

# **Brushy Creek Regional Utility Authority, Inc.**

Financial Report

September 30, 2017

# CONTENTS

Page

## Financial Section

Independent Auditor's Report .....	2
Management's Discussion and Analysis .....	5

## Basic Financial Statements

Statement of Net Position.....	13
Statement of Revenues, Expenses and Changes in Net Position .....	15
Statement of Cash Flows.....	16
Notes to Financial Statements.....	17

## Supplementary Information

Combining Statement of Net Position.....	26
Combining Statement of Revenues, Expenses and Changes in Net Position .....	28
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	29

# **Financial Section**



## Independent Auditor's Report

To the Board of Directors  
Brushy Creek Regional Utility Authority, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Brushy Creek Regional Utility Authority, Inc. (the BCRUA) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the BCRUA's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the BCRUA as of September 30, 2017, and the respective changes in financial position, and 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 information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Emphasis-of-Matter

As discussed in Note 6 to the financial statements, the BCRUA is dependent on the Cities of Cedar Park, Leander, and Round Rock, Texas for the continued funding of its operating activities. The Cities annually budget funds for operational expenses and debt service requirements of the BCRUA. Our opinion is not modified with respect to this matter.

Brushy Creek Regional Utility Authority, Inc.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2018, on our consideration of the BCRUA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with government auditing standards in considering BCRUA's internal control over financial reporting and compliance.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Austin, Texas  
January 3, 2018

## **Brushy Creek Regional Utility Authority, Inc.**

Management's Discussion and Analysis

September 30, 2017

### **About BCRUA**

The Brushy Creek Regional Utility Authority (the BCRUA) is a joint venture between the Cities of Cedar Park, Leander and Round Rock, Texas to design and construct a regional water system that will supply treated water to the three communities.

Cedar Park, Leander and Round Rock are among the fastest growing cities in Texas. Their combined population, based on 2017 U.S. census estimates, is approximately 240,000. By 2040, their population is projected to exceed 600,000. In addition, the three cities provide potable water service to a variety of external subdivisions and municipal utility districts. This project provides facilities to access, treat and deliver water from Lake Travis to each partner city's customers. When completed, the project will meet the needs of Cedar Park and Round Rock to their ultimate build-out and the needs of Leander for at least the next 20 to 25 years.

The regional concept ensures the responsible use of resources and the least impact on both the environment and neighboring communities. Rather than three communities building three separate water supply projects with three pipelines, three intakes, and three treatment plants, the BCRUA project streamlines the effort for minimum impact and maximum efficiency. The regional option affords the three cities the opportunity to realize "economy of scale" savings of approximately 30%, or more than \$90 million.

The regional water treatment plant will have an ultimate capacity of 106 million gallons per day (mgd) and will be built in three phases to better match the capacity with near-term needs. The initial Phase 1 was substantially completed in July 2012 and includes the full sized 106 mgd raw water and treated water pipelines, and a 17 mgd water treatment plant, readily expandable to 42 mgd. Phase 1 operates with an interim floating intake on Lake Travis with an ultimate design capacity of 30 mgd, but a permanent deep water intake with an ultimate capacity of 144.7 mgd will be required as part of Phase 2. The permanent deep water intake will be oversized to deliver raw water to existing City of Cedar Park and City of Leander water treatment plants, in addition to the BCRUA regional water treatment plant.

Plant operations officially began July 1, 2012. Operations for the project have been divided into three categories: plant staffing; General Manager/administrative support; and, financial support/accounting services, with each city taking responsibility for one of the categories. Plant staffing is provided by Leander consisting of one plant superintendent and seven plant operators. The General Manager and administrative support are provided by Round Rock. Finance and Accounting is provided by Cedar Park. While each city maintains responsibility for their own category, the Operations Committee (composed of engineering and finance staff from each city) provides oversight of each city's contribution in order to ensure appropriate controls are in place.

While substantial completion and start-up of the Phase 1 Project occurred in 2012, final project close-out was delayed, due to several construction related issues that became evident prior to final completion. BCRUA worked with the construction general contractor and the project design engineering firm to complete repairs in 2017.

Operation of the plant was temporarily halted in August 2013, due to low lake levels resulting from an ongoing drought. Mandatory decreased water withdrawals ordered by the Lower Colorado River Authority, and conservation measures imposed by the three partner cities significantly reduced system demand, which allowed the BCRUA facilities to remain off-line. Working with the construction general contractor, BCRUA took advantage of the off-line period to resolve most of the remaining construction related issues, prior to restarting the plant.

## **Brushy Creek Regional Utility Authority, Inc.**

Management's Discussion and Analysis

September 30, 2017

### **About BCRUA (Continued)**

Plant operations resumed with the end of the drought, in Fall of 2015. The plant has remained in continuous operation since that time, operating approximately 8-10 hours per day, seven days per week. Expanded operational staffing in 2017 allowed for 24/7 operations during the 2017 summer peak demand period, and during a testing protocol as part of a request to increase the plant's authorized capacity by the Texas Commission on Environmental Quality (TCEQ).

With substantial completion of the Phase I Project in 2012, staff began working on planning, environmental studies and real-estate acquisition for Phase II. In 2013, two sites were identified for the permanent deep water intake structure (in the Village of Volente), and the permanent raw water pumping station (in Sandy Creek Park). Purchase of the Sandy Creek Park site from the Lower Colorado River Authority was finalized in April 2014. Purchase of the privately owned parcel in the Village of Volente was completed in 2016.

A request for proposals (RFP) to initiate preliminary design of the Phase 2 permanent deep water intake and pump station was issued in 2014, leading to Board approval in November of a contract with an engineering design team led by HDR Engineers' Austin office. The pre-design project began in early 2015, and was concluded in mid-2016. To date, all Phase 2 planning, engineering, and property acquisition costs have been covered by savings recognized from the Phase 1A construction projects. Funding for the Phase 2 final design and construction phases will need to be identified and in place prior to initialization of final design. Phase 1A savings have been authorized for funding of acquisition of Phase 2 related pipeline and electrical easements, and Volente land use negotiations.

In August of 2016, the Leander City Council passed a resolution supporting expansion of the regional plant, and floating intake to 30 MGD (Phase 1C), and delaying any decision on Phase 2 final design and construction funding until July of 2017. In July of 2017, the Leander City Council passed a resolution supporting a loan request to TWDB in 2018 for Phase 2 Final Design in 2019-2020. Design of the Phase 1C expansion has been covered by remaining savings from the Phase 1A construction project. Construction funding was requested through the Texas Water Development Board's (TWDB) SWIFT Loan program, in early 2017. TWDB approved a \$17,000,000 loan request in July of 2017. Construction of the Phase 1C expansion project is anticipated to commence in mid-2018, and be complete by late 2019.

The BCRUA Board of Directors is composed of six members, two appointed from each of the city councils of the partnering cities. A General Manager directs the day-to-day business of the BCRUA, and a Plant Superintendent oversees the operation of the system.

What follows is a discussion and analysis of the BCRUA's financial performance for the fiscal year ended September 30, 2017. Please read it in conjunction with the Independent Auditors' Report on pages 2 through 4 and the BCRUA's Basic Financial Statements, which begin on page 12.

### **Overview of the Financial Statements**

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) basic financial statements, and (3) notes to the financial statements. This report also contains combining statements as supplementary information in addition to the basic financial statements.

## **Brushy Creek Regional Utility Authority, Inc.**

Management's Discussion and Analysis

September 30, 2017

### Basic Financial Statements

The basic financial statements include the Statement of Net Position (pages 13 - 14), the Statement of Revenues, Expenses, and Changes in Net Position (page 15) and the Statement of Cash Flows (page 16). The BCRUA operates as an enterprise activity and consists of one proprietary fund.

The notes to the financial statements (starting on page 17) provide narrative explanations or additional data needed for full disclosure in the basic financial statements.

The basic financial statements are designed to provide readers with a broad overview of the BCRUA's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the BCRUA's assets and liabilities, with the difference between the two reported as net position. The BCRUA's net position provides one measure of the BCRUA's financial health, or financial position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the BCRUA is improving or deteriorating. To fully assess the overall health of the BCRUA, however, you should consider nonfinancial factors as well, such as the condition of assets, and the total economic impact of the entity on the Cities of Cedar Park, Leander and Round Rock, Texas.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the BCRUA's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *Statement of Cash Flows* presents cash receipts, cash disbursements and net changes in cash resulting from operating, financing and investing activities. This statement provides information such as where cash originated, how it was used and the net change in cash balances during the reporting period.

### Notes to the Financial Statements

The notes provide required disclosures and other additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements present information about the accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. The notes to the financial statements can be found on pages 17 through 24 of this report.

### Supplementary Information

The combining statements are presented for purposes of additional analysis and to provide an overview of the financial position and results of operations related to each partner City. The combining statements can be found on pages 26 through 28 of this report.

## Brushy Creek Regional Utility Authority, Inc.

Management's Discussion and Analysis

September 30, 2017

### Financial Analysis

#### Financial Highlights

- The BCRUA's net position decreased by \$9,948,111 as a result of current year operations.
- Partner city contributions to net position for the year ended September 30, 2017 were \$11,796,506.
- Total net position at September 30, 2017 was \$21,319,648, an increase of \$1,848,395 from September 30, 2016.
- Total capital assets, net of depreciation, were \$159,364,214 as of September 30, 2017. This is a decrease of \$2,435,988 from the prior year.
- Total noncurrent liabilities were \$169,702,705 and \$174,361,559 as of September 30, 2017 and 2016, respectively. Principal payments on this debt began in fiscal year 2012.

The following condensed financial statements (Tables I and II) provide key financial data as of and for the years ended September 30, 2017 and 2016.

**Table I**  
**Net Position**

	<u>2017</u>	<u>2016</u>
Current assets	\$ 5,749,976	\$ 6,063,095
Restricted assets	18,325,661	24,537,787
Capital assets, net	159,364,214	161,800,202
Total assets	<u>183,439,851</u>	<u>192,401,084</u>
Deferred outflows of resources	15,558,001	8,871,232
Current liabilities	2,460,996	1,880,374
Current liabilities payable from restricted assets	5,514,503	5,559,130
Noncurrent liabilities	169,702,705	174,361,559
Total liabilities	<u>177,678,204</u>	<u>181,801,063</u>
Net position		
Unrestricted	2,244,477	4,710,196
Net investment in capital assets	19,075,171	14,761,057
<b>Total net position</b>	<u><u>\$ 21,319,648</u></u>	<u><u>\$ 19,471,253</u></u>

## Brushy Creek Regional Utility Authority, Inc.

Management's Discussion and Analysis

September 30, 2017

**Table II**  
**Change in Net Position**

	<u>2017</u>	<u>2016</u>
Operating Revenues	\$ 2,302,665	\$ 688,730
Operating Expenses		
Interest expense	6,032,788	7,665,566
Personnel	609,926	473,578
Legal fees	163,260	74,237
Repairs and maintenance	44,796	104,551
Power	445,389	367,200
Office supplies	85,536	57,717
Audit, investment, banking fees	50,522	45,692
Accounting services	27,046	31,970
Depreciation	3,982,241	3,873,310
Insurance	32,012	27,944
Chemicals	258,657	205,537
Miscellaneous expense	17,935	13,228
Contract services	5,184	5,614
Total Operating Expenses	<u>11,755,292</u>	<u>12,946,144</u>
Operating Loss	(9,452,627)	(12,257,414)
Other Income (Expense)	<u>(495,484)</u>	<u>(822,804)</u>
Change in net position	(9,948,111)	(13,080,218)
Net position - beginning of year	19,471,253	20,753,872
Capital contributions from partner cities	<u>11,796,506</u>	<u>11,797,599</u>
<b>Net position - end of year</b>	<u><u>\$ 21,319,648</u></u>	<u><u>\$ 19,471,253</u></u>

### Capital Assets

Capital assets at September 30, 2017 amounted to \$159,364,214 and consisted of land, easements, buildings, improvements, infrastructure and construction in progress. Construction in progress is made up of costs attributed to Phase 2 of the BCRUA Project and consists primarily of engineering costs but also includes additional costs incurred regarding the construction defects of the plant and the recommissioning of the floating intake barge

The construction phasing and estimated costs for the project are planned as follows:

#### Phase 1:

##### Phase 1a:

- Construction of an interim, floating intake structure near Cedar Park's existing plant on the Sandy Creek arm of Lake Travis
- New raw water pipeline within right-of-way along Trails End Road
- New treatment plant in Cedar Park to serve all three cities with an initial capacity of 17 million gallons per day (mgd) and a final Phase 1 capacity of 42 mgd
- Treated water transmission pipeline across the north side of Cedar Park, along West New Hope Road

## **Brushy Creek Regional Utility Authority, Inc.**

Management's Discussion and Analysis

September 30, 2017

- Construction began in late 2009 and was substantially complete in July 2012
- Cost to complete the project is approximately \$755,000
- The full retainage amount of approximately \$2.35 million was being withheld in fiscal year 2015, pending resolution of outstanding construction issues and final project close-out
- In August 2016, the construction contractor made a claim against BCRUA, and joined it to existing legal claims it holds against several of its sub-contractors on the project. The primary focus of the claims revolve around allegations of structural design defects made by the design engineer, and its structural engineering sub-consultant. BCRUA has rejected the claims, but has enjoined the design engineer to the litigation, and holds the position that any potential judicial award related to design defects would be the responsibility of the design engineer
- Final resolution of any remaining construction/design litigation has experienced delays, but is currently anticipated to be completed by late-2018

Phase 1b:

- Rerating the capacity of treatment facilities by engineering analysis and plant operational testing was completed in mid-late 2017, and is currently under final review by TCEQ

Phase 1c:

- Expansion of the floating intake and treatment facilities to 30 million gallons per day. Design costs will be covered by Phase 1A savings, and was underway during calendar year 2017. Construction funding will be through a Texas Water Development Board SWIFT Loan, which was approved in mid-2017 and is projected to run from mid- 2018 through late-2019

### **Phase 2:**

Phase 2a:

- Permanent, deep-water intake structure on Lake Travis, a gravity pipeline to transmit the raw water to a new pump station, a raw water pipeline connecting the raw water pump station to the Phase 1 raw water pipeline, the City of Cedar Park water treatment plant, the City of Leander water treatment plant, and expansion of the BCRUA regional water treatment plant to 42 million gallons per day
- Final design estimated to begin in early 2019 – late 2020
- Construction start date will be determined by the three partner cities
- Cost estimated at approximately \$180 million (subject to ENR/inflation adjustments)

Phase 2b:

- Expansion of the water treatment plant to 84 mgd
- Cost estimated at approximately \$41 million (subject to ENR/inflation adjustments)

Total estimated cost for Phase 2: \$221 million (subject to ENR/inflation adjustments)

### **Phase 3:**

- Final expansion of water treatment plant to 106 mgd.
- Estimated cost: \$29 million (subject to ENR/inflation adjustments)

**Total cost:** The total project cost is estimated at \$380 million (subject to ENR/inflation adjustments)

### Restricted Assets

Restricted assets at September 30, 2017 were \$18,325,661, a decrease from the September 30, 2016 balance of \$24,537,787. Restricted assets consist of debt service, escrow and reserve funds arising from the proceeds of long-term debt. The decrease reflects the release of escrow funds to finance current construction and investment purchases.

## **Brushy Creek Regional Utility Authority, Inc.**

Management's Discussion and Analysis

September 30, 2017

### Long-Term Debt

In 2009, the BCRUA issued three series of contract revenue bonds totaling \$182,020,000 for construction and other costs related to Phase 1A of the BCRUA Project. Additionally, one refunding issuance was made in 2016, to reduce the total debt costs on two of the previously issued series, and another in 2017 for the same purpose. Additional information on long-term debt can be found in Note 5 to the financial statements.

### **Economic Factors and Next Year's Budget and Rates**

The economy in the local area continues to grow, and the service areas which will be supplied by the BCRUA at project completion are positioned for continued customer growth. The BCRUA's board adopted an administrative operating budget for fiscal year 2018 in the amount of approximately \$2,191,000, a reduction of reserves of approximately \$541,000 in 2018 and a debt service budget for fiscal year 2018 in the amount of approximately \$11,845,000.

### **Contacting the BCRUA's Financial Management**

This financial report is designed to provide citizens of the partner cities, customers and creditors with a general overview of the BCRUA's finances and to show the BCRUA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the BCRUA at 450 Cypress Creek, Bldg 1, Cedar Park, Texas 78613.

# **Basic Financial Statements**

**Brushy Creek Regional Utility Authority, Inc.**

Statement of Net Position

September 30, 2017

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 5,660,423
Accounts receivable, net	<u>89,553</u>
Total current assets	5,749,976

**NONCURRENT ASSETS**

Restricted cash and cash equivalents and investments	
Debt service	17,341
Escrow	18,301,624
Reserve	6,696
Capital assets	
Land, easements and construction in progress	22,351,333
Capital assets being depreciated, net of accumulated depreciation of \$12,766,659	<u>137,012,881</u>
Total noncurrent assets	<u>177,689,875</u>

**TOTAL ASSETS** 183,439,851

**DEFERRED OUTFLOWS OF RESOURCES - REFUNDING** 15,558,001

**TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** \$ 198,997,852

**Brushy Creek Regional Utility Authority, Inc.**

Statement of Net Position – Continued

September 30, 2017

<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 638,992
Retainage payable	1,595,370
Due to partner cities	<u>226,634</u>
Total current liabilities	2,460,996
Current liabilities payable from restricted assets	
Current portion of revenue bonds payable	4,470,000
Accrued interest	<u>1,044,503</u>
Total current liabilities payable from restricted assets	5,514,503
<b>NONCURRENT LIABILITIES</b>	
Revenue bonds payable	<u>169,702,705</u>
Total noncurrent liabilities	<u>169,702,705</u>
<b>TOTAL LIABILITIES</b>	177,678,204
<b>NET POSITION</b>	
Unrestricted	2,244,477
Net investment in capital assets	<u>19,075,171</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 21,319,648</u></u>

The Notes to Financial Statements are  
an integral part of this statement.

**Brushy Creek Regional Utility Authority, Inc.**

Statement of Revenues, Expenses and Changes in Net Position  
Year Ended September 30, 2017

<b>OPERATING REVENUES</b>	\$ 2,302,665
<b>OPERATING EXPENSES</b>	
Interest expense	6,032,788
Personnel	609,926
Legal fees	163,260
Repairs and maintenance	44,796
Power	445,389
Office supplies	85,536
Audit, investment, banking fees	50,522
Accounting services	27,046
Depreciation	3,982,241
Insurance	32,012
Chemicals	258,657
Miscellaneous expense	17,935
Contract services	5,184
	<hr/>
Total operating expenses	11,755,292
	<hr/>
<b>OPERATING LOSS</b>	(9,452,627)
<b>OTHER INCOME (EXPENSE)</b>	
Other income	269,404
Bond issuance costs	(764,888)
	<hr/>
Total other income (expense)	(495,484)
	<hr/>
Change in net position	(9,948,111)
<b>NET POSITION, beginning of year</b>	19,471,253
<b>CAPITAL CONTRIBUTIONS FROM PARTNER CITIES</b>	11,796,506
	<hr/>
<b>NET POSITION, end of year</b>	<u>\$ 21,319,648</u>

The Notes to Financial Statements are an integral part of this statement.

## Brushy Creek Regional Utility Authority, Inc.

### Statement of Cash Flows

Year Ended September 30, 2017

#### CASH FLOWS FROM OPERATING ACTIVITIES

Service revenues received from partner cities	\$ 2,302,665
Other income received from third parties	269,404
Interest	(5,818,586)
Payments to suppliers for goods and services	(1,122,535)
	<hr/>
Net cash used by operating activities	(4,369,052)

#### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Construction of capital assets	(1,546,253)
Payment to escrow	(7,274,340)
Principal payments on bonds	(5,095,000)
Capital contributions from partner cities	11,796,506
	<hr/>
Net cash used by capital and related financing activities	(2,119,087)
	<hr/>
Net change in cash and cash equivalents	(6,488,139)

#### CASH AND CASH EQUIVALENTS, beginning of year

30,474,223

#### CASH AND CASH EQUIVALENTS, end of year

\$ 23,986,084

#### RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION

Cash and cash equivalents	\$ 5,660,423
Restricted cash and cash equivalents and investments	18,325,661
	<hr/>

#### TOTAL CASH AND CASH EQUIVALENTS

\$ 23,986,084

#### RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating loss	\$ (9,452,627)
Adjustments to reconcile operating loss to net cash used by operating activities	
Income from third party	269,404
Depreciation	3,982,241
Change in accounts receivable	37,106
Change in accounts payable	504,462
Amortization and change in accrued interest	214,202
Change in due to partner cities	76,160
	<hr/>

#### NET CASH USED BY OPERATING ACTIVITIES

\$ (4,369,052)

## **Brushy Creek Regional Utility Authority, Inc.**

### Notes to Financial Statements

#### **Note 1. Nature of Activities**

Brushy Creek Regional Utility Authority, Inc. (BCRUA) was incorporated in Texas in July 2007 as a local government corporation pursuant to Subchapter D of Chapter 431, Texas Transportation Code. The BCRUA was organized by the Cities of Cedar Park, Leander and Round Rock, Texas (the Cities) for the purpose of providing an efficient vehicle for the financing, construction, acquisition, ownership, maintenance and operation of a regional water and wastewater collection, transmission, treatment and distribution system on behalf of the cities in performance of their governmental functions.

#### **Note 2. Summary of Significant Accounting Policies**

The financial statements of BCRUA have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental entities. The more significant of these accounting policies are described below.

##### **Reporting Entity**

BCRUA is a joint venture between the Cities. The BCRUA operates as an enterprise activity. These financial statements present only BCRUA's activities and are not intended to present the financial position, results of operations or cash flows of any of the Cities.

##### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The financial statements of BCRUA are reported using the economic resources measurement focus and the accrual basis of accounting. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources are included in the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Revenues are recorded when earned and become measurable and expenses are recorded when a liability is incurred and measurable, regardless of the timing of related cash flows.

The Statement of Revenues, Expenses and Changes in Net Position distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with BCRUA's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

##### **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## **Brushy Creek Regional Utility Authority, Inc.**

### Notes to Financial Statements

#### **Cash and Cash Equivalents**

For reporting purposes, cash and cash equivalents include demand deposits, investments with investment pools, and other short-term liquid investments with an original maturity of three months or less, regardless of whether restricted or unrestricted.

Cash and cash equivalents held in money market accounts and investment pools (which determine their net asset value based on fair value) are recorded at fair value.

#### **Restricted Assets**

Restricted funds consist of escrow funds derived from bond proceeds, debt service funds, reserve funds, and revenues that have been designated for specific purposes by the Board, or other funds with legal or contractual constraints. When both restricted and unrestricted resources are available for use, it is BCRUA's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **Capital Assets**

Capital assets are stated at historical cost. To the extent construction is performed by the BCRUA, the cost includes certain general and administrative expenses. Maintenance and repairs are charged to operations as incurred. Improvements and betterments, which extend the useful lives of assets, are capitalized. Depreciation is recorded on a straight-line basis over estimated service lives ranging from 5 to 40 years. When capital assets are retired or otherwise disposed of, a gain or loss on disposal of assets is recognized.

Interest is normally capitalized on construction costs. The amount of interest cost capitalized for assets constructed with tax-exempt borrowings is equal to the cost of borrowing, less interest earned on related interest-bearing investments acquired with proceeds of the related tax-exempt borrowings. No interest was capitalized during the year ended September 30, 2017.

#### **Note 3. Cash and Cash Equivalents and Investments**

Cash Deposits. BCRUA's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Public Funds Investment Act (the Act). The depository bank pledges securities that comply with state law and these securities are held for safekeeping and trust with the depository bank's agent bank. The pledged securities are in an amount sufficient to protect BCRUA's funds on a day-to-day basis during the period of the contract. The pledge of securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At September 30, 2017, the carrying amount of the BCRUA's deposits was \$18,839,768 and the bank balance was \$19,120,221. The BCRUA's cash deposits at September 30, 2017 were covered by FDIC insurance or by pledged collateral held by the BCRUA's agent bank in the BCRUA's name.

## Brushy Creek Regional Utility Authority, Inc.

### Notes to Financial Statements

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

TexSTAR has been established for governmental entities pursuant to the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexSTAR's governing body is a five-member Board consisting of three representatives of participants and one member designated by each of the co-administrators. The Board holds legal title to all money, investments, and assets and has the authority to employ personnel, contract of services, and engage in other administrative activities necessary or convenient to accomplish the objectives of TexSTAR. TexSTAR's strategy is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. BCRUA has no unfunded commitments related to the investment pool. TexSTAR has a redemption notice period of one day and may redeem daily. The investment pool's authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pool's liquidity. TexSTAR's fair value is reported by BCRUA using the pool's net asset value (NAV).

US Corporate Bonds are carried at amortized cost, when the period to maturity is less than one year at the date the instrument is acquired.

Fair Value. BCRUA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application* provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement. BCRUA's positions recorded at fair value are all determined using NAV, and are therefore exempt from presentation in the fair value hierarchy.

**Brushy Creek Regional Utility Authority, Inc.**

Notes to Financial Statements

BCRUA's portfolio balances were as follows at September 30, 2017:

	Carrying Amount
Cash in banks	\$ 18,839,768
TexSTAR	2,148,002
US Corporate Bonds	2,998,314
<b>Total</b>	<b>\$ 23,986,084</b>

A reconciliation of cash and cash equivalents and investments to the presentation on the Statement of Net Position is as follows:

Statement of net position presentation:	
Cash and cash equivalents	\$ 5,660,423
Restricted cash and cash equivalents and investments:	
Debt service	17,341
Escrow	18,301,624
Reserve	6,696
<b>Total cash and cash equivalents and investments</b>	<b>\$ 23,986,084</b>

Credit Risk and Custodial Credit Risk. A primary stated objective of the BCRUA's adopted Investment Policy is the safety of principal and avoidance of principal loss. Credit risk within BCRUA's portfolio among the authorized investments approved by BCRUA's adopted Investment Policy includes only time and demand deposits, obligations of states and their subdivisions, repurchase agreements and AAA rated SEC registered money market mutual funds. All other investments are rated AAA, or equivalent, by at least one nationally recognized rating agency. Investments are made primarily in obligations of the US Government, its agencies or instrumentalities.

State law and the BCRUA's adopted Investment Policy restricts both time and demand deposits, including certificates of deposit (CD's) to those banks doing business in the State of Texas and further requires full insurance or collateralization from these depositories (banks only). Certificates of deposit are limited to a stated maturity of one year. Collateral is required at a 102% margin with securities priced at market on a daily basis as a contractual responsibility of the bank. Collateral is restricted to obligations of the US Government, its agencies or instrumentalities or direct obligations of any state, its subdivisions or agencies rated at least A, or equivalent, as to investment quality by two nationally recognized statistical rating agencies. Independent safekeeping is required outside the bank holding company with monthly reporting.

Repurchase agreements are limited to those with defined termination dates with a primary dealer (as defined by the Federal Reserve) and require an industry standard written master repurchase agreement and a minimum 102% margin on collateral as well as delivery versus payment settlement and independent safekeeping. Repurchase agreements may not exceed one year to stated maturity with the exception of flex repurchase agreements with a stated termination date not to exceed the planned completion date of the project(s).

TexStar is rated AAAM by Standard & Poor's, and the US Corporate Bonds are rated AAA.

## Brushy Creek Regional Utility Authority, Inc.

### Notes to Financial Statements

**Interest Rate Risk.** In order to limit interest and market rate risk from changes in interest rates, the BCRUA's adopted Investment Policy sets a maximum stated maturity limit of two years for Operating Funds and three years for Construction Funds. For Escrow Funds, the maximum maturity shall not exceed three years and each fund's weighted average maturity (WAM) shall not exceed one year. The WAM of the total Operating Funds portfolio is restricted to a maximum of twelve months and compared to the one-year Treasury Bill. There is no maximum WAM for Construction funds. WAM of BCRUA's portfolio at September 30, 2017 was as follows:

	Carrying Amount	Weighted Average Maturity (Days)
US Corporate Bonds	\$ 2,998,314	36
TexSTAR	2,148,002	1
Cash in banks	18,839,768	1
	<u>\$ 23,986,084</u>	
Portfolio weighted average maturity		5

**Concentration of Credit Risk.** The BCRUA recognizes over-concentration of assets by market sector or maturity as a risk to the portfolio. BCRUA's adopted Investment Policy establishes diversification as a major objective of the investment program and sets diversification limits for all authorized investment types that are monitored on at least a monthly basis. Diversification limits are set by Policy as:

U. S. obligations	80%
U. S. agencies / instrumentalities	75%
State and local obligations	50%
Certificates of Deposit	40%
in any one bank	10%
Repurchase agreements	50%
with any one dealer	20%
FlexRepo with CIP funds	100%
LGIP	100%
Ownership in pool	10%
Money market mutual funds	100%
Ownership in fund	20%

## Brushy Creek Regional Utility Authority, Inc.

### Notes to Financial Statements

#### Note 4. Capital Assets

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

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated				
Land and easements	\$ 8,893,325	\$ -	\$ -	\$ 8,893,325
Construction in progress	11,916,790	1,541,218	-	13,458,008
Total capital assets, not being depreciated	20,810,115	1,541,218	-	22,351,333
Capital assets, being depreciated				
Buildings and improvements	71,181,186	4,168	-	71,185,354
Infrastructure	78,333,512	867	-	78,334,379
Equipment	259,807	-	-	259,807
Total capital assets, being depreciated	149,774,505	5,035	-	149,779,540
Less accumulated depreciation				
Buildings and improvements	3,846,357	1,789,656	-	5,636,013
Infrastructure	4,771,937	2,161,283	-	6,933,220
Equipment	166,124	31,302	-	197,426
Total accumulated depreciation	8,784,418	3,982,241	-	12,766,659
Total capital assets, being depreciated, net	140,990,087	(3,977,206)	-	137,012,881
<b>Total capital assets, net</b>	<b>\$ 161,800,202</b>	<b>\$ (2,435,988)</b>	<b>\$ -</b>	<b>\$ 159,364,214</b>

#### Note 5. Long-Term Debt

During the year ended September 30, 2017, BCRUA issued contract revenue refunding bonds dated April 19, 2017, totaling \$80,505,000. The bonds mature in 2017 through 2038, with coupon rates ranging from 2.0% to 5.0%. The bonds were issued by the City of Leander, to refund bonds outstanding for the City of Leander. Each bond series is payable solely from and secured, in part, by an assignment of the bond payments made under the Master Contract Agreement dated September 2, 2008, as amended, by and between each city. The City of Leander is solely responsible for bond payments on its series of bonds. No city has any liability or responsibility for any bond payment on a series of bonds issued for another city. The refunding reduced BCRUA's total debt service payments over the next 22 years by \$17,898,892 and generated an economic gain of \$12,596,769 and a deferred charge on refunding of \$7,246,648.

## Brushy Creek Regional Utility Authority, Inc.

### Notes to Financial Statements

During the year ended September 30, 2016, BCRUA issued contract revenue refunding bonds dated August 15, 2016, totaling \$75,890,000. The bonds mature in 2017 through 2038, with coupon rates ranging from 2.0% to 5.0%. The bonds were issued in two series, to refund bonds outstanding for two of the partner cities. Each bond series is payable solely from and secured, in part, by an assignment of the bond payments made under the Master Contract Agreement dated September 2, 2008, as amended, by and between each city. Each city is solely responsible for bond payments on its series of bonds. No city has any liability or responsibility for any bond payment on a series of bonds issued for another city. The refunding reduced BCRUA's total debt service payments over the next 22 years by \$17,433,680 and generated an economic gain of \$10,922,929 and a deferred charge on refunding of \$8,881,242.

During the year ended September 30, 2009, BCRUA issued contract revenue bonds dated July 6, 2009, totaling \$182,020,000. The bonds mature serially beginning August 1, 2012 through August 1, 2038, with coupon rates ranging from 2.254% to 5.084%. Proceeds from the bond issue are restricted for the construction and equipment of the first phase of the BCRUA Regional Water Treatment and Distribution Project. The bonds were issued in three series, one series for each partner city's share of expected project costs. Each bond series is payable solely from and secured, in part, by an assignment of the bond payments made under the Master Contract Agreement dated September 2, 2008 by and between each city. Each city is solely responsible for bond payments on its series of bonds. No city has any liability or responsibility for any bond payment on a series of bonds issued for another city.

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Series 2009 contract					
Revenue bonds					
City of Cedar Park	\$ 1,880,000	\$ -	\$ 595,000	\$ 1,285,000	\$ 625,000
City of Leander	86,330,000	-	86,330,000	-	-
City of Round Rock	4,735,000	-	1,500,000	3,235,000	1,575,000
Series 2016 contract					
Revenue bonds					
City of Cedar Park	21,935,000	-	180,000	21,755,000	-
City of Round Rock	53,955,000	-	330,000	53,625,000	-
Series 2017 contract					
Revenue bonds					
City of Leander	-	80,505,000	2,490,000	78,015,000	2,270,000
Total principal	168,835,000	80,505,000	91,425,000	157,915,000	4,470,000
Issuance premiums	10,306,559	6,562,195	611,049	16,257,705	-
<b>Total bonds payable</b>	<b>\$ 179,141,559</b>	<b>\$87,067,195</b>	<b>\$92,036,049</b>	<b>\$ 174,172,705</b>	<b>\$4,470,000</b>

**Brushy Creek Regional Utility Authority, Inc.**  
Notes to Financial Statements

Debt service requirements are as follows:

Year ended September 30,	Bonds		Total Requirements
	Principal	Interest	
2018	\$ 4,470,000	\$ 6,406,283	\$ 10,876,283
2019	4,695,000	6,257,575	10,952,575
2020	5,030,000	6,096,263	11,126,263
2021	5,270,000	5,917,263	11,187,263
2022	5,495,000	5,740,213	11,235,213
2023-2027	31,840,000	25,049,263	56,889,263
2028-2032	40,270,000	17,353,413	57,623,413
2033-2038	60,845,000	8,892,972	69,737,972
	<u>\$ 157,915,000</u>	<u>\$ 81,713,245</u>	<u>\$ 239,628,245</u>

**Note 6. Economic Dependency**

The BCRUA is dependent on the Cities of Cedar Park, Leander and Round Rock, Texas for the continued funding of its operating activities. The cities annually budget funds for operational and overhead expenses and debt service requirements in accordance with the Master Contract Agreement and the System Operating Agreement between the cities. Fixed operations and maintenance expenses are allocated among the cities based upon each city's reserved capacity in the BCRUA Project components, and variable expenses are allocated based upon the volume of treated water delivered to each city in relation to the total delivered volume. Overhead expenses are paid by each city based upon certain formulas and reserve capacities in the BCRUA Project and/or the quantity of treated water actually delivered to each city. Each city is responsible for bond principal and interest payments due on the bond series issued by BCRUA for each respective city.

**Note 7. Contingency**

A contract dispute between the BCRUA and the general contractor arose during the year ended September 30, 2013, during the inspection of Phase I construction concerning defects in the construction and design of the plant. The BCRUA has retained legal counsel who specializes in construction contract disputes. The retainage balance held by BCRUA in relation to this contingency is approximately \$1,580,000 million and management intends to hold this retainage until the identified issues have been rectified and final settlement negotiation have been completed. Additional costs related to the dispute incurred by the BCRUA, such as legal, engineering, and inspection fees, are expected by management to be largely recovered from the general contractor. Management is still disputing this with the general contractor and has not made final settlement negotiations as of September 30, 2017. Management does not expect the dispute to materially affect BCRUA's financial statements.

**Note 8. Subsequent Events**

The BCRUA has evaluated subsequent events after the balance sheet date of September 30, 2017 through January 3, 2018, the date these financial statements were available to be issued.

In November 2017, the BCRUA completed the issuance of approximately \$17 million of State Water Implementation Fund for Texas (SWIFT) notes payable to provide additional financing for future capital improvements.

## **Supplementary Information**

## Brushy Creek Regional Utility Authority, Inc.

Combining Statement of Net Position

September 30, 2017

	<u>Cedar Park</u>	<u>Leander</u>	<u>Round Rock</u>	<u>Eliminations</u>	<u>Total</u>
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ -	\$ 2,635,742	\$ 3,024,681	\$ -	\$ 5,660,423
Accounts receivable, net	15,327	71,189	3,037	-	89,553
Due from partner cities	-	-	4,035	(4,035)	-
Total current assets	15,327	2,706,931	3,031,753	(4,035)	5,749,976
Noncurrent assets					
Restricted cash and cash equivalents and investments					
Debt Service	4,855	1,669	10,817	-	17,341
Escrow	2,055,216	5,017,301	11,229,107	-	18,301,624
Reserve	-	6,696	-	-	6,696
Capital assets					
Land, easements and construction in progress	4,277,943	11,316,108	6,757,282	-	22,351,333
Capital assets being depreciated, net of accumulated depreciation of \$12,766,659	20,721,747	65,511,408	50,779,726	-	137,012,881
Total noncurrent assets	27,059,761	81,853,182	68,776,932	-	177,689,875
<b>TOTAL ASSETS</b>	27,075,088	84,560,113	71,808,685	(4,035)	183,439,851
<b>DEFERRED OUTFLOWS OF RESOURCES - REFUNDING</b>	2,402,670	7,092,841	6,062,490	-	15,558,001
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 29,477,758</u>	<u>\$ 91,652,954</u>	<u>\$ 77,871,175</u>	<u>\$ (4,035)</u>	<u>\$ 198,997,852</u>

**Brushy Creek Regional Utility Authority, Inc.**  
Combining Statement of Net Position – Continued  
September 30, 2017

	<u>Cedar Park</u>	<u>Leander</u>	<u>Round Rock</u>	<u>Eliminations</u>	<u>Total</u>
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable	\$ 245,454	\$ 555,518	\$ 64,654	\$ (226,634)	\$ 638,992
Retainage payable	291,454	757,717	546,199	-	1,595,370
Due to partner cities	4,035	-	-	222,599	226,634
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	540,943	1,313,235	610,853	(4,035)	2,460,996
Current liabilities payable from restricted assets					
Current portion of revenue bonds payable	-	2,895,000	1,575,000	-	4,470,000
Accrued interest	139,185	532,282	373,036	-	1,044,503
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities payable from restricted assets	139,185	3,427,282	1,948,036	-	5,514,503
Noncurrent liabilities					
Revenue bonds payable	25,473,906	81,542,915	62,685,884	-	169,702,705
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total noncurrent liabilities	25,473,906	81,542,915	62,685,884	-	169,702,705
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>	26,154,034	86,283,432	65,244,773	(4,035)	177,678,204
<b>NET POSITION</b>					
Unrestricted	(664,801)	861,414	2,047,864	-	2,244,477
Net investment in capital assets	3,988,525	4,508,108	10,578,538	-	19,075,171
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL NET POSITION</b>	<u>\$ 3,323,724</u>	<u>\$ 5,369,522</u>	<u>\$ 12,626,402</u>	<u>\$ -</u>	<u>\$ 21,319,648</u>

## Brushy Creek Regional Utility Authority, Inc.

Combining Statement of Revenues, Expenses

And Changes in Net Position

Year Ended September 30, 2017

	<u>Cedar Park</u>	<u>Leander</u>	<u>Round Rock</u>	<u>Total</u>
<b>OPERATING REVENUES</b>	\$ 692,550	\$ 1,234,745	\$ 375,370	\$ 2,302,665
<b>OPERATING EXPENSES</b>				
Interest expense	872,360	2,879,622	2,280,806	6,032,788
Personnel	211,630	316,900	81,396	609,926
Legal fees	28,731	76,892	57,637	163,260
Repairs and maintenance	15,109	22,429	7,258	44,796
Power	202,528	242,814	47	445,389
Office supplies	25,885	43,370	16,281	85,536
Audit, investment, banking fees	7,971	24,555	17,996	50,522
Accounting services	9,572	14,097	3,377	27,046
Depreciation	625,099	1,876,325	1,480,817	3,982,241
Insurance	4,792	15,110	12,110	32,012
Chemicals	117,545	141,112	-	258,657
Miscellaneous expense	5,118	9,043	3,774	17,935
Contract services	2,356	2,828	-	5,184
Total operating expenses	<u>2,128,696</u>	<u>5,665,097</u>	<u>3,961,499</u>	<u>11,755,292</u>
<b>OPERATING LOSS</b>	(1,436,146)	(4,430,352)	(3,586,129)	(9,452,627)
<b>OTHER INCOME (EXPENSE)</b>				
Other income	24,878	112,217	132,309	269,404
Bond issuance costs	-	(764,888)	-	(764,888)
Total other income (expense)	<u>24,878</u>	<u>(652,671)</u>	<u>132,309</u>	<u>(495,484)</u>
Change in net position	(1,411,268)	(5,083,023)	(3,453,820)	(9,948,111)
<b>NET POSITION, beginning of year</b>	3,196,445	4,072,436	12,202,372	19,471,253
<b>CAPITAL CONTRIBUTIONS FROM PARTNER CITIES</b>	<u>1,538,547</u>	<u>6,380,109</u>	<u>3,877,850</u>	<u>11,796,506</u>
<b>NET POSITION, end of year</b>	<u><u>\$ 3,323,724</u></u>	<u><u>\$ 5,369,522</u></u>	<u><u>\$ 12,626,402</u></u>	<u><u>\$ 21,319,648</u></u>



**Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards**

The Board of Directors  
Brushy Creek Regional Utility Authority, Inc.

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 business-type activities of Brushy Creek Regional Utility Authority, Inc. (the BCRUA) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the BCRUA's basic financial statements, and have issued our report thereon dated January 3, 2018.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the BCRUA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Brushy Creek Regional Utility Authority, Inc.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Austin, Texas  
January 3, 2018