end of year			<u>\$ 695,338</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, 2017

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, 2017, 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 2, 2018.

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.

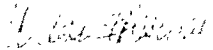
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

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.



Willsher & Associates, PLLC
Certified Public Accountants
Granbury, Texas

January 2, 2018