CITY OF GLEN ROSE

ANNUAL FINANCIAL AND COMPLIANCE REPORT

YEAR ENDED SEPTEMBER 30, 2017

CITY OF GLEN ROSE
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FINANCIAL SECTION

Merritt, McLane & Hamby, P.C.

401 Cypress Street, Suite 303
Abilene, TX 79601

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Glen Rose, Texas

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Glen Rose, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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 of material misstatement.

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

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

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Glen Rose, 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, budgetary comparison information, and the required TMRS schedules on pages 3 through 9 and 40 through 42 be presented to supplement the basic financial statements. Such information,

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2018, on our consideration of the City of Glen Rose'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered the City's internal control over financial reporting and compliance.

Merritt, McLane & Hamby, P.C.

MERRITT, MCLANE & HAMBY, P.C.

Abilene, Texas
January 31, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Glen Rose
Dinosaur Capital of Texas

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Glen Rose's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on September 30, 2017. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total Net Position increased $1,096,393 from prior year. Net position of our business-type activities increased $1,367,530 (20.2%). Net position of our governmental activities decreased $271,137 or (2.0%).
- During the year, the City's expenditures were $271,137 more than the $3,178,880 generated in taxes and other revenues for governmental programs, including transfers.
- In the City's business-type activities, revenues were $2,726,766, while expenses were $1,359,236.
- The total cost of the City's programs was $4,809,253, excluding transfers, and no new programs were added during fiscal year 2017.
- The general fund reported fund balance of $6,929,119.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements and a section of information required by the Government Accountability Office) GAO.

Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Position*. This is the City-wide statement of financial position presenting information that includes all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities* which reports how the City's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, cultural and recreational, and highways and streets. Business-type activities include water utilities, sewer services and sanitation services.

The City's financial reporting entity does not include the funds for which the City is not accountable (component unit). This organization, the Glen Rose Economic Development Corporation, is reported separately from the primary government though included in the City's overall reporting entity. This entity operates more independently to provide services directly to the citizens though the City remains accountable for their activities.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation.

The City has two kinds of funds:

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provides a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

A budgetary comparison statement for the general fund can be found in the required supplementary information. This statement demonstrates compliance with the city's adopted and final revised budget.

Proprietary funds are required in the fund financial statements and generally report services for which the City charges customers a fee. There are two kinds of proprietary funds. These are enterprise funds and internal service funds. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization such as the water utilities, sewer and sanitation services. Internal service funds provide services and charge fees to customers within the city organization such as equipment services (repair and maintenance of City vehicles) and the print shop (mail and printing services for City departments). The City has no internal service funds.

Proprietary fund statements and statements for discretely presented component units (reporting is similar to proprietary funds) provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements with more detail for major enterprise funds.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Financial Analysis of the City as a Whole

Net Position. As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the City as a whole.

The City's net position at fiscal year-end is $21,360,435. This is an increase of $1,896,393 from last year's net position of $20,264,042. The following Table A-1 provides a summary of the City's net position at September 30, 2017 and 2016.

Table A-1
City of Glen Rose's Net Position

	Governmental Activities		Business-type Activities		Totals		Percentage Change
	2017	2016	2017	2016	2017	2016	
Current and Other Assets	$ 7,331,578	$ 7,582,056	$ 4,678,668	$ 5,058,638	$ 12,010,246	$ 12,640,694	-4.99%
Capital and Non-Current Assets	9,048,528	8,935,724	7,713,798	5,660,401	16,762,326	14,596,125	14.84%
Total Assets	16,380,106	16,517,780	12,392,466	10,719,039	28,772,572	27,236,819	
Deferred Outflows of Resources	249,699	241,688	69,861	67,602	319,560	309,290	3.32%
Current Liabilities	429,283	153,581	730,913	185,476	1,160,196	339,057	242.18%
Long Term Liabilities	2,928,337	3,039,404	3,578,338	3,809,086	6,506,675	6,848,490	-4.99%
Total Liabilities	3,357,620	3,192,985	4,309,251	3,994,562	7,666,871	7,187,547	
Deferred Inflows of Resources	50,565	73,726	14,261	20,794	64,826	94,520	-31.42%
Net Position							
Net Investment in Capital Assets	6,568,528	6,350,724	4,143,798	1,950,401	10,712,326	8,301,125	29.05%
Restricted	47,218	68,645			47,218	68,645	-31.21%
Unrestricted	6,605,874	7,073,388	3,995,017	4,820,884	10,600,891	11,894,272	-10.87%
Total Net Position	$ 13,221,620	$ 13,492,757	$ 8,138,815	$ 6,771,285	$ 21,360,435	$ 20,264,042	

Net position in the City's governmental activities decreased 2.0% to $13,221,620. Net position increased 20.2% to $8,138,815 in business-type activities of the government. $10,712,326 of the total net position is invested in capital assets (distribution and collection system, equipment, etc.) net of long term debt, and $47,218 restricted for the Convention and Visitors' Bureau. Consequently, unrestricted net position was $10,600,891 at the end of this year.

Changes in Net Position. The City's total revenues were $5,697,496, excluding transfers. Charges for services made up the largest portion of the City's revenue (40%) while 38 cents of every dollar raised comes from some type of tax. (See Figure A-1)

The total cost of all programs and services was $4,809,253. The City's expenses cover a range of services, with over one fourth (or 28%) related to business-type activities. (See Figure A-2)

Figure A-1
City Sources of Revenue for Fiscal Year 2017

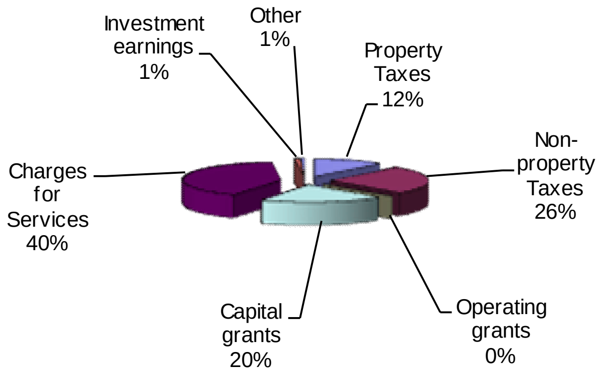
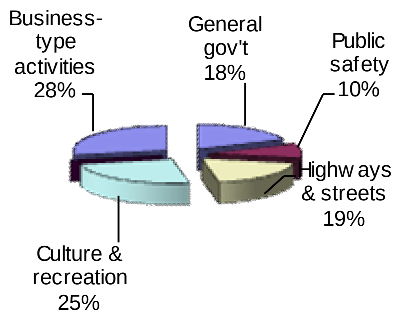


Figure A-2
City Functional Expenses for Fiscal Year 2017



Governmental Activities

Revenues for the City's governmental activities were $3,178,880, including transfers, while total expenses were $3,450,017. The City is increasing its tax base by bringing in new businesses and homes. The increase of new business adds revenue through two avenues; 1) property tax, and 2) sales tax.

Table A-2
Changes in City of Glen Rose, Texas' Net Position

	Governmental Activities		Business-type Activities		Total		Total % Change
	2017	2016	2017	2016	2017	2016	
Revenues							
Program Revenues							
Charges for Services	$ 688,238	$ 584,046	$ 1,622,275	$ 1,737,221	$ 2,310,513	$ 2,321,267	-0.46%
Capital/Operating Grants and Contributions	71,826		1,085,408		1,157,234		100.00%
General Revenues							
Property tax	665,394	642,628			665,394	642,628	3.54%
Sales tax	988,914	737,367			988,914	737,367	34.11%
Right of way fees	154,492	148,069			154,492	148,069	4.34%
Occupancy tax	324,973	323,416			324,973	323,416	0.48%
Investment Earnings	27,619	4,718	19,053	2,558	46,672	7,276	541.45%
Other income	49,274	49,488	30	25,002	49,304	74,490	-33.81%
Tranfsers	208,150				208,150		100.00%
Total Revenues	3,178,880	2,489,732	2,726,766	1,764,781	5,905,646	4,254,513	
Expenses							
General Government	886,664	683,745			886,664	683,745	29.68%
Public Safety	466,080	412,599			466,080	412,599	12.96%
Highways and Streets	908,841	521,249			908,841	521,249	74.36%
Culture and Recreation	1,188,432	922,668			1,188,432	922,668	28.80%
Water and Sewer			1,359,236	1,221,279	1,359,236	1,221,279	11.30%
Total Expenses	3,450,017	2,540,261	1,359,236	1,221,279	4,809,253	3,761,540	
Change in Net Position	$ (271,137)	$ (50,529)	$ 1,367,530	$ 543,502	$ 1,096,393	$ 492,973	

Governmental Funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financial requirements. Governmental funds reported ending fund balances of $6,976,337.

The total ending fund balances of governmental funds show a decrease of $446,276 over the prior year. This decrease is primarily the result of higher costs in the current year and increased capital outlay in the current year.

Major Governmental Funds

The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The fund balance of the General Fund decreased $424,849. The key factors contributing to this decrease are additional capital outlay expenditures and higher costs.

Proprietary Funds

The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status.

Major Proprietary Funds

The City's major proprietary fund is the Utility Fund which consists of the water, sewer and sanitation services. Total net position at the end of the year was $8,138,815. The Utility Fund had an increase in net position of $1,367,530. The increase is mainly due to a grant received in the current year.

General Fund Budgetary Highlights

The General Fund Budget for fiscal year 2017 was approximately $3,140,000. This was an increase from the previous year's expenditures of approximately $590,000.

The City did not amended its budget during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of September 30, 2017, was $9,048,528 and $7,713,798, respectively. The total change in this net investment was an increase of 1.3% in the governmental and an increase of 36.3% for business-type activities. The overall increase was 14.8% for the City as a whole. The most significant capital asset addition during the current fiscal year was for construction on the sewer system and lift station. See Table A-3 for additional information about changes in capital assets during the fiscal year.

Table A-3
City's Capital Assets

	Governmental Activities		Business-type Activities		Total		**Total % Change**
	2017	2016	2017	2016	2017	2016	
Land & improvements	$ 1,426,697	$ 1,426,697	$ 67,337	$ 67,337	$ 1,494,034	$ 1,494,034	0.00%
Construction in progress			3,059,938	962,604	3,059,938	962,604	217.88%
Buildings & improvements	1,463,170	1,425,458	57,943	57,943	1,521,113	1,483,401	2.54%
Machinery & equipment	1,136,181	952,783	669,819	653,662	1,806,000	1,606,445	12.42%
Infrastructure	7,701,814	7,557,633	8,848,173	8,687,576	16,549,987	16,245,209	1.88%
Total at historical cost	11,727,862	11,362,571	12,703,210	10,429,122	24,431,072	21,791,693	
Accumulated depreciation	2,679,334	2,426,847	4,989,412	4,768,720	7,668,746	7,195,567	6.58%
Net capital assets	$ 9,048,528	$ 8,935,724	$ 7,713,798	$ 5,660,402	$ 16,762,326	$ 14,596,126	

Long-term Debt

At year-end, the City had $6,050,000 in bonds payable. See Table A-4.

Table A-4
City's Outstanding Debt

	2017	2016	Dollar Change	**Total % Change**
Governmental Activities				
General Obligation Refunding Bonds, Series 2010	2,480,000	2,585,000	(105,000)	-4.06%
	2,480,000	2,585,000		
Business-type				
Certificates of Obligation, Series 2013	$ 160,000	$ 190,000	$ (30,000)	-15.79%
Certificates of Obligation, Series 2016	3,410,000	3,520,000	(110,000)	-3.13%
	$ 3,570,000	$ 3,710,000	$ (140,000)	

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City is working on bringing residents into the City of Glen Rose by adding residential areas. By bringing in new residents, revenue of the City is increased through sales tax revenues and property tax revenues.

- Appraised value used for the 2017-2018 budget preparation increased approximately $12 million from prior years.
- Water, sewer and sanitation rates are expected to remain consistent with the fiscal year 2017.

These indicators were taken into account when adopting the general fund and utility fund budgets for 2018. Overall, expenditures are planned to decrease slightly.

The General Fund expenditures are budgeted at $2,938,339, which is a decrease of $325,979 from current year expenditures. The City has added no major new programs or initiatives to the 2018 budget, but has budgeted for some capital outlay in the upcoming year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Glen Rose's City Administrator, Glen Rose, Texas

BASIC FINANCIAL STATEMENTS

CITY OF GLEN ROSE

STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	Primary Government			Economic
ASSETS	Governmental Activities	Business-Type Activities	Total	Development Corporation
Current Assets				
Cash and cash equivalents	$ 6,005,107	$ 2,825,464	$ 8,830,571	$ 378,929
Investments	1,032,567	1,374,057	2,406,624	
Receivables, net	384,746	206,559	591,305	
Grant receivable		196,011	196,011	
Due from other funds	(90,842)	76,577	(14,265)	14,265
Note receivable - current				15,540
Total current assets	7,331,578	4,678,668	12,010,246	408,734
Non-current Assets				
Note receivable - long term				114,664
Capital assets:				
Land and improvements	1,426,697	67,337	1,494,034	
Infrastructure, net	6,163,320	4,416,273	10,579,593	
Buildings and improvements, net	1,027,619	36,023	1,063,642	
Machinery and equipment, net	430,892	134,227	565,119	
Construction in progress		3,059,938	3,059,938	
Total non-current assets	9,048,528	7,713,798	16,762,326	114,664
Total Assets	16,380,106	12,392,466	28,772,572	523,398
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflow - interest				22,297
Deferred outflows related to TMRS	249,699	69,861	319,560	
Total Deferred Outflows of Resources	249,699	69,861	319,560	22,297
LIABILITIES				
Current Liabilities				
Accounts payable	234,374	445,173	679,547	1,500
Payroll liabilities	31,432	3,641	35,073	
Accrued interest	4,167	3,705	7,872	
Utility deposits	54,310	133,394	187,704	
Bonds and notes payable - current	105,000	145,000	250,000	
Total current liabilities	429,283	730,913	1,160,196	1,500
Non-current Liabilities				
Accrued compensated absences	75,202	18,479	93,681	
Net pension liability	478,135	134,859	612,994	
Bonds and notes payable - non current	2,375,000	3,425,000	5,800,000	
Total non-current liabilities	2,928,337	3,578,338	6,506,675	
Total Liabilities	3,357,620	4,309,251	7,666,871	1,500
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to TMRS	50,565	14,261	64,826	
Total Deferred Inflows of Resources	50,565	14,261	64,826	
NET POSITION				
Net investment in capital assets	6,568,528	4,143,798	10,712,326	
Restricted	47,218		47,218	
Unrestricted	6,605,874	3,995,017	10,600,891	544,195
Total Net Position	$ 13,221,620	$ 8,138,815	$ 21,360,435	$ 544,195

The accompanying notes are an integral part of this statement.

CITY OF GLEN ROSE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

		Program Revenues	
Functions/Programs	Expenses	Charges for Services	Capital grants and Contributions
Primary Government			
Governmental Activities:			
General government	$ 886,664	$ 67,774	$
Public safety	466,080	25,652	
Highways and streets	908,841		
Culture and recreation	1,188,432	594,812	71,826
Total governmental activities	3,450,017	688,238	71,826
Business-type Activities:			
Utility fund	1,359,236	1,622,275	1,085,408
Total business-type activities	1,359,236	1,622,275	1,085,408
Total Primary Government	$ 4,809,253	$ 2,310,513	$ 1,157,234
Component Unit			
Economic Development Corporation	$ 25,228		

General Revenues:
Taxes:
Property tax
Sales tax
Right of way fees
Beverage tax
Hotel/motel tax
Investment earnings
Miscellaneous income
Transfers
Total general revenues and transfers
Change in Net Position

Net Position - Beginning

Net Position - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			
Governmental Activities	Business-Type Activities	Total	Economic Development Corporation
$ (818,890)	$	$ (818,890)	
(440,428)		(440,428)	
(908,841)		(908,841)	
(521,794)		(521,794)	
(2,689,953)		(2,689,953)	
	1,348,447	1,348,447	
	1,348,447	1,348,447	
(2,689,953)	1,348,447	(1,341,506)	
			$ (25,228)
665,394		665,394	
988,914		988,914	247,228
154,492		154,492	
10,620		10,620	
324,973		324,973	
27,619	19,053	46,672	5,655
38,654	30	38,684	
208,150		208,150	(208,150)
2,418,816	19,083	2,437,899	44,733
(271,137)	1,367,530	1,096,393	19,505
13,492,757	6,771,285	20,264,042	524,690
$ 13,221,620	$ 8,138,815	$ 21,360,435	$ 544,195

GOVERNMENTAL FUND FINANCIAL STATEMENTS

CITY OF GLEN ROSE

BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	General	Convention and Visitors' Bureau	Total Governmental Funds
ASSETS			
Current:			
Cash and cash equivalents	$ 5,915,555	$ 89,552	$ 6,005,107
Investments	1,029,624	2,943	1,032,567
Receivables			
Sales tax	188,849		188,849
Hotel occupancy tax		68,282	68,282
Property tax	62,026		62,026
Allowance for property tax	(26,901)		(26,901)
Court fines	99,496		99,496
Allowance for court fines	(94,327)		(94,327)
Other receivables	87,321		87,321
Due from other funds	97,079	9,950	107,029
Total Assets	$ 7,358,722	$ 170,727	$ 7,529,449
LIABILITIES			
Current Liabilities			
Accounts payable	$ 210,178	$ 24,196	$ 234,374
Payroll liabilities	29,198	2,234	31,432
Customer deposits	54,310		54,310
Due to other funds	100,792	97,079	197,871
Total Liabilities	394,478	123,509	517,987
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	35,125		35,125
Total Deferred Inflows of Resources	35,125		35,125
FUND BALANCE			
Restricted for promoting tourism, and convention and hotel industry		47,218	47,218
Unassigned	6,929,119		6,929,119
Total Fund Balance	6,929,119	47,218	6,976,337
Total Liabilities, Deferred Inflows, and Fund Balances	$ 7,358,722	$ 170,727	$ 7,529,449

The accompanying notes are an integral part of this statement.

CITY OF GLEN ROSE

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

Total fund balances - governmental funds balance sheet	$	6,976,337
Amounts reported for governmental activities in the statement of net position (SNP) are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was $11,362,571 and the accumulated depreciation was $2,426,847.		8,935,724
Current year capital outlays and dispositions are expenditures in the fund financial statements, but are shown as increases to capital assets in the SNP.		365,291
Depreciation expense decreases net position in SNP.		(252,487)
Included in the noncurrent liabilities is the recognition of the City's net position liability required by GASB 68 in the amount of $478,135, a deferred resource inflow in the amount of $50,565, and a deferred resource outflow in the amount of $249,699. This resulted in a decrease in net position by $279,001.		(279,001)
Long term liabilities are not due and payable in the current period, and therefore are not reported as liabilities in the fund financial statements. The beginning balance of long-term liabilities is $2,474,000.		(2,585,000)
Long-term debt principal payments are expenditures in the fund financial statements but are shown as a reduction in long-term debt in the government-wide statements.		105,000
Compensated absences recorded in SNP but not fund financial statements.		(75,202)
Interest payable is recorded in the statement of net position. The balance decreases net position.		(4,167)
Various other reclassifications and eliminations including recognizing unavailable revenue as revenue and adjusting current year revenue to show the revenue earned from the current year's tax levy.		35,125
Net position of governmental activities - statement of net position	$	13,221,620

The accompanying notes are an integral part of this statement.

CITY OF GLEN ROSE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General	Convention and Visitors' Bureau	Total Governmental Funds
REVENUES			
Property tax	$ 667,718	$	$ 667,718
Sales tax	988,914		988,914
Gross receipt tax	154,492		154,492
Beverage tax	10,620		10,620
Hotel/motel tax		324,973	324,973
Licenses and permits	25,652		25,652
Fines and forfeitures	67,774		67,774
Charges for services	215,403	15,250	230,653
Investment income	25,791	1,828	27,619
Rental income	364,159		364,159
Grant revenue	71,826		71,826
Miscellaneous income	38,970	(316)	38,654
Total Revenues	2,631,319	341,735	2,973,054
EXPENDITURES			
Current:			
General government	956,726		956,726
Public safety	446,497		446,497
Highways and streets	769,178		769,178
Culture and recreation	1,091,917	363,162	1,455,079
Total Expenditures	3,264,318	363,162	3,627,480
Deficiency of Revenues Under Expenditures	(632,999)	(21,427)	(654,426)
OTHER FINANCING SOURCES			
Transfers	208,150		208,150
Total other financing sources	208,150		208,150
Net Change in Fund Balances	(424,849)	(21,427)	(446,276)
Fund Balance - Beginning	7,353,968	68,645	7,422,613
Fund Balance - Ending	$ 6,929,119	$ 47,218	$ 6,976,337

The accompanying notes are an integral part of this statement.

CITY OF GLEN ROSE

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Total change in fund balance - total governmental funds	$	(446,276)
Amounts reported for governmental activities in the statement of activities (SOA) are different because:		
Depreciation expense is not recorded in the fund financial statements.		(252,487)
Capital outlay is recorded as an expenditure in the fund financial statements, but as an asset in the SNP.		365,291
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of December 31, 2016 caused the change in the ending net position to decrease in the amount of $23,161567. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling $8,011. The City's reported TMRS net pension expense had to be recorded. The net pension expense increased the change in net position by $43,869. The result of these changes is to decrease the change in net position by $12,697.		(12,697)
Long-term debt principal payments are expenditures in the fund financial statements but they are shown as a reduction in the long-term debt in the government-wide statements.		105,000
Interest payable is recorded in the statement of net position. The change in the balance is to increase net position.		131
Compensated absences is recorded in the statement of net position. The change in the balance is to increase net position.		(27,775)
Various other reclassifications and eliminations including recognizing unavailable revenue as revenue and adjusting current year revenue to show the revenue earned from the current year's tax levy.		(2,324)
Change in net position governmental activities - statement of activities	$	(271,137)

The accompanying notes are an integral part of this statement.

PROPRIETARY FUND FINANCIAL STATEMENTS

CITY OF GLEN ROSE

STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
SEPTEMBER 30, 2017

	Utility Fund	Total Enterprise Funds
ASSETS		
Current:		
Cash and cash equivalents	$ 2,825,464	$ 2,825,464
Investments	1,374,057	1,374,057
Accounts receivable, net	206,559	206,559
Grant receivable	196,011	196,011
Due from other funds	76,577	76,577
Total current	4,678,668	4,678,668
Non current:		
Land and land improvements	67,337	67,337
Construction in progress	3,059,938	3,059,938
Infrastructure, net	4,416,273	4,416,273
Buildings and improvements, net	36,023	36,023
Machinery and equipment, net	134,227	134,227
Total non current	7,713,798	7,713,798
TOTAL ASSETS	12,392,466	12,392,466
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to TMRS	69,861	69,861
Total Deferred Outflows of Resources	69,861	69,861
LIABILITIES		
Current		
Accounts payable	445,173	445,173
Payroll liabilities	3,641	3,641
Accrued interest payable	3,705	3,705
Customer deposits	133,394	133,394
Bonds payable - current	145,000	145,000
Total current	730,913	730,913
Non current:		
Accrued compensated absences	18,479	18,479
Net pension liability	134,859	134,859
Bonds payable	3,425,000	3,425,000
Total non current	3,578,338	3,578,338
TOTAL LIABILITIES	4,309,251	4,309,251
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to TMRS	14,261	14,261
Total Deferred Inflows of Resources	14,261	14,261
NET POSITION		
Net investment in capital assets	4,143,798	4,143,798
Unrestricted	3,995,017	3,995,017
TOTAL NET POSITION	$ 8,138,815	$ 8,138,815

The accompanying notes are an integral part of this statement.

CITY OF GLEN ROSE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Utility Fund	Total Enterprise Funds
Operating Revenues:		
Water services	$ 906,708	$ 906,708
Sewer services	553,548	553,548
Sanitation services	162,019	162,019
Miscellaneous revenue	30	30
Total operating revenues	1,622,305	1,622,305
Operating Expenses:		
Water department	860,545	860,545
Sewer department	129,013	129,013
Waste water treatment plant	271,940	271,940
Total operating expenses	1,261,498	1,261,498
Net operating income	360,807	360,807
Nonoperating income/(expense):		
Interest income	19,053	19,053
Grant revenue	1,085,408	1,085,408
Interest expense	(97,738)	(97,738)
Total nonoperating income/(expenses)	1,006,723	1,006,723
Change in Net Position	1,367,530	1,367,530
Net Position - Beginning of Year	6,771,285	6,771,285
Net Position - End of Year	$ 8,138,815	$ 8,138,815

The accompanying notes are an integral part of this statement.

CITY OF GLEN ROSE

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Utility Fund	Total Enterprise Funds
Cash flows from operating activities:		
Cash received from customers	$ 1,619,585	$ 1,619,585
Cash payments to suppliers for goods and services	(492,517)	(492,517)
Cash payments for employees services and benefits	(286,573)	(286,573)
Net cash provided by operating activities	840,495	840,495
Cash flows from noncapital financing activities:		
Pension funding	3,581	3,581
Advances from / to other funds	(339,155)	(339,155)
Net cash provided by noncapital financing activities	(335,574)	(335,574)
Cash flows from capital and related financing activities:		
Principal paid on bonds payable	(140,000)	(140,000)
Proceeds from grant	1,085,408	1,085,408
Interest expense	(97,738)	(97,738)
Acquisition of property and equipment	(2,289,470)	(2,289,470)
Net cash provided by capital and related financing activities	(1,441,800)	(1,441,800)
Cash flows from investing activities:		
Purchase of investments	(9,481)	(9,481)
Interest earned	19,053	19,053
Net cash used by investing activities	9,572	9,572
Net Increase in Cash	(927,307)	(927,307)
Cash at Beginning of Year	3,752,771	3,752,771
Cash at End of Year:	$ 2,825,464	$ 2,825,464
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 360,807	$ 360,807
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	236,074	236,074
(Increase) decrease in operating assets		
Receivables	(2,690)	(2,690)
Grant reveivables	(196,011)	(196,011)
Increase (decrease) in operating liabilities		
Accounts payable	406,648	406,648
Accrued compensated absences	13,602	13,602
Accrued payroll	1,101	1,101
Accrued interest	(707)	(707)
Utility deposits	21,671	21,671
Net cash provided by operating activities	$ 840,495	$ 840,495

The accompanying notes are an integral part of this statement.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting framework and the more significant accounting principles and practices of the City of Glen Rose, Texas (City) are discussed in subsequent sections of this Note. The remainder of the Notes is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2017.

Financial Reporting Entity – Basis of Reporting

The City operates as a Type A General Law Municipality under the laws of the State of Texas. The City is governed by an elected mayor and five-member governing council and provides the following services as authorized by its charter: public safety, highways and streets, culture and recreation, water, sewer, solid waste and general governmental services.

As required by the accounting principles generally accepted in the United States of America, these financial statements present the primary government and its component unit, an entity for which the government is considered to be financially accountable. The discreetly presented component unit is reported in a separate column in the government-wide statements to emphasize it is legally separate from the primary government.

The City has oversight responsibility for Glen Rose Economic Development Corporation, a governmental nonprofit corporation organized for the purpose of increasing employment opportunities and or public improvement projects. The Glen Rose Economic Development Corporation is included in the City's reporting entity as a discretely presented component unit. Additional financial information for Glen Rose Economic Development Corporation may be obtained from the finance department of the City.

Government-wide and Fund Financial Statements

Government-wide financial statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole. The primary government and component unit are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges for uses of the City's services; and (2) capital grants and contributions which finance major construction projects. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund financial statements

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The City's reporting entity applied all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements reports using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: sales and use taxes, hotel/motel taxes, beverage taxes, property taxes, right of way (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income and expenses reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Fund Types and Major Funds

Governmental funds

The City reports the following major governmental fund:

General Fund – reports as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

Proprietary funds

The City reports the following major enterprise fund:

Utility Fund – reports for revenues and expenses associated with water, sewer, and sanitation services for the citizens of the City.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities, and Net Position or Equity

Cash and cash investments

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

Investments

Investments are reported at fair value (generally based on quoted market prices) except for the position in the State Treasurer's Texas Local Government Investment Pool ("TexPool"). Investments for the City include certificates of deposit and investments in TexPool.

In accordance with state law, TexPool operates in conformity with all the requirements of the Securities and Exchange Commission's ("SEC") Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, TexPool qualifies as a 2a7-like pool and is reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. TexPool is subject to regulatory oversight by the State Treasurer, although it is not registered with the SEC.

Inventory

The costs in inventory are recorded as expenditures/expenses when purchased (purchase method).

Capital assets, depreciation, and amortization

The City's property, plant, and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective fund's financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with costs of $5,000 or more, as purchase and construction outlays occur. The City chose to include the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities such as streets), regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in non-operating revenues and expenses in the proprietary funds and general revenues in the government-wide statements.

Estimated useful lives for depreciable assets are as follows:

Buildings and improvements	10-40 years
Machinery and equipment	10 years
Infrastructure	10-50 years

Long-term debt

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The governmental fund financial statements recognize the proceeds from debt as other financing sources of the current period. Issuance costs and debt payments are reported as expenditures.

Compensated Absences

The City's policy permits employees to accumulate earned but unused personal time off (PTO) benefits. Employees earn up to 48 hours of PTO during their first year of employment. Employees with 1 to 2 years of employment can earn up to 144 hours of PTO each year. Employees with 3 to 10 years of employment can earn up to 184 hours of PTO each year. Employees with 11 to 15 years of employment can earn up to 224 hours of PTO each year. Employees with 16 or greater years of employment can earn up to 264 hours of PTO each year. Employees can accumulate a maximum of 240 hours of PTO. Unused PTO is paid upon termination of employment. PTO accrual for governmental activities and business-type activities are $75,202 and $18,479, respectively.

Deferred Outflows / Inflows of Resources

Deferred outflows of resources refer to the consumption of net assets that are applicable to a future reporting period. Deferred outflows of resources have a positive effect on net position, similar to assets. The City has no amounts recorded as deferred outflows of resources in the governmental fund financial statements and $319,560 and $69,861 of deferred outflows related to TMRS in the government wide financial statements and proprietary funds statements, respectively.

Deferred inflows of resources refer to the acquisition of net assets that are applicable to a future reporting period. Deferred inflows of resources have a negative effect on net position, similar to liabilities. Specifically, for the current period, the difference in delinquent taxes receivable and the associated allowance for uncollectible taxes of $35,125 is considered a deferred inflow of resources in the governmental fund financial statements, while $14,261 and $64,826 of deferred inflows related to TMRS is considered deferred inflow of resources in the proprietary funds and government wide financial statements, respectively.

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 contributions 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.

Fund Balance Classification

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City had no amounts classified as nonspendable at September 30, 2017.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Federal or state funds are restricted for a specific use only. The City had $47,218 restricted for promoting tourism and for the convention and hotel industry at September 30, 2017.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City has no amounts classified as committed at September 30, 2017.

Assigned – This classification includes amounts that are constrained by the City Council's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Council or through the Council delegating this responsibility to management through the budgetary process. The City has no funds classified as assigned at September 30, 2017.

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

The City would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. As such, actual results could differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Budget policy and practice

The City Manager submits an annual budget to the City Council in accordance with the State of Texas. The budget is presented to the City Council for review, and public hearings are held to address citizen concerns. In September, the City Council adopts the annual fiscal year

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - continued

budgets for City operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Basis of budgeting

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: general governmental services, public safety, highways and streets, culture and recreation. Budget revisions at this level are subject to final review by the City Council.

Budgets for the governmental funds operations are prepared on the modified accrual basis of accounting. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year that the expenditure is incurred. The budget and actual financial statements are reported on this basis.

Compliance

The City is compliant with applicable requirements of Section 16.356 of the Texas Water Code relating to transfers of funds associated with EDAP funded projects. All revenues derived from EDAP funded projects are solely for utility purposes.

NOTE 3: DEPOSITS AND INVESTMENTS

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City 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.

Cash Deposits

The City's cash deposits were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name at September 30, 2017.

Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, ("ACT") to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The ACT requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the ACT. Additionally, investment practices of the City were in accordance with local policies.

NOTE 3: DEPOSITS AND INVESTMENTS - continued

Statutes authorize the entity 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.

Fair Value

Generally accepted accounting principles require the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

A fair value hierarchy exists for valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example: interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Significant unobservable inputs that reflect an entity’s own assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below:

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally-developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value.

While management believes the City’s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of

NOTE 3: DEPOSITS AND INVESTMENTS - continued

fair value at the reporting date.

For all assets and liabilities other than investments carrying value approximates fair value.

Investments are reported at fair value utilizing Level I inputs for TexPool.

The City's investments at September 30, 2017 are as follows:

	Fair Value			Weighted Average Maturity (Days)	Standard & Poor's Rating
	General Fund	Utility Fund	Total		
TexPool	1,032,567	1,374,057	2,406,624	34	AAAm
	$ 1,032,567	$ 1,374,057	$ 2,406,624		

Analysis of Specific Deposit and Investment Risks

- Credit Risk – the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

- Custodial Credit Risk – Deposits and investments are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name. At September 30, 2017, the City's deposits and investments were entirely collateralized and therefore, not exposed to custodial credit risk.

- Concentration of Credit Risk – the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's policy is to diversify its investments by security type and institution. The City invests only in TexPool. The City's concentration of credit risk is low.

- Interest rate risk – the risk that changes in interest rates will adversely affect the fair value of an investment. The City manages its exposure to declines in fair values by limiting the maturity of investments to one year or less. The City monitors the interest rates to minimize the exposure to interest rate risk.

- Foreign Currency Risk – the risk that exchange rates will adversely affect the fair value of an investment. As of September 30, 2017, the City was not exposed to foreign currency risk.

NOTE 4: RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND UNAVAILABLE REVENUE

Enterprise Receivables

Significant receivables include amounts due from customers primarily for utility services. These receivables are due within one year. The allowance for uncollectible accounts is $45,777 based on historical data.

NOTE 4: RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND UNAVAILABLE REVENUE - continued

Receivables at September 30, 2017 are shown as follows:

Primary government:		
Water fund utility services	$	252,336
Allowance for uncollectible accounts		(45,777)
Total primary government	$	206,559

Property Taxes Receivable, Deferred Revenue and Property Tax Calendar

Property taxes are levied by October 1st on the assessed value listed as of the prior January 1st for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1st of the year following the year in which the tax is imposed. On January 1st of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible taxes receivable within the General Fund are based upon historical experience in collecting property taxes. Uncollectible property taxes are periodically reviewed and written off, but the city is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

In the governmental fund financial statements, property taxes receivable are recorded in the General Fund. At fiscal year-end, the receivables represent delinquent taxes receivable.

In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the City regardless of when cash is received. Over time, substantially all property taxes are collected.

NOTE 5: NOTE RECEIVABLE

Glen Rose Economic Development Corporation entered into a note agreement with Mestech, Inc. on May 7, 2013, in the amount of $100,000 for the construction of office, warehouse, distribution, and manufacturing facilities. The note is a zero percent loan payable in annual payments of $10,000. The loan matures on December 9, 2022.

Glen Rose Economic Development Corporation entered into a note agreement with VRC Enterprises, Inc on August 26, 2016, in the amount of $100,000 for the construction of office, warehouse, and fabrication facilities. The note is a zero percent loan payable in quarterly payments of $2,500. The loan matures on October 1, 2026.

CITY OF GLEN ROSE

NOTES TO FINANCIAL STATEMENTS

NOTE 6: CAPITAL ASSETS

The following schedule provides a summary of changes in capital assets:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 1,426,697	$	$	$ 1,426,697
Total not being depreciated	1,426,697			1,426,697
Capital assets being depreciated				
Buildings & improvements	1,425,458	37,712		1,463,170
Machinery & equipment	952,783	183,398		1,136,181
Infrastructure	7,557,633	144,181		7,701,814
Total being depreciated	9,935,874	365,291		10,301,165
Less accumulated depreciation for:				
Buildings & improvements	(408,214)	(27,337)		(435,551)
Machinery & equipment	(631,244)	(74,045)		(705,289)
Infrastructure	(1,387,389)	(151,105)		(1,538,494)
Total accumulated depreciation	(2,426,847)	(252,487)		(2,679,334)
Total being depreciated, net	7,509,027	112,804		7,621,831
Governmental activities total, net	$ 8,935,724	$ 112,804	$	$ 9,048,528
Business-type activities:				
Capital assets not depreciated				
Land	$ 67,337	$	$	$ 67,337
Construction in progress	962,604	2,257,931	(160,597)	3,059,938
Total not being depreciated	1,029,941	2,257,931	(160,597)	3,127,275
Capital assets being depreciated				
Buildings & improvements	57,943			57,943
Machinery & equipment	653,662	31,539	(15,382)	669,819
Infrastructure	8,687,576	160,597		8,848,173
Total being depreciated	9,399,181	192,136	(15,382)	9,575,935
Less accumulated depreciation for:				
Buildings & improvements	(20,472)	(1,448)		(21,920)
Machinery & equipment	(523,997)	(26,977)	15,382	(535,592)
Infrastructure	(4,224,251)	(207,649)		(4,431,900)
	(4,768,720)	(236,074)	15,382	(4,989,412)
Total being depreciated, net	4,630,461	(43,938)		4,586,523
Business-type activities total, net	$ 5,660,402	$ 2,213,993	$ (160,597)	$ 7,713,798
Total governmental-wide, net	$ 14,596,126	$ 2,326,797	$ (160,597)	$ 16,762,326

Depreciation was charged to functions as follows:

General government	$ 18,757
Public safety	8,258
Highways and streets	177,887
Culture and recreation	47,585
Total depreciation expense - governmental activities	$ 252,487

CITY OF GLEN ROSE

NOTES TO FINANCIAL STATEMENTS

NOTE 7: LONG-TERM BONDS PAYABLE

The bond payable balances at September 30, 2017 are as shown in the chart below:

Governmental Activities		Balance
In 2010, the City issued General Obligation Refunding Bonds, Series 2010 in the amount of $3,020,000, to refund previously issued Certificates of Obligation. As of year-end, there are no bonds or certificates of obligation considered defeased and outstanding. Interest rates range from 2.00% to 4.25%. The Bonds mature on August 30, 2034.	$	2,480,000
Total Governmental Activities	$	2,480,000
Business-type Activities		
In January 2013, the city issued Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2013 in the amount of $370,000, to provide funds for the planning, acquisition and design costs related to wastewater system improvements. Interest rates range from 0.27% to 2.82%. The Certificates of Obligation mature on August 15, 2022.	$	160,000
In July 2016, the City issued Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2016 in the amount of $3,520,000, pursuant to Subchapter C of Chapter 271, Texas Local Government Code, to finance the sewer and water supply project. Additionally, the Texas Water Development Board (TWDB) provided financial assistance of $3,520,000 in the form of a grant. The interest rates range from .070% to 3.21%. The Certifiactes of Obligation mature on August 15, 2037.		3,410,000
Total Business-type Activities	$	3,570,000

The following provides a summary of changes in long-term debt and bonds payable:

		Balance at 9/30/2016		Additions		Retirements		Balance at 9/30/2017		Amount Due In One Year
Governmental Activities										
General Obligation Refunding Bonds, Series 2010	$	2,585,000				105,000		2,480,000		105,000
	$	2,585,000	$	-	$	105,000	$	2,480,000	$	105,000
Business-type Activities										
Certificates of Obligation, Series 2013	$	190,000	$		$	30,000	$	160,000	$	30,000
Certificates of Obligation, Series 2016		3,520,000				110,000		3,410,000		115,000
	$	3,710,000	$		$	140,000	$	3,570,000	$	145,000

CITY OF GLEN ROSE

NOTES TO FINANCIAL STATEMENTS

NOTE 7: LONG-TERM BONDS PAYABLE - continued

Debt service for long-term debt is as follows:

	Year	Principal	Interest	Total
Governmental Activities				
	2018	$ 105,000	$ 100,000	$ 205,000
	2019	110,000	96,850	206,850
	2020	115,000	92,450	207,450
	2021	120,000	87,850	207,850
	2022	125,000	83,050	208,050
	2023-2027	685,000	338,050	1,023,050
	2028-2032	835,000	188,613	1,023,613
	2033-2034	385,000	24,650	409,650
		$ 2,480,000	$ 1,011,513	$ 3,491,513
Business-type	2018	$ 145,000	$ 88,919	$ 233,919
	2019	150,000	87,409	237,409
	2020	150,000	85,635	235,635
	2021	150,000	83,599	233,599
	2022	155,000	81,223	236,223
	2023-2027	820,000	364,048	1,184,048
	2028-2032	925,000	261,438	1,186,438
	2033-2037	1,075,000	105,831	1,180,831
		$ 3,570,000	$ 1,158,102	$ 4,728,102

NOTE 8: RISK MANAGEMENT – CLAIMS AND JUDGEMENTS

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 liability, professional liability, and worker's compensation insurance coverage is provided through the purchase of commercial insurance. The City retains risk on only a deductible amount. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage. The employee health care is also provided by commercial insurance with no risk retained by the city. Management has not been notified and is not aware of any significant claims not covered by insurance.

NOTE 9: TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Due To/ Due From

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as Due to or Due From Other Funds.

Due To	Due From	
General Fund	Utility Fund	$ 76,577
General Fund	Convention & Visitor's Bureau	97,079
Convention & Visitor's Bureau	General Fund	9,950
General Fund	Economic Development Corporation	14,265
		197,871

NOTE 9: TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY – continued

Funds transferred from one fund to another are recorded as other financing sources/uses in the respective fund.

Transfers In	Transfers Out		
General Fund	Economic Development Corporation	$	208,150

NOTE 10: DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Glen Rose participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension 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's 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 governing TMRS.

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.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	2017	2016
Employee deposit rate	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating Transfer	100% Repeating Transfer
Annuity increase (to retires)	70% of CPI	70% of CPI

NOTE 10: DEFINED BENEFIT PENSION PLAN - continued

Employees covered by benefit terms.

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

	2015	2016
Inactive employees or beneficiaries currently receiving benefits	12	18
Inactive employees entitled to but not yet receiving benefits	15	11
Active employees	23	25
Toital	50	54

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.

Employees for the City of Glen Rose were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Glen Rose were 15.60% and 14.74% in calendar years 2016 and 2017, respectively. The city's contributions to TMRS for the year ended September 30, 2017, were $175,544, 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, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension 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%. Because the city is considered a small city by TMRS, these percentages were reduced by 4% for a load of life factor to create a more conservative estimate. 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 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates

NOTE 10: DEFINED BENEFIT PENSION PLAN - continued

multiplied by 109% and female rates multiplied by 103% 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, valuations 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.

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%	1.15%
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 employee and employer contributions will 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

NOTE 10: DEFINED BENEFIT PENSION PLAN - continued

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.

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at 12/31/15	$ 3,290,782	$ 2,734,029	$ 556,753
Changes for the year:			
Service cost	185,563		185,563
Interest	219,515		219,515
Change in benefit terms	-		-
Difference between expected and actual experience	59,890		59,890
Changes of assumptions			-
Contributions - employer		155,068	(155,068)
Contributions - employee		71,039	(71,039)
Net investment income		184,819	(184,819)
Benefit payments, including refunds of employee contributions	(262,987)	(262,987)	-
Administrative expense		(2,087)	2,087
Other charges		(112)	112
Net changes	201,981	145,740	56,241
Balance at 12/31/16	$ 3,492,763	$ 2,879,769	$ 612,994

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:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability (asset)	$ 1,121,814	$ 612,994	$ 201,132

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 Related to Pensions

For the year ended September 30, 2017, the city recognized pension expense of $188,574.

At September 30, 2017, the city reported deferred outflows of resources related to pensions from the following sources:

NOTE 10: DEFINED BENEFIT PENSION PLAN – continued

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	$ 46,747	$ 64,608
Changes in actuarial assumptions	15,881	
Difference between projected and actual investment earnings	126,159	218
Contributions subsequent to the measurement date	130,773	
Total	$ 319,560	$ 64,826

$130,773 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:

Year Ended December 31:	
2018	$ 36,883
2019	36,443
2020	48,389
2021	2,246

NOTE 11: SUPPLEMENTAL DEATH BENEFITS FUND

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). 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 the SDBF by adopting an ordinance before November 1 of 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 postemployment benefit," or OPEB.

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. 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.

NOTE 11: SUPPLEMENTAL DEATH BENEFITS FUND - continued

Schedule of Contribution Rates:
(RETIREE-only portion of the rate)

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2013	0.11%	0.11%	100.0%
2014	0.14%	0.14%	100.0%
2015	0.13%	0.13%	100.0%
2016	0.08%	0.08%	100.0%
2017	0.29%	0.29%	100.0%

NOTE 12: HEALTH CARE COVERAGE

Employee Health Care Coverage

During the year ended September 30, 2017, employees of the City were covered by a health insurance plan (the Plan). Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

NOTE 13 COMMITMENTS AND CONTINGENCIES

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

NOTE 14: UNFAVORABLE BUDGET VARIANCES

During the year ended September 30, 2017, the City had the following unfavorable budget variances:

General Fund:		
General government	$	165,229
Culture and recreation		105,059

Budget amounts were set at the beginning of the year based on prior year’s actual amounts. Negative variances were a result of higher than expected expenditures. The City had ample funds to cover the additional costs. In addition, the City Council approved all the expenditures.

NOTE 15: NEW ACCOUNTING PRONOUNCEMENTS

In June 2015, the GASB issued Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This statement replaces the requirements of Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as amended, and No. 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* for OPEB. Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* establishes new accounting and financial reporting requirements for OPEB plans. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2015, the GASB issued Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* This statement supersedes Statement No. 55 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015 and should be applied retroactively. The City implemented this statement.

In August 2015, the GASB issued Statement No. 77 *Tax Abatement Disclosures.* This statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
- The gross dollar amount of taxes abated during the period.
- Commitments made by a government, other than to abate taxes, as part of a tax abatement. Agreement.

The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. The City has determined there is no impact upon its financial position, results of operations or cash flows upon adoption.

In December 2015, the GASB issued Statement No. 78 *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans.* This statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan.) This statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The City has determined there is no impact upon its financial position, results of operations or cash flows upon adoption.

In December 2015, the GASB issued Statement No. 79 *Certain External Investment Pools and Pool Participants.* This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include

NOTE 15: NEW ACCOUNTING PRONOUNCEMENTS - continued

information about any limitations or restrictions on participant withdrawals. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. The City has determined this Statement has no impact on its financial position, results of operations or cash flows.

In January 2016, the GASB issued Statement No. 80 *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14.* The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in paragraph 53 of Statement No. 14. The requirements of this statement are effective for reporting periods beginning after June 15, 2016. The City has determined there is no impact upon its financial position, results of operations or cash flows upon adoption.

In March 2016, the GASB issued Statement No. 81 *Irrevocable Split-Interest Agreements.* The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2016 and should be applied retroactively. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2016, the GASB issued Statement No. 82 *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73.* The objective of this statement is to address certain issues that have been raised with respect to Statements No. 67, No. 68, and No. 73. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this statement are effective for reporting periods beginning after June 15, 2016. The City determined there is no impact upon its financial position, results of operations or cash flows upon adoption.

In November 2016, the GASB issued Statement No. 83 *Certain Asset Retirement Obligations.* This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

NOTE 15: NEW ACCOUNTING PRONOUNCEMENTS - continued

In January 2017, the GASB issued Statement No 84 *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GLEN ROSE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes				
Property tax	$ 662,872	$ 662,872	$ 667,718	$ 4,846
Sales tax	730,000	730,000	988,914	258,914
Gross receipt tax	150,000	150,000	154,492	4,492
Beverage tax	7,900	7,900	10,620	2,720
Total taxes	1,550,772	1,550,772	1,821,744	270,972
Other				
Licenses and permits	27,500	27,500	25,652	(1,848)
Fines and forfeitures	109,950	109,950	67,774	(42,176)
Charges for services	121,800	121,800	215,403	93,603
Investment income	1,850	1,850	25,791	23,941
Rental income	356,900	356,900	364,159	7,259
Grant revenue			71,826	71,826
Miscellaneous income	53,000	53,000	38,970	(14,030)
Total other	671,000	671,000	809,575	138,575
Total Revenues	2,221,772	2,221,772	2,631,319	409,547
EXPENDITURES				
General government	791,497	791,497	956,726	(165,229)
Public safety	520,803	520,803	446,497	74,306
Highways and streets	838,792	838,792	769,178	69,614
Culture and recreation	986,858	986,858	1,091,917	(105,059)
Total expenditures	3,137,950	3,137,950	3,264,318	(126,368)
Excess (Deficiency) of Revenues over (Under) Expenditures	(916,178)	(916,178)	(632,999)	283,179
OTHER FINANCINC SOURCES / (USES)				
Transfers	267,652	267,652	208,150	(59,502)
Total other financing sources /(uses)	267,652	267,652	208,150	(59,502)
Net Change in Fund Balance	(648,526)	(648,526)	(424,849)	223,677
Fund Balance - Beginning	7,353,968	7,353,968	7,353,968	
Fund Balance - Ending	$ 6,705,442	$ 6,705,442	$ 6,929,119	$ 223,677

CITY OF GLEN ROSE

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS - TMRS

Last 10 Years (will ultimately be displayed)

	2016	2015	2014
Total pension liability			
Service cost	$ 185,563	$ 176,861	$ 133,111
Interest (on the total pension liabiliity)	219,515	222,569	209,657
Changes in benefit terms			
Difference between expected and actual experience	59,890	(124,432)	3,795
Change of assumptions		30,587	
Benefit payments, including refunds of employee contributions	(262,987)	(211,845)	(156,120)
Net Change in Total Pension Liability	201,981	93,740	190,443
Total Pension Liability - Beginning	3,290,782	3,197,042	3,006,599
Total Pension Liability - Ending	$ 3,492,763	$ 3,290,782	$ 3,197,042
Plan Fiduciary Net Position			
Contributions - employer	$ 155,068	$ 130,937	$ 117,433
Contributions - employee	71,039	65,853	61,440
Net investment income	184,819	4,055	147,549
Benefit payments, including refunds of employee conntributions	(262,987)	(211,845)	(156,120)
Administrative expense	(2,087)	(2,469)	(1,540)
Other	(113)	(122)	(127)
Net Change in Plan Fiduciary Net Position	145,739	(13,591)	168,635
Plan Fiduciary Net Position - Beginning	2,734,030	2,747,621	2,578,986
Plan Fiduciary Net Position - Ending	$ 2,879,769	$ 2,734,030	$ 2,747,621
Net Pension Liability - Ending	$ 612,994	$ 556,752	$ 449,421
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	82.45%	83.08%	85.94%
Covered Employee Payroll	$ 1,002,501	$ 940,753	$ 890,879
Net Pension Liability as a Percentage of Covered Employee Payroll	-61.15%	-59.18%	-50.45%

CITY OF GLEN ROSE

SCHEDULE OF CONTRIBUTIONS - TMRS

Last 10 Fiscal Years (will ultimately be displayed)

	2017	2016	2015
Actuarially Determined Contribution	$ 175,544	$ 146,803	$ 128,304
Contributions in relation to the actuarially determined contribution	$ (175,544)	$ (146,803)	$ (128,304)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered employee payroll	$ 1,174,192	$ 975,973	$ 909,946
Contribution as a percentage of covered employee payroll	14.95%	15.04%	14.10%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

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	30 Years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on 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 male 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.

OTHER INFORMATION REQUIRED BY GAO

Merritt, McLane & Hamby, P.C.

401 Cypress Street, Suite 303
Abilene, TX 79601

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the City Council
City of Glen Rose, 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, the discretely presented component unit, and each major fund of the City of Glen Rose, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Glen Rose, Texas' basic financial statements, and have issued our report thereon dated January 31, 2018.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses as identified as 2017-001, 2017-002 and 2017-003.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the City of Glen Rose, Texas' financial statements are free of 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 Standard.*

City of Glen Rose's Response to Findings
The City of Glen Rose's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City of Glen Rose's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Phone: 325-672-9323 *www.mmh-cpa.com* *Fax 325-672-9491*

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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Merritt, Mclane & Hamby, P.C.

MERRITT, MCLANE & HAMBY, P.C.

Abilene, Texas
January 31, 2018

CITY OF GLEN ROSE

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED SEPTEMBER 30, 2017

2017-001 Bank Reconciliations Not Performed Timely

Condition:	Bank reconciliations were not performed timely on all bank accounts during the year.
Criteria:	Bank accounts need to be reconciled timely to provide complete and accurate accounting of all transactions. Timely reconciliations can help identify overspending and safeguard against fraud.
Cause:	Bank accounts not reconciled timely could cause the Council to make decisions they would not otherwise make if they have accurate and complete information.
Effect:	Bank accounts not reconciled timely could result in the Council receiving inaccurate and incomplete financial data.
Recommendation:	The auditors recommend that all bank accounts be reconciled on a monthly basis within 30 days of the receipt of the bank statement. Bank reconciliations should be reviewed and approved by an appropriate individual. We noted during our audit that subsequent bank reconciliations were being preformed timely.
Management's Response:	Bank reconciliations on all bank accounts will be performed monthly by the Finance Director.

2017-002 Pooled Cash Not Reconciled to the Funds Claims on Pooled Cash

Condition:	Claim on pooled cash in the funds did not reconcile to the pooled cash in Fund 99 (Pooled Cash Fund).
Criteria:	Claim on pooled cash in the funds should equal the pooled cash balance in the pooled cash fund.
Cause:	The balance sheet for the funds are not accurate if the claim on pooled cash does not equal the pool cash fund.
Effect:	The information given to the Council is inaccurate and incomplete.
Recommendation:	The auditors recommend that the claim on pooled cash within the funds be reconciled to the cash balance in Fund 99 (Pooled Cash Fund).
Management's Response:	Claim on pooled cash will be reconciled to the Pooled Cash Fund monthly by the Finance Director.

2017-003 Correctly Record Revenue Received to the Appropriate Account

Condition:	Funds received for Oakdale Park and deposited into the Park bank account did not reconcile to the revenue recorded in the general ledger for the Park.
Criteria:	When funds are received for the specific park purposes, the funds are deposited into the park bank account and the appropriate revenue account code should be recorded.

Cause:	There was a large difference between what was deposited into the bank statement and what was recorded in the general ledger.
Effect:	A reconciliation of what is deposited into the bank account and what is recorded could deter fraud and provide for complete and accurate information to the Council.
Recommendation:	The auditors recommend reconciliations be prepared to determine that all funds received for Park revenue be accounted for accurately and completely. We noted during our audit the last several months of the fiscal year showed marked improvement.
Management's Response:	A reconciliation of all deposited funds will be prepared monthly by the Finance Director.

Contact: Chester Nolen, City Administrator
254-897-2272

CITY OF GLEN ROSE

SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED SEPTEMBER 30, 2017

Findings/Noncompliance

2016-001 Bank Reconciliations Not Performed Timely

Condition: Bank reconciliations were not performed timely on all bank accounts during the year.

Criteria: Bank accounts need to be reconciled timely to provide complete and accurate accounting of all transactions. Timely reconciliations can help identify overspending and safeguard against fraud.

Cause: Bank accounts not reconciled timely could cause the Council to make decisions they would not otherwise make if they have accurate and complete information.

Effect: Bank accounts not reconciled timely could result in the Council receiving inaccurate and incomplete financial data.

Recommendation: The auditors recommend that all bank accounts be reconciled on a monthly basis within 30 days of the receipt of the bank statement. Bank reconciliations should be reviewed and approved by an appropriate individual.

Management’s Response: Bank reconciliations on all bank accounts will be performed monthly by the Finance Director. This finding was presented in 2017.

2016-002 Pooled Cash Not Reconciled to the Funds Claims on Pooled Cash

Condition: Claim on pooled cash in the funds did not reconcile to the pooled cash in Fund 99 (Pooled Cash Fund).

Criteria: Claim on pooled cash in the funds should equal the pooled cash balance in the pooled cash fund.

Cause: The balance sheet for the funds are not accurate if the claim on pooled cash does not equal the pool cash fund.

Effect: The information given to the Council is inaccurate and incomplete.

Recommendation: The auditors recommend that the claim on pooled cash within the funds be reconciled to the cash balance in Fund 99 (Pooled Cash Fund).

Management’s Response: Claim on pooled cash will be reconciled to the Pooled Cash Fund monthly by the Finance Director. This finding was presented in 2017

2016-003 Correctly Record Revenue Received to the Appropriate Account

Condition: Funds received for Oakdale Park and deposited into the Park bank account did not reconcile to the revenue recorded in the general ledger for the Park.

Criteria: When funds are received for the specific park purposes, the funds are deposited into the park bank account and the appropriate revenue account code should be recorded.

Cause:	There was a large difference between what was deposited into the bank statement and what was recorded in the general ledger.
Effect:	A reconciliation of what is deposited into the bank account and what is recorded could deter fraud and provide for complete and accurate information to the Council.
Recommendation:	The auditors recommend a reconciliation be prepared to determine that all funds received for Park revenue be accounted for accurately and completely.
Management's Response:	A reconciliation of all deposited funds will be prepared monthly by the Finance Director. The last several months of the fiscal year showed marked improvement.