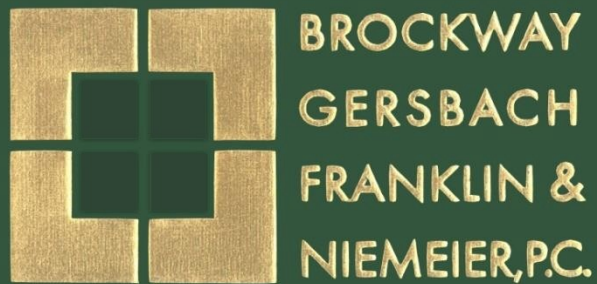


**City of
Bruceville-Eddy, Texas**

September 30, 2017

Financial Statements



**BROCKWAY
GERSBACH
FRANKLIN &
NIEMEIER, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

CITY OF BRUCEVILLE-EDDY, TEXAS

FINANCIAL STATEMENTS

September 30, 2017

TOGETHER WITH INDEPENDENT AUDITORS' REPORT THEREON

AND REQUIRED SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
City of Bruceville-Eddy, 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 Bruceville-Eddy, Texas (the City), as of and for the year ended September 30, 2017, and the related notes to 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**INDEPENDENT AUDITORS' REPORT
(CONTINUED)**

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 Bruceville-Eddy, Texas, as of September 30, 2017, 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, schedule of funding progress, schedule of changes in net pension liability (asset) and related ratios, schedule of contributions and budgetary comparison information on pages 5 through 11 and 56 through 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The comparative financial statements presented on pages 63 and 64 are for purposes of additional analysis and are not a required part of the basic financial statements.

The comparative financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual comparative financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**INDEPENDENT AUDITORS' REPORT
(CONTINUED)**

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2018, on our consideration of the City'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 *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Brockway, Dordick, Franklin & Nimmick, P.C.

Temple, Texas
January 25, 2018

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF BRUCEVILLE-EDDY, TEXAS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial Report, we, the managers of the City of Bruceville-Eddy, Texas, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2017. Please read it in conjunction with the Independent Auditors' Report on pages 1 and 2, and the City's Basic Financial Statements, which begin on page 14.

FINANCIAL HIGHLIGHTS

- The City's net position increased by \$ 367,207 as a result of this year's operations.
- The General Fund ended the year with a fund balance of \$ 1,871,138.
- During the year, the City had governmental expenses that were \$ 281,159 less than the \$ 1,271,872 generated in tax and other revenues for governmental programs.
- The total cost of all the City's programs was \$ 2,512,876. Of this amount, \$ 2,061,090 was directly attributed to Public Safety (Police Department) and Water Services. The remainder of the cost was mainly for general government and street repair.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 14 through 17). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 18) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short-term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. Proprietary statements provide the same type of information as the government-wide financial statements, only in more detail.

The notes to financial statements (starting on page 29) provide narrative explanations or additional data needed for full disclosure in the government-wide statements and the fund financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 14. Its primary purpose is to show whether the City is better or worse off as a result of the year's activities. The Statement of Net Position includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF BRUCEVILLE-EDDY, TEXAS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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 years (e.g. uncollected taxes). Both the statement of net position and the statement of activities are prepared utilizing the accrual basis of accounting.

These two statements report the City's net position and the changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider nonfinancial factors as well, such as changes in the property tax base and the condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities, the City is divided into two kinds of activities.

Governmental activities – Most of the City's basic services are reported here, including the police, streets, culture and recreation, and general government. Property taxes, fines and sales taxes finance most of these activities.

Business-type activities - The City charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's water system activities are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by state law and by bond covenants. The City's two kinds of funds - governmental and proprietary - utilize different accounting approaches.

Governmental fund – The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for the governmental fund with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationships or differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental fund statements are detailed in a reconciliation following the fund financial statements.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF BRUCEVILLE-EDDY, TEXAS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Proprietary fund - The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in the proprietary fund. The proprietary fund is reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds are identical to the business-type activities that are reported in the government-wide statements, but provide more detail and additional information such as cash flows for the proprietary fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net position was \$ 5,519,843 as of September 30, 2017. Analyzing the net position and net expenses of governmental and business-type activities separately, the business-type activities net position was \$ 3,098,783 and the governmental activities net position was \$ 2,421,060.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF BRUCEVILLE-EDDY, TEXAS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

The following condensed financial statements focus on the Net Position (Table I) and Change in Net Position (Table II) of general revenues and significant expenses of the City's governmental and business-type activities.

Table I

NET POSITION

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
	Current and other assets	\$2,011,347	\$1,732,359	\$2,576,050	\$2,623,286	\$4,587,397
Noncurrent and capital assets	580,209	523,761	3,405,642	3,278,461	3,985,851	3,802,222
Total assets	2,591,556	2,256,120	5,981,692	5,901,747	8,573,248	8,157,867
Deferred outflows	63,738	68,948	28,770	30,610	92,508	99,558
Total assets and deferred outflows	2,655,294	2,325,068	6,010,462	5,932,357	8,665,756	8,257,425
Other liabilities	118,926	98,761	249,364	103,103	368,290	201,864
Long-term liabilities	104,596	75,694	2,662,315	2,816,519	2,766,911	2,892,213
Total liabilities	223,522	174,455	2,911,679	2,919,622	3,135,201	3,094,077
Deferred inflows	10,712	10,712	-	-	10,712	10,712
Total liabilities and deferred inflows	234,234	185,167	2,911,679	2,919,622	3,145,913	3,104,789
Net Position:						
Net investment in capital assets	486,079	436,070	746,641	573,866	1,232,720	1,009,936
Restricted	60,274	38,982	552,654	476,967	612,928	515,949
Unrestricted	1,874,707	1,664,849	1,799,488	1,961,902	3,674,195	3,626,751
Total Net Position	\$2,421,060	\$2,139,901	\$3,098,783	\$3,012,735	\$5,519,843	\$5,152,636

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF BRUCEVILLE-EDDY, TEXAS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Table II

CHANGE IN NET POSITION

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues						
Charges for services	\$ 770,994	\$ 803,309	\$ 1,552,659	\$ 1,589,162	\$ 2,323,653	\$ 2,392,471
General Revenues:						
Property tax	323,573	324,775	-	-	323,573	324,775
Sales tax	73,998	68,522	-	-	73,998	68,522
Other taxes	59,962	58,782	-	-	59,962	58,782
Investment earnings	7,079	1,648	11,999	6,065	19,078	7,713
Grants (non-operating)	-	-	33,700	27,328	33,700	27,328
Miscellaneous	36,266	24,512	9,853	5,143	46,119	29,655
Total Revenue	1,271,872	1,281,548	1,608,211	1,627,698	2,880,083	2,909,246
Expenses:						
General government	421,372	403,604	-	-	421,372	403,604
Public safety	538,927	494,750	-	-	538,927	494,750
Streets	27,910	28,186	-	-	27,910	28,186
Interest on long-term debt	2,504	3,073	-	-	2,504	3,073
Water and sewer	-	-	1,522,163	1,476,393	1,522,163	1,476,393
Total Expenses	990,713	929,613	1,522,163	1,476,393	2,512,876	2,406,006
Change in net position	281,159	351,935	86,048	151,305	367,207	503,240
Net position - beginning	2,139,901	1,787,966	3,012,735	2,861,430	5,152,636	4,649,396
Net position - ending	\$2,421,060	\$2,139,901	\$3,098,783	\$3,012,735	\$5,519,843	\$5,152,636

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF BRUCEVILLE-EDDY, TEXAS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

A large portion of the City's net position (22%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (11%) represents resources that are subject to external restrictions on how they may be used. The balance of unrestricted net position, \$ 3,674,195, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the fiscal year, the City is able to report positive balances in both categories of net position for the government as a whole.

For the year ended September 30, 2017, revenues from governmental activities totaled \$ 1,271,872. Charges for public safety services accounted for 61% of these revenues, while property taxes accounted for 25% of the total.

For the year ended September 30, 2017, expenses for governmental activities totaled \$ 990,713. The City's three largest funded programs are for general government, public safety and streets.

Revenues of the City's business-type activities were \$ 1,608,211 for the year ended September 30, 2017. Expenses for the City's business-type activities were \$ 1,522,163. The City's largest business-type activities expense was the purchase of water.

THE CITY'S FUNDS

As the City completed the year, its governmental fund (as presented in the balance sheet on page 18) reported a fund balance of \$ 1,871,138, which is higher than last year's total of \$ 1,615,418.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2017, the City had \$ 3,985,851 (net of accumulated depreciation) invested in a broad range of capital assets, including facilities, equipment and land. This amount represents a net increase of \$ 201,015 due to current year purchases being greater than depreciation and current year disposals. This year's major additions included:

Construction in progress	\$ 153,925
Water facilities	164,241
Machinery and equipment	100,426
Infrastructure	54,337
	<u>\$ 472,929</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF BRUCEVILLE-EDDY, TEXAS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Debt

At year-end, the City had \$ 2,753,131 in bonds and notes outstanding versus \$ 2,892,213 last year. This decrease is due to the principal payments applied to the outstanding debt during fiscal year 2017.

More detailed information about the City's long-term liabilities is presented in the Notes to Financial Statements starting on page 29.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered population growth and available resources from water, public safety and tax revenues when setting the fiscal year ending September 30, 2018 budget and tax rate.

The City adopted a \$ 2,895,847 combined budget for fiscal year ending September 30, 2018. It will be funded through property taxes, water and utility charges, and other local revenues.

If the City does not incur any unforeseen expenditures or reductions in revenue, current revenues should cover current expenses with no change estimated in the General Fund balance and no change in the Water Fund net position.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's business office at City of Bruceville-Eddy, 143 Wilcox Drive, # A, Bruceville-Eddy, Texas 76524.

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BASIC FINANCIAL STATEMENTS

CITY OF BRUCEVILLE-EDDY, TEXAS
STATEMENT OF NET POSITION
September 30, 2017

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 541,231	\$ 1,872,435	\$ 2,413,666
Investments	1,377,917	-	1,377,917
Receivables, net	10,572	172,314	182,886
Cash and cash equivalents, restricted	60,274	552,654	612,928
Internal balances	21,353	(21,353)	-
Capital assets, not being depreciated:			
Land and improvements	60,710	476,262	536,972
Construction in progress	-	153,925	153,925
Capital assets, net of accumulated depreciation:			
Buildings and improvements	37,859	6,282	44,141
Water facilities	-	2,612,737	2,612,737
Machinery and equipment	208,343	156,436	364,779
Infrastructure	273,297	-	273,297
Total capital assets	<u>580,209</u>	<u>3,405,642</u>	<u>3,985,851</u>
Total Assets	<u>2,591,556</u>	<u>5,981,692</u>	<u>8,573,248</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred amounts related to pensions	<u>63,738</u>	<u>28,770</u>	<u>92,508</u>
Total Assets and Deferred Outflows of Resources	<u>2,655,294</u>	<u>6,010,462</u>	<u>8,665,756</u>

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

<u>LIABILITIES</u>	Governmental Activities	Business-Type Activities	Total
Accounts payable	\$ 32,759	\$ 115,117	\$ 147,876
State criminal costs and fees payable	66,792	-	66,792
Accrued interest	-	63,760	63,760
Customer deposits	-	59,630	59,630
Accrued payroll	17,427	7,239	24,666
Other accrued liabilities	1,948	3,618	5,566
Noncurrent liabilities:			
Due within on year:			
Bonds and notes payable	27,236	165,665	192,901
Due in more than one year:			
Bonds and notes payable	66,894	2,493,336	2,560,230
Compensated absences	7,196	2,160	9,356
Net pension liability	3,270	1,154	4,424
Total Liabilities	<u>223,522</u>	<u>2,911,679</u>	<u>3,135,201</u>

DEFERRED INFLOWS OF RESOURCES

Unavailable revenues - lease income	10,712	-	10,712
Total Liabilities and Deferred Inflows of Resources	<u>234,234</u>	<u>2,911,679</u>	<u>3,145,913</u>

NET POSITION

Net investment in capital assets	486,079	746,641	1,232,720
Restricted for:			
Court technology and building security	60,274	-	60,274
Debt service	-	371,261	371,261
Capital projects	-	118,002	118,002
Customer deposits	-	63,391	63,391
Unrestricted	1,874,707	1,799,488	3,674,195
Total Net Position	<u>\$ 2,421,060</u>	<u>\$ 3,098,783</u>	<u>\$ 5,519,843</u>

CITY OF BRUCEVILLE-EDDY, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues	
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>
Primary Government:			
Governmental activities:			
General government	\$ 421,372	\$ 2,630	\$ -
Public safety	538,927	768,364	-
Highways and streets	27,910	-	-
Interest on long-term debt	2,504	-	-
Total governmental activities	990,713	770,994	-
Business-type activities:			
Water utility	1,522,163	1,552,659	33,700
Total business-type activities	1,522,163	1,552,659	33,700
Total Primary Government	\$ 2,512,876	\$ 2,323,653	\$ 33,700

General Revenues:

Property taxes
Sales and miscellaneous taxes
Franchise taxes
Investment income
Miscellaneous
Total general revenues

Change in net position

Net Position - beginning of year

Net Position - end of year

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

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (418,742)	\$ -	\$ (418,742)
229,437	-	229,437
(27,910)	-	(27,910)
(2,504)	-	(2,504)
<u>(219,719)</u>	<u>-</u>	<u>(219,719)</u>
<u>-</u>	<u>64,196</u>	<u>64,196</u>
<u>-</u>	<u>64,196</u>	<u>64,196</u>
(219,719)	64,196	(155,523)
323,573	-	323,573
73,998	-	73,998
59,962	-	59,962
7,079	11,999	19,078
36,266	9,853	46,119
<u>500,878</u>	<u>21,852</u>	<u>522,730</u>
281,159	86,048	367,207
<u>2,139,901</u>	<u>3,012,735</u>	<u>5,152,636</u>
<u>\$ 2,421,060</u>	<u>\$ 3,098,783</u>	<u>\$ 5,519,843</u>

**CITY OF BRUCEVILLE-EDDY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUND
September 30, 2017**

General
Fund

ASSETS

Cash and cash equivalents	\$ 541,231
Investments	1,377,917
Taxes receivable, net	10,572
Due from other funds	21,353
Cash and cash equivalents, restricted	<u>60,274</u>
Total Assets	<u><u>\$ 2,011,347</u></u>

LIABILITIES

Accounts payable	\$ 32,759
State criminal costs and fees payable	66,792
Accrued payroll	17,427
Other accrued liabilities	<u>1,948</u>
Total Liabilities	118,926

DEFERRED INFLOWS OF RESOURCES

Unavailable revenues - property taxes	10,571
Unavailable revenues - lease income	<u>10,712</u>
Total Deferred Inflows of Resources	21,283

FUND BALANCES

Fund Balances:	
Restricted for:	
Court technology and building security	60,274
Assigned for:	
P.D. Escrow	22,000
Unassigned	<u>1,788,864</u>
Total Fund Balance	<u>1,871,138</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u><u>\$ 2,011,347</u></u>

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

CITY OF BRUCEVILLE-EDDY, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION
September 30, 2017

Total Fund Balance - Governmental Fund (Page 18) **\$ 1,871,138**

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:

Land	\$ 60,710	
Buildings	115,844	
Equipment	520,001	
Infrastructure	363,885	
Accumulated depreciation	<u>(480,231)</u>	
Total capital assets	<u>\$ 580,209</u>	580,209

Deferred outflows related to pension activity are not required to be reported in the funds but are required to be reported at the government-wide level. 63,738

Some long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds and notes payable	<u>\$ (94,130)</u>	(94,130)
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Accrued vacation and comp time payable is not due and payable in the current period and therefore is not reported in the funds.

Compensated absences	<u>\$ (7,196)</u>	(7,196)
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Net pension liability is not due and payable in the current period and therefore is not reported in the funds.

Net pension liability	<u>\$ (3,270)</u>	(3,270)
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Some revenues in the governmental funds are deferred because they are not collected within the prescribed time period after year end. On the accrual basis, however, those revenues would be recognized, regardless of when they are collected.

Property taxes not collected	<u>\$ 10,571</u>	<u>10,571</u>
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Net Position of Governmental Activities (Page 15) **\$ 2,421,060**

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

**CITY OF BRUCEVILLE-EDDY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
For the Year Ended September 30, 2017**

	General Fund
<u>Revenues</u>	
Ad valorem tax	\$ 324,820
Sales tax	73,998
Franchise tax	59,962
Fines and forfeitures	768,364
Licenses and permits	2,630
Interest income	7,079
Lease and miscellaneous income	36,267
	1,273,120
 <u>Expenditures</u>	
Current:	
General government	405,226
Public safety	504,977
Streets	64,976
Debt service:	
Principal	40,173
Interest and fiscal charges	2,048
	1,017,400
Excess of revenues over expenditures	255,720
Fund Balance- beginning of year	1,615,418
Fund Balance- end of year	\$ 1,871,138

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

**CITY OF BRUCEVILLE-EDDY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2017**

Net Change in Fund Balance - Total Governmental Fund (Page 20) \$ 255,720

Amounts reported for governmental activities in the statement of activities (pages 16-17) are different because:

Governmental funds report capital outlays 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 by which capital outlays exceeded depreciation in the current period.

Capital outlay	\$ 79,456	
Depreciation expense	(73,681)	
	<u>\$ 5,775</u>	5,775

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes not collected	\$ 10,571	
Less prior year	(11,818)	
	<u>\$ (1,247)</u>	(1,247)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Increase in compensated absences liability	\$ (2,846)	(2,846)
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Certain pension expenses in the statement of activities are recognized on the accrual basis of accounting in accordance with GASB 68.

Contributions made to the pension plan	\$ 19,165	
Pension expenses recognized at government-wide level	(39,642)	
	<u>\$ (20,477)</u>	(20,477)

Repayment of the principal of long-term debt consumes the current financial resources of governmental funds but reduces the long-term liability in the statement of activities.

Debt Service - principal	<u>\$ 44,234</u>	44,234
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Change in Net Position of Governmental Activities (Page 17) \$ 281,159

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

CITY OF BRUCEVILLE-EDDY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2017

	Business-Type Activities
	Water Fund
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 1,872,435
Accounts receivable, net	172,314
Total current assets	2,044,749
Noncurrent assets:	
Cash and cash equivalents, restricted	552,654
Capital assets, net	3,405,642
Total assets	6,003,045
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred outflows of resources:	
Deferred amounts related to pension	28,770
Total Assets and Deferred Outflows of Resources	6,031,815
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	115,117
Accrued interest	63,760
Accrued payroll	7,239
Accrued liabilities	3,618
Customer deposits	59,630
Due to other funds	21,353
Liabilities payable from restricted assets:	
Bonds and notes payable - current portion	165,665
Total current liabilities	436,382
Noncurrent liabilities:	
Compensated absences	2,160
Net pension liability	1,154
Liabilities payable from restricted assets:	
Bonds and notes payable	2,493,336
Total Liabilities	2,933,032
<u>NET POSITION</u>	
Net investment in capital assets	746,641
Restricted for:	
Debt service	371,261
Capital projects	118,002
Customer deposits	63,391
Unrestricted	1,799,488
Total Net Position	\$ 3,098,783

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

CITY OF BRUCEVILLE-EDDY, TEXAS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - PROPRIETARY FUND
For the Year Ended September 30, 2017

	Business-Type Activities
	Water Fund
<u>Operating Revenues</u>	
Water	\$ 1,391,452
Garbage	120,598
Water tap fees	9,250
Other operating revenues	31,359
Grant - CDBG	33,700
	1,586,359
<u>Operating Expenses</u>	
Water purchases	468,000
Water system utilities	108,567
Water system supplies	56,950
Repairs and maintenance	33,685
Other water system expenses	47,694
Personnel and support	246,573
Professional fees	25,260
Administrative expenses	58,682
Garbage collection fees	112,667
Depreciation and amortization	198,233
	1,356,311
Operating Income	230,048
<u>Nonoperating Revenues (Expenses)</u>	
Interest income	11,999
Interest expense	(127,952)
Donations emergency services income	3,723
Donations emergency services expense	(1,880)
Grant - CDBG	(17,780)
Capital outlay	(18,240)
Miscellaneous income	6,130
Total Nonoperating Revenues (Expenses)	(144,000)
Change in Net Position	86,048
Net Position - beginning of year	3,012,735
Net Position - end of year	\$ 3,098,783

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

CITY OF BRUCEVILLE-EDDY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended September 30, 2017

	Business-Type Activities
	Water Fund
<u>Cash Flows from Operating Activities</u>	
Cash received from customers	\$ 1,712,844
Cash paid to suppliers	(828,622)
Cash paid to employees	(188,831)
Net Cash Provided by Operating Activities	695,391
<u>Cash Flows from Non-Capital Financing Activities</u>	
Grant and contribution income	3,723
Grant and contribution expense	(1,880)
Miscellaneous income	6,130
Miscellaneous expense	(36,020)
Net Cash Used by Non-Capital Financing Activities	(28,047)
<u>Cash Flows from Capital and Related Financing Activities</u>	
Acquisition of capital assets	(330,803)
Payments on long-term bonds	(157,518)
Interest paid	(127,952)
Net Cash Used by Capital and Related Financing Activities	(616,273)
<u>Cash Flows from Investing Activities</u>	
Interest received	11,999
Increase in restricted cash	(75,687)
Net Cash Used by Investing Activities	(63,688)
Net Increase in Cash and Cash Equivalents	(12,617)
Cash and Cash Equivalents - beginning of year	1,885,052
Cash and Cash Equivalents - end of year	\$ 1,872,435

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

	<u>Activities</u>
	<u>Water Fund</u>
<u>Reconciliation of operating income to net cash provided</u>	
<u>by operating activities:</u>	
Operating income	\$ 230,048
Adjustments to reconcile operating income	
to net cash provided by operating activities:	
Depreciation expense	198,233
Decrease in accounts receivable	110,306
Decrease in net pension asset	5,389
Decrease in deferred outflows	1,840
Increase in accounts payable	72,126
Increase in accrued liabilities	67,345
Increase in customer deposits	8,950
Increase in net pension liability	1,154
Total Adjustments	<u>465,343</u>
Net Cash Provided by Operating Activities	<u>\$ 695,391</u>

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NOTES TO FINANCIAL STATEMENTS

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**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Bruceville-Eddy, Texas (the City) was incorporated in 1974 for the purpose of providing public safety, water and sanitation services, planning and general administrative services. The City's present population is approximately 1,490, and it serves approximately 1,800 metered customers.

The following is a summary of certain significant accounting policies followed in the preparation of the financial statements of the City.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This statement, known as the "Reporting Model" statement, affects the way the City prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private-sector financial reports.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

Management's Discussion and Analysis - GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of a "management's discussion and analysis" (MD&A). This analysis is similar to the analysis the private sector provides in their annual reports.

Government-Wide Financial Statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. Government-wide financial statements do not provide information by fund or account group, but distinguish between the City's governmental activities and business-type activities on the statement of net position and statement of activities. Significantly, the City's statement of net position includes both noncurrent assets and noncurrent liabilities of the City, which were previously recorded in the General Fixed Assets Account Group and the General Long-term Obligations Account Group (such as building and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure. In addition to the government-wide financial statements, the City has prepared governmental fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. Accordingly, the accounting and financial reporting for the City's General Fund, the City's major governmental fund, is similar to that previously presented in the City's financial statements, although the format of financial statements has been modified by GASB Statement No. 34.

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement of Net Position - The Statement of Net Position is designed to display the financial position of the primary government (government and business-type activities). Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Position and report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position of the government will be broken down into three categories - 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities - The new government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the City's non-fiduciary activities with most of the interfund activities removed. Governmental activities include programs supported primarily by taxes, grants and other intergovernmental revenues. Business-type activities include programs supported primarily by water revenues.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. Examples include water payments, police fines, etc. If revenue is not program revenue, it is general revenue used to support all of the City's functions. Taxes are always general revenues.

Interfund activities between governmental funds appear as due to/due from on the Governmental Fund Balance Sheet. All interfund transactions between governmental funds are eliminated on the government-wide statements.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. 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.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after period end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the state are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

D. FUND ACCOUNTING

The City reports the following major governmental fund:

General Fund - the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary fund:

Water Fund - used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, cost incurred and/or net income is necessary for management accountability.

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reconciliation of Government-Wide and Fund Financial Statements

A summary reconciliation of the difference between total fund balances as reflected on the governmental funds balance sheet and total net position for governmental activities as shown on the government-wide statement of net position is presented in an accompanying schedule to the governmental funds balance sheet. The asset and liability elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. A summary reconciliation of the difference between net changes in fund balances as reflected on the governmental funds statement of revenues, expenditures and changes in fund balances and change in net position for governmental activities as shown on the government-wide statement of activities is presented in an accompanying schedule to the governmental funds statement of revenues, expenditures and changes in fund balances. The revenue and expense elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

In the fund financial statements, governmental funds report restrictions of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. GASB No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, effective for financial statements for periods beginning after June 15, 2010, requires governmental fund balances to be reported in one of five classifications, replacing the previous classifications of reserved, unreserved, and designated. These five classifications are nonspendable, restricted, committed, assigned and unassigned.

Nonspendable fund balances are either not in spendable form or are legally or contractually required to be maintained intact. Restricted fund balances have constraints imposed either 1) by law through constitutional provisions or enabling legislation or 2) by creditors, grantors, contributors, or laws or regulations of other governments. Committed fund balances represent funds set aside formally by the City Council for specific purposes or by contract. Assigned fund balances are earmarked for specific purposes by the City Council, but are neither restricted nor committed. These balances represent tentative management plans that are subject to change. Unassigned fund balance is the residual classification for the general fund for which the previous classifications do not apply. When different classifications of funds are available for expenditure, the City considers the most restrictive classification amount to have been spent first.

The following is a list of fund balance restrictions used by the City and a description of each:

Fund Balance Restrictions:

Debt Service- Funds restricted for the retirement of general long-term debt.

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Court Technology and Building Security- Funds restricted, from specific court fees, for the purchase of goods and services that will benefit the court.

Capital Projects- Funds restricted for use in current and future construction projects.

Customer Deposits- Funds restricted to disbursements for the application to customer account balances or refunds to customer.

E. NEW AND FUTURE FINANCIAL REPORTING REQUIREMENTS

The GASB has issued the following statements, which will become effective in future years.

Statement No.75, “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*” – This statement changes the focus of accounting of postemployment benefits other than pension from whether they are responsibility funding the benefits over time to a point-in-time liability that is reflected on the employer’s financial statements for any actuarially underfunded portion of benefits earned to date. This statement will become effective for the city in fiscal year 2018.

Statement No. 77, “*Tax Abatement Disclosures*” – This statement requires governments that enter into tax abatement agreements to provide certain disclosures regarding these commitments. This statement will become effective for the City in fiscal year 2018.

F. ASSETS, LIABILITIES AND NET POSITION

1. Deposits and Investments

The government’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Receivables

Accounts and property tax receivables are shown net of any allowance for uncollectible accounts. Property taxes receivable for the governmental fund types, which have been remitted within sixty days subsequent to year-end, are considered measurable and available and recognized as revenues. All other property taxes are offset by deferred resources and, accordingly, have not been recorded as revenue.

3. Restricted Assets

Restricted assets are liquid assets that have third party (statutory, bond covenant or granting agency) limitations on their use. Certain resources set aside for the repayment of revenue bonds are classified as restricted assets on the Balance Sheet and the Statement of Net Position, because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. Customer deposits held by the City before any services were supplied are restricted to the service for which the deposits were collected.

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 2,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Category</u>	<u>Life</u>
Buildings and improvements	10-30 years
Machinery and equipment	3-10 years
Water facilities	30 years
Infrastructure	20 years

5. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are exposed in the period incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. Net Position

Net Position in government-wide and proprietary financial statements are classified as invested in capital assets, net of related debt, restricted and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

7. Fund Equity

The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable Fund Balance - Amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.

Restricted Fund Balance – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed Fund Balance – Amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority to be reported as committed; amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.

Assigned Fund Balance – Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned Fund Balance – Amounts that are available for any purpose; positive amounts are reported in the General Fund.

City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance, the highest level of action. This is typically done through adoption of the budget. A fund balance commitment is further indicated in the budget document as a commitment of the fund. Assigned fund balance is established by City Council by passage of a resolution either through adoption or amendment of the budget as intended for specific purposes.

For the classification of Governmental Fund balances, the City considers expenditures to be made from the most restrictive first when more than one classification is available.

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Estimates

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Specifically, the actuarial calculations used to determine the annual required contributions and related liabilities of the City's retirement plans and post-employment obligations are based on assumptions about the possibility of events far into the future. Accordingly, actual results could differ from those estimates.

9. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contribution are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

G. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of 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. At this time, the City has one item that qualifies for reporting in this category that relates to the City's pension plan through TMRS.

In addition to liabilities, the statement of financial 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. At this time, the City has two items that qualify for reporting in this category. They are amounts related to deferred property tax and deferred lease income.

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY DATA

The City adopts its annual budget on a basis consistent with accounting principles generally accepted in the United States of America (GAAP basis) for the General Fund. The Water Fund budget is prepared on a basis (budget basis) which differs from GAAP basis. All annual appropriations lapse at fiscal year-end. The appropriated budget is prepared by fund and function. The legal level of budgetary control is the fund level.

1. The City follows these procedures in establishing the budgetary data reflected in the financial statements:
 - a. Prior to the beginning of each fiscal year, the Mayor submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing those expenditures.
 - b. Public hearings are conducted at which all interested persons' comments concerning the budget are heard.
 - c. The budget is legally enacted by the City Council.
 - d. Budget revisions may be made during the period.

A. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The City over-expended its budget as follows:

<u>General Fund</u>	
Salaries and wages	\$ 12,737
Payroll taxes and insurance	\$ 3,138
Operating costs	\$ 43,261
Repairs and maintenance	\$ 185
<u>Proprietary Water Fund</u>	
Water purchases	\$ 13,000
Water system utilities	\$ 8,567
Repairs and maintenance	\$ 85
Water system expenses	\$ 13,044
Administrative expenses	\$ 3,582
Garbage collection fees	\$ 2,667
Donations emergency expense	\$ 380

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

III. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Additional Contractual Provisions governing deposits and investments are as follows:

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the **Depository Contract Law**. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City's funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Policies Governing Deposits and Investments

1. Foreign Currency Risk – The City's deposits and investments are not exposed to foreign currency risk.
2. Custodial Credit Risk – The City's policy is to be collateralized. The City was fully collateralized during the period.
3. Interest Rate Risk – The City has no debt securities that have interest rate risk.
4. Other Credit Risk Exposure – The City does not invest in debt securities.
5. Concentration Risk – The City's deposits and investments are exposed to concentration risk in that they are all deposited with the same bank.

**CITY OF BRUCEVILLE-EDDY, TEXAS
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2017**

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

Deposits Credit Risk

The cash deposits and savings accounts held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

- Category 1 - Deposits, which are insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 - Deposits, which are collateralized with securities, held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 - Deposits which are not collateralized or insured.

Based on these three levels of risk, all of the City's cash deposits are classified as Category 1.

Deposits are stated at cost plus accrued interest and the carrying amounts are displayed on the balance sheet as cash and cash equivalents. Following is a summary of the City's deposits, by category:

1. Insured by FDIC	\$	3,590,582
2. Collateralized by pledged securities		1,006,747
3. Uninsured and uncollateralized		-
 Total Bank Balance	 \$	 4,597,329
 Carrying Amount	 \$	 4,404,511

B. RESTRICTED CASH

The City had restricted cash of \$ 552,654 in the Water Fund and \$ 60,274 in the General Fund as of September 30, 2017. The restrictions stem from the need to protect customer utility deposits, to set aside a reserve for the payment of interest and principal on bonded indebtedness, and to set aside monies that are restricted by revenue sources as to use.

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. RECEIVABLES

Receivables at year-end for the government's individual major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Water Fund
Tax receivables	\$ 43,967	\$ -
Less: allowance for uncollectible accounts	(33,395)	-
Tax receivable, net	10,572	-
Accounts receivable	-	197,944
Less: allowance for uncollectible accounts	-	(25,630)
 Total Receivables	 \$ 10,572	 \$ 172,314

D. 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. The individual interfund receivables and payable balances at September 30, 2017, were:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 21,353	\$ -
Water Fund	-	21,353
 Total All Funds	 \$ 21,353	 \$ 21,353

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Deletions)</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 60,710	\$ -	\$ -	\$ 60,710
Total capital assets, not being depreciated	<u>60,710</u>	<u>-</u>	<u>-</u>	<u>60,710</u>
Capital assets, being depreciated:				
Buildings and improvements	115,844	-	-	115,844
Machinery and equipment	436,212	87,789	(4,000)	520,001
Infrastructure	309,548	54,337	-	363,885
Total capital assets, being depreciated	<u>861,604</u>	<u>142,126</u>	<u>(4,000)</u>	<u>999,730</u>
Less accumulated depreciation for:				
Buildings and improvements	(74,000)	(3,985)	-	(77,985)
Machinery and equipment	(262,611)	(53,047)	4,000	(311,658)
Infrastructure	(73,939)	(16,649)	-	(90,588)
Total accumulated depreciation	<u>(410,550)</u>	<u>(73,681)</u>	<u>4,000</u>	<u>(480,231)</u>
Total capital assets, being depreciated, net	<u>451,054</u>	<u>68,445</u>	<u>-</u>	<u>519,499</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 511,764</u>	<u>\$ 68,445</u>	<u>\$ -</u>	<u>\$ 580,209</u>

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

	Beginning Balance	Additions	Reclassifications (Deletions)	Ending Balance
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 476,262	\$ -	\$ -	\$ 476,262
Construction in progress	-	153,925	-	153,925
Total capital assets, not being depreciated	476,262	153,925	-	630,187
Capital assets, being depreciated:				
Buildings and improvements	131,738	-	-	131,738
Water facilities	5,160,059	164,241	-	5,324,300
Machinery and equipment	669,418	12,637	-	682,055
Total capital assets, being depreciated	5,961,215	176,878	-	6,138,093
Less accumulated depreciation for:				
Buildings and improvements	(121,767)	(3,689)	-	(125,456)
Water facilities	(2,587,266)	(124,297)	-	(2,711,563)
Machinery and equipment	(455,372)	(70,247)	-	(525,619)
Total accumulated depreciation	(3,164,405)	(198,233)	-	(3,362,638)
Total capital assets, being depreciated, net	2,796,810	(21,355)	-	2,775,455
Business-Type Activities				
Capital Assets, Net	\$ 3,273,072	\$ 132,570	\$ -	\$ 3,405,642

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

Governmental Activities:	
General government	\$ 3,985
Public safety	53,047
Highways and streets	16,649
Total Depreciation Expense - Governmental Activities	\$ 73,681
Business-Type activities:	
Water and sewer	\$ 198,233
Total Depreciation Expense - Business-Type Activities	\$ 198,233

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. LONG-TERM DEBT

The City's long-term debt at September 30, 2017 is comprised of the following individual issues:

General Government Notes Payable:

\$ 27,919 auto loan with local bank; maturing January 2019; payable \$ 6,823 principal and interest annually; interest at 3.75%, secured by automobile	\$ 14,459
\$ 23,725 equipment loan with company; maturing March 2021; payable \$ 4,518 principal and interest annually; interest at 3.20%, secured by automobile.	17,001
\$ 31,335 auto loan with local bank; maturing February 2021; payable \$ 8,541 principal and interest annually; interest at 4.25%, secured by automobile.	31,335
\$ 31,335 auto loan with local bank; maturing February 2021; payable \$ 8,541 principal and interest annually; interest at 4.25%, secured by automobile.	31,335
	<hr/>
Total General Government Notes Payable	94,130

Proprietary Water Fund Revenue Refunding Bonds:

\$ 371,000 Series 2011 Certificates of Obligation, maturing September 2025; 15 certificates with interest rates varying from 5.5% to 5.875%; annual principal payments ranging from \$ 17,000 to \$ 35,000 are due per the bonds' maturity dates schedule. Interest is due each March and September; secured by the revenues of the City's water system.	231,000
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Proprietary Water Fund Revenue Bonds:

\$ 731,000 Series 2011 Certificates of Obligation, maturing September 2025; 15 certificates with interest rates varying from 5.5% to 5.875%; annual principal payments ranging from \$ 33,000 to \$ 70,000 are due per the bonds' maturity dates schedule. Interest is due each March and September; secured by the revenues of the City's water system.	464,000
\$ 1,883,000 Series 2013 Certificates of Obligation, maturing September 2028; interest rates varying from 3.25% to 4.25%; annual principal payments ranging from \$ 79,000 to \$ 254,000 are due per the bonds' maturity dates schedule. Interest is due each March and September; secured by the revenues of the City's water system	1,552,000
\$ 395,000 Series 2015 Certificates of Obligation, maturing September 2030; interest rate at 4.25%; annual principal payments ranging from \$ 30,000 to \$ 41,000 are due per the bonds' maturity dates schedule. Interest is due each March and September; secured by the revenues of the City's water system.	395,000
\$ 23,725 equipment loan with company; maturing March 2021; payable \$ 4,518 principal and interest annually; interest at 3.20%, secured by automobile.	17,001
	<hr/>
Total Property Bonds	2,659,001
	<hr/>
Total Long-Term Debt	\$ 2,753,131

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

Debt service requirements to maturity for the above long-term debt are as follows:

General Government Notes Payable

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 27,236	\$ 2,663	\$ 29,899
2019	27,228	2,327	29,555
2020	20,660	1,561	22,221
2021	19,006	743	19,749
Total	<u>\$ 94,130</u>	<u>\$ 7,294</u>	<u>\$ 101,424</u>

Water Revenue Refunding Bonds - Series 2011

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 24,000	\$ 13,478	\$ 37,478
2019	25,000	12,098	37,098
2020	26,000	10,689	36,689
2021	28,000	9,165	37,165
2022	29,000	7,520	36,520
2023-2026	99,000	11,878	110,878
Total	<u>\$ 231,000</u>	<u>\$ 64,828</u>	<u>\$ 295,828</u>

Water Revenue Bonds - Series 2011

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 47,000	\$ 27,073	\$ 74,073
2019	50,000	24,370	74,370
2020	53,000	21,554	74,554
2021	56,000	18,448	74,448
2022	59,000	15,158	74,158
2023-2026	199,000	23,814	222,814
Total	<u>\$ 464,000</u>	<u>\$ 130,417</u>	<u>\$ 594,417</u>

Water Revenue Bonds - Series 2013

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 90,000	\$ 62,243	\$ 152,243
2019	93,000	59,093	152,093
2020	96,000	55,990	151,990
2021	99,000	52,238	151,238
2022	104,000	48,525	152,525
2023-2027	816,000	172,893	988,893
2028	254,000	10,825	264,825
Total	<u>\$ 1,552,000</u>	<u>\$ 461,807</u>	<u>\$ 2,013,807</u>

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

Water Revenue Bonds - Series 2015

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ -	\$ 16,788	\$ 16,788
2019	-	16,788	16,788
2020	30,000	16,788	46,788
2021	32,000	15,513	47,513
2022	33,000	14,153	47,153
2023-2027	180,000	48,875	228,875
2028-2030	120,000	10,283	130,283
Total	<u>\$ 395,000</u>	<u>\$ 139,188</u>	<u>\$ 534,188</u>

Water Fund Note Payable

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 4,665	\$ 476	\$ 5,141
2019	4,816	325	5,141
2020	4,973	168	5,141
2021	2,547	6	2,553
Total	<u>\$ 17,001</u>	<u>\$ 975</u>	<u>\$ 17,976</u>

There are a number of limitations and restrictions contained in the various bond indentures including, among others, the requirements of the payment of principal and interest from the ad valorem tax levy or from the net revenues of the water fund and the provision of certain reserve funds. The City is in compliance with all such significant financial limitations and restrictions. There is no specific maximum debt limit established by law for the City, therefore, the limit is governed by the City's ability to levy and collect taxes to service the debt.

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:					
Notes Payable	\$ 75,694	\$ 62,670	\$ (44,234)	\$ 94,130	\$ 27,236
Governmental Activity Long-Term Liabilities	<u>\$ 75,694</u>	<u>\$ 62,670</u>	<u>\$ (44,234)</u>	<u>\$ 94,130</u>	<u>\$ 27,236</u>
Business-Type Activities:					
Revenue Bonds Payable	\$2,816,519	\$ -	\$ (157,518)	\$2,659,001	\$ 165,665
Business-Type Activity Long-Term Liabilities	<u>\$2,816,519</u>	<u>\$ -</u>	<u>\$ (157,518)</u>	<u>\$2,659,001</u>	<u>\$ 165,665</u>
Total Long-Term Liabilities	<u>\$2,892,213</u>	<u>\$ 62,670</u>	<u>\$ (201,752)</u>	<u>\$2,753,131</u>	<u>\$ 192,901</u>

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. PROPERTY TAXES

The appraisal of property within the City is the responsibility of the McLennan County Appraisal District (the District). The District is required under the Property Tax Code to assess all property within the District on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The value of property within the District must be reviewed every four years.

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. The net assessed value, net of exemptions, upon which the fiscal year ended September 30, 2017, levy was based was \$ 65,210,976. The tax rate for the 2017 tax roll was \$ 0.498159 per \$ 100 of assessed value.

Property taxes not collected in the current period are considered not to be available, and therefore, are not accrued as revenue in the current period. Since the City recognizes taxes as revenues only when collected, an allowance for current and delinquent taxes receivable at the end of the period has been established. On the government-wide statements, the amount deferred in the fund statements is recognized as revenue.

The City has contracted with McLennan County tax collector's office to collect ad valorem taxes on behalf of the City. The City paid the tax collector \$ 1,608 for these services during the fiscal year ended September 30, 2017.

H. EMPLOYEE RETIREMENT PLAN

Plan Description

The City participates as one of 866 plans in the non-traditional, joint contributory, hybrid defined benefit plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS' defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the City are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes government TMRS.

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

At retirement, the benefit is calculated as if the sum of the employee’s contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member’s deposits and interest.

A summary of plan provisions for the City are as follows:

Employee deposit rate	7.00%
Matching ratio (city to employee)	1.5 to 1
Years required for vesting	5
Retirement eligibility (Age/Service)	60/5, 0/25
Updated service credit	100% Repeating Transfers
Annuity increase (to retirees)	0% of CPI Repeating
Supplemental death benefit to active employees	Yes
Supplemental death benefit to retirees	Yes

Employees Covered by Benefit Terms.

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	13
Active employees	16
Total	36

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 4.47% and 5.24% in calendar years 2016 and 2017, respectively. Accordingly, contributions to TMRS for the fiscal year ended September 30, 2017, were \$ 27,827 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions.

Inflation	2.50% per year
Overall payroll growth	2.70% per year
Investment rate of return	6.75% net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%.

The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retired Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and females rates multiplied by 105% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation.

The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic equity	17.5%	4.55%
International equity	17.5%	6.35%
Core fixed income	10.0%	1.00%
Non-core fixed income	20.0%	4.15%
Real return	10.0%	4.15%
Real estate	10.0%	4.75%
Absolute return	10.0%	4.00%
Private equity	5.0%	7.75%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employees and employer contributions would be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2015	\$ 911,587	\$ 928,973	\$ (17,386)
Changes for the year:			
Service cost	70,311	-	70,311
Interest	62,206	-	62,206
Changes of benefit terms	-	-	-
Difference between expected and actual experience	14,860	-	14,860
Changes of assumptions	-	-	-
Contributions - employer	-	24,767	(24,767)
Contributions - employee	-	38,785	(38,785)
Net investment income	-	62,762	(62,762)
Benefit payments, including refunds of employee contributions	(50,341)	(50,341)	-
Administrative expense	-	(708)	708
Other	-	(39)	39
Net changes	97,036	75,226	21,810
Balance at 12/31/2016	\$ 1,008,623	\$ 1,004,199	\$ 4,424

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75% as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	Current Single Rate		
	1% Decrease	Assumption	1% Increase
	5.75%	6.75%	7.75%
City's net pension liability	\$ 152,554	\$ 4,424	\$ (116,495)

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended September 30, 2017, the City recognized pension expense of \$ 56,632. At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 13,375	\$ 1,786
Changes in actuarial assumptions	16,851	-
Difference between projected and actual investment earnings	42,134	-
Sub-total	<u>72,360</u>	<u>1,786</u>
Contributions subsequent to the measurement date	21,946	-
Total	<u><u>\$ 94,306</u></u>	<u><u>\$ 1,786</u></u>

\$ 21,946 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year Ended December 31,	Net Deferred Outflows (Inflows) of Resources
2017	\$ 24,859
2018	24,186
2019	21,145
2020	384
Total	<u><u>\$ 70,574</u></u>

CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund. The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under, and discontinue participation in this fund by adopting an ordinance before November 1, or any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$ 7,500; this coverage is an "other post-employment benefit," or OPEB. The City offers supplemental death benefit to both active employees and retirees for plan years 2016 and 2015.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance and represents 0.18% of required contributions. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contribution to the TMRS SDBF for the years ended 2017, 2016 and 2015 were \$ 954, \$ 925 and \$ 786, respectively, which equaled the required contributions each year.

I. COMMITMENTS AND CONTINGENCIES

Water Purchase Agreement

The City has entered into a long-term agreement to purchase water from a water supply company. The contract requires the City to take and/or pay for a minimum quantity of water. The cost of water per gallon is based each year on the amount the water supply corporation needs to recover all operation and maintenance expenses and debt service of the system (i.e. its annual requirement). The water supply company's net annual requirement divided by all contracting parties' minimum take (annual water purchases in gallons) determines the rate per gallon each year. Based on the estimated annual requirements of the water supply company (estimated \$ 3.20 per thousand gallons) and the minimum take (139,704,000 gallons) for the City; the City is committed to pay an estimated \$ 447,053 for water during the fiscal year ended September 30, 2018, under this contract.

**CITY OF BRUCEVILLE-EDDY, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

J. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined other governments in Texas to form the Texas Municipal League Intergovernmental Risk Pool, a public entity risk pool currently operating as a common risk management and insurance program for liability, property and workers' compensation coverage. The City pays a quarterly contribution to the pool for its insurance coverage. The agreement for formation of the Texas Municipal League Intergovernmental Risk Pool provides the Pool will be self-sustaining through member contributions and will reinsure through commercial companies for claims in excess of specific limits.

The Texas Municipal League Intergovernmental Risk Pool has published its own financial report, which can be obtained by writing to the Texas Municipal League Intergovernmental Risk Pool, 1821 Rutherford Lane, Austin, Texas 78754.

K. COMPENSATED ABSENCES

Employees accrue vacation leave based on the number of years employed up to a maximum of 20 days per year. The accrual year starts with the date employee starts full-time and subsequent anniversary dates. Employees may carry over earned vacation past the accrual year with approval of Mayor and Council. However, the accrual is not to exceed forty days beyond the end of the fiscal year. Upon separation from service, employees are paid for any earned and unused vacation time. Vested vacation is recorded in the proprietary fund as a liability and expense and in the government fund as a fund liability and expenditure, if payable from current resources. The value of the earned and unused portion of governmental compensated absences at year-end is reported as a governmental activity non-current liability.

L. SUBSEQUENT EVENTS

Management has reviewed and evaluated subsequent events through January 25, 2018, the date of the independent auditors' report.

In October, 2017, the City was awarded a \$ 10.8 million grant and loan from the U.S. Department of Agriculture to build a wastewater solution system. The loan is for 40 years at 2.56% interest. Forty three percent of the loan will be forgiven in the form of a grant.

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BRUCEVILLE-EDDY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS – TMRS PENSION PLAN
SEPTEMBER 30, 2017
(UNAUDITED)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded Ratio (c)=(a/b)	Unfunded (Over-funded) AAL (UAAL) (d)=(b-a)	Covered Payroll (e)	UAAL as a Percentage of Covered Payroll (d)/(e)
12/31/14	\$ 874,378	\$ 813,457	107.5%	\$ (60,921)	\$ 452,668	-13.5%
12/31/15	948,644	911,587	104.1%	(37,057)	487,917	-7.6%
12/31/16	1,022,964	1,008,623	101.4%	(14,341)	554,066	-2.6%

See independent auditors' report.

CITY OF BRUCEVILLE-EDDY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
SEPTEMBER 30, 2017
(UNAUDITED)

	2014*	2015*	2016*
Total Pension Liability			
Service cost	\$ 54,818	\$ 59,965	\$ 70,311
Interest (on the total pension liability)	52,962	57,485	62,206
Changes of benefit terms	-	-	-
Difference between expected and actual experience	6,337	(2,980)	14,860
Changes of assumptions	-	28,121	-
Benefit payments, including refunds of employee contributions	(59,705)	(44,461)	(50,341)
Net change in total pension liability	54,412	98,130	97,036
Total pension liability - beginning	759,045	813,457	911,587
Total pension liability - ending (a)	\$ 813,457	\$ 911,587	\$ 1,008,623
Plan Fiduciary Net Position			
Contributions - employer	\$ 11,011	\$ 22,932	\$ 24,767
Contributions - employee	31,687	34,154	38,785
Net investment income	50,496	1,351	62,762
Benefit payments, including refunds of employee contributions	(59,705)	(44,461)	(50,341)
Administrative expense	(527)	(823)	(708)
Other	(43)	(41)	(39)
Net change in plan fiduciary net position	32,919	13,112	75,226
Plan fiduciary net position - beginning	882,942	915,861	928,973
Plan fiduciary net position - ending (b)	\$ 915,861	\$ 928,973	\$ 1,004,199
City's net pension liability (asset) - ending (a) - (b)	\$ (102,404)	\$ (17,386)	\$ 4,424
Plan fiduciary net position as a percentage of the total pension liability	112.59%	101.91%	99.56%
Covered-employee payroll	\$ 452,668	\$ 487,917	\$ 554,066
City's net pension liability (asset) as a percentage of covered-employee payroll	-22.62%	-3.56%	0.80%

Notes to Schedule:

N/A

* The date of measurement is December 31, 2016, 2015 and 2014.

See independent auditors' report.

**CITY OF BRUCEVILLE-EDDY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
SEPTEMBER 30, 2017
(UNAUDITED)**

	2014*	2015*	2016*
Actuarially Determined Contribution	\$ 20,175	\$ 23,518	\$ 27,827
Contributions in relation to the actuarially determined contribution	20,175	23,518	27,827
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employee payroll	\$ 481,101	\$ 520,306	\$ 552,658
Contributions as a percentage of covered employee payroll	4.19%	4.52%	5.04%

Notes to Schedule of Contributions

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31, and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with mail rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year.

* The date of measurement is December 31, 2016, 2015 and 2014.

See independent auditors' report.

CITY OF BRUCEVILLE-EDDY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended September 30, 2017
with Comparative Totals for the Year Ended September 30, 2016

	2017			Variance with Final Budget	2016
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
Revenues					
Property taxes	\$ 325,000	\$ 325,000	\$ 324,820	\$ (180)	\$ 325,844
Sales and miscellaneous taxes	60,000	60,000	73,998	13,998	68,522
Franchise taxes	70,000	70,000	59,962	(10,038)	58,782
Fines and forfeitures	667,000	667,000	768,364	101,364	801,889
Licenses and permits	1,500	1,500	2,630	1,130	1,420
Interest income	50,700	50,700	7,079	(43,621)	1,648
Lease and miscellaneous income	22,712	21,712	36,267	14,555	24,945
Total Revenues	1,196,912	1,195,912	1,273,120	77,208	1,283,050
Expenditures					
General government:					
Salaries & wages	232,987	209,000	221,737	(12,737)	183,091
Payroll taxes and insurance	21,000	53,987	53,640	347	33,418
Administrative costs	141,900	140,900	53,330	87,570	77,848
Utilities	24,200	24,200	18,776	5,424	19,531
Legal and accounting	75,000	73,000	40,457	32,543	78,067
Repairs and maintenance	28,700	26,700	17,286	9,414	31,352
Public safety:					
Salaries & wages	235,000	235,000	215,925	19,075	218,209
Payroll taxes and insurance	53,000	48,000	51,138	(3,138)	52,530
Operating costs	143,925	152,925	196,186	(43,261)	155,926
Equipment	29,000	21,000	13,436	7,564	30,269
Repairs and maintenance	11,000	10,000	10,185	(185)	13,098
Highways and streets:					
Streets	140,000	140,000	64,976	75,024	28,777
Capital outlay:					
Fixed asset expenditures	35,200	35,200	18,107	17,093	10,583
Debt service:					
Principal	23,000	23,000	40,173	(17,173)	22,214
Interest	3,000	3,000	2,048	952	2,806
Total Expenditures	1,196,912	1,195,912	1,017,400	178,512	957,719
Excess of revenues over expenditures	-	-	255,720	255,720	325,331
Fund Balance - beginning of year	1,615,418	1,615,418	1,615,418	-	1,290,087
Fund Balance - end of year	\$1,615,418	\$1,615,418	\$1,871,138	\$ 255,720	\$1,615,418

See independent auditors' report.

CITY OF BRUCEVILLE-EDDY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL – PROPRIETARY FUND
For the Year Ended September 30, 2017
with Comparative Totals for the Year Ended September 30, 2016

	2017			Variance with Final Budget	2016
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
<u>Operating Revenues</u>					
Water	\$ 1,525,000	\$ 1,525,000	\$ 1,391,452	\$ (133,548)	\$ 1,412,900
Garbage	115,000	115,000	120,598	5,598	117,957
Water tap fees	10,500	10,500	9,250	(1,250)	32,000
Re-connect fees	28,500	28,500	31,359	2,859	26,305
Grant - CDBG	300,000	300,000	33,700	(266,300)	-
Total Operating Revenues	1,979,000	1,979,000	1,586,359	(392,641)	1,589,162
<u>Operating Expenses</u>					
Water purchases	455,000	455,000	468,000	(13,000)	454,860
Water system utilities	100,000	100,000	108,567	(8,567)	109,050
Water system supplies	64,800	60,800	56,950	3,850	53,436
Repairs and maintenance	15,600	33,600	33,685	(85)	32,437
Other water system expenses	27,650	34,650	47,694	(13,044)	32,357
Personnel and support	265,000	259,000	246,573	12,427	203,534
Professional fees	76,200	76,200	25,260	50,940	29,974
Administrative expenses	60,100	55,100	58,682	(3,582)	50,194
Garbage collection fees	110,000	110,000	112,667	(2,667)	109,759
Depreciation and amortization	210,000	210,000	198,233	11,767	214,020
Total Operating Expenses	1,384,350	1,394,350	1,356,311	38,039	1,289,621
Operating Income	594,650	584,650	230,048	(354,602)	299,541
<u>Nonoperating Revenues (Expenses)</u>					
Interest income	5,000	5,000	11,999	6,999	6,065
Interest expense	(265,000)	(265,000)	(127,952)	137,048	(132,901)
Donations emergency service					
Income	1,500	1,500	3,723	2,223	3,645
Expense	(1,500)	(1,500)	(1,880)	(380)	(1,785)
TxDot utility relocation					
Reimbursement	-	-	-	-	27,328
Expense	-	-	-	-	(27,328)
Grant - CDBG	-	(15,000)	(17,780)	(2,780)	-
Capital outlay	(338,650)	(313,650)	(18,240)	295,410	(24,758)
Miscellaneous income	4,000	4,000	6,130	2,130	1,498
Total Nonoperating Revenues (Expenses)	(594,650)	(584,650)	(144,000)	440,650	(148,236)
Change in net position	-	-	86,048	86,048	151,305
Net Position - beginning	3,012,735	3,012,735	3,012,735	-	2,861,430
Net Position - ending	\$3,012,735	\$3,012,735	\$3,098,783	\$ 86,048	\$3,012,735

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**CITY OF BRUCEVILLE-EDDY, TEXAS
COMPARATIVE BALANCE SHEETS – GENERAL FUND
September 30, 2017 and 2016**

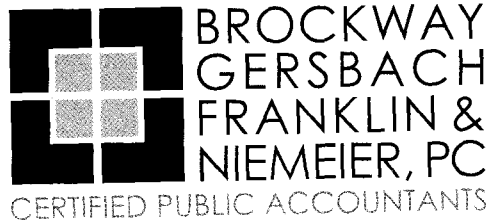
	2017	2016
<u>ASSETS</u>		
Cash and cash equivalents	\$ 541,231	\$ 638,005
Investments	1,377,917	1,020,779
Taxes receivable, net	10,572	11,818
Other receivables, net	-	1,422
Due from other funds	21,353	21,353
Cash and cash equivalents, restricted	60,274	38,982
 Total Assets	 \$ 2,011,347	 \$ 1,732,359
<u>LIABILITIES</u>		
Accounts payable	\$ 32,759	\$ 1,799
State criminal costs and fees payable	66,792	79,338
Accrued payroll	17,427	9,088
Other accrued expenses	1,948	4,186
 Total Liabilities	 118,926	 94,411
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Unavailable revenues - property tax	10,571	11,818
Unavailable revenues - lease income	10,712	10,712
 Total Deferred Inflows of Resources	 21,283	 22,530
<u>FUND BALANCES</u>		
Restricted for:		
Court technology and building security	60,274	38,982
Assigned for:		
P.D. vehicle escrow	22,000	22,000
Unassigned	1,788,864	1,554,436
 Total Fund Balances	 1,871,138	 1,615,418
 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	 \$ 2,011,347	 \$ 1,732,359

See independent auditors' report

CITY OF BRUCEVILLE-EDDY, TEXAS
COMPARATIVE STATEMENTS OF NET POSITION - PROPRIETARY FUND
September 30, 2017 and 2016

	2017	2016
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 1,872,435	\$ 1,885,052
Accounts receivable, net	172,314	282,620
Total current assets	2,044,749	2,167,672
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents	371,261	306,554
Certificate of deposits	118,002	117,313
Customer deposits	63,391	53,100
Net pension asset	-	5,389
Capital assets:		
Land	476,262	476,262
Construction in progress	153,925	-
Buildings and improvements	131,738	131,738
Water facilities	5,324,300	5,160,059
Machinery and equipment	682,055	669,418
Less: accumulated depreciation	(3,362,638)	(3,164,405)
Total capital assets	3,405,642	3,273,072
Total Assets	6,003,045	5,923,100
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred amounts related to pensions	28,770	30,610
Total Assets and Deferred Outflows of Resources	6,031,815	5,953,710
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	115,117	42,991
Accrued interest	63,760	-
Accrued payroll	7,239	3,307
Other accrued liabilities	3,618	3,768
Customer deposits	59,630	50,680
Due to other funds	21,353	21,353
Liabilities payable from restricted assets:		
Bonds and notes payable - current portion	165,665	157,518
Total current liabilities	436,382	279,617
Noncurrent liabilities:		
Compensated absences	2,160	2,357
Net pension liability	1,154	-
Liabilities payable from restricted assets:		
Bonds and notes payable	2,493,336	2,659,001
Total Liabilities	2,933,032	2,940,975
<u>NET POSITION</u>		
Invested in capital assets, net of related debt	746,641	456,553
Restricted for:		
Debt service	371,261	306,554
Capital projects	118,002	117,313
Customer deposits	63,391	53,100
Unrestricted	1,799,488	2,079,215
Total Net Position	\$ 3,098,783	\$ 3,012,735

See independent auditors' report



**INDEPENDENT AUDITOR'S 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***

Honorable Mayor and
Members of the City Council
City of Bruceville-Eddy, 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 the City, 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, and have issued our report thereon dated January 25, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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.

**INDEPENDENT AUDITOR'S 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*
(CONTINUED)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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.

Brockway, Davidson, Franklin & Nimsin, P.C.

Temple, Texas
January 25, 2018