

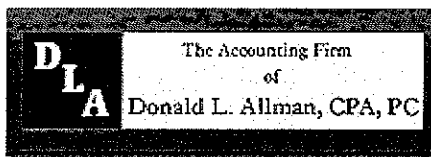
CITY OF VALLEY MILLS, TEXAS
AUDITED FINANCIAL STATEMENTS AS OF

SEPTEMBER 30, 2015

TOGETHER WITH INDEPENDENT AUDITORS' REPORT THEREON
AND SUPPLEMENTARY INFORMATION

**CITY OF VALLEY MILLS, TEXAS
TABLE OF CONTENTS
YEAR ENDED SEPTEMBER 30, 2015**

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditor’s Report.....	1-2
Management’s Discussion and Analysis.....	3-8
 <u>Basic Financial Statements</u>	
Government-wide Financial Statements:	
Statement of Net Position.....	9
Statement of Activities.....	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	11
Reconciliation of the Governmental Funds	
Balance Sheet to the Statement of Net Position.....	12
Statement of Revenues, Expenditures, and Changes in	
Fund Balances – Governmental Funds.....	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in	
Fund Balances of Governmental Funds to the Statement of Activities.....	14
Statement of Net Position – Proprietary Fund.....	15
Statement of Revenues, Expenses, and Changes in	
Fund Net Position – Proprietary Fund.....	16
Statement of Cash Flows – Proprietary Fund.....	17
Notes to the Financial Statements.....	19
 <u>Required Supplementary Information</u>	
Budgetary Comparison Schedules:	
General Fund.....	30
 Compliance and Internal Control Section	
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.....	32



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CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

October 2, 2017

To the Honorable Mayor and Members
of the City Council
City of Valley Mills, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Valley Mills, Texas as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Valley Mills, Texas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements, referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Valley Mills, Texas as of September 30, 2015, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

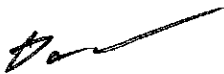
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and Schedule of Changes in Net Pension Liability and Related Ratios and Schedule of Contributions on pages 3-7, and 30 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 October 2, 2017 on our consideration of the City of Valley Mills, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Valley Mills, Texas' internal control over financial reporting and compliance.



Donald L. Allman, CPA, PC

Georgetown, Texas
October 2, 2017

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

CITY OF VALLEY MILLS, TEXAS MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on September 30, 2015. Please read it in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- The City's total net position increased \$ 118,043 from prior year. Net position of our business-type activities increased \$ 103,424 , while the net position of our governmental activities increased \$14,619.
- During the year, the City's expenses were \$118,043 less than the revenue generated in taxes and other revenues for governmental programs, excluding transfers.
- The general fund reported a fund balance of \$ 670,639 .

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 comprise three components: 1) government-wide financials 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. There are two government-wide statements: the statement of net position and the statement of activities.

The statement of net position presents information on all of the city's assets and deferred outflows of resources, and liabilities and deferred inflows of resources with the difference between them presented 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 activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. 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., arbitrage rebate owed but not due until a future year and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other 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, public safety, physical environment, and transportation. The business-type activities of the City include water, wastewater and solid waste and emergency transportation services.

The government-wide financial statements can be found on pages 11-12 of this report.

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 near-term inflows and outflows 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 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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains one individual governmental fund, the general fund, which is considered to be a major fund.

The City adopts an annual legally appropriated budget for the General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget, which can be found on page 30.

The governmental fund financial statements can be found on pages 11 and 13 of this report.

Proprietary funds. The City maintains one proprietary fund, the Utility Enterprise Fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses its enterprise fund to account for its water and sewer operations along with the emergency transportation services. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The proprietary fund financial statements can be found on pages 15-17 of this report.

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 19-28 of this report.

Financial Highlights

The City's assets exceeded its liabilities at the close of September 30, 2015 by \$ 3.4 million of which \$ 2 million is a net investment in capital assets. The governmental activities comprised \$ 1.9 million and the business-type activities comprised \$ 1.5 million of the total net position.

Unrestricted cash and cash equivalents as of September 30, 2015 were \$ 657,225 in the governmental activities and \$ 720,801 in the business-type activities.

The overall increase in the City's net position for the year ended September 30, 2015 was \$ 118,043 .

City's Financial Analysis

Comparative information between the current year and the prior year is presented below:

	Governmental Activities		Statement of Net Position Business-Type Activities		Totals		Percentage Change
	2015	2014	2015	2014	2015	2014	
	Current & Other Assets	\$ 692,347	\$ 781,444	\$ 768,817	\$ 775,927	\$ 1,461,164	
Capital & Non-Current Assets	1,226,102	1,021,892	798,883	868,245	2,024,985	1,890,137	7%
Total Assets	1,918,449	1,803,336	1,567,700	1,644,172	3,486,149	3,447,508	1%
Current Liabilities	18,921	94,289	67,069	71,103	85,990	165,392	-48%
Total Liabilities	18,921	94,289	67,069	71,103	85,990	165,392	-48%
Net Position							
Net Investment in Capital Asset	1,226,102	1,021,892	798,883	752,778	2,024,985	1,774,670	14%
Unrestricted	673,426	687,155	701,748	820,291	1,375,174	1,507,446	-9%
Total Net Position	1,899,528	1,709,047	1,500,631	1,573,069	3,400,159	3,282,116	4%

	Governmental Activities		Statement of Changes in Net Position Business-Type Activities		Total		Total % Change
	2015	2014	2015	2014	2015	2014	
	Revenues						
Program Revenues:							
Charges for Service	126,339	77,786	562,625	371,895	688,964	449,681	53%
Operating Grants and Contributions	205,884	14,675	-	-	205,884	14,675	1303%
Capital Grants and Contributions	-	1,036	-	-	-	1,036	-100%
General Revenues:							
Property Tax	186,305	174,580	-	-	186,305	174,580	7%
Sales Tax	87,852	79,508	-	-	87,852	79,508	10%
Franchise Tax	25,983	23,473	-	-	25,983	23,473	11%
Investment Earnings	2,232	1,379	1,846	47	4,078	1,426	186%
Other Revenue	28,165	22,512	26,130	-	54,295	22,512	141%
Loss on Disposal of Assets	-	(4,627)	-	-	-	(4,627)	-100%
Total Revenues	662,760	390,322	590,601	371,942	1,253,361	762,264	64%
Expenses							
General Government	323,317	186,726	-	-	323,317	186,726	73%
Public Safety	209,825	244,163	-	-	209,825	244,163	-14%
Public Works	42,739	60,749	-	-	42,739	60,749	-30%
Health	40,590	27,743	-	-	40,590	27,743	46%
Culture & Recreation	31,670	18,182	-	-	31,670	18,182	74%
Water & Sewer	-	-	487,177	348,557	487,177	348,557	40%
Total Expenses	648,141	537,563	487,177	348,557	1,135,318	886,120	28%
Transfers In/(Out)	175,862		(175,862)		-		
Change in Net Position	190,481	(147,241)	(72,438)	23,385	118,043	(123,856)	-195%
Net Position, Beginning	1,709,047	1,856,288	1,573,069	1,549,684	3,282,116	3,405,972	-4%
Net Position, Ending	\$ 1,899,528	\$ 1,709,047	\$ 1,500,631	\$ 1,573,069	\$ 3,400,159	\$ 3,282,116	4%

The government's net position increased by \$ 118,043 during the fiscal year, compared to the prior year decrease of \$ (123,856) . Governmental activities had an increase in net position of \$ 190,481 compared to the prior year decrease of \$ (147,241) . Business-type activities decreased the City's net position by \$ (72,438) compared to an increase in the prior year of \$ 23,385 .

General Fund Budgetary Highlights

The City's General Fund operated with an original revenue budget total of \$ 414,762 . Actual revenues were \$231,898 more than final budgeted revenues for the year. The City's General Fund operated with an original expenditure budgeted total of \$417,585 . The total expenses and other uses of the General Fund were \$ 428,835 more than final budgeted expenditures for the year and the General Fund experienced a decrease in fund balance totaling \$ (23,898) for the year.

Capital Asset and Debt Administration

Over many years, the City has invested \$3 million in capital assets, which, net of accumulated depreciation has a book value of \$2 million in a broad range of capital assets. Approximately \$425K in fire hydrants, improvements, equipment and software was added in the year ended September 30, 2015.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's single largest source of revenue is utility sales, comprising approximately 45% of the City's revenue. Property tax revenues represent only 10% of the City's total revenue. Property values have not increased over the last few years. Sales tax revenue is the City's third largest source of revenue source, representing 7% of total revenue. Sales tax revenue was relatively consistent with last year. \$156K in state grant revenue was received in fiscal year 2015.

Contacting the City's Financial Management

The preparation of this report would not have been possible without the efficient and dedicated service of the new members of the City's staff. Credit also goes to the City Council for their unfailing support for setting higher standards for maintaining accurate financial records than had been maintained in previous years by the management of the City of Valley Mills.

BASIC FINANCIAL STATEMENTS

CITY OF VALLEY MILLS, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and Cash Equivalents	\$ 657,225	\$ 720,801	\$ 1,378,026
Accounts Receivable, net	1,795		
Property Taxes Receivable	26,685	41,990	68,675
Sales Tax Receivable	6,642	-	6,642
Inventory		6,026	6,026
Capital assets (net of accumulated depreciation):			
Land	136,796	4,630	141,426
Construction in progress	-	-	-
Infrastructure	-	776,940	776,940
Buildings and improvements	815,118	2,644	817,762
Equipment and vehicles	256,740	14,669	271,409
Office equipment	17,448	-	17,448
Total Assets	<u>1,918,449</u>	<u>1,567,700</u>	<u>3,486,149</u>
LIABILITIES:			
Accounts payable	18,921	28,029	46,950
Customer deposits	-	39,040	39,040
Due to other funds	-	-	-
Total Liabilities	<u>18,921</u>	<u>67,069</u>	<u>85,990</u>
NET POSITION			
Net investment in capital assets	1,226,102	798,883	2,024,985
Unrestricted	<u>673,426</u>	<u>701,748</u>	<u>1,375,174</u>
Total net position	<u>\$ 1,899,528</u>	<u>\$ 1,500,631</u>	<u>\$ 3,400,159</u>

The accompanying notes are an integral part of this statement

CITY OF VALLEY MILLS, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Expenses	Program Revenues			Net (Expense)	
		Fines, Fees and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
PRIMARY GOVERNMENT:						
General Government	323,317	-	-	-	(323,317)	
Public Safety						
Police	209,825	-	-	-	(209,825)	
Municipal Court	-	126,339	-	-	126,339	
Fire	-	-	-	-	-	
Other	-	-	-	-	-	
Public works	42,739	-	-	-	(42,739)	
Health	40,590	-	205,884	-	165,294	
Culture and Recreation	31,670	-	-	-	(31,670)	
Total Governmental Activities	<u>648,141</u>	<u>126,339</u>	<u>205,884</u>	<u>-</u>	<u>(315,918)</u>	
Business-type Activities:						
Water and Sewer	487,177	562,625	-	-	-	75,448
Total Business-type Activities	<u>487,177</u>	<u>562,625</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,448</u>
Total Primary Government	<u>\$ 1,135,318</u>	<u>\$ 688,964</u>	<u>\$ 205,884</u>	<u>\$ -</u>	<u>\$ (315,918)</u>	
Taxes:						
Property					186,305	
Sales					87,852	
Franchise					25,983	
Investment Earnings					2,232	1,846
Miscellaneous Revenues					28,165	26,130
Loss on Disposal of Assets					-	
Total General Revenues and Transfers					<u>330,537</u>	<u>103,424</u>
Transfers In					175,862	(175,862)
Change in Net Position					190,481	(72,438)
Net Position - Beginning					<u>1,709,047</u>	<u>1,573,069</u>
Net Position - Ending					<u>\$ 1,899,528</u>	<u>1,500,631</u>

The accompanying notes are an integral part of this statement

CITY OF VALLEY MILLS, TEXAS
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	<u>General Fund</u>	<u>Total Governmental Funds</u>
ASSETS AND OTHER DEBITS:		
Assets:		
Cash and investments	\$ 657,225	\$ 657,225
Accounts, Property & Sales Tax Receivables	35,122	35,122
Due from other funds	-	-
Total Assets and Other Debits	<u>\$ 692,347</u>	<u>\$ 692,347</u>
 LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES:		
Liabilities:		
Accounts payable	<u>\$ 18,921</u>	<u>\$ 18,921</u>
Total Liabilities	<u>\$ 18,921</u>	<u>\$ 18,921</u>
 Deferred Inflows:		
Deferred property taxes	<u>26,685</u>	<u>26,685</u>
Total Deferred Inflows	<u>26,685</u>	<u>26,685</u>
 Fund Balances:		
Unassigned	<u>646,741</u>	<u>646,741</u>
Total Fund Balance	<u>646,741</u>	<u>646,741</u>
 Total Liabilities, Deferred Inflows and Fund Balance		
	<u>\$ 692,347</u>	<u>\$ 692,347</u>

The accompanying notes are an integral part of this statement

CITY OF VALLEY MILLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

Total fund balances - governmental funds balance sheet	\$ 646,741
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	1,226,102
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.	<u>26,685</u>
Net position of governmental activities	<u>\$ 1,899,528</u>

The accompanying notes are an integral part of this statement

CITY OF VALLEY MILLS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	General Fund	Total Governmental Funds
REVENUE		
Taxes:		
General Property	\$ 176,136	\$ 176,136
General Sales and Use	87,852	87,852
Franchise	25,983	25,983
Grant Revenues	155,884	155,884
Fines and Fees	126,339	126,339
Donations	50,000	50,000
Lease Income	20,174	20,174
Interest Income	2,232	2,232
Other Revenues	2,060	2,060
Total revenues	646,660	646,660
EXPENDITURES		
General Government	230,409	230,409
Public Safety		
Police	174,354	174,354
Municipal Court	17,231	17,231
Fire	12,309	12,309
Other	-	-
Public Works	42,739	42,739
Health	40,590	40,590
Culture and Recreation	31,670	31,670
Capital Outlay	297,118	297,118
Total Expenditures	846,420	846,420
Excess (Deficiency) of Revenues		
Over (Under) Expenditures	(199,760)	(199,760)
Other Financing Sources (Uses):		
Transfers In	175,862	175,862
Total Other Financing Sources (Uses)	-	-
Net Change in Fund Balances	(23,898)	(23,898)
Fund Balance - Beginning	670,639	670,639
Fund Balances - Ending	\$ 646,741	\$ 646,741

The accompanying notes are an integral part of this statement

CITY OF VALLEY MILLS, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER, 2015

Net change in fund balances - total governmental funds \$ (23,898)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report additions to capital assets as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets added in the current period. 297,118

Depreciation expense on capital assets is reported in the statement of activities and does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds. (92,908)

Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. 10,169

Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds. -

Change in net position of governmental activities \$ 190,481

The accompanying notes are an integral part of this statement

CITY OF VALLEY MILLS, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2015

	Enterprise Fund
	Utility Fund
ASSETS:	
Current Assets	
Cash and investments	\$ 720,801
Receivables, net of allowance of \$661	41,990
Inventory	6,026
Total Current Assets	768,817
Noncurrent Assets:	
Restricted cash and investments	-
Capital Assets:	
Land	4,630
Construction in progress	-
Infrastructure	1,263,488
Buildings and improvements	18,345
Equipment and vehicles	154,893
Office equipment	2,685
Less: Accumulated depreciation	(645,158)
Total Noncurrent Assets	798,883
Total Assets	1,567,700
LIABILITIES:	
Current Liabilities:	
Accounts payable	28,029
Customer deposits	39,040
Due to other funds	-
Total Current Liabilities	67,069
Total Liabilities	67,069
NET POSITION:	
Net investment in capital assets	798,883
Unrestricted	701,748
Total Net Position	\$ 1,500,631

The accompanying notes are an integral part of this statement.

CITY OF VALLEY MILLS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION – PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Enterprise Fund Water & Sewer Fund
OPERATING REVENUES:	
Water and sewer billing	\$ 514,272
Penalties	4,801
Grants	46,821
Miscellaneous Income	10,287
Total Operating Revenues	576,181
OPERATING EXPENSES:	
Salaries	84,116
Payroll taxes	5,044
Repairs and maintenance	50,934
Utilities and telephone	49,137
Materials and supplies	43,366
Fuel	2,646
Office supplies	10,429
Labor	60,994
Professional fees	86,277
Insurance	9,361
Retirement	452
Miscellaneous	17,682
Careflite expenses	10,158
Depreciation	44,007
Total Operating Expenses	474,603
Operating Income (loss)	101,578
Non-operating Revenue	
Interest income	1,846
Total Non-operating Revenue	1,846
Net Income (Loss)	103,424
Transfers Out	(175,862)
Change in Net Position	(72,438)
Net Position - Beginning	1,573,069
Net Position - Ending	\$ 1,500,631

The accompanying notes are an integral part of this statement

CITY OF VALLEY MILLS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2015

	Enterprise Fund
	Water and Sewer
	Fund
Cash Flows from Operating Activities:	
Cash received from customers	\$ 589,327
Cash paid to employees	(84,116)
Cash paid to suppliers	(320,303)
Net Cash Provided by Operating Activities	184,908
Cash Flows from Capital and Related Financing Activities:	
Purchase of capital assets	(126,056)
Net Cash Used in Capital and Related Financing Activities	(126,056)
Cash Flows from Non-capital Financing Activities:	
Transfers Out	(175,862)
Net Cash Provided By Non-capital Financing Activities	(175,862)
Cash Flows from Investing Activities:	
Interest on investments	1,846
Net Cash Provided By Investing Activities	1,846
Net Increase (Decrease) in Cash and Cash Equivalents	(115,164)
Cash and Cash Equivalents at Beginning of Year	835,965
Cash and Cash Equivalents at End of Year	\$ 720,801
Reconciliation of Cash and Cash Equivalents Per Statement of Cash Flows to the Statement of Net Position:	
Cash and investments	720,801
Restricted cash and investments	-
	720,801
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:	
Operating Income	\$ 101,578
Adjustments to Reconcile Operating Income to Net Cash	
Provided By Operating Activities:	
Depreciation and amortization	44,007
Change in Assets and Liabilities:	
Increase in Inventory	6,026
Increase in Due to/Due Froms	14,596
Decrease in receivables	13,439
Decrease in accounts payable	(4,858)
Increase in customer deposits	10,120
Total Adjustments	83,330
Net Cash Provided By Operating Activities	\$ 184,908

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

CITY OF VALLEY MILLS, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

I Summary of Significant Accounting Policies

The City of Valley Mills, Texas was chartered in 1896, under the provisions of the State of Texas. The City is a general rule city and operates under a mayor-council form of government and provides the following services as authorized under general law: public safety (police, municipal court, and fire), public works, health, cultural and recreation, water and sewer and general government services.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. General accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units. The more significant accounting policies of the City are described below.

A. New Pronouncements

Effective October 1, 2013, the City implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. This statement reclassifies certain items that were previously reported as assets and liabilities, as deferred outflows and inflows of resources, and recognizes these items as outflows or inflows of resources.

B. The Reporting Entity

The City's combined financial statements include the primary government. The City evaluated whether any there were any other organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organization if its officials appoint a voting majority of an organizations' governing body and either is able to impose its will on the outside organization or there is potential for the outside organization to provide specific financial benefits to or impose specific financial burdens on the primary government. A primary government may also be financially accountable for organizations that are fiscally dependent on it and there is the potential for the outside organization to provide specific financial benefits or impose specific financial burdens on the primary government.

After careful consideration, the City has no such organizations in its primary government.

CITY OF VALLEY MILLS, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

I Summary of Significant Accounting Policies (continued)

C. Basis of Presentation

Government-wide Statements:

The statement of net position and the statement of activities include the financial activities of the overall government. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. There were no other funds to be aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major Governmental funds:

The General Fund is the City's primary operating fund. This fund is used to account for all financial resources not reported in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

CITY OF VALLEY MILLS, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

I Summary of Significant Accounting Policies (continued)

C. Basis of Presentation (continued)

The City reports the following major Enterprise fund:

The Water and Sewer Fund reports for revenues and expenses associated with water, sewer, and garbage services for the citizens of the City. Activities of the fund include administration, operations, and maintenance of the water, sewer and sanitation system and billing and collection activities. All costs are financed through charges to customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when the related fund liability is incurred.

E. Budgetary Control

The City Manager submits an annual budget to the City Council in accordance with the requirements of the State of Texas. The budget is presented to the City Council for review, and public hearings are held to address priorities and the allocation of resources. In September, the City Council adopts the annual fiscal year budgets for City operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Each fund's appropriated budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

CITY OF VALLEY MILLS, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

I. Summary of Significant Accounting Policies (continued)

F. Cash and Investments

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have an original maturity of three months or less when purchased.

The City invests funds solely in time deposits and certificates of deposit provided by the depository bank.

G. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 and are due and payable at that time. Unpaid taxes become delinquent on February 1 of the year in which imposed, and a tax lien attaches to property on that date to secure payment of all taxes, penalties, and interest. Property tax revenues are considered available and are recognized when they become due.

H. Interfund Receivables and Payables

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

I. Transactions Between Funds

Interfund services provided and used are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures or expenses initially made from it that are properly applicable to another fund, are recorded as expenditures or expenses in the reimbursing fund and as a reduction of expenditures or expenses in the fund reimbursed. All other interfund transactions are recorded as transfers.

J. Capital Assets

Capital assets purchased or constructed are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, are capitalized along with other capital assets. Constructed assets are depreciated when they are put into service.

Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Infrastructure	10 – 30 years
Buildings and Improvements	10 – 50 years
Equipment and Vehicles	3 – 10 years
Office Equipment	3 – 10 years

CITY OF VALLEY MILLS, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

I Summary of Significant Accounting Policies (continued)

K. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows or resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City does not currently have any deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

L. Fund Balance and Net Position

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Non-spendable: This classification includes amounts that cannot be spent because they are either (a) not in the spendable form or (b) are legally or contractually required to be maintained intact. Non-spendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by board resolution of the City Council, the City's highest level of decision making authority. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council.

CITY OF VALLEY MILLS, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

I Summary of Significant Accounting Policies (continued)

L. Fund Balance and Net Position (continued)

- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

In circumstances where expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be extended as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly unassigned fund balance. Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. In circumstances where an expense is to be made for a purpose for which amounts are available in multiple net position classifications, restricted position will be fully utilized first followed by unrestricted as necessary.

M. Use of Estimates

The preparation of financial statements in conformity with accounting principals 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II Deposits and Short-Term Investments

Cash and investments as of September 30, 2015 consist of the following:

Deposits with financial institutions	\$ 224,861
Certificates of deposit	<u>1,153,165</u>
	<u>\$ 1,378,026</u>

CITY OF VALLEY MILLS, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

II Deposits and Short-Term Investments

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing certificates of deposit which guarantee a specific rate of return reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric. As of September 30, 2015, the City had investments in certificates of deposit totaling \$ 1,153,165 which had a weighted average maturity of 255 days. As of September 30, 2015, the City was not invested in any securities which are highly sensitive to interest rate fluctuation.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The minimum rating required by (where applicable) the Public Funds Investment Act, the City's investment policy, or debt agreements, is AA. The certificates of deposit are unrated.

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2015, other than certificates of deposit, the City did not have 5% or more of its investments with one issuer.

Custodial Credit Risk

Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act does not contain legal requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

At September 30, 2015, the carrying amount of the City's cash on hand and deposits were \$ 224,861 and the bank balance was \$224,861. \$250,000 of the bank balance was covered by depository insurance under the FDIC, with the remaining balance secured with securities held by pledging financial institutions.

CITY OF VALLEY MILLS, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

III Capital Assets

Capital assets activity for the year ended September 30, 2015, is as follows:

	Beginning Balance	Additions / Completions	Retirements / Adjustments	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land				
Total assets not being depreciated	\$ 136,796	\$ -	\$ -	\$ 136,796
	<u>136,796</u>	<u>-</u>	<u>-</u>	<u>136,796</u>
Capital assets, being depreciated:				
Buildings and improvements	779,620	192,106	-	971,726
Equipment and vehicles	463,934	105,012	-	568,946
Office equipment	49,476	-	-	49,476
Total capital assets being depreciated	<u>1,293,030</u>	<u>297,118</u>	<u>-</u>	<u>1,590,148</u>
Accumulated depreciation:				
Buildings and improvements	119,130	37,478	-	156,608
Equipment and vehicles	262,484	49,722	-	312,206
Office equipment	26,320	5,708	-	32,028
Total accumulated depreciation	<u>407,934</u>	<u>92,908</u>	<u>-</u>	<u>500,842</u>
Total capital assets being depreciated, net	<u>885,096</u>	<u>204,210</u>	<u>-</u>	<u>1,089,306</u>
Governmental activities capital assets, net	<u>\$ 1,021,892</u>	<u>\$ 204,210</u>	<u>\$ -</u>	<u>\$ 1,226,102</u>

CITY OF VALLEY MILLS, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

IV Capital Assets (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	4,630	-	-	4,630
Construction in process	35,944	-	35,944	-
Total assets not being depreciated	<u>40,574</u>	<u>-</u>	<u>35,944</u>	<u>4,630</u>
Capital assets, being depreciated:				
Buildings and improvements	18,345	-	-	18,345
Infrastructure	1,137,432	126,056	-	1,263,488
Equipment and Vehicles	154,893	-	-	154,893
Office equipment	2,685	-	-	2,685
Total capital assets being depreciated	<u>1,313,355</u>	<u>126,056</u>	<u>-</u>	<u>1,439,411</u>
Accumulated depreciation:				
Buildings and improvements	15,231	470	-	15,701
Infrastructure	446,176	40,372	-	486,548
Equipment and vehicles	137,059	3,165	-	140,224
Office equipment	2,685	-	-	2,685
Total accumulated depreciation	<u>601,151</u>	<u>44,007</u>	<u>-</u>	<u>645,158</u>
Total capital assets being depreciated, net	<u>712,204</u>	<u>82,049</u>	<u>-</u>	<u>794,253</u>
Business-type activities capital assets, net	<u>\$ 752,778</u>	<u>\$ 82,049</u>	<u>\$ 35,944</u>	<u>\$ 798,883</u>

Depreciation was charged to functions/programs of the government as follows:

General government	49,653
Police and municipal court	19,702
Fire	20,612
Scale house	156
Public works	545
Culture and recreation	2,240
Total depreciation expense - governmental activities	<u>\$ 92,908</u>
Business-type Activities:	
Water and sewer system	\$ 44,007
Total depreciation expense - business-type activities	<u>\$ 44,007</u>

CITY OF VALLEY MILLS, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

V Commitments

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and collectability of any related receivable may be impaired. In the opinion of the City, there were no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statement for such contingencies.

VI Risk Management

The City is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and commissions; injuries to employees; and natural disasters. The City insures its buildings and contents, law enforcement liability, public officials' liability, general liability and auto liability under a renewable one-year policy with the Texas Municipal League. The City insures its workers compensation risk by participating in the Texas Municipal League Intergovernmental Risk Pool which is a self-insurance policy mechanism for political subdivisions in Texas. Rates are set by the State Insurance Board. Each participant's contribution to the pool is adjusted based on its workers' compensation history. The City is responsible only to the extent of premiums paid and contributions made to Texas Municipal League and the Intergovernmental Risk Pool. There have been no significant changes in insurance coverage as compared to last year and settlements have not exceeded coverage in each of the past three fiscal years.

VII Future Accounting Pronouncements

The GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions, which is effective for the year ending September 30, 2015. The objective of this Statement is to improve accounting and financial reporting of the state and local governmental pension plans. This Statement applies to all state and governmental entities and replaces Statements 27 and 50. The city will evaluate the impact of the standard on its financial statements and will take the necessary steps to implement it.

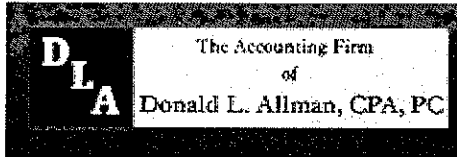
The GASB issued Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, which will be effective for the year ending September 30, 2015. This Statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The City will evaluate the impact of the standard on its financial statements and will take the necessary steps to implement it.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF VALLEY MILLS, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUE:				
Taxes				
General property	175,000	175,000	176,136	1,136
General sales and use	87,500	87,500	87,852	352
Franchise	22,000	22,000	25,983	3,983
Grant revenues	21,000	21,000	155,884	134,884
Fines and fees	73,400	73,400	126,339	52,939
Donations	-	-	50,000	50,000
Lease income	16,162	16,162	20,174	4,012
Interest income	1,600	1,600	2,232	632
Other revenues	18,100	18,100	2,060	(16,040)
Total revenues	<u>414,762</u>	<u>414,762</u>	<u>646,660</u>	<u>231,898</u>
EXPENDITURES				
General Government	20,970	20,970	230,409	(209,439)
Public Safety				
Police	-	-	174,354	(174,354)
Municipal Court	-	-	17,231	(17,231)
Fire	10,000	10,000	12,309	(2,309)
Other			-	-
Public Works	41,500	41,500	42,739	(1,239)
Health	42,915	42,915	40,590	2,325
Culture and recreation	23,100	23,100	31,670	(8,570)
Capital outlay	279,100	279,100	297,118	(18,018)
Total Expenditures	<u>417,585</u>	<u>417,585</u>	<u>846,420</u>	<u>(428,835)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,823)</u>	<u>(2,823)</u>	<u>(199,760)</u>	<u>(196,937)</u>
Other Financing Sources (Uses):				
Proceeds on sale of assets	-	-	175,862	(175,862)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>175,862</u>	<u>(175,862)</u>
Net Change in Fund Balances	<u>(2,823)</u>	<u>(2,823)</u>	<u>(23,898)</u>	<u>(372,799)*</u>
Fund Balance-Beginning	670,639	670,639	670,639	-
Fund Balances - Ending	<u>\$ 667,816</u>	<u>\$ 667,816</u>	<u>\$ 646,741</u>	<u>\$ (372,799)</u>

COMPLIANCE AND INTERNAL CONTROL SECTION



Donald L. Allman, CPA, PC
205 E. University Ave, Ste. 165
Georgetown, TX 78626

CERTIFIED PUBLIC ACCOUNTANT

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

To the Honorable Mayor and
Members of the City Council
City of Valley Mills, 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, the business-type activities, each major fund, and the aggregate remaining fund information of City of Valley Mills, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise City of Valley Mills, Texas' basic financial statements, and have issued our report thereon dated October 2, 2017.

Internal Control Over Financial Reporting

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

Donald L. Allman, CPA, PC

Georgetown, TX

October 2, 2017