

CITY OF BROWNWOOD  
Brownwood, Texas

ANNUAL FINANCIAL STATEMENTS

September 30, 2015

CITY OF BROWNWOOD, TEXAS

Brownwood, Texas

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Brownwood, Texas

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**D. A. "Tony" Krischke, CPA**

## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council  
City of Brownwood  
Brownwood, Texas

### **Report on the Financial Statements**

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### ***Opinions***

In my 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 aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Brownwood, Texas, as of September 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of changes in net pension liability and related ratios, the schedules of pension contributions and budgetary comparison information on pages 3-8 and 49-54 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Brownwood, Texas 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining financial statements and the schedule of expenditures of federal awards 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 my opinion, the combining financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, I have also issued my report dated February 20, 2016, on my consideration of the City of Brownwood, Texas internal control over financial reporting and on my 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 my 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 City of Brownwood, Texas internal control over financial reporting and compliance.



Krischke CPA, PC  
February 20, 2016

**City of Brownwood  
Management's Discussion and Analysis  
For Year Ended September 30, 2015**

**(Unaudited)**

As management of the City of Brownwood, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Brownwood for the fiscal year ended September 30, 2015. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

**Financial Highlights**

- The assets of the City of Brownwood exceeded its liabilities at the close of the fiscal year by \$39,495,169 (net position). Of this amount, \$1,715,397 is restricted for debt service, construction and other uses. The amount invested in fixed assets is \$46,542,135 leaving a negative \$(8,762,363) in unrestricted net position.
- The government's total net position decreased by \$9,845,314 primarily due to five factors. First, implementation of GASB 68 required recording the unfunded pension liability for two City pension plans. This caused line items for net pension liability, deferred outflows and deferred inflows to be recorded which decreased total net position by \$9,856,044. Second, restricted assets decreased by \$6,664,834 primarily due to the expenditure of bond proceeds for projects. Third, capital assets increased by \$3,625,775 as expenditures from bond proceeds funds were capitalized. Fourth, the net unrestricted cash position of the City increased by 684,541. Fifth, current liabilities went down by \$1,474,963 most of which was a reduction in year-end operating payables.
- As of the close of the current fiscal year, the City's governmental activities reported combined ending net position of \$20,399,088, a decrease of \$5,267,171 in comparison with the prior year. This reduction was primarily due to the implementation of GASB 68 requirements for recognizing pension liabilities which reduced the net position in governmental activities by \$8,140,353.
- At the end of the current fiscal year, unrestricted net position for the governmental activities was a negative \$(5,457,520) as compared to a negative \$(376,196) in the prior year. Net position invested in capital assets for governmental activities went up due to projects completed during the year, and net position invested in restricted assets for governmental activities went down due to expending bond proceeds.
- The City's total liabilities increased by \$8,616,407 during the current fiscal year primarily due to implementation of GASB 68 requirements for reporting pension liabilities.
- Total revenue decreased by \$3,197,875 over the prior year primarily because of completing two projects funded by capital grants in the prior year. A runway project at the Brownwood Regional Airport was funded through an FAA grant valued at \$1,947,112 and several street projects were funded through TxDOT valued at \$1,730,558. General revenues such as property taxes, sales tax and other taxes increased by \$363,691 while operating revenues such as water sales, sewer fees and sanitation fees increased by \$151,234.
- Expenditures increased by \$679,069 or 2%. This was primarily due to the impact of a 3% pay raise granted across the board.
- The year ended with a net surplus for the current year of \$289,734 compared with a surplus of \$4,166,678 in the prior year. The reduction was due primarily to the grants described above reported in the prior year.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City.

**Required Components of Annual Financial Report**

**Basic Financial Statements**

The first two statements in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary funds statements.

The next section of the basic financial statements is the **Notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **Required Supplementary Information** is provided to show details about the City's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

### **Government-wide Financial Statements**

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole. The two government-wide statements report the City's net position and how they have changed. Net position is the difference between the City's total assets and total liabilities. Measuring net position is one way to gauge the City's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the City's basic services such as public safety, street maintenance, parks and recreation, community meeting facilities, health services, and general administration. Taxes finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water, sewer and sanitation services offered by the City as well as the City operated landfill and airport. The final category is the component unit. Although legally separate from the City, component units such as the Brownwood Economic Development Corporation are important to the City because the City exercises control by appointing its board members.

The Government-wide Financial Statements are on pages 9-13 of this report.

### **Fund Financial Statements**

The fund financial statements provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Brownwood, like all other governmental entities in Texas, uses fund accounting to ensure and reflect compliance with finance-related legal requirements. All of the funds of City can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds** – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the city's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Governmental Fund Financial Statements are on pages 14-18 of this report.

**Proprietary Funds** – the City of Brownwood has three major proprietary funds. The Utility Fund is used to account for its water and sewer operations. The Sanitation Fund is used to account for its sanitation service and the operations of the landfill. The Airport Fund is used to account for the operations of the Brownwood Regional Airport. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

The Proprietary Funds Financial Statements are on pages 19-22 of this report.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The Notes to the Financial Statements are on pages 23-48 of this report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report includes certain supplementary information. This includes budgetary comparisons, combining financial statements and prior year comparisons.

**Government-Wide Financial Analysis**

The City’s combined net position decreased from \$49,340,483 last year to \$39,495,169 this year, a decrease of \$9,845,314. Although there were a variety of factors, the key changes are described under the Financial Highlights section.

**City of Brownwood Net Position**

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 6,752,253	\$ 8,329,279	\$ 7,388,886	\$ 11,783,495	\$ 14,141,139	\$ 20,112,774
Capital Assets	38,439,025	34,885,955	34,577,010	34,504,305	73,016,035	69,390,260
Deferred Outflows	1,373,192	-	386,268	-	1,759,460	-
<b>Total Assets</b>	<b>\$ 46,564,470</b>	<b>\$ 43,215,234</b>	<b>\$ 42,352,164</b>	<b>\$ 46,287,800</b>	<b>\$ 88,916,634</b>	<b>\$ 89,503,034</b>
Current liabilities	\$ 3,062,862	\$ 3,848,752	\$ 2,554,123	\$ 3,243,196	\$ 5,616,985	\$ 7,091,948
Long-term liabilities	13,588,975	13,700,223	18,600,001	19,370,380	32,188,976	33,070,603
Net Pension Liability	8,970,379	-	1,876,456	-	10,846,835	-
Deferred Inflows	543,166	-	225,503	-	768,669	-
<b>Total Liabilities</b>	<b>\$ 26,165,382</b>	<b>\$ 17,548,975</b>	<b>\$ 23,256,083</b>	<b>\$ 22,613,576</b>	<b>\$ 49,421,465</b>	<b>\$ 40,162,551</b>
<b>Net Position:</b>						
Invested in capital assets net of related debt	\$ 24,141,211	\$ 20,399,297	\$ 22,400,924	\$ 22,906,575	\$ 46,542,135	\$ 43,305,872
Restricted	1,715,397	5,643,158	-	-	1,715,397	5,643,158
Unrestricted	(5,457,520)	(376,196)	(3,304,843)	767,649	(8,762,363)	391,453
<b>Total Net Position</b>	<b>\$ 20,399,088</b>	<b>\$ 25,666,259</b>	<b>\$ 19,096,081</b>	<b>\$ 23,674,224</b>	<b>\$ 39,495,169</b>	<b>\$ 49,340,483</b>

**Analysis of the City’s Operations:**

As noted earlier, net position may serve over time as one useful indicator of a government’s financial condition. The assets of the City of Brownwood exceeded liabilities by \$39,495,169 as of September 30, 2015. However, the largest portion of the City’s net position (118%) reflects the City’s investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City’s net position (4.3%) represents resources that are subject to external restrictions on how they may be used, primarily bond funds that must be used for specific projects. This leaves a negative unrestricted balance of \$(8,762,363). Prior years have shown positive balances, but implementation in the current year of the new GASB 68 standard which required recognition of unfunded pension liabilities caused the unrestricted net position to decrease by \$9,856,044.

**Governmental activities:** Governmental activities increased the City’s net position by \$2,916,019 after booking transfers.

**Business-type activities:** Business-type activities decreased the City's net position by \$2,626,285 after booking transfers. The following table provides a summary of the City's operations for year ended September 30, 2015.

**City of Brownwood Changes in Net Position**

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Fees, fines, and charges for services	\$ 2,486,347	\$ 2,430,402	\$ 15,247,171	\$ 15,151,882	\$ 17,733,518	\$ 17,582,284
Operating grants and contributions	798,671	778,333	-	-	798,671	778,333
Capital grants and contributions	100,000	1,730,558	121,762	2,224,342	221,762	3,954,900
<b>General Revenues:</b>						
Ad valorem taxes	5,954,559	5,549,016	-	-	5,954,559	5,549,016
Sales tax	5,177,646	4,870,128	-	-	5,177,646	4,870,128
Other revenues	4,257,924	3,783,106	129,848	954,036	4,387,772	4,737,142
<b>Total Revenues</b>	<b>\$ 18,775,147</b>	<b>\$ 19,141,543</b>	<b>\$ 15,498,781</b>	<b>\$ 18,330,260</b>	<b>\$ 34,273,928</b>	<b>\$ 37,471,803</b>
<b>Expenses:</b>						
General government and administration	\$ 5,235,401	\$ 5,347,639	\$ -	\$ -	\$ 5,235,401	\$ 5,347,639
Public Safety	8,152,855	7,625,558	-	-	8,152,855	7,625,558
Streets	2,472,746	2,469,962	-	-	2,472,746	2,469,962
Parks & Community Facilities	2,032,719	1,910,197	-	-	2,032,719	1,910,197
Special Rev Activities	1,141,189	1,074,913	-	-	1,141,189	1,074,913
Water & Sewer	-	-	8,096,245	8,378,059	8,096,245	8,378,059
Sanitation & Landfill	-	-	4,718,331	4,439,385	4,718,331	4,439,385
Airport	-	-	1,214,889	1,226,777	1,214,889	1,226,777
Pecan Field Station	-	-	44,627	5,404	44,627	5,404
Interest on long-term debt	523,862	545,805	351,330	281,426	875,192	827,231
<b>Total Expenses</b>	<b>\$ 19,558,772</b>	<b>\$ 18,974,074</b>	<b>\$ 14,425,422</b>	<b>\$ 14,331,051</b>	<b>\$ 33,984,194</b>	<b>\$ 33,305,125</b>
Increase in net position before transfers	\$ (783,625)	\$ 167,469	\$ 1,073,359	\$ 3,999,209	\$ 289,734	\$ 4,166,678
Transfers	3,699,644	888,500	(3,699,644)	(888,500)	-	-
Increase in net position	\$ 2,916,019	\$ 1,055,969	\$ (2,626,285)	\$ 3,110,709	\$ 289,734	\$ 4,166,678
Net position October 1	25,666,259	24,817,843	23,674,224	20,760,429	49,340,483	45,578,272
Prior Period Adjustment	(8,183,190)	(207,553)	(1,951,858)	(196,914)	(10,135,048)	(404,467)
<b>Net position September 30</b>	<b>\$ 20,399,088</b>	<b>\$ 25,666,259</b>	<b>\$ 19,096,081</b>	<b>\$ 23,674,224</b>	<b>\$ 39,495,169</b>	<b>\$ 49,340,483</b>

**Financial Analysis of the City of Brownwood Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$2,498,900 as compared to \$(704,770) in the prior year. Total fund balance was \$2,674,152 this year compared to \$(539,900) in the prior year. These increases were due to the transfer of all year-end cash balances from the proprietary funds to the General Fund.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. These percentages were 14% and 15% respectively.

At September 30, 2015, the governmental funds of the City reported a combined fund balance of \$4,371,609.

**Proprietary Funds.** The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Utility (Water Delivery, Wastewater Collection and Wastewater Treatment), Sanitation (Trash Collection and Landfill), Airport and Pecan Station Funds at the end of the fiscal year amounted to a negative \$(3,304,843). This represented a decrease of \$4,182,258 from the prior year due to the transfer of cash balances to the General Fund described above. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

**Budgetary Highlights:** During the fiscal year, the City revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

In the General Fund, revenues were over budgeted amounts by \$917,209 or 6.3% while expenditures came in over budget by \$1,459,344 or 8.9%. This represented a net negative variance of \$542,135. This was primarily due to the booking of net pension liabilities in the current year in the Fire Department, which has its own defined benefit plan.

### **Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities as of September 30, 2015, totals \$73,016,035 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

Additional information on the City's capital assets can be found in Note 6 of the Basic Financial Statements.

**Long-term Debt.** As of September 30, 2015, the City had total bonded debt outstanding of \$26,130,000. All of this debt is backed by the full faith and credit of the City. None of the debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds) since the last remaining revenue bond was refunded in September, 2005.

Additional information regarding the City's long-term debt can be found in Note 7 of the Basic Financial Statements.

### **Economic Factors**

The following key economic indicators reflect the growth and prosperity of the City of Brownwood.

- Low unemployment. Brown County's average unemployment rate for 2015 was 4.4% which is 0.9% lower than the state and national average.
- Increasing property values. Taxable assessed values for 2015 increased by 3.9% over the prior year.
- Population growth. The City's population increased by 475 from the official census numbers in 2000 to 2010. This indicates continuing growth in the City's manufacturing, commercial and residential infrastructure.

The City and BEDC continue to help local companies grow and recruit manufacturing and retail businesses. At the end of the fiscal year, industrial expansions taken place or underway include: 3M, Lortscher Animal Nutrition, Wright Asphalt, and WT Harris. Commerce Square is fully leased, and property for a new 25,000 sq. ft. shopping center was purchased.

The new Brownwood Soccer Complex opened in the fall of 2015 and is expected to host regional and state-wide tournaments, adding to the sports venues that draw tourism dollars.

### **Budget Highlights for the Fiscal Year Ending September 30, 2016**

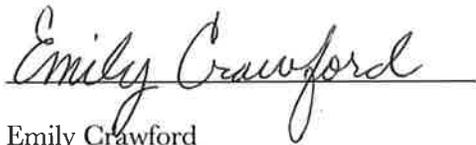
**Governmental Activities:** The property tax rate remained unchanged over the prior year at .7463 cents per hundred dollars valuation. Sales tax is projected to increase by 4% over the last fiscal year. Budgeted expenditures in the General Fund are expected to increase by 3.8%. A 2% pay raise was granted to all non-civil service employees while Police and Fire

Fire received a 4% pay raise. In addition, employees identified as being under a minimum standard were granted raises to bring them to the minimum capped at 10%.

**Business – type Activities:** Water consumption rates were not changed. Water base rates were increased by 2.3% to cover bond payments on debt issued to improve a water storage tank. The sewer rate was increased by 3.7% to cover bond payments on debt issued to improve the wastewater treatment plant.

**Requests for Information**

This report is designed to provide an overview of the City of Brownwood’s finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Walter Middleton CPA, Director of Finance, City of Brownwood, PO Box 1389, Brownwood, TX 76804, (325) 646-5775. Email address is [wmiddleton@brownwoodtexas.gov](mailto:wmiddleton@brownwoodtexas.gov). Complete financial statements of the component unit can be obtained direct from Brownwood Economic Development Corporation as detailed in Note 1 to the Basic Financial Statements.



Emily Crawford  
City Manager



Walter Middleton, CPA, CGFO  
Director of Finance

BASIC FINANCIAL STATEMENTS

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENT OF NET POSITION

September 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS:</b>				
Pooled cash and cash equivalents	\$ 447,477	\$ 191,475	\$ 638,952	\$ 69,926
Pooled cash designated for special projects		332,120	332,120	
Non pooled cash and cash equivalents	4,282	3,560	7,842	5
Investments	2,523,187	1,251	2,524,438	3,433,244
Investments designated for closure and postclosure		1,093,369	1,093,369	
Receivables, net	2,043,503	1,530,826	3,574,329	2,352,291
Inventory	21,383	709,962	731,345	
Prepaid expense	2,216	1,463	3,679	59,644
Restricted assets	1,710,205	3,524,860	5,235,065	
Land held for development			-	882,121
Capital assets, net	38,439,025	34,577,010	73,016,035	
<b>Total Assets</b>	<b>\$ 45,191,278</b>	<b>\$ 41,965,896</b>	<b>\$ 87,157,174</b>	<b>\$ 6,797,231</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Amounts related to pensions	\$ 1,373,192	\$ 386,268	\$ 1,759,460	\$ -
<b>Total Deferred Outflows of Resources</b>	<b>\$ 1,373,192</b>	<b>\$ 386,268</b>	<b>\$ 1,759,460</b>	<b>\$ -</b>
<b>LIABILITIES:</b>				
Accounts payable	\$ 564,684	\$ 364,700	\$ 929,384	\$ 8,700
Accrued salaries	358,040	101,266	459,306	
Liabilities payable from restricted assets:				
Bonds payable	101,829	66,827	168,656	
Noncurrent liabilities:				
Customer utility deposits		803,480	803,480	
Estimated liability for landfill closure and postclosure care costs		4,051,680	4,051,680	
Rents received in advance		78,937	78,937	
Net pension liability	8,970,379	1,876,456	10,846,835	
Compensated absences:				
Portion due or payable within one year	969,446	145,236	1,114,682	
Portion due or payable after one year	461,853	60,121	521,974	
Capital leases payable:				
Portion due or payable within one year	289,772	843,841	1,133,613	
Portion due or payable after one year	943,039	1,446,219	2,389,258	
Notes payable:				
Portion due or payable within one year			-	253,159
Portion due or payable after one year			-	1,062,712
Tax note payable:				
Portion due or payable within one year	25,920	54,080	80,000	
Portion due or payable after one year	119,880	250,120	370,000	
Bonds payable:				
Portion due or payable within one year	753,171	978,173	1,731,344	
Portion due or payable after one year	12,064,203	11,909,444	23,973,647	
<b>Total Liabilities</b>	<b>\$ 25,622,216</b>	<b>\$ 23,030,580</b>	<b>\$ 48,652,796</b>	<b>\$ 1,324,571</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Amounts related to pensions	\$ 543,166	\$ 225,503	\$ 768,669	\$ -
<b>Total Deferred Inflows of Resources</b>	<b>\$ 543,166</b>	<b>\$ 225,503</b>	<b>\$ 768,669</b>	<b>\$ -</b>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENT OF NET POSITION (CONT.)

September 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
NET POSITION				
Invested in capital assets, net of related debt	\$ 24,141,211	\$ 22,400,924	\$ 46,542,135	\$ -
Restricted for:				
Municipal Court	46,403		46,403	
Tourism promotion	54,964		54,964	
Vehicular child safety	18,624		18,624	
Law enforcement	26,332		26,332	
Drug awareness education	3,494		3,494	
Lehnis Museum	1,459		1,459	
Beautification	377		377	
Debt service	104,652		104,652	
Fabis Park	65,190		65,190	
Construction	1,393,902		1,393,902	
Unrestricted	(5,457,520)	(3,304,843)	(8,762,363)	5,472,660
Total Net Position	<u>\$ 20,399,088</u>	<u>\$ 19,096,081</u>	<u>\$ 39,495,169</u>	<u>\$ 5,472,660</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

<u>Functions/programs</u>	<u>Program Revenue</u>			
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental Activities:</b>				
General government	\$ 3,794,869	\$ 1,265,032	\$ 7,370	\$
Municipal court	289,408			
Police	4,095,495	404,008	2,995	
Fire	3,470,917	6,950	1,000	
Development services	735,459	88,298		
Street	2,472,746			
Health	297,035	157,646		
Community facilities	580,122	107,059		
Parks and recreation	1,452,597	95,686		100,000
Public works/engineering	354,096			
Motel tax to CVB	350,977			
Interest on long-term debt	523,862			
Special revenue activities	1,141,189	361,668	787,306	
Total Governmental Activities	<u>\$ 19,558,772</u>	<u>\$ 2,486,347</u>	<u>\$ 798,671</u>	<u>\$ 100,000</u>
<b>Business-type Activities:</b>				
Water	\$ 5,008,321	\$ 5,715,310	\$	\$
Waste water collection	1,801,153	3,716,995		
Waste water treatment	1,286,771			
Sanitation	1,903,627	3,009,472		
Landfill	2,814,704	2,059,856		
Airport	1,214,889	727,050		121,762
Pecan Field Station	44,627	18,488		
Interest on long-term debt	351,330			
Total Business-type Activities	<u>\$ 14,425,422</u>	<u>\$ 15,247,171</u>	<u>\$ -</u>	<u>\$ 121,762</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 33,984,194</u>	<u>\$ 17,733,518</u>	<u>\$ 798,671</u>	<u>\$ 221,762</u>
<b>Component Unit:</b>				
BEDC - Economic development	\$ 1,166,180	\$	\$	\$
<b>TOTAL COMPONENT UNIT</b>	<u>\$ 1,166,180</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to basic financial statement

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (2,522,467)		\$ (2,522,467)	
(289,408)		(289,408)	
(3,688,492)		(3,688,492)	
(3,462,967)		(3,462,967)	
(647,161)		(647,161)	
(2,472,746)		(2,472,746)	
(139,389)		(139,389)	
(473,063)		(473,063)	
(1,256,911)		(1,256,911)	
(354,096)		(354,096)	
(350,977)		(350,977)	
(523,862)		(523,862)	
7,785		7,785	
\$ (16,173,754)		\$ (16,173,754)	
	\$ 706,989	\$ 706,989	
	1,915,842	1,915,842	
	(1,286,771)	(1,286,771)	
	1,105,845	1,105,845	
	(754,848)	(754,848)	
	(366,077)	(366,077)	
	(26,139)	(26,139)	
	(351,330)	(351,330)	
	\$ 943,511	\$ 943,511	
\$ (16,173,754)	\$ 943,511	\$ (15,230,243)	

\$ (1,166,180)

\$ (1,166,180)

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENT OF ACTIVITIES (CONT.)

For the Year Ended September 30, 2015

	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
CHANGE IN NET POSITION:				
Net Income (Expense)	\$ (16,173,754)	\$ 943,511	\$ (15,230,243)	\$ (1,166,180)
General Revenues:				
Taxes:				
Ad valorem	\$ 5,954,559	\$	\$ 5,954,559	\$
Sales	5,177,646		5,177,646	1,725,882
Other	3,672,248		3,672,248	
Earnings on investments	3,059	3,151	6,210	63,489
Miscellaneous	213,894	119,696	333,590	5,377
Gain on disposal of capital assets	368,723	7,001	375,724	
Transfers	3,699,644	(3,699,644)	-	
Total General Revenue	\$ 19,089,773	\$ (3,569,796)	\$ 15,519,977	\$ 1,794,748
CHANGE IN NET POSITION	\$ 2,916,019	\$ (2,626,285)	\$ 289,734	\$ 628,568
NET POSITION AS RESTATED	17,483,069	21,722,366	39,205,435	4,844,092
NET POSITION - END OF YEAR	\$ 20,399,088	\$ 19,096,081	\$ 39,495,169	\$ 5,472,660

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

**BALANCE SHEETS**  
**GOVERNMENTAL FUNDS**

September 30, 2015

	<u>Major Fund</u>	<u>Nonmajor Fund</u>	<u>Total</u>
	General	Other	Total
	Fund	Governmental	Governmental
	Fund	Funds	Funds
<b><u>ASSETS</u></b>			
ASSETS:			
Pooled cash and cash equivalents	\$ 419,787	\$ 27,690	\$ 447,477
Non pooled cash and cash equivalents	4,257	25	4,282
Investments	2,523,187		2,523,187
Receivables, net	1,566,893	349,793	1,916,686
Inventory	21,383		21,383
Prepaid expense	2,216		2,216
Restricted assets	152,868	1,557,337	1,710,205
	<b>\$ 4,690,591</b>	<b>\$ 1,934,845</b>	<b>\$ 6,625,436</b>
<b>TOTAL ASSETS</b>			
<b><u>LIABILITIES, DEFERRED INFLOWS AND</u></b>			
<b><u>FUND BALANCES</u></b>			
LIABILITIES:			
Accounts payable	\$ 437,936	\$ 126,747	\$ 564,683
Accrued salaries	335,983	22,057	358,040
Compensated absences	969,446		969,446
	<b>\$ 1,743,365</b>	<b>\$ 148,804</b>	<b>\$ 1,892,169</b>
<b>TOTAL LIABILITIES</b>			
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenue	\$ 273,074	\$ 88,584	\$ 361,658
FUND BALANCES:			
Nonspendable:			
Inventory	\$ 21,383	\$	\$ 21,383
Prepaid expense	2,216		2,216
Restricted for:			
Municipal Court	46,403		46,403
Tourism promotion	54,964		54,964
Vehicular child safety	18,624		18,624
Law enforcement	26,332		26,332
Drug awareness education	3,494		3,494
Lehnis Museum	1,459		1,459
Beautification	377		377
Debt service		104,652	104,652
Fabis Park		65,190	65,190
Construction		1,393,902	1,393,902
Committed to:			
Construction		44,148	44,148
Assigned to:			
Health and nutrition programs		30,717	30,717
Unassigned	2,498,900	58,848	2,557,748
	<b>\$ 2,674,152</b>	<b>\$ 1,697,457</b>	<b>\$ 4,371,609</b>
<b>TOTAL FUND BALANCES</b>			
<b>TOTAL LIABILITIES AND FUND BALANCES</b>			
	<b>\$ 4,690,591</b>	<b>\$ 1,934,845</b>	<b>\$ 6,625,436</b>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE  
SHEETS TO THE STATEMENT OF NET POSITION

September 30, 2015

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 4,371,609
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds balance sheet, net of accumulated depreciation and amortization of \$51,782,042.	38,439,025
Some of the City's taxes will be collected after year end, but are not available soon enough to pay for the current period's expenditures and are reported as unavailable revenue in the governmental funds.	361,658
Revenues receivable on warrants are not current financial resources and are not reported in the governmental funds balance sheet, net of allowance for uncollected warrants of \$159,956.	126,817
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds balance sheet	<u>(22,900,021)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 20,399,088</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENTS OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

For the Year Ended September 30, 2015

	<u>Nonmajor Fund</u>		Total Governmental Funds
	<u>Major Fund</u>	Other	
	General Fund	Governmental Funds	
<b>REVENUES:</b>			
Ad valorem taxes	\$ 4,575,326	\$ 1,439,112	\$ 6,014,438
Sales taxes	5,177,646		5,177,646
Other taxes	3,672,248		3,672,248
Fines	230,264		230,264
Licenses and fees	103,755		103,755
Charges for services	396,077		396,077
Intergovernmental	1,386,350		1,386,350
Interest	883	2,176	3,059
Grants and contributions	11,365	887,306	898,671
Miscellaneous	95,958	527,751	623,709
Total Revenue	<u>\$ 15,649,872</u>	<u>\$ 2,856,345</u>	<u>\$ 18,506,217</u>
<b>EXPENDITURES:</b>			
Current:			
City Council	\$ 106,987	\$	\$ 106,987
Administration	221,044		221,044
City Secretary	87,749		87,749
Finance/accounting	335,817		335,817
Municipal Court	340,157		340,157
Police	4,312,104		4,312,104
Fire	3,810,022		3,810,022
Development services	762,629		762,629
Street	1,564,979		1,564,979
Health	267,318		267,318
Community services	626,339		626,339
Intergovernmental	214,264		214,264
Utility billing	240,036		240,036
Community facilities	542,900		542,900
Operations support	157,278		157,278
Purchasing/warehouse	192,147		192,147
Parks and recreation	1,248,438		1,248,438
Fleet services	457,633		457,633
City Attorney	186,692		186,692
Public works/engineering	556,124		556,124
Emergency management	19,472		19,472
Human resources	218,048		218,048
Fire Marshal	125,878		125,878
General fund contingency	159,389		159,389
Information technology	524,012		524,012
Transportation museum	132,727		132,727
Motel tax to CVB	350,977		350,977
Other	40,351		40,351
Special revenue funds		1,158,524	1,158,524
Capital outlay		4,115,891	4,115,891
Debt Service:			
Principal		1,020,920	1,020,920
Interest		523,862	523,862
Fiscal agent fees		2,706	2,706
Total Expenditures	<u>\$ 17,801,511</u>	<u>\$ 6,821,903</u>	<u>\$ 24,623,414</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ (2,151,639)</u>	<u>\$ (3,965,558)</u>	<u>\$ (6,117,197)</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS (CONT.)

For the Year Ended September 30, 2015

	<u>Major Fund</u>	<u>Nonmajor Fund</u>	
	General	Other	Total
	Fund	Governmental	Governmental
	Fund	Funds	Funds
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (2,151,639)	\$ (3,965,558)	\$ (6,117,197)
OTHER FINANCING SOURCES (USES):			
Transfers in	\$ 3,722,616	\$ 35,209	\$ 3,757,825
Transfers out	(33,599)	(24,582)	(58,181)
Capital lease proceeds	1,089,802		1,089,802
Proceeds from sale of capital assets	386,872		386,872
Net Other Financing Sources (Uses)	\$ 5,165,691	\$ 10,627	\$ 5,176,318
NET CHANGE IN FUND BALANCES	\$ 3,014,052	\$ (3,954,931)	\$ (940,879)
FUND BALANCE - BEGINNING OF YEAR AS RESTATED	(339,900)	5,652,388	5,312,488
FUND BALANCE - END OF YEAR	\$ 2,674,152	\$ 1,697,457	\$ 4,371,609

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE  
STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (940,879)

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures while governmental activities report cost of these assets allocated over their estimated lives as depreciation and amortization expense.

Capital assets purchased	5,672,179
Depreciation and amortization	(2,119,109)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

Neither transaction, however, has any effect on net position.

Principal advances on long-term debt	(1,089,802)
Principal payments on long-term debt	1,268,421
Additional accrual of compensated absences	(76,206)
Current amortization of bond premiums	10,225
Change in net pension liability and related deferred outflows and inflows	242,836

Some of the City's taxes in the statement of activities do not provide current financial resources and are not reported as revenue in the funds.

(59,879)

Revenues on warrants and citations will not be collected for several months after the City's fiscal year end and are not considered available revenue and are not included in the governmental fund. Revenues accrued from warrants and citations increased by this amount this year.

8,233

CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ 2,916,019

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENTS OF NET POSITION  
PROPRIETARY FUNDS

September 30, 2015

	<u>Business-Type Activities - Enterprise Fund</u>				Total
	<u>Major Funds</u>			Nonmajor Proprietary Fund	
	Utility Fund	Sanitation Fund	Airport Fund		
<b>CURRENT ASSETS:</b>					
Pooled cash and cash equivalents	\$ 60,615	\$ 124,672	\$ 4,764	\$ 1,424	\$ 191,475
Pooled cash designated for special projects	332,120				332,120
Non pooled cash and cash equivalents	2,500	660	400		3,560
Investments	1,126	125			1,251
Investments designated for closure and postclosure		1,093,369			1,093,369
Accounts receivable, net	1,023,379	443,647	63,800		1,530,826
Inventory	660,634		49,328		709,962
Prepaid expenses	1,463				1,463
Total Current Assets	<u>\$ 2,081,837</u>	<u>\$ 1,662,473</u>	<u>\$ 118,292</u>	<u>\$ 1,424</u>	<u>\$ 3,864,026</u>
<b>NONCURRENT ASSETS:</b>					
Restricted assets	\$ 3,464,567	\$ 60,275	\$ 18	\$ -	\$ 3,524,860
Capital assets, net	21,389,777	8,653,125	4,534,108		34,577,010
Total Noncurrent Assets	<u>\$ 24,854,344</u>	<u>\$ 8,713,400</u>	<u>\$ 4,534,126</u>	<u>\$ -</u>	<u>\$ 38,101,870</u>
<b>TOTAL ASSETS</b>	<u>\$ 26,936,181</u>	<u>\$ 10,375,873</u>	<u>\$ 4,652,418</u>	<u>\$ 1,424</u>	<u>\$ 41,965,896</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>					
Amounts related to pensions	\$ 198,422	\$ 156,095	\$ 29,988	\$ 1,763	\$ 386,268
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 198,422</u>	<u>\$ 156,095</u>	<u>\$ 29,988</u>	<u>\$ 1,763</u>	<u>\$ 386,268</u>
<b>CURRENT LIABILITIES:</b>					
Accounts payable	\$ 292,823	\$ 57,758	\$ 14,118	\$ -	\$ 364,699
Accrued salaries	51,090	41,686	8,490		101,266
Capital leases payable	83,663	747,836	12,342		843,841
Tax note payable			54,080		54,080
Bonds payable	828,344	149,829			978,173
Compensated absences	70,834	60,018	14,384		145,236
Total Current Liabilities	<u>\$ 1,326,754</u>	<u>\$ 1,057,127</u>	<u>\$ 103,414</u>	<u>\$ -</u>	<u>\$ 2,487,295</u>
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS:</b>					
Bonds payable	\$ 6,656	\$ 60,171	\$ -	\$ -	\$ 66,827
Total Liabilities Payable from Restricted Assets	<u>\$ 6,656</u>	<u>\$ 60,171</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,827</u>
<b>NONCURRENT LIABILITIES:</b>					
Rents received in advance	\$ -	\$ -	\$ 78,937	\$ -	\$ 78,937
Compensated absences	27,881	26,272	5,968		60,121
Net pension liability	963,915	758,297	145,679	8,566	1,876,457
Customer water meter deposits	803,480				803,480
Capital leases payable	98,717	1,305,619	41,883		1,446,219
Tax note payable			250,120		250,120
Bonds payable	9,279,444	2,630,000			11,909,444
Accrued landfill closure and postclosure care costs		4,051,680			4,051,680
Total Noncurrent Liabilities	<u>\$ 11,173,437</u>	<u>\$ 8,771,868</u>	<u>\$ 522,587</u>	<u>\$ 8,566</u>	<u>\$ 20,476,458</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 12,506,847</u>	<u>\$ 9,889,166</u>	<u>\$ 626,001</u>	<u>\$ 8,566</u>	<u>\$ 23,030,580</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>					
Amounts related to pensions	\$ 115,838	\$ 91,128	\$ 17,507	\$ 1,030	\$ 225,503
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>\$ 115,838</u>	<u>\$ 91,128</u>	<u>\$ 17,507</u>	<u>\$ 1,030</u>	<u>\$ 225,503</u>
<b>NET POSITION:</b>					
Invested in capital assets, net of related debt	\$ 14,465,467	\$ 3,759,774	\$ 4,175,683	\$ -	\$ 22,400,924
Unrestricted	46,451	(3,208,100)	(136,785)	(6,409)	(3,304,843)
<b>TOTAL NET POSITION</b>	<u>\$ 14,511,918</u>	<u>\$ 551,674</u>	<u>\$ 4,038,898</u>	<u>\$ (6,409)</u>	<u>\$ 19,096,081</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES  
IN FUND NET POSITION – PROPRIETARY FUNDS**

For the Year Ended September 30, 2015

	<u>Business-Type Activities - Enterprise Fund</u>				Total
	Major Funds			Nonmajor Proprietary Fund	
	Utility Fund	Sanitation Fund	Airport Fund		
<b>OPERATING REVENUES:</b>					
Charges for service	\$ 9,432,305	\$ 5,069,328	\$ 727,050	\$ 18,488	\$ 15,247,171
Miscellaneous	80,925	38,581	190		119,696
Total Operating Revenues	<u>\$ 9,513,230</u>	<u>\$ 5,107,909</u>	<u>\$ 727,240</u>	<u>\$ 18,488</u>	<u>\$ 15,366,867</u>
<b>OPERATING EXPENSES:</b>					
Personnel services	\$ 1,735,422	\$ 1,457,012	\$ 268,749	\$ 17,048	\$ 3,478,231
Supplies	278,070	364,663	398,551	1,423	1,042,707
Contractual	2,853,534	832,860	70,063	1,721	3,758,178
Maintenance	638,085	320,202	61,256	24,435	1,043,978
Sundry charges	706,220	343,200			1,049,420
Support services	698,400	430,800			1,129,200
Depreciation and amortization	1,186,514	969,594	416,270		2,572,378
Total Operating Expenses	<u>\$ 8,096,245</u>	<u>\$ 4,718,331</u>	<u>\$ 1,214,889</u>	<u>\$ 44,627</u>	<u>\$ 14,074,092</u>
<b>OPERATING GAIN (LOSS)</b>	<u>\$ 1,416,985</u>	<u>\$ 389,578</u>	<u>\$ (487,649)</u>	<u>\$ (26,139)</u>	<u>\$ 1,292,775</u>
<b>NON-OPERATING REVENUE AND EXPENSE:</b>					
Sale of equipment	\$	\$ 1,501	\$ 5,500	\$	\$ 7,001
Grant income			121,762		121,762
Interest income	1,382	1,758	11		3,151
Interest expense	(220,656)	(114,790)	(15,884)		(351,330)
Net Non-Operating Revenue (Expense)	<u>\$ (219,274)</u>	<u>\$ (111,531)</u>	<u>\$ 111,389</u>	<u>\$ -</u>	<u>\$ (219,416)</u>
<b>GAIN (LOSS) BEFORE TRANSFERS</b>	<u>\$ 1,197,711</u>	<u>\$ 278,047</u>	<u>\$ (376,260)</u>	<u>\$ (26,139)</u>	<u>\$ 1,073,359</u>
<b>TRANSFERS:</b>					
Operating transfers in	\$	\$	\$ 382,044	\$ 16,933	\$ 398,977
Operating transfers out	(2,189,967)	(1,907,044)	(1,610)		(4,098,621)
Net Operating Transfers	<u>\$ (2,189,967)</u>	<u>\$ (1,907,044)</u>	<u>\$ 380,434</u>	<u>\$ 16,933</u>	<u>\$ (3,699,644)</u>
<b>CHANGES IN NET POSITION</b>	<u>\$ (992,256)</u>	<u>\$ (1,628,997)</u>	<u>\$ 4,174</u>	<u>\$ (9,206)</u>	<u>\$ (2,626,285)</u>
<b>NET POSITION - BEGINNING AS RESTATED</b>	<u>15,504,174</u>	<u>2,180,671</u>	<u>4,034,724</u>	<u>2,797</u>	<u>21,722,366</u>
<b>NET POSITION - ENDING</b>	<u>\$ 14,511,918</u>	<u>\$ 551,674</u>	<u>\$ 4,038,898</u>	<u>\$ (6,409)</u>	<u>\$ 19,096,081</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENTS OF CASH FLOWS  
PROPRIETARY FUNDS

For the Year Ended September 30, 2015

	<u>Business-Type Activities - Enterprise Fund</u>				Total
	<u>Major Funds</u>			Nonmajor Proprietary Fund	
	Utility Fund	Sanitation Fund	Airport Fund		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash received from customers	\$ 10,269,596	\$ 5,086,194	\$ 705,505	\$ 18,488	\$ 16,079,783
Cash payments to suppliers for goods and services	(5,329,091)	(2,485,398)	(525,405)	(27,638)	(8,367,532)
Cash payments to employees for services	(1,839,601)	(1,546,098)	(284,638)	(18,751)	(3,689,088)
Net Cash Provided (Used) by Operating Activities	<u>\$ 3,100,904</u>	<u>\$ 1,054,698</u>	<u>\$ (104,538)</u>	<u>\$ (27,901)</u>	<u>\$ 4,023,163</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Increase in customer meter deposits	\$ 78,199				\$ 78,199
Operating transfers in			382,044	16,933	398,977
Operating transfers out	(2,189,967)	(1,907,044)	(1,610)		(4,098,621)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>\$ (2,111,768)</u>	<u>\$ (1,907,044)</u>	<u>\$ 380,434</u>	<u>\$ 16,933</u>	<u>\$ (3,621,445)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Principal payments on bonds	\$ (815,000)	\$ (1,030,000)			\$ (1,845,000)
Principal payments on tax note			(54,080)		(54,080)
Proceeds from notes and capital leases	35,787	1,429,359	54,225		1,519,371
Principal payments on notes and capital leases	(73,948)	(663,832)	(232,634)		(970,414)
Proceeds from sale of capital assets		225,355	5,500		230,855
Acquisition and construction of capital assets	(512,622)	(1,976,217)	(237,648)		(2,726,487)
Grant income			121,762		121,762
Interest expense	(374,013)	(114,790)	(15,884)		(504,687)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (1,739,796)</u>	<u>\$ (2,130,125)</u>	<u>\$ (358,759)</u>	<u>\$ -</u>	<u>\$ (4,228,680)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchase of investments	\$ (4,439,642)	\$ (1,217,657)			\$ (5,657,299)
Sale of investments	6,600,682	4,964,000			11,564,682
Interest income	1,382	1,758	11		3,151
Net Cash Provided (Used) by Investing Activities	<u>\$ 2,162,422</u>	<u>\$ 3,748,101</u>	<u>\$ 11</u>	<u>\$ -</u>	<u>\$ 5,910,534</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>\$ 1,411,762</u>	<u>\$ 765,630</u>	<u>\$ (82,852)</u>	<u>\$ (10,968)</u>	<u>\$ 2,083,572</u>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>(158,591)</u>	<u>(640,298)</u>	<u>88,034</u>	<u>12,392</u>	<u>(698,463)</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 1,253,171</u>	<u>\$ 125,332</u>	<u>\$ 5,182</u>	<u>\$ 1,424</u>	<u>\$ 1,385,109</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENTS OF CASH FLOWS  
PROPRIETARY FUNDS (CONT.)

For the Year Ended September 30, 2015

	<u>Business-Type Activities - Enterprise Fund</u>				Total
	<u>Major Funds</u>			Nonmajor Proprietary Fund	
	Utility Fund	Sanitation Fund	Airport Fund		
<b>RECONCILIATION OF OPERATING INCOME TO</b>					
<b><u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>					
OPERATING GAIN (LOSS)	\$ 1,416,985	\$ 389,578	\$ (487,649)	\$ (26,139)	\$ 1,292,775
<b>ADJUSTMENTS TO RECONCILE OPERATING</b>					
<b>GAIN (LOSS) TO NET CASH PROVIDED BY</b>					
<b>OPERATING ACTIVITIES:</b>					
Depreciation and amortization	1,186,514	969,594	416,270		2,572,378
Closure and postclosure care costs		542,667			542,667
<b>Changes in assets and liabilities:</b>					
Receivables	756,366	(21,715)	(14,156)		720,495
Inventories	(153,626)		4,405		(149,221)
Prepaid expense	(476)				(476)
Accounts payable	(680)	(736,340)	60		(736,960)
Accrued salaries	5,761	2,376	1,767		9,904
Compensated absences	11,376	4,786	679		16,841
Pension assets and liabilities	(121,316)	(96,248)	(18,335)	(1,762)	(237,661)
Rents received in advance			(7,579)		(7,579)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 3,100,904</b>	<b>\$ 1,054,698</b>	<b>\$ (104,538)</b>	<b>\$ (27,901)</b>	<b>\$ 4,023,163</b>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The City of Brownwood, Texas was incorporated in 1884 and adopted its Home Rule Charter in April, 1955, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a council-manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation and social services, cultural-recreation, public improvements, planning and zoning and general administrative services.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and interpretations). The more significant accounting policies established by GAAP and used by the City are discussed below.

Financial Reporting Entity

These financial statements present the City (primary government) and its component unit, the Brownwood Economic Development Corporation (BEDC). As defined by GASB No. 14, component units are legally separate entities that are included in the City's reporting entity because of the significance of their operating or financial relationships with the City.

BEDC was incorporated in the State of Texas on July 6, 1990. BEDC is organized exclusively for the purpose of benefiting and accomplishing public purposes of the City of Brownwood, Texas, by promoting, assisting and enhancing economic development activities for the City as provided by the Development Corporation Act of 1979 as amended. BEDC has and exercises all the rights, powers, privileges, authority and functions given by the Texas Non-Profit Corporation Act, Texas Civil Statute Annotated Article 1396-1.010 et.seq., and the additional powers as provided in Article 5190.6, Section 23, including the issuance of bonds. It receives its primary funding from a local sales tax approved by the voters. The affairs of the Corporation are managed by a Board of Directors. The Board has five members appointed by the City of Brownwood City Council. Because the directors of the Corporation are appointed by the City of Brownwood City Council, the Corporation is included in the City of Brownwood annual financial statements as a component unit of the City.

The Corporation has contracted with the City of Brownwood (City) whereby the City provides administrative support and legal services to the Corporation as requested by the Corporation's Board of Directors. Services provided by the City include all accounting services, administering contracts, budget preparation and providing all personnel necessary for the operation of the Corporation's programs. The City is responsible for the hiring and evaluation of corporation personnel, who are to be City of Brownwood employees and subject to all personnel policies of the City.

Condensed statements of the discretely presented component unit, Brownwood Economic Development Corporation, are shown on the Statement of Net Position and the Statement of Activities in a separate component unit column.

Complete financial statements of the individual component unit can be obtained directly as follows:

Brownwood Economic Development Corporation  
501 Center Avenue  
Brownwood, Texas 76801

Basis of Presentation

The government-wide financial statements (the statement of net position and the statement of changes in net position) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has not been removed from these statements. All interfund charges are charges for goods or services provided. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Basis of Presentation (Cont.)

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of the governmental funds is on the sources, uses and balances of current financial resources.

The City has presented the following major governmental fund:

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

Additionally, the government reports the following nonmajor governmental funds:

Capital Project Fund – Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).

Debt Service Fund – Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Special Revenue Fund – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specified purposes.

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position.

The City has presented the following major proprietary funds:

Utility Fund - Utility Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Sanitation Fund – Sanitation Fund is used to account for the revenues and expense associated with providing garbage removal services to the citizens of the City of Brownwood as well as the operation of the municipal solid waste landfill. All costs are financed through charges to customers.

Airport Fund - Airport Fund is used to account for the operation of the Brownwood Regional Airport. All costs are financed through fuel sales and services to customers which include hanger rentals. Major funding has been provided by state and federal grants.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Basis of Presentation (Cont.)

Additionally, the City reports the following nonmajor proprietary fund:

Pecan Field Station Fund – Pecan Field Station Fund is used to account for the operation of the pecan orchard known as the Pecan Field Station. All costs are financed through pecan sales.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include all cost of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for the proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the State at year end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the City's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the City's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications—committed and then assigned fund balances before using unassigned fund balances.

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to October 1, the City Manager submits to the City Council the proposed operating budget for the upcoming fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Budgets and Budgetary Accounting (Cont.)

The City of Brownwood prepares its annual budget on a basis (budget basis), which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the City's method (budget basis) in the Budgetary Comparison Schedule - General Fund to provide meaningful comparison of actual results with the budget. The differences between budget basis and GAAP basis are shown in the Notes to Budgetary Comparison Schedule.

Cash and Investments

For the purpose of the Statement of Net Position "pooled cash and cash equivalents" includes all demand, savings accounts and certificates of deposit of the City. Investments consist of investments in public funds investment pools and are stated at cost which approximates fair market value. Cash of all funds, including restricted cash, but excluding debt service funds is pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled account has an equity therein. An individual fund's pooled cash and cash investments are available upon demand and are considered to be cash equivalents.

Inventories

Inventories are valued at the lower of average cost or market. Inventories of the general fund and proprietary funds consist of supplies held for consumption.

Interfund Receivables and Payables

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

Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollected accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include ad valorem and sales taxes. Business-type activity receivable balances are from utility sales.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Assets are capitalized that have an original cost of \$2,500 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	10-40 Years
Infrastructure	10-40 Years
Machinery and Equipment	3-10 Years
Improvements	10-20 Years

Improvements and equipment for each cell at the City's landfill are depreciated over the time period that each cell is receiving solid waste.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Compensated Absences

The City Council has adopted a policy whereby employees are paid lump sum payments for vacation, sick leave and holiday leave if they leave City employment. Upon termination, up to twenty-seven days of accumulated vacation at full pay, up to forty-five days of accumulated sick leave at full pay and up to ten days of accumulated holiday leave will be paid if the employee meets the prescribed conditions. Civil service employees are paid up to twenty-three days of accumulated vacation, up to ninety days of accumulated sick leave and up to ten days of accumulated holiday leave.

The City adopted a Catastrophic Leave Pool program allowing employees to donate their sick leave time for others to use in the event of a catastrophic illness. To become a member of the program an employee needs to donate a minimum of four hours of their sick leave time during open enrollment each year in September. Members can donate as many hours as they like as long as their balance does not drop below 72 hours. When a member has a catastrophic illness, they may take up to 30 days per 12 month period from the catastrophic pool if approved by the Catastrophic Leave Pool Committee. No more than 90 days may be used from the pool during their employment. When a member leaves employment with the City all unused hours the employee has donated to the pool are removed from the pool.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Government-wide and Proprietary Net Position

Government-wide and proprietary fund net position is divided into three components:

- Net investment in capital assets – consist of historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted net position – consist of assets that are restricted by the City's creditors, by enabling legislation, by grantors and by other contributors.
- Unrestricted – all other net position is reported in this category.

Governmental Fund Balance

The City follows GASB No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* which provides clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in a spendable form or are required to be maintained intact;
- Restricted fund balance – amounts constrained to specific purposes by their providers, through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance – amounts that are available for any purpose; positive amounts are reported only in the general fund.

City Council establishes fund balance commitments by passage of an ordinance or resolution. Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purposes.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Deferred Inflows/Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The City has one item that qualifies for reporting in this category. Accordingly, this item, unamortized amounts related to pensions, are reported on the government wide statement of position.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category. One of the items, amounts related to pensions, is reported on the government wide statement of position. The City has another item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Deferred outflows of resources are used to report consumptions of net position by the City that are applicable to a future reporting period. Deferred inflows of resources are used to report acquisitions of net position by the City that are applicable to future reporting periods. The deferred inflow is reclassified to revenue on the government-wide financial statements.

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 and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the respective fiduciary. 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.

NOTE 2: PROPERTY TAX

Property taxes are levied by October 1, 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 1, of the year following the year in which imposed. On January 1, 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 or expected to be collected during the sixty day period after the close of the fiscal year.

NOTE 3: DEPOSITS AND INVESTMENTS

The City places its investable funds in investments authorized by Texas law (The Public Funds Investment Act-Government Code Chapter 2256) in accordance with investment policies approved by the City Council of the City. Both state law and the City's investment policies are subject to change. Under Texas law and City policy, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity and the quality and capability of investment management. All City funds must be invested in a manner that provides the highest investment return with the maximum security while meeting the daily cash flow demands of the City. The objectives of the City's investment policy are safety, availability, diversification and highest rate of return. The Public Funds Investment Act requires the City to have independent auditors perform test procedures related to investment practices approved by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 3: DEPOSITS AND INVESTMENTS (CONT.)

Legal Investments

The City is authorized by statute to invest in (a) U.S. Treasury Bills and Notes with a maximum remaining maturity at time of purchase of one year, (b) Repurchase Agreements with a maximum maturity at purchase of 90 days and an average maturity at any point in time not exceeding 30 days, (c) Certificates of Deposit with a maturity of one year or less insured by the Federal Deposit Insurance Corporation or collateralized by pledged securities, (d) Government/Private Sponsored Investment Funds and (e) Notes of the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Student Loan Marketing Association, Federal Farm Credit Bank and Federal Home Loan Bank with a maximum maturity of 2 years and average maturity not exceeding 1 year.

Custodial Credit Risk

City funds are required to be deposited and invested under the terms of a depository contract and investment policy pursuant to state statute. The depository bank deposits for safekeeping and trust with its agent approved pledged securities authorized by Government Code Chapter 2257 Collateral for Public Funds 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 dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. At September 30, 2015, \$3,398,868 of the City's deposit balances were exposed to custodial credit risk by being uninsured by FDIC but collateralized by securities held by the pledging financial institution's agent not in the City's name.

The City had no investments exposed to custodial credit risk at the end of the period.

Interest Rate Risk

For short term liquidity requirements, the City utilized two local government investment pools. TexPool is managed by Federated Investors for the Texas Comptroller of Public Accounts and was created to invest funds on behalf of Texas political subdivisions. The pool operates on a \$1 net asset value basis and allows same day or next day redemptions and deposits. At September 30, 2015, TexPool's portfolio maintained a weighted average maturity of approximately 41 days. The other local government investment pool utilized by the City is TexStar which is managed by First Southwest Asset Management, Inc. and JP Morgan Chase. At September 30, 2015, TexStar's portfolio maintained a weighted average maturity of approximately 39 days. TexPool and TexStar's investment policies limit the weighted average maturity to 60 days. The pools do not invest in derivatives. In order to maintain a stable \$1 price of the funds, the pools will sell portfolio holdings if the ratio of the market value of the portfolio divided by the book value of the portfolio is less than .995 or greater than 1.005. The \$1 price is not guaranteed or insured by the State of Texas, the Comptroller of Public Accounts, the pools or their administrators.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law and City policy limit investments in local government investment pools to those rated no lower than AAA or an equivalent rating by at least one nationally recognized rating agency. At September 30, 2015, The City's investments in TexPool and TexStar were both rated AAAM by Standard and Poor's.

Cash for Cash Flows Statement

Proprietary funds cash and cash equivalents at September 30, 2015 are as follows:

	Utility Fund	Sanitation Fund	Airport Fund	Pecan Field Station Fund
Pooled cash and cash equivalents	\$ 60,615	\$ 124,672	\$ 4,764	\$ 1,424
Pooled cash designated for special projects	332,120			
Non pooled cash and cash equivalents	2,500	660	400	
Restricted cash	857,936		18	
<b>Total</b>	<b>\$ 1,253,171</b>	<b>\$ 125,332</b>	<b>\$ 5,182</b>	<b>\$ 1,424</b>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 4: RESTRICTED ASSETS

Certain cash balances and investments are restricted by constraints externally imposed by creditors, grantors, contributors, laws or regulations. The following is a summary of restricted assets grouped by restriction at September 30, 2015:

	Governmental Activities	Business-type Activities
Restricted for debt service payments	\$ 101,829	\$ 66,845
Restricted for drug awareness education	3,494	
Restricted for law enforcement	26,773	
Restricted for vehicular child safety	18,624	
Restricted for beautification	830	
Restricted for municipal court	46,680	
Restricted for tourism promotion	54,964	
Restricted for Lehnis Museum	1,503	
Restricted for Fabis Park	65,280	
Restricted for construction or purchase of fixed assets	1,390,228	2,654,535
Restricted for customer deposits		803,480
	<u>\$ 1,710,205</u>	<u>\$ 3,524,860</u>
Total Restricted Assets	<u>\$ 1,710,205</u>	<u>\$ 3,524,860</u>

Restricted assets included \$1,028,303 in cash and \$4,206,762 in investments.

NOTE 5: RECEIVABLES

A summary of the net receivables at September 30, 2015 is as follows:

	Governmental Activities	Business-type Activities	Component Unit
Ad valorem taxes	\$ 392,070	\$	\$
Sales taxes	894,455		298,152
Utility		2,734,116	
Warrants and citations	286,773		
Airport		16,800	
Grants receivable	240,968	50,000	
PILOT payments	263,990		
Other receivables	260,463	3,755	
Notes receivable			2,054,139
	<u>\$ 2,338,719</u>	<u>\$ 2,804,671</u>	<u>\$ 2,352,291</u>
Less allowance for uncollectable accounts	(295,216)	(1,273,845)	
Receivables, net	<u>\$ 2,043,503</u>	<u>\$ 1,530,826</u>	<u>\$ 2,352,291</u>

CITY OF BROWNWOOD, TEXAS  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 6: CAPITAL ASSETS

Capital asset activity in the City for the year ended September 30, 2015 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 2,768,975	\$	\$	\$ 2,768,975
Construction in progress	3,795,906	4,115,893	(5,882,182)	2,029,617
Total capital assets not being depreciated	<u>\$ 6,564,881</u>	<u>\$ 4,115,893</u>	<u>\$ (5,882,182)</u>	<u>\$ 4,798,592</u>
Capital assets being depreciated and amortized:				
Building and grounds	\$ 12,191,312	\$ 3,587,338	\$ (154,527)	\$ 15,624,123
Improvements	54,079,452	2,398,565	(27,888)	56,450,129
Machinery/equipment	11,279,482	1,270,714	(440,135)	12,110,061
Intangible assets	1,038,162	200,000		1,238,162
Total capital assets being depreciated and amortized	<u>\$ 78,588,408</u>	<u>\$ 7,456,617</u>	<u>\$ (622,550)</u>	<u>\$ 85,422,475</u>
Less accumulated depreciation and amortization:				
Buildings	\$ (4,798,899)	\$ (376,486)	\$ 172,901	\$ (5,002,484)
Improvements	(34,444,369)	(1,207,445)		(35,651,814)
Machinery/equipment	(10,458,954)	(481,277)	431,500	(10,508,731)
Intangible assets	(565,112)	(53,901)		(619,013)
Total accumulated depreciation and amortization	<u>\$ (50,267,334)</u>	<u>\$ (2,119,109)</u>	<u>\$ 604,401</u>	<u>\$ (51,782,042)</u>
Total Capital Assets Being Depreciated and Amortized, Net	<u>\$ 28,321,074</u>	<u>\$ 5,337,508</u>	<u>\$ (18,149)</u>	<u>\$ 33,640,433</u>
Governmental Activities Capital Assets, Net	<u>\$ 34,885,955</u>	<u>\$ 9,453,401</u>	<u>\$ (5,900,331)</u>	<u>\$ 38,439,025</u>
Business-type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 383,351	\$	\$	\$ 383,351
Construction in progress	5,972,813	1,434,301	(6,822,428)	584,686
Total capital assets not being depreciated	<u>\$ 6,356,164</u>	<u>\$ 1,434,301</u>	<u>\$ (6,822,428)</u>	<u>\$ 968,037</u>
Capital assets being depreciated and amortized:				
Building and grounds	\$ 3,210,095	\$ 111,389	\$	\$ 3,321,484
Improvements	73,925,342	2,659,946		76,585,288
Landfill cell development	9,895,525	2,941,333		12,836,858
Machinery/equipment	13,696,407	2,051,532	(1,163,742)	14,584,197
Intangible assets	-	493,054		493,054
Total capital assets being depreciated and amortized	<u>\$ 100,727,369</u>	<u>\$ 8,257,254</u>	<u>\$ (1,163,742)</u>	<u>\$ 107,820,881</u>
Less accumulated depreciation and amortization:				
Buildings	\$ (2,416,328)	\$ (108,987)	\$	\$ (2,525,315)
Improvements	(51,633,216)	(1,299,200)		(52,932,416)
Landfill cell development	(6,362,160)	(257,890)		(6,620,050)
Machinery/equipment	(12,167,524)	(849,496)	939,698	(12,077,322)
Intangible assets		(56,805)		(56,805)
Total accumulated depreciation and amortization	<u>\$ (72,579,228)</u>	<u>\$ (2,572,378)</u>	<u>\$ 939,698</u>	<u>\$ (74,211,908)</u>
Total Capital Assets Being Depreciated and Amortized, Net	<u>\$ 28,148,141</u>	<u>\$ 5,684,876</u>	<u>\$ (224,044)</u>	<u>\$ 33,608,973</u>
Business-type Activities Capital Assets, Net	<u>\$ 34,504,305</u>	<u>\$ 7,119,177</u>	<u>\$ (7,046,472)</u>	<u>\$ 34,577,010</u>

CITY OF BROWNWOOD, TEXAS  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 6: CAPITAL ASSETS (CONT.)

Assets under capital leases totaled \$3,907,163 in governmental funds and \$7,520,306 in the business type funds. Accumulated amortization on those assets at September 30, 2015 amounted to \$2,656,307 and \$5,392,008, respectively. This equipment is being amortized over 3 to 20 years. The amount of the amortization for the year ended September 30, 2015 was \$323,931 and \$732,222 in the governmental and business-type activities respectively.

Construction period interest capitalized in the current year amounts to \$166,700.

Depreciation and amortization expense was charged to the following functions:

Governmental Activities:	
General government	\$ 217,619
Police	111,427
Fire	251,174
Street	1,077,163
Health	3,761
Community facilities	173,453
Parks and recreation	263,167
Public works	21,345
	<u>\$ 2,119,109</u>
Business-type Activities:	
Water	\$ 853,111
Waste water	321,954
Waste water treatment	11,449
Sanitation	271,827
Landfill	697,767
Airport	416,270
	<u>\$ 2,572,378</u>

CITY OF BROWNWOOD, TEXAS  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 7: LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended September 30, 2015:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
<b>Bonds, Notes and Leases Payable:</b>					
Certificates of obligation	\$ 13,605,000		\$ (815,000)	\$ 12,790,000	\$ 855,000
General obligation bonds	180,000		(180,000)	-	
Tax note payable	171,720		(25,920)	145,800	25,920
Capital leases payable	390,510	1,089,802	(247,501)	1,232,811	289,772
	<u>\$ 14,347,230</u>	<u>\$ 1,089,802</u>	<u>\$ (1,268,421)</u>	<u>\$ 14,168,611</u>	<u>\$ 1,170,692</u>
Bond premiums	139,428		(10,225)	129,203	
Total Bonds, Notes and Leases Payable	<u>\$ 14,486,658</u>	<u>\$ 1,089,802</u>	<u>\$ (1,278,646)</u>	<u>\$ 14,297,814</u>	<u>\$ 1,170,692</u>
Compensated absences	1,406,757	958,019	(933,477)	1,431,299	962,446
Total Governmental Activities	<u>\$ 15,893,415</u>	<u>\$ 2,047,821</u>	<u>\$ (2,212,123)</u>	<u>\$ 15,729,113</u>	<u>\$ 2,133,138</u>
<b>Business-type Activities:</b>					
<b>Bonds, Notes and Leases Payable:</b>					
Certificates of obligation	\$ 11,275,000		\$ (1,395,000)	\$ 9,880,000	\$ 585,000
General obligation bonds	3,460,000		(450,000)	3,010,000	460,000
Tax note payable	358,280		(54,080)	304,200	54,080
Notes payable	232,634		(232,634)	-	
Capital leases payable	1,508,469	1,519,371	(737,780)	2,290,060	843,841
	<u>\$ 16,834,383</u>	<u>\$ 1,519,371</u>	<u>\$ (2,869,494)</u>	<u>\$ 15,484,260</u>	<u>\$ 1,942,921</u>
Bond premiums	76,161		(11,717)	64,444	
Total Bonds, Notes and Leases Payable	<u>\$ 16,910,544</u>	<u>\$ 1,519,371</u>	<u>\$ (2,881,211)</u>	<u>\$ 15,548,704</u>	<u>\$ 1,942,921</u>
Compensated absences	188,516	206,889	(190,048)	205,357	145,236
Total Business-type Activities	<u>\$ 17,099,060</u>	<u>\$ 1,726,260</u>	<u>\$ (3,071,259)</u>	<u>\$ 15,754,061</u>	<u>\$ 2,088,157</u>
Total Primary Government	<u>\$ 32,992,475</u>	<u>\$ 3,774,081</u>	<u>\$ (5,283,382)</u>	<u>\$ 31,483,174</u>	<u>\$ 4,221,295</u>

CITY OF BROWNWOOD, TEXAS  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 7: LONG-TERM OBLIGATIONS (CONT.)

Governmental Activities

General obligation bonds and certificates of obligation provide funds for the acquisition and construction of major capital equipment and facilities. General obligation bonds are direct obligations issued on a pledge of the general taxing powers for the payment of debt obligations of the City. General obligation bonds and certificates of obligation require the City to set aside each year a portion of the taxes levied in a fund to pay interest and principal at maturity. The City is in compliance with this requirement. Combination tax and revenue bonds are payable from either ad valorem taxes levied, with the limits prescribed by laws, or payable from and secured by the surplus net revenues of the City's water and sewer system as provided in the ordinances authorizing their issuance. Tax notes are used to fund specific projects and are generally repaid from tax revenues over shorter periods of time.

A summary of the bonds follows:

	Date of Issue	Original Amount	Interest Rate	Maturity Date	Amount Outstanding 9/30/2015
Combination tax and revenue certificates of obligation:					
Series 2002	4/15/2002	\$ 2,000,000	4.45 to 5.25%	3/15/2021	\$ 890,000
Series 2003	7/15/2003	2,375,000	3.0 to 4.0%	3/15/2018	605,000
Series 2005	9/1/2005	1,995,000	4.0 to 4.5%	3/15/2026	1,300,000
Series 2012	6/19/2012	10,750,000	2.0 to 4.125%	3/15/2032	9,995,000
					<u>\$ 12,790,000</u>

The following represents the future maturities on these bonds:

Year Ending September 30,	Principal	Interest	Total
2016	\$ 855,000	\$ 487,781	\$ 1,342,781
2017	875,000	456,594	1,331,594
2018	915,000	419,299	1,334,299
2019	735,000	384,606	1,119,606
2020	770,000	352,569	1,122,569
2021-2025	3,600,000	1,326,544	4,926,544
2026-2030	3,500,000	654,300	4,154,300
2031-2032	1,540,000	63,672	1,603,672
Total	<u>\$ 12,790,000</u>	<u>\$ 4,145,365</u>	<u>\$ 16,935,365</u>

A summary of the tax note follows:

	Date of Issue	Original Amount	Interest Rate	Maturity Date	Amount Outstanding 9/30/2015
Tax Note, Taxable Series 2013					
Governmental portion	9/1/2013	\$ 194,400	4.4 to 4.7%	9/15/2020	\$ 145,800
Business-type portion	9/1/2013	405,600	4.4 to 4.7%	9/15/2020	304,200
		<u>\$ 600,000</u>			<u>\$ 450,000</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 7: LONG-TERM OBLIGATIONS (CONT.)

Governmental Activities (cont.)

The following represents the future maturities on the governmental portion of this tax note:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 25,920	\$ 6,550	\$ 32,470
2017	27,540	5,449	32,989
2018	29,160	4,251	33,411
2019	30,780	2,939	33,719
2020	32,400	1,523	33,923
Total	<u>\$ 145,800</u>	<u>\$ 20,712</u>	<u>\$ 166,512</u>

Governmental activities are obligated under a number of long-term capital leases. The following represents the future maturities on these capital leases:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 289,772	\$ 22,725	\$ 312,497
2017	251,366	17,075	268,441
2018	186,119	12,463	198,582
2019	169,301	8,935	178,236
2020	150,866	5,602	156,468
Thereafter	185,387	2,835	188,222
Total	<u>\$ 1,232,811</u>	<u>\$ 69,635</u>	<u>\$ 1,302,446</u>

Business-type activities

The City makes use of general obligation bonds and certificates of obligation as well as tax notes in the business-type activities. A summary of the bonds follows:

	<u>Date of Issue</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount Outstanding 9/30/2015</u>
Combination tax and revenue certificates of obligation:					
Series 2004	3/15/2004	\$ 6,335,000	.3 to 3.35%	3/15/2022	\$ 3,665,000
Series 2012A	12/1/2012	3,440,000	1.96 to 4.64%	3/15/2044	3,375,000
Series 2013	10/8/2013	3,870,000	3.1815%	3/15/2029	2,840,000
General obligation refunding bonds,					
Series 2010	3/15/2010	5,050,000	2.0 to 4.0%	3/15/2021	<u>3,010,000</u>
					<u>\$ 12,890,000</u>

The following represents the future maturities on these bonds:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,045,000	\$ 435,331	\$ 1,480,331
2017	1,080,000	404,470	1,484,470
2018	1,115,000	370,850	1,485,850
2019	1,150,000	334,381	1,484,381
2020	1,200,000	294,657	1,494,657
2021-2025	4,285,000	974,946	5,259,946
2026-2030	895,000	544,068	1,439,068
2031-2035	605,000	418,433	1,023,433
2036-2040	765,000	264,983	1,029,983
2041-2044	750,000	71,447	821,447
Total	<u>\$ 12,890,000</u>	<u>\$ 4,113,566</u>	<u>\$ 17,003,566</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 7: LONG-TERM OBLIGATIONS (CONT.)

Business-type activities (cont.)

A summary of the tax note is presented above. The following represents the future maturities on the business-type portion of this tax note:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 54,080	\$ 13,667	\$ 67,747
2017	57,460	11,369	68,829
2018	60,840	8,869	69,709
2019	64,220	6,131	70,351
2020	67,600	3,177	70,777
Total	<u>\$ 304,200</u>	<u>\$ 43,213</u>	<u>\$ 347,413</u>

Business-type activities are obligated under a number of long-term capital leases. The following represents the future maturities on these capital leases:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 843,841	\$ 41,751	\$ 885,592
2017	429,933	31,662	461,595
2018	357,887	17,697	375,584
2019	376,524	10,275	386,799
2020	281,875	4,520	286,395
Total	<u>\$ 2,290,060</u>	<u>\$ 105,905</u>	<u>\$ 2,395,965</u>

NOTE 8: LONG-TERM OBLIGATIONS – BEDC

The following is a summary of changes in long-term obligations for the year ended September 30, 2015:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Note payable	\$ 1,562,469	\$ -	\$ (246,598)	\$ 1,315,871	\$ 253,159
	<u>\$ 1,562,469</u>	<u>\$ -</u>	<u>\$ (246,598)</u>	<u>\$ 1,315,871</u>	<u>\$ 253,159</u>

BEDC has a note payable to Citizens National Bank of Brownwood dated December 30, 2011 with a balance of \$1,315,871. The note bears interest at 65% of Wall Street Journal prime rate which was 2.015% at September 30, 2015 and is payable in monthly payments of \$23,020 through September 30, 2020. The note is secured by a pledge of sales tax revenues and the assignment of a promissory note from Superior Essex Communications LP to BEDC.

The following represents the future maturities on this note:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 253,159	\$ 23,081	\$ 276,240
2017	258,070	18,170	276,240
2018	263,077	13,163	276,240
2019	268,181	8,059	276,240
2020	273,384	2,856	276,240
Total	<u>\$ 1,315,871</u>	<u>\$ 65,329</u>	<u>\$ 1,381,200</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 9: LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and Federal laws and regulations require that the City of Brownwood place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill use during the year.

The estimated liability for landfill closure and postclosure care costs has a balance of \$4,051,680 as of September 30, 2015 which is based on 24.96% usage (filled) of the overall landfill. It is estimated that an additional \$13,270,139 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2110). The estimated total current cost of the landfill closure and postclosure care, \$17,321,819, is based on the amount that would be paid if all equipment, facilities and services required to close, monitor and maintain the landfill were acquired as of September 30, 2015. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

Based on the latest permit modification dated November 22, 1999 the City's financial assurance requirement is \$9,498,504 and is being met by the government financial test specified in 30 TAC Chapter 37.271.

NOTE 10: DEFINED BENEFIT PENSION PLAN

The City of Brownwood participates in three pension plans. Two are administered by Texas Municipal Retirement System (TMRS), Plan 10190 City and 30190 Health Department, and one is administered by Brownwood Firefighter's Relief and Retirement Fund.

TMRS Plan Descriptions

The City of Brownwood participates as two of 860 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.tmr.com](http://www.tmr.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 payments 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.

Plan provisions for the City include an employee deposit rate of 7%, a matching ratio (city to employee) of 2 to 1 and five years of participation for vesting. Employees with five years of continuous service are eligible to retire at age 60. Employees may retire at any age after 20 years of continuous service.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 10: DEFINED BENEFIT PENSION PLAN

Benefits Provided (cont.)

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	
Plan 10190 City	109
Plan 30190 Health Department	8
Inactive employees entitled to but not yet receiving benefits	
Plan 10190 City	69
Plan 30190 Health Department	4
Active employees	
Plan 10190 City	218
Plan 30190 Health Department	12

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 Brownwood were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were as follows:

	Calendar Year	
	2014	2015
Plan 10190 City	14.86%	14.73%
Plan 30190 Health Department	7.99%	8.65%

The city's contributions to TMRS for the year ended September 30, 2015, for Plan 10190 City and Plan 30190 Health Department were \$1,299,125 and \$35,246, respectively, and were equal to the required contributions.

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2014, 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, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. Rates are multiplied by a factor of 100.0% for Plan 10190 City and by 97.0% for Plan 30190 Health Department. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

CITY OF BROWNWOOD, TEXAS  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONT.)

Net Pension Liability (cont.)

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. 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.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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. The target allocation and best estimates of arithmetic 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%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.00%	

*Discount Rate.* The discount rate used to measure the Total Pension Liability was 7.0%. 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 future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONT.)

Net Pension Liability (cont.)

Changes in the Net Pension Liability

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a)-(b)</u>
<b>Plan 10190 City</b>			
Balance 12/31/2013	\$ 42,883,969	\$ 35,838,502	\$ 7,045,467
Changes for the year:			
Service cost	\$ 1,271,262	\$	\$ 1,271,262
Interest	2,978,273		2,978,273
Difference between expected and actual experience	(993,709)		(993,709)
Contributions-employer		1,276,612	(1,276,612)
Contributions-employee		601,366	(601,366)
Net investment income		2,050,213	(2,050,213)
Benefit payments, including refunds of employee contributions	(1,945,700)	(1,945,700)	-
Administrative expense		(21,405)	21,405
Other changes		(1,760)	1,760
Net changes	<u>\$ 1,310,126</u>	<u>\$ 1,959,326</u>	<u>\$ (649,200)</u>
Balance 12/31/2014	<u>\$ 44,194,095</u>	<u>\$ 37,797,828</u>	<u>\$ 6,396,267</u>
<b>Plan 30190 Health Department</b>			
Balance 12/31/2013	\$ 1,147,969	\$ 1,090,007	\$ 57,962
Changes for the year:			
Service cost	\$ 59,025	\$	\$ 59,025
Interest	80,118		80,118
Difference between expected and actual experience	8,050		8,050
Contributions-employer		31,483	(31,483)
Contributions-employee		27,582	(27,582)
Net investment income		62,351	(62,351)
Benefit payments, including refunds of employee contributions	(65,871)	(65,871)	-
Administrative expense		(651)	651
Other changes		(54)	54
Net changes	<u>\$ 81,322</u>	<u>\$ 54,840</u>	<u>\$ 26,482</u>
Balance 12/31/2014	<u>\$ 1,229,291</u>	<u>\$ 1,144,847</u>	<u>\$ 84,444</u>

CITY OF BROWNWOOD, TEXAS  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONT.)

Net Pension Liability (cont.)

*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 7.0%, 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 (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

City's Net Pension Liability	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
Plan 10190 City	\$12,701,216	\$6,396,267	\$1,247,445
Plan 30190 Health Department	\$230,616	\$84,444	\$(37,756)

*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](http://www.tmrs.com).

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2015, the City recognized pension expense of \$1,184,744. At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Plan 10190 City		
Differences between expected and actual economic experience	\$	\$ 768,669
Difference between projected and actual investment earnings	366,786	
Contributions subsequent to the measurement date	949,886	
Total	<u>\$ 1,316,672</u>	<u>\$ 768,669</u>
Plan 30190 Health Department		
Differences between expected and actual economic experience	\$ 6,127	\$
Difference between projected and actual investment earnings	11,159	
Contributions subsequent to the measurement date	26,595	
Total	<u>\$ 43,881</u>	<u>\$ -</u>

\$976,841 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Plan 10190 City	Plan 30190 Health Dept.
Net Deferred Outflows (Inflows) of Resources		
2016	\$ (133,344)	\$ 4,713
2017	(133,344)	4,713
2018	(133,344)	4,713
2019	(1,851)	3,147
2020	-	-
Thereafter	-	-
Total	<u>\$ (401,883)</u>	<u>\$ 17,286</u>

CITY OF BROWNWOOD, TEXAS  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONT.)

Brownwood Firefighter's Relief and Retirement Fund Plan Description

The City contributes to the retirement plan for firefighters in the Brownwood Fire Department known as the Brownwood Firefighter's Relief and Retirement Fund (the Fund). The Fund is a single employer, contributory, defined benefit plan. The benefit provisions of the Fund are authorized by the Texas Local Fire Fighters' Retirement Act (TLFFRA). TLFFRA provides the authority and procedure to amend benefit provisions. The plan is administered by the Board of Trustees of the Brownwood Firefighter's Relief and Retirement Fund. The City does not have access to nor can it utilize assets within the retirement plan trust.

Benefits Provided

Firefighters in the Brownwood Fire Department are covered by the Brownwood Firefighter's Relief and Retirement Fund which provides service retirement, death, disability, and withdrawal benefits. These benefits fully vest after 20 years of credited service. Firefighters may retire at age 50 with 20 years of service. A vested benefit deferred to age 50 is provided for firefighters who terminate employment before age 50 with at least 20 years of service. As of the December 31, 2013 actuarial valuation date, the plan effective October 1, 2008 provided a monthly normal service retirement benefit, payable in a Joint and Two-Thirds to Spouse form of annuity, equal to 50% of Highest 60-Month Average Salary plus \$54.50 per month for each year of service in excess of 20.

A retiring firefighter who is at least age 52 with at least 20 years of service has the option to elect the Retroactive Deferred Retirement Option Plan (RETRO DROP) which will provide a lump sum benefit and a reduced monthly benefit. The reduced monthly benefit is based on the service and Highest 60-Month Average Salary as if he had terminated employment on his selected RETRO DROP benefit calculation date, which is no earlier than the later of the date he meets the age 52 and 20 years of service requirements and the date two years prior to the date he actually retires. Upon retirement, the member will receive, in addition to his monthly retirement benefit, a lump sum equal to the sum of (1) the amount of monthly contributions the member has made to the Fund after the RETRO DROP benefit calculation date plus (2) the total of the monthly retirement benefits the member would have received between the RETRO DROP benefit calculation date and the date he retired under the plan. There are no account balances. The lump sum is calculated at the time of retirement and distributed as soon as administratively possible.

There is no provision for automatic postretirement benefit increases. The Fund has the authority to provide, and has periodically in the past provided, ad hoc postretirement benefit increases.

At the December 31, 2013 valuation and measurement date, the following employees were covered by the benefit terms:

Retirees and beneficiaries currently receiving benefits	25
Inactive employees entitled to but not yet receiving benefits	0
Active employees	32

Contributions

The contribution provisions of the Fund are authorized by TLFFRA. TLFFRA provides the authority and procedure to change the amount of contributions determined as a percentage of pay by each firefighter and a percentage of payroll by the City.

The funding policy of the Brownwood Firefighter's Relief and Retirement Fund requires contributions equal to 8% of pay by the firefighters, the rate elected by the firefighters according to TLFFRA. The City currently contributes 20% of payroll based on a contract between the City and the Fund. The City contribution rate has been 20% since 2009. The December 31, 2013 actuarial valuation includes the assumption that the City contribution rate will be 20% over the UAAL amortization period. The costs of administering the plan are paid from the Fund assets.

CITY OF BROWNWOOD, TEXAS  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONT.)

Ultimately, the funding policy also depends upon the total return of the Fund's assets, which varies from year to year. Investment policy decisions are established and maintained by the board of trustees. The board selects and employs investment managers with the advice of their investment consultant who is completely independent of the investment managers. For the year ending December 31, 2014, the money-weighted rate of return on pension plan investments was 1.84%. This measurement of the investment performance is net of investment-related expenses, reflecting the effect of the timing of the contributions received and the benefits paid during the year.

While the contribution requirements are not actuarially determined, state law requires that each change in plan benefits adopted by the Fund must first be approved by an eligible actuary, certifying that the contribution commitment by the firefighters and the assumed city contribution rate together provide an adequate contribution arrangement. Using the entry age actuarial cost method, the plan's normal cost contribution rate is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost contribution rate is used to amortize the plan's unfunded actuarial accrued liability (UAAL). The number of years needed to amortize the plan's UAAL is actuarially determined using an open, level percentage of payroll method.

Net Pension Liability

The City of Brownwood's net pension liability was measured as December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013 and rolled forward to December 31, 2014.

*Actuarial assumptions.* The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5%
Salary increases	3.5%, plus promotion, step and longevity increases that vary by service
Investment rate of return	7.5%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Healthy Mortality Tables for males and for females (sex distinct) projected to 2024 by scale AA.

The long-term expected rate of return on pension plan investments is reviewed for each biennial actuarial valuation and was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future net real rates of return by the target asset allocation percentage (currently resulting in 4.0%) and by adding expected inflation (3.5%). In addition, the final 7.5% assumption was selected without "rounding down" and thereby reflects no reduction for adverse deviation. The target allocation and expected arithmetic net 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)
Large Cap Domestic Equity	29%	5.3%
Small Cap Domestic Equity	11%	5.8%
International Developed Equity	20%	5.8%
Emerging Markets Equity	5%	7.3%
Fixed Income	35%	0.8%
Cash	0%	0.0%
Total	100%	
Weighted Average		4.0%

CITY OF BROWNWOOD, TEXAS  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONT.)

*Discount Rate.* The discount rate used to measure the total pension liability was 7.5%. No projection of cash flows was used to determine the discount rate because the December 31, 2013 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 37 years. That UAAL was based on an actuarial value of assets that was \$134,275 less than the plan fiduciary net position as of December 31, 2013. Because of the 37-year amortization period of the UAAL with the lower value of assets, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments of 7.5% was applied to all periods of projected benefit payments as the discount rate to determine the total pension liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance 12/31/2013	\$ 7,522,774	\$ 3,426,410	\$ 4,096,364
Changes for the year:			
Service cost	\$ 211,640	\$	\$ 211,640
Interest	561,844		561,844
Difference between expected and actual experience			-
Contributions-employer		323,975	(323,975)
Contributions-employee		129,581	(129,581)
Net investment income		62,582	(62,582)
Benefit payments	(486,325)	(486,325)	-
Administrative expense		(12,414)	12,414
Other changes			-
Net changes	\$ 287,159	\$ 17,399	\$ 269,760
Balance 12/31/2014	\$ 7,809,933	\$ 3,443,809	\$ 4,366,124

*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 7.5%, 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 (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City's Net Pension Liability	\$5,331,410	\$4,366,124	\$3,558,229

*Pension Plan Fiduciary Net Position.* The plan fiduciary net position is shown in the Schedule of Changes in Net Pension Liability and Related Ratios included in the Required Supplementary Information section of this report. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Investments are reported at fair value, the price that would be recognized to sell an asset in an orderly transaction between market participants at the measurement date.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONT.)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2015, the City recognized pension expense of \$439,572. Amounts recognized in the fiscal year represent changes between the current and prior measurement dates. At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings	\$ 154,163	\$
Contributions subsequent to the measurement date	244,744	
Total	\$ 398,907	\$ -

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

Net Deferred Outflows (Inflows) of Resources		
	2016	\$ 38,541
	2017	38,541
	2018	38,541
	2019	38,540
	2020	-
	Thereafter	-
Total		\$ 154,163

\$244,744 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, 2016.

NOTE 11: TRANSFERS

Transfers to/from other funds during the year ended September 30, 2015, consist of the following:

From Utility Fund to the General Fund to supplement the functions of that fund	\$ 1,700,000
From Sanitation Fund to the General Fund to supplement the functions of that fund	\$ 1,525,000
From Utility Fund to the General Fund for completed special projects	\$ 473,034
From Airport Fund to the Capital Projects Fund to close out completed project	\$ 1,610

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 12: COMMITMENTS

The City of Brownwood contracted with BEDC to manage the City's industrial park for five years. The contract is dated September 22, 1997 and has automatic extensions for successive periods of five years, subject to termination by the City Council. BEDC markets and manages the industrial park and the gross sales proceeds from sale of industrial sites in the park inure to BEDC for projects meeting the criteria as defined by the Development Corporation Act of 1979 as amended. BEDC has no property interest in the industrial park.

In June 2013, the BEDC board approved a six year incentive to B & W Carrier, Inc. dba Willie's T's of up to \$100,000. At September 30, 2015 there is \$55,000 remaining to be paid on this incentive. In January 2014, the BEDC board approved a loan to Ingram Concrete of \$300,000 to be funded upon completion of construction milestones. At September 30, 2015, \$150,000 of this commitment remains to be funded.

BEDC has made several commitments that have not yet been funded at September 30, 2015. The following commitments are in this category. In February 2014, the BEDC board approved an incentive to Wright Asphalt for \$250,000 dependent upon the completion of a production plant. In August 2015, the BEDC board approved two economic incentives to 3M Company to support two product lines. One is a five year incentive of up to \$250,000 and the other is a five year incentive up to \$300,000. In September 2015, the BEDC board approved a \$300,000 incentive to Leeco Properties, Inc. for infrastructure improvements to be paid as construction is completed.

The City has an agreement with Brown County to share the costs of the Joint Law Enforcement Center. Under this agreement the City pays 29% of the annual debt service cost based on square footage. The City also agreed to pay a percentage of additional construction expenses over the life of the bonds, a percentage of the annual bond administration costs, a percentage of the utilities cost and a percentage of the insurance costs.

The City is committed to a number of construction projects at September 30, 2015 including soccer fields and facilities, waste water treatment plant improvements, and a walking trail. Total cost of these projects is approximately \$5,749,000 with remaining costs of approximately \$3,135,000 at September 30, 2015.

NOTE 13: CONTINGENT LIABILITIES

The City of Brownwood is the primary guarantor for payment of principal and interest on Revenue Bonds issued by Brown County Water Improvement District #1 with an approved original balance of \$20,490,000. At September 30, 2015 the unpaid balance was \$14,180,000 with an additional \$245,000 to be drawn. Principal payments on the bonds began February 1, 2009 and the final payment is due February 1, 2028. Payments are made monthly as a debt service charge on the statement to the City for water purchases. The payments are shared by charges added to the statements of all of the contracting parties for the purchase of treated water from Brown County Water Improvement District #1.

BEDC is the guarantor on the Texas Capital Fund contract between the City of Brownwood and the Texas Department of Agriculture for Barr Fabrication.

NOTE 14: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's general liability, professional liability, and worker's compensation insurance coverage is provided through the purchase of commercial insurance. The City retains risk on only a small deductible amount, except on non-financed vehicles on which no collision insurance is carried. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage in any of the past three fiscal years. The City has designated \$30,381 of net position to cover any potential losses on the non-covered vehicles. The City employee health care is provided by commercial insurance with no risk retained by the City. The management of the City has not been notified and is not aware of any significant claims against the City not covered by insurance.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 15: UTILITY

The Utility Department was serving the following number of customers:

	9/30/15	9/30/14
Water Department	7,384	7,364
Sewer Department	6,896	6,879
Sanitation Department	7,075	7,060

NOTE 17: ELECTED OFFICIALS

Stephen Haynes	Mayor
Jerry DeHay	Councilman
H.D. Jones	Councilman
Draco Miller	Councilman
Larry Mathis	Councilman
Ed McMillian	Councilman

NOTE 18: APPOINTED OFFICIALS AND FIDELITY BONDS

Emily Crawford	City Manager
William P. Chesser	City Attorney
Christi Wynn	City Secretary
Lee Haney	Municipal Court Judge

City employees are covered by a blanket fidelity bond in the amount of \$100,000

NOTE 19: INSURANCE COVERAGE - BUILDINGS AND CONTENTS

A summary of the buildings and contents insurance coverage follows:

Insurer:	Texas Municipal League	
Expiration date:	October 1 through September 30	
Coverage:	Buildings	\$ 52,895,509
	Contents	4,239,476
Risk covered:	Fire, lightning, extended coverage including Replacement cost endorsement.	

NOTE 20: NEW PRONOUNCEMENTS AND PRIOR PERIOD ADJUSTMENTS

The City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement 27. This Statement requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability on the statement of net position and to more comprehensively and comparably measure the annual costs of pension benefits. Other requirements are for the City to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for their plans, to use the entry age normal method with each period's service cost determined as a level percentage of pay, to make certain other changes in computing the pension liability and expense, and to provide revised and new note disclosures and required supplementary information (RSI). The provisions of this Statement became effective for periods beginning after June 15, 2014. The implementation resulted in a restatement of beginning net position in the government-wide financial statement and in a restatement of beginning net position in the Statement of Revenues, Expenses, and Changes in Net Position for the Proprietary Funds.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2015

NOTE 20: NEW PRONOUNCEMENTS AND PRIOR PERIOD ADJUSTMENTS (CONT.)

Accounts payable in the governmental activities and general fund at September 30, 2014 was overstated by \$200,000 which overstated net position and fund balance. Accordingly this amount was adjusted to restate net position and fund balance as of the beginning of the year.

The beginning net pension asset and deferred inflows and outflows related to pensions were recorded as well as the correction to accounts payable. The adjustment below is the result:

	Governmental Activities	Business-type Activities
Net position September 30, 2014	\$ 25,666,259	\$ 23,674,224
Beginning net pension asset and related deferred inflows and outflows	(8,383,190)	(1,951,858)
Correction of prior year ending accounts payable	200,000	
Net position September 30, 2014 restated	\$ 17,483,069	\$ 21,722,366

The beginning net pension asset and deferred inflows and outflows related to pensions were recorded as well as the correction to accounts payable. The adjustment below is the result:

	Business-type Activities - Enterprise Fund				
	General Fund	Utility Fund	Sanitation Fund	Airport Fund	Nonmajor Proprietary Fund
Fund Balance/Net position September 30, 2014	\$ (539,900)	\$ 16,506,821	\$ 2,969,439	\$ 4,186,257	\$ 11,707
Beginning net pension asset and related deferred inflows and outflows		(1,002,647)	(788,768)	(151,533)	(8,910)
Correction of prior year ending accounts payable	200,000				
Fund Balance/Net position September 30, 2014 restated	\$ (339,900)	\$ 15,504,174	\$ 2,180,671	\$ 4,034,724	\$ 2,797

NOTE 21: SUBSEQUENT EVENTS

Subsequent to year end, the City issued Combination Tax and Revenue Certificate of Obligation, Series 2015 for \$4,815,000. The first principal and interest payment is due March 15, 2016 with maturity on March 15, 2035. Interest is fixed at 2.95% subject to adjustment every five years thereafter with a 3.5% floor and a 4.5% ceiling. The purpose of the certificate of obligation is to finance construction and improvements of the wastewater treatment plant, the Roanoke storage project and the lift station project. The City also issued General Obligation Refunding Revenue Bond, Series 2015 for \$2,250,000. First principal and interest payment is due March 15, 2016 with maturity on March 15, 2016. Interest rates range from 0.45% to 2.2%. The purpose of the bond is to refund the remaining balances on Certificates of Obligation, Series 2002 and Series 2005.

On January 16, 2016, the BEDC Board of Directors and, on January 26, 2016, the Brownwood City Council voted to call for a municipal referendum to be held on May 7, 2016, for the purpose of submitting to the qualified voters, for adoption or rejection, a proposed proposition to terminate the Brownwood Economic Development Corporation (Type A) and the abolition of its sales and use tax for the promotion and development of new and expanded business enterprises at the rate of one-half of one percent, and concurrently, authorize the creation of the City of Brownwood Municipal Development District (MDD) with the imposition of a sales and use tax within the incorporated City limits at the rate of one-half of one percent for the purpose of financing development projects beneficial to the district. A Type A EDC is limited primarily to the creation or retention of primary jobs related to industry and manufacturing. An MDD provides the most options for economic development by increasing the range of projects eligible for funding.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

**TEXAS MUNICIPAL RETIREMENT SYSTEM PLAN 10190 CITY**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**

Last Plan Year

	2014
<b>TOTAL PENSION LIABILITY:</b>	
Service cost	\$ 1,271,262
Interest (on total pension liability)	2,978,273
Changes in benefit terms	-
Difference between expected and actual experience	(993,709)
Change of assumptions	-
Benefit payments, including refunds of employee contributions	<u>(1,945,700)</u>
Net Change in Total Pension Liability	\$ 1,310,126
Total Pension Liability - Beginning	<u>42,883,969</u>
Total Pension Liability - Ending (a)	<u>\$ 44,194,095</u>
 <b>PLAN FIDUCIARY NET POSITION:</b>	
Contributions - employer	\$ 1,276,612
Contributions - employee	601,366
Net investment income	2,050,213
Benefit payments, including refunds of employee contributions	(1,945,700)
Administrative expense	(21,405)
Other	<u>(1,760)</u>
Net Change in Plan Fiduciary Net Position	\$ 1,959,326
Plan Fiduciary Net Position - Beginning	<u>35,838,502</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 37,797,828</u>
 NET PENSION LIABILITY - ENDING (a) - (b)	 \$ 6,396,267
 PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	  85.53%
 COVERED EMPLOYEE PAYROLL	 \$ 8,590,941
 NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	  74.45%
 NOTES TO SCHEDULE: N/A	

CITY OF BROWNWOOD, TEXAS  
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**TEXAS MUNICIPAL RETIREMENT SYSTEM PLAN 30190 HEALTH DEPARTMENT  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**

Last Plan Year

	2014
<b>TOTAL PENSION LIABILITY:</b>	
Service cost	\$ 59,025
Interest (on total pension liability)	80,118
Changes in benefit terms	-
Difference between expected and actual experience	8,050
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(65,871)
Net Change in Total Pension Liability	\$ 81,322
Total Pension Liability - Beginning	1,147,969
Total Pension Liability - Ending (a)	\$ 1,229,291
<b>PLAN FIDUCIARY NET POSITION:</b>	
Contributions - employer	\$ 31,483
Contributions - employee	27,582
Net investment income	62,351
Benefit payments, including refunds of employee contributions	(65,871)
Administrative expense	(651)
Other	(54)
Net Change in Plan Fiduciary Net Position	\$ 54,840
Plan Fiduciary Net Position - Beginning	1,090,007
Plan Fiduciary Net Position - Ending (b)	\$ 1,144,847
<b>NET PENSION LIABILITY - ENDING (a) - (b)</b>	<b>\$ 84,444</b>
<b>PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY</b>	<b>93.13%</b>
<b>COVERED EMPLOYEE PAYROLL</b>	<b>\$ 394,031</b>
<b>NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL</b>	<b>21.43%</b>
<b>NOTES TO SCHEDULE:</b>	
N/A	

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

**BROWNWOOD FIREFIGHTER'S RELIEF AND RETIREMENT FUND**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**

Last Plan Year

	2014
<b>TOTAL PENSION LIABILITY:</b>	
Service cost	\$ 211,640
Interest (on total pension liability)	561,844
Changes in benefit terms	-
Difference between expected and actual experience	-
Change of assumptions	-
Benefit payments, including refunds of employee contributions	<u>(486,325)</u>
Net Change in Total Pension Liability	\$ 287,159
Total Pension Liability - Beginning	<u>7,522,774</u>
Total Pension Liability - Ending (a)	<u>\$ 7,809,933</u>
 <b>PLAN FIDUCIARY NET POSITION:</b>	
Contributions - employer	\$ 323,975
Contributions - employee	129,581
Net investment income	62,582
Benefit payments, including refunds of employee contributions	(486,325)
Administrative expense	(12,414)
Other	-
Net Change in Plan Fiduciary Net Position	\$ 17,399
Plan Fiduciary Net Position - Beginning	<u>3,426,410</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 3,443,809</u>
 NET PENSION LIABILITY - ENDING (a) - (b)	 \$ 4,366,124
 PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	  44.10%
 COVERED EMPLOYEE PAYROLL	 \$ 1,685,543
 NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	  259.00%

**NOTES TO SCHEDULE:**

Total pension liability was determined from the total pension liability as of December 31, 2013 using the roll forward procedure allowed for GASB 68.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

TEXAS MUNICIPAL RETIREMENT SYSTEM PLAN 10190 CITY  
SCHEDULE OF PENSION CONTRIBUTIONS

Last Fiscal Year

	2015
Actuarially determined contribution	\$ 1,299,125
Contributions in relation to the actuarially determined contribution	1,299,125
Contribution deficiency (excess)	-
Covered employee payroll	8,798,850
Contributions as a percentage of covered employee payroll	14.76%

NOTES TO SCHEDULE OF PENSION CONTRIBUTIONS:

Valuation Date:

Notes

Actuarially determined contribution rates are calculated as of December 31 and become effective in January thirteen 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	24 Years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.00%
Salary Increases	3.5% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009
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.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

TEXAS MUNICIPAL RETIREMENT SYSTEM PLAN 30190 HEALTH DEPARTMENT  
SCHEDULE OF PENSION CONTRIBUTIONS

Last Fiscal Year

	2015
Actuarially determined contribution	\$ 35,246
Contributions in relation to the actuarially determined contribution	35,246
Contribution deficiency (excess)	-
Covered employee payroll	415,734
Contributions as a percentage of covered employee payroll	8.48%

NOTES TO SCHEDULE OF PENSION CONTRIBUTIONS:

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January thirteen 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	29 Years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.00%
Salary Increases	3.5% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplies by 103% and projected on a fully generational basis with scale BB

Other information:

Notes There were no benefit changes during the year.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

**BROWNWOOD FIREFIGHTER'S RELIEF AND RETIREMENT FUND**  
**SCHEDULE OF PENSION CONTRIBUTIONS**

Last Fiscal Year

	2015
Required contributions	\$ 333,681
Contributions in relation to the actuarially determined contribution	333,681
Contribution deficiency (excess)	-
Covered employee payroll	1,668,407
Contributions as a percentage of covered employee payroll	20.00%

NOTES TO SCHEDULE OF PENSION CONTRIBUTIONS:

Valuation Date:

Notes

Contribution requirements are not actuarially determined. State law requires that each change in plan benefits adopted by the Fund must first be approved by an eligible actuary, certifying that the contribution commitment by the firefighters and the assumed city contribution rate together provide an adequate contribution arrangement

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age
Amortization Method	Actuarially determined using an open, level percentage of payroll
Remaining Amortization Period	37 years
Inflation	3.50%
Salary Increases	3.5% plus promotion, step and longevity increases that vary by service
Investment Rate of Return	7.50%
Retirement Age	Age 50 with 20 years of service
Mortality	RP2000 Combined Healthy Mortality Tables for males and for females (sex distinct) projected to 2024 by scale AA

Other information:

Notes

There were no benefit changes during the year.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

For the Year Ended September 30, 2015

	Original Budget	Final Budget	Actual Budgetary Basis (See Note A)	Variance with Final Budget Positive (Negative)
<b>RESOURCES (INFLOWS):</b>				
Ad valorem taxes	\$ 4,479,942	\$ 4,479,942	\$ 4,575,326	\$ 95,384
Sales tax	4,905,000	4,905,000	5,117,928	212,928
Other taxes	3,234,413	3,234,413	3,672,248	437,835
Fines	162,000	162,000	230,264	68,264
License and fees	64,000	64,000	103,755	39,755
Charges for services	405,700	405,700	396,077	(9,623)
Intergovernmental	1,385,390	1,385,390	1,386,350	960
Miscellaneous	36,500	36,500	108,206	71,706
Total Resources (Inflows)	<u>\$ 14,672,945</u>	<u>\$ 14,672,945</u>	<u>\$ 15,590,154</u>	<u>\$ 917,209</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
City Council	\$ 80,950	\$ 97,750	\$ 106,987	\$ (9,237)
Administration	219,886	223,386	243,149	(19,763)
City Secretary	93,986	93,986	86,002	7,984
Finance/Accounting	333,600	336,000	334,017	1,983
Municipal Court	314,074	338,504	341,273	(2,769)
Police	4,602,332	4,605,332	4,299,867	305,465
Fire	2,782,207	2,786,627	3,790,926	(1,004,299)
Development services	685,991	685,991	765,414	(79,423)
Street	1,606,872	1,606,872	1,561,411	45,461
Health	253,504	253,504	271,370	(17,866)
Community services	608,415	608,415	626,339	(17,924)
Intergovernmental	226,428	226,428	214,264	12,164
Utility billing	244,662	248,077	240,663	7,414
Community facilities	445,660	445,660	543,507	(97,847)
Operations support	156,273	156,273	157,344	(1,071)
Purchasing/warehouse	189,329	189,329	193,988	(4,659)
Parks and recreation	1,197,268	1,213,768	1,252,251	(38,483)
Fleet services	513,293	513,293	451,799	61,494
City Attorney	190,474	190,474	186,738	3,736
Public works/engineering	387,486	387,486	565,252	(177,766)
Emergency management	23,825	23,825	19,472	4,353
Human Resources	221,033	221,033	215,373	5,660
Fire Marshall	128,919	128,919	125,727	3,192
General fund contingency	193,500	193,500	159,389	34,111
Information technology	447,769	447,769	523,062	(75,293)
Transportation museum	116,967	116,967	131,600	(14,633)
Motel tax to CVB			350,977	(350,977)
Other			40,351	(40,351)
Total Charges to Appropriations (Outflows)	<u>\$ 16,264,703</u>	<u>\$ 16,339,168</u>	<u>\$ 17,798,512</u>	<u>\$ (1,459,344)</u>
EXCESS CHARGES TO APPROPRIATIONS	\$ (1,591,758)	\$ (1,666,223)	\$ (2,208,358)	\$ (542,135)
FUND BALANCE - BEGINNING	<u>(7,083,508)</u>	<u>(7,083,508)</u>	<u>(7,083,508)</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ (8,675,266)</u>	<u>\$ (8,749,731)</u>	<u>\$ (9,291,866)</u>	<u>\$ -</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BUDGETARY COMPARISON SCHEDULE

For the Year Ended September 30, 2015

Note A: EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY  
INFLOWS AND OUTFLOWS AND GAAP REVENUES AND  
EXPENDITURES:

Sources/inflows of Resources:

Actual amounts (budgetary basis) available for appropriation from the budgetary comparison schedule.	\$ 15,590,154
The City budgets for sales tax based on the amount collected rather than on the modified accrual basis.	<u>59,718</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances governmental fund.	<u>\$ 15,649,872</u>

Uses/outflows of Resources:

Actual amount (budgetary basis) charges to appropriations from the budgetary comparison schedule.	\$ 17,798,512
The City budgets for salaries on the cash basis rather than on the modified accrual basis.	54,663
The City budgets for compensated absences on the cash basis rather than the modified accrual basis.	<u>(51,664)</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances governmental fund.	<u>\$ 17,801,511</u>

SUPPLEMENTARY INFORMATION

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

OTHER GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS

September 30, 2015

	Total Debt Service Fund	Total Capital Projects Fund	Total Special Revenue Fund	Total Other Governmental Funds
<u>ASSETS</u>				
ASSETS:				
Pooled cash and cash equivalents	\$	\$ 44,148	\$ (16,458)	\$ 27,690
Non pooled cash and cash equivalents			25	25
Receivables, net	91,407	100,000	158,386	349,793
Restricted assets	101,829	1,390,228	65,280	1,557,337
<b>TOTAL ASSETS</b>	<u>\$ 193,236</u>	<u>\$ 1,534,376</u>	<u>\$ 207,233</u>	<u>\$ 1,934,845</u>
<u>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</u>				
LIABILITIES:				
Accounts payable	\$	\$ 96,326	\$ 30,421	\$ 126,747
Accrued payroll			22,057	22,057
<b>TOTAL LIABILITIES</b>	<u>\$ -</u>	<u>\$ 96,326</u>	<u>\$ 52,478</u>	<u>\$ 148,804</u>
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue	\$ 88,584	\$	\$	\$ 88,584
FUND BALANCES:				
Restricted for:				
Debt service	\$ 104,652	\$	\$	\$ 104,652
Construction		1,393,902		1,393,902
Fabis Park			65,190	65,190
Committed to:				
Construction		44,148		44,148
Assigned to:				
Health and nutrition programs			30,717	30,717
Unassigned			58,848	58,848
<b>TOTAL FUND BALANCES</b>	<u>\$ 104,652</u>	<u>\$ 1,438,050</u>	<u>\$ 154,755</u>	<u>\$ 1,697,457</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 193,236</u>	<u>\$ 1,534,376</u>	<u>\$ 207,233</u>	<u>\$ 1,934,845</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

OTHER GOVERNMENTAL FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES

For the Year Ended September 30, 2015

	Total Debt Service Fund	Total Capital Projects Fund	Total Special Revenue Fund	Total Other Governmental Funds
REVENUES:				
Ad valorem taxes	\$ 1,439,112	\$	\$	\$ 1,439,112
Grants and contributions		100,000	787,306	887,306
Other revenue	107,712	58,371	361,668	527,751
Interest	189	1,955	32	2,176
Total Revenues	\$ 1,547,013	\$ 160,326	\$ 1,149,006	\$ 2,856,345
EXPENDITURES:				
Debt service:				
Principal	\$ 1,020,920	\$	\$	\$ 1,020,920
Interest	523,862			523,862
Fiscal agent fees	2,706			2,706
Capital outlay		4,115,891		4,115,891
Special revenue fund			1,158,524	1,158,524
Total Expenditures	\$ 1,547,488	\$ 4,115,891	\$ 1,158,524	\$ 6,821,903
EXCESS OF REVENUES OVER EXPENDITURES	\$ (475)	\$ (3,955,565)	\$ (9,518)	\$ (3,965,558)
OTHER FINANCING SOURCES:				
Transfers in	\$ 33,538	\$ 1,610	\$ 61	\$ 35,209
Transfers out		(24,582)		(24,582)
Total Other Financing Sources	\$ 33,538	\$ (22,972)	\$ 61	\$ 10,627
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	\$ 33,063	\$ (3,978,537)	\$ (9,457)	\$ (3,954,931)
FUND BALANCE - BEGINNING OF YEAR	71,589	5,416,587	164,212	5,652,388
FUND BALANCE - END OF YEAR	\$ 104,652	\$ 1,438,050	\$ 154,755	\$ 1,697,457

SINGLE AUDIT SECTION

**D. A. "Tony" Krischke, CPA**

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 Honorable Mayor and City Council  
City of Brownwood, Texas

I 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 aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Brownwood, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise City of Brownwood, Texas basic financial statements, and have issued my report thereon dated February 20, 2016.

### **Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Brownwood, Texas financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of my 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.



Krischke CPA, PC  
February 20, 2016



**D. A. “Tony” Krischke, CPA**

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Honorable Mayor and City Council  
City of Brownwood, Texas

**Report on Compliance for Each Major Federal Program**

I have audited City of Brownwood, Texas compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Brownwood, Texas major federal programs for the year ended September 30, 2015. City of Brownwood, Texas major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

***Management’s Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor’s Responsibility***

My responsibility is to express an opinion on compliance for each of City of Brownwood, Texas major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Brownwood, Texas compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of City of Brownwood, Texas compliance.

***Opinion on Each Major Federal Program***

In my opinion, City of Brownwood, Texas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

**Report on Internal Control Over Compliance**

Management of City of Brownwood, Texas, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered City of Brownwood, Texas internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of City of Brownwood, Texas internal control over compliance.

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Krischke CPA, PC

February 20, 2016

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2015

	Federal CFDA Number	Pass Through Entity ID Number	Amount Expended	Amount Expended to Sub-recipients
<b>FEDERAL ASSISTANCE:</b>				
U.S. Department of Agriculture:				
Passed through Texas Department of State Health Services:				
Special Supplemental Nutrition Program for Women, Infants and Children				
	10.557	2015-039936	\$ 314,106	\$ -
U.S. Department of Defense, Department of the Army, Office of the Chief of Engineers:				
Flood Control Projects				
	12.106		\$ 82,949	\$ -
U.S. Department of the Interior:				
Passed through Texas Parks and Wildlife Department:				
Outdoor Recreation_Acquisition, Development and Planning				
	15.916	48-001126	\$ 100,000	\$ -
U.S. Department of Justice:				
Edward Byrne Memorial Justice Assistance Grant Program				
	16.738		\$ 25,000	\$ -
U.S. Department of Transportation:				
Passed through Texas Parks and Wildlife Department:				
Recreational Trails Program				
	20.219		\$ 4,259	\$ -
General Services Administration:				
Non-monetary pass through from Texas Facilities Commission:				
Donation of Federal Surplus Personal Property				
	39.003	26171	\$ 1,431	\$ -
U.S. Department of Health and Human Services:				
Passed through West Central Texas Council of Governments:				
Special Programs for the Aging_Title III, Part C_Nutrition Services				
	93.045		\$ 114,151	\$ -
Passed through Amerigroup:				
Special Programs for the Aging_Title III, Part C_Nutrition Services				
	93.045		9,090	
Passed through Superior Health:				
Special Programs for the Aging_Title III, Part C_Nutrition Services				
	93.045		3,358	
Passed through Texas Department of State Health Services:				
Special Programs for the Aging_Title III, Part C_Nutrition Services				
	93.045		41,451	
Public Health Emergency Preparedness:				
Bio-terrorism-Supplemental BTDFP1				
	93.069	2015-047201-001	12,614	
Ebola Grant				
	93.069	2015-003648-000	755	
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements:				
Bio-terrorism-Investigations and Technical Assistance				
	93.074	2015-041411-002	96,321	
Immunization Cooperative Agreements-Immunization				
	93.268	2015-041411-001	134,154	
Preventive Health and Health Services Block Grant				
	93.991	2015-041411-003	9,761	
Total U.S. Department of Health and Human Services			\$ 421,655	\$ -
Total Federal Assistance			\$ 949,400	\$ -

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2015

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of City of Brownwood, Texas under programs of the federal government for the year ended September 30, 2015. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Brownwood, Texas, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Brownwood, Texas.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year ended September 30, 2015

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	_____ yes <u>  X  </u> no
Significant deficiency(s) identified not considered to be material weaknesses?	_____ yes <u>  X  </u> none reported
Noncompliance material to financial statements noted?	_____ yes <u>  X  </u> no

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	_____ yes <u>  X  </u> no
Significant deficiency(s) identified not considered to be material weaknesses?	_____ yes <u>  X  </u> none reported
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 501(a) of Circular A-133?	_____ yes <u>  X  </u> no

Identification of major programs:

CFDA Numbers	Name of Federal or State Program or Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children

Dollar threshold used to distinguish between Type A and Type B programs	\$ 300,000
Auditee qualified as low-risk auditee?      Federal	<u>  X  </u> yes _____ no

Section II - Financial Statement Findings

None noted

Section III - Federal Award Findings and Questioned Costs

None noted

Section IV - Prior Year Audit Findings

No prior year findings