

CITY OF BROWNWOOD  
Brownwood, Texas

ANNUAL FINANCIAL STATEMENTS

September 30, 2012

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

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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Brownwood, Texas management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Brownwood, Texas as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated February 6, 2013 on my consideration of City of Brownwood, Texas internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension plan funding progress and budgetary comparison information on pages 3 through 8 and 47 through 49 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.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Brownwood, Texas, financial statements as a whole. The combining and comparative financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying 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 financial statements. The combining and comparative 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

  
Krischke CPA, PC  
February 6, 2013

**City of Brownwood**  
**Management's Discussion and Analysis**  
**For Year Ended September 30, 2012**  
**(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, 2012. 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 \$46,483,699 (net assets). Of this amount, \$10,530,227 is restricted for debt service, construction and other uses. The amount invested in fixed assets is \$35,442,137 leaving \$511,335 in unrestricted net assets.
- The government's total net assets decreased by \$850,156 primarily due to two factors. First, non-restricted cash decreased by \$1,603,696. Second, total liabilities net of bond activities were reduced by \$800,696. The net of these two changes is \$753,540 which accounts for most of the reduction in net assets. The reduction in non-restricted cash was primarily caused by drought measures which significantly reduced the level of water revenue brought in to the City.
- As of the close of the current fiscal year, the City's governmental activities reported combined ending net assets of \$25,160,618, a reduction of \$158,595 in comparison with the prior year.
- At the end of the current fiscal year, unrestricted net assets for the governmental activities was \$159,772 as compared to \$(39,922) in the prior year. While net assets invested in capital assets for governmental activities went down dramatically due to the new \$10,750,000 Certificate of Obligation that was issued in June 2012, and while net assets invested in restricted assets for governmental activities went up due to the cash available from those proceeds, unrestricted net assets for governmental activities improved slightly due to improvements in net assets for short-term and operating needs. The primary example is the improvement in unrestricted cash in governmental activities of \$324,629.
- The City's total liabilities increased by \$8,057,275 during the current fiscal year primarily due to increases in bonds payable of \$8,857,971. This increase was primarily caused by the issuance of a new Certificate of Obligation of \$10,750,000 in June 2012.
- Total revenue decreased by \$865,804 over the prior year primarily because of a decrease of \$827,692 in water revenue due to drought restrictions.
- Expenditures decreased by \$683,836 due primarily to a decrease of \$619,872 in the cost of treated water due to reduced water sales.
- The year ended with a net deficit for the current year of \$850,156 compared with a deficit of \$668,188 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 assets and how they have changed. Net assets are the difference between the City's total assets and total liabilities. Measuring net assets 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 9-12 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 Assets 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 13-17 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 Assets and the Statement of Activities.

The Proprietary Funds Financial Statements are on pages 18-21 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 22-46 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 assets decreased from \$47,333,855 last year to \$46,483,699 this year, a decrease of \$850,156. Although there were a variety of factors, the key change was the decrease in non-restricted cash as explained under Financial Highlights.

#### City of Brownwood Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 12,920,706	\$ 2,414,296	\$ 5,419,423	\$ 6,925,952	\$ 18,340,129	\$ 9,340,248
Capital Assets	30,765,399	31,433,327	32,290,286	33,415,120	63,055,685	64,848,447
Total Assets	<u>\$ 43,686,105</u>	<u>\$ 33,847,623</u>	<u>\$ 37,709,709</u>	<u>\$ 40,341,072</u>	<u>\$ 81,395,814</u>	<u>\$ 74,188,695</u>
Current liabilities	\$ 3,052,096	\$ 2,948,057	\$ 2,378,357	\$ 5,228,442	\$ 5,430,453	\$ 8,176,499
Long-term liabilities	15,473,391	5,580,353	14,008,271	13,097,988	29,481,662	18,678,341
Total Liabilities	<u>\$ 18,525,487</u>	<u>\$ 8,528,410</u>	<u>\$ 16,386,628</u>	<u>\$ 18,326,430</u>	<u>\$ 34,912,115</u>	<u>\$ 26,854,840</u>
Net Assets:						
Invested in capital assets net of related debt	\$ 14,470,619	\$ 25,037,216	\$ 20,971,518	\$ 19,885,084	\$ 35,442,137	\$ 44,922,300
Restricted	10,530,227	321,919	-	-	10,530,227	321,919
Unrestricted	159,772	(39,922)	351,563	2,129,558	511,335	2,089,636
Total Net Assets	<u>\$ 25,160,618</u>	<u>\$ 25,319,213</u>	<u>\$ 21,323,081</u>	<u>\$ 22,014,642</u>	<u>\$ 46,483,699</u>	<u>\$ 47,333,855</u>

### Analysis of the City’s Operations:

As noted earlier, net assets may serve over time as one useful indicator of a government’s financial condition. The assets of the City of Brownwood exceeded liabilities by \$46,483,699 as of September 30, 2012. However, the largest portion of the City’s net assets (76.2%) 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 assets (22.7%) represents resources that are subject to external restrictions on how they may be used, primarily bond funds that must be used for specific projects. The remaining unrestricted balance is \$511,335 or 1.1% of total net assets.

**Governmental activities:** Governmental activities decreased the City's net assets by \$158,595.

**Business-type activities:** Business-type activities decreased the City's net assets by \$691,561.

The following table provides a summary of the City's operations for year ended September 30, 2012.

<b>City of Brownwood Changes in Net Assets</b>							
	Governmental Activities		Business-type Activities		Totals		
	2012	2011	2012	2011	2012	2011	
Revenues:							
Program Revenues:							
Fees, fines, and charges for services	\$ 2,287,322	\$ 2,194,233	\$ 14,721,708	\$ 15,611,296	\$ 17,009,030	\$ 17,805,529	
Operating grants and contributions	701,871	858,639	-	53,138	701,871	911,777	
Capital grants and contributions	-	102,509	186,275	10,087	186,275	112,596	
General Revenues:							
Ad valorem taxes	5,387,983	5,345,547	-	-	5,387,983	5,345,547	
Sales tax	4,489,108	4,360,548	-	-	4,489,108	4,360,548	
Other revenues	3,259,595	3,210,622	124,216	277,263	3,383,811	3,487,885	
Total Revenues	<u>\$ 16,125,879</u>	<u>\$ 16,072,098</u>	<u>\$ 15,032,199</u>	<u>\$ 15,951,784</u>	<u>\$ 31,158,078</u>	<u>\$ 32,023,882</u>	
Expenses:							
General government and administration	\$ 5,044,688	\$ 4,872,973	\$ -	\$ -	\$ 5,044,688	\$ 4,872,973	
Public Safety	7,605,653	7,108,087	-	-	7,605,653	7,108,087	
Streets	2,305,236	2,699,163	-	-	2,305,236	2,699,163	
Parks & Community Facilities	1,879,654	1,703,737	-	-	1,879,654	1,703,737	
Special Rev Activities	995,523	1,123,649	-	-	995,523	1,123,649	
Water & Sewer	-	-	7,703,809	8,698,434	7,703,809	8,698,434	
Sanitation & Landfill	-	-	4,459,474	4,196,992	4,459,474	4,196,992	
Airport	-	-	1,397,768	1,581,276	1,397,768	1,581,276	
Pecan Field Station	-	-	16,242	13,029	16,242	13,029	
Interest on long-term debt	253,720	286,369	346,467	408,361	600,187	694,730	
Total Expenses	<u>\$ 18,084,474</u>	<u>\$ 17,793,978</u>	<u>\$ 13,923,760</u>	<u>\$ 14,898,092</u>	<u>\$ 32,008,234</u>	<u>\$ 32,692,070</u>	
Increases in net assets before transfers	\$ (1,958,595)	\$ (1,721,880)	\$ 1,108,439	\$ 1,053,692	\$ (850,156)	\$ (668,188)	
Transfers	1,800,000	2,285,185	(1,800,000)	(2,285,185)	-	-	
Decrease in net assets	\$ (158,595)	\$ 563,305	\$ (691,561)	\$ (1,231,493)	\$ (850,156)	\$ (668,188)	
Net assets October 1	25,319,213	24,750,979	22,014,642	23,251,064	47,333,855	48,002,043	
Prior Period Adjustment	-	4,929	-	(4,929)	-	-	
Net assets September 30	<u>\$ 25,160,618</u>	<u>\$ 25,319,213</u>	<u>\$ 21,323,081</u>	<u>\$ 22,014,642</u>	<u>\$ 46,483,699</u>	<u>\$ 47,333,855</u>	

### Financial Analysis of the City of Brownwood Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental 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 \$(520,216), while total fund balance was \$(359,047). These balances represent increases from the prior year of \$24,646 and \$(109,948) respectively.

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 (3.3)% and (2.2)% respectively.

At September 30, 2012, the governmental funds of the City reported a combined fund balance of \$10,173,880.

**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 assets 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 \$351,563. This represented a decrease of \$(1,777,995) from the prior year. 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 \$475,942 or 3.5% while expenditures came in over budget by \$415,888 or 2.7%. This represented a net positive variance of \$60,054.

### **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, 2012, totals \$63,055,685 (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, 2012, the City had total bonded debt outstanding of \$25,141,940. 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 2012 was 6.2% which is 0.7% lower than the Texas Average and 1.9% lower than the national average. November 2012 unemployment in Brown County was 5.3%, the lowest since December of 2008.
- Increasing property values. Taxable assessed values for 2012 increased by 1.9% 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 work with the Retail Coach in retail recruitment efforts. A local delegation attended the International Conference of Shopping Centers for the second year in a row, and has ongoing communication with retail developers and site selectors. These activities have directly resulted in interest and land acquisition activity from outside developers, and it is anticipated that this will result in an increase in property tax and sales tax over the next few years as new retailers move into the area.

The new Bert V. Massey II Sports Complex hosted numerous softball and baseball tournaments throughout the year. The economic impact from these tournaments in 2012 is estimated to be more than \$800,000.

**Budget Highlights for the Fiscal Year Ending September 30, 2013**

**Governmental Activities:** The property tax rate went up slightly in the current year to the effective tax rate of .7462 cents per hundred dollars valuation. Sales tax is projected to increase by 2% over the last fiscal year. Budgeted expenditures in the General Fund are expected to increase by 0.35. All City employees received a 3% pay raise.

**Business – type Activities:** There were no increases in any rates or fees charged by the City in this budget. The base water rate, consumption water rate, sewer rate, sanitation rates and landfill rates remained unchanged.

**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@ci.brownwood.tx.us](mailto:wmiddleton@ci.brownwood.tx.us). 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.

  
 Bobby Rountree  
 City Manager

  
 Walter Middleton, CPA, CGFO  
 Director of Finance

BASIC FINANCIAL STATEMENTS

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENT OF NET ASSETS

September 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<u>ASSETS</u>				
Pooled cash and cash equivalents	\$ 481,669	\$ (1,404,367)	\$ (922,698)	\$ 54,870
Non pooled cash and cash equivalents	1,415	3,627	5,042	5
Investments	879	2,706,390	2,707,269	1,929,050
Investments designated for closure and postclosure		800,057	800,057	
Receivables, net	1,608,940	1,512,008	3,120,948	2,946,849
Inventory	18,786	709,316	728,102	
Prepaid expense	4,189	1,015	5,204	75,469
Restricted assets	10,528,489	956,414	11,484,903	
Deferred charges	276,339	134,963	411,302	
Land held for development			-	482,002
Capital assets, net	30,765,399	32,290,286	63,055,685	
<b>TOTAL ASSETS</b>	<b>\$ 43,686,105</b>	<b>\$ 37,709,709</b>	<b>\$ 81,395,814</b>	<b>\$ 5,488,245</b>
<u>LIABILITIES</u>				
Accounts payable	\$ 529,419	\$ 489,519	\$ 1,018,938	\$ 35,490
Accrued salaries	221,399	66,604	288,003	3,414
Capital leases payable	177,377	336,332	513,709	
Liabilities payable from restricted assets:				
Bonds payable	39,836	292,682	332,518	
Noncurrent liabilities:				
Customer utility deposits		663,732	663,732	
Estimated liability for landfill closure and postclosure care costs		3,273,308	3,273,308	
Deferred revenue		101,671	101,671	
Compensated absences				
Portion due or payable within one year	1,073,380	124,025	1,197,405	1,682
Portion due or payable after one year	366,673	28,452	395,125	184
Capital leases payable				
Portion due or payable within one year	85,521	490,357	575,878	
Portion due or payable after one year	58,583	1,363,274	1,421,857	
Notes payable:				
Portion due or payable within one year		51,520	51,520	237,300
Portion due or payable after one year		269,029	269,029	1,803,566
Bonds payable:				
Portion due or payable within one year	925,164	527,318	1,452,482	
Portion due or payable after one year	15,048,135	8,308,805	23,356,940	
<b>TOTAL LIABILITIES</b>	<b>\$ 18,525,487</b>	<b>\$ 16,386,628</b>	<b>\$ 34,912,115</b>	<b>\$ 2,081,636</b>
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	\$ 14,470,619	\$ 20,971,518	\$ 35,442,137	\$ -
Restricted for:				
Municipal Court	78,068		78,068	
Tourism promotion	29,378		29,378	
Vehicular child safety	19,039		19,039	
Law enforcement	7,679		7,679	
Drug awareness education	3,494		3,494	
Beautification	536		536	
Debt service	41,604		41,604	
Fabis Park	68,848		68,848	
Construction	10,281,581		10,281,581	
Unrestricted	159,772	351,563	511,335	3,406,609
<b>TOTAL NET ASSETS</b>	<b>\$ 25,160,618</b>	<b>\$ 21,323,081</b>	<b>\$ 46,483,699</b>	<b>\$ 3,406,609</b>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2012

<u>Functions/programs</u>	Program Revenue			
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General government	\$ 3,850,948	\$ 1,056,728	\$ 3,259	\$ -
Municipal court	294,104			
Police	4,282,665	441,549		
Fire	2,789,275	20,376		
Development services	548,580	87,786		
Street	2,305,236			
Health	239,609	149,878		
Community facilities	511,844	111,758		
Parks and recreation	1,367,810	120,511		
Public works/engineering	344,000			
Motel tax to CVB	301,160			
Interest on long-term debt	253,720			
Special revenue activities	995,523	298,736	698,612	
Total Governmental Activities	\$ 18,084,474	\$ 2,287,322	\$ 701,871	\$ -
<b>Business-type Activities:</b>				
Water	\$ 4,811,051	\$ 5,638,968	\$ -	\$ -
Waste water collection	1,641,324	3,496,237		186,275
Waste water treatment	1,251,434			
Sanitation	1,863,375	2,916,054		
Landfill	2,596,099	1,709,747		
Airport	1,397,768	960,702		
Pecan Field Station	16,242			
Interest on long-term debt	346,467			
Total Business-type Activities	\$ 13,923,760	\$ 14,721,708	\$ -	\$ 186,275
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 32,008,234</b>	<b>\$ 17,009,030</b>	<b>\$ 701,871</b>	<b>\$ 186,275</b>
<b>Component Unit:</b>				
BEDC - Economic development	\$ 842,056	\$ -	\$ -	\$ -
<b>TOTAL COMPONENT UNIT</b>	<b>\$ 842,056</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

See accompanying notes to basic financial statement

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit

	\$ (2,790,961)		\$ (2,790,961)
	(294,104)		(294,104)
	(3,841,116)		(3,841,116)
	(2,768,899)		(2,768,899)
	(460,794)		(460,794)
	(2,305,236)		(2,305,236)
	(89,731)		(89,731)
	(400,086)		(400,086)
	(1,247,299)		(1,247,299)
	(344,000)		(344,000)
	(301,160)		(301,160)
	(253,720)		(253,720)
	1,825		1,825
	\$ (15,095,281)		\$ (15,095,281)

	\$ 827,917		\$ 827,917
	2,041,188		2,041,188
	(1,251,434)		(1,251,434)
	1,052,679		1,052,679
	(886,352)		(886,352)
	(437,066)		(437,066)
	(16,242)		(16,242)
	(346,467)		(346,467)
	\$ 984,223		\$ 984,223

	\$ (15,095,281)	\$ 984,223	\$ (14,111,058)
--	-----------------	------------	-----------------

\$ (842,056)

\$ (842,056)

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENT OF ACTIVITIES (CONT.)

For the Year Ended September 30, 2012

	Net (Expense) Revenue and Changes in Net Assets			
	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
CHANGE IN NET ASSETS:				
Net Income (Expense)	\$ (15,095,281)	\$ 984,223	\$ (14,111,058)	\$ (842,056)
General Revenues:				
Taxes:				
Ad valorem	\$ 5,387,983	\$ -	\$ 5,387,983	\$ -
Sales	4,489,108		4,489,108	1,496,370
Other	2,978,538		2,978,538	
Earnings on investments	6,600	4,849	11,449	90,335
Miscellaneous	243,468	90,630	334,098	10,278
Gain on sale of capital assets	30,989	28,737	59,726	
Transfers	1,800,000	(1,800,000)	-	
Total General Revenue	<u>\$ 14,936,686</u>	<u>\$ (1,675,784)</u>	<u>\$ 13,260,902</u>	<u>\$ 1,596,983</u>
CHANGE IN NET ASSETS	\$ (158,595)	\$ (691,561)	\$ (850,156)	\$ 754,927
NET ASSETS	<u>25,319,213</u>	<u>22,014,642</u>	<u>47,333,855</u>	<u>2,651,682</u>
NET ASSETS - END OF YEAR	<u>\$ 25,160,618</u>	<u>\$ 21,323,081</u>	<u>\$ 46,483,699</u>	<u>\$ 3,406,609</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

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

September 30, 2012

	<u>Major Fund</u>	<u>Major Fund</u>	<u>Nonmajor Fund</u>	<u>Total</u>
	General	Capital	Other	Governmental
<u>ASSETS</u>	Fund	Projects	Governmental	Governmental
	Funds	Funds	Funds	Funds
<b>ASSETS:</b>				
Pooled cash and cash equivalents	\$ 471,057	\$ 65,304	\$ (54,692)	\$ 481,669
Non pooled cash and cash equivalents	1,390		25	1,415
Investments	879			879
Receivables, net	1,201,038	52,500	231,073	1,484,611
Inventory	18,786			18,786
Prepaid expense	4,189			4,189
Restricted assets	138,194	10,281,581	108,714	10,528,489
<b>TOTAL ASSETS</b>	<b>\$ 1,835,533</b>	<b>\$ 10,399,385</b>	<b>\$ 285,120</b>	<b>\$ 12,520,038</b>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 508,090	\$ 3,969	\$ 17,360	\$ 529,419
Accrued salaries	206,460		14,939	221,399
Deferred ad valorem taxes	406,650		115,310	521,960
Compensated absences	1,073,380			1,073,380
<b>TOTAL LIABILITIES</b>	<b>\$ 2,194,580</b>	<b>\$ 3,969</b>	<b>\$ 147,609</b>	<b>\$ 2,346,158</b>
 <b>FUND BALANCES:</b>				
Nonspendable:				
Inventory	\$ 18,786	\$ -	\$ -	\$ 18,786
Prepaid expense	4,189			4,189
Restricted for:				
Municipal Court	78,068			78,068
Tourism promotion	29,378			29,378
Vehicular child safety	19,039			19,039
Law enforcement	7,679			7,679
Drug awareness education	3,494			3,494
Beautification	536			536
Debt service			41,604	41,604
Fabis Park			68,848	68,848
Construction		10,281,581		10,281,581
Committed to:				
Construction		113,835		113,835
Assigned to:				
Health and nutrition programs			27,478	27,478
Unassigned	(520,216)		(419)	(520,635)
<b>TOTAL FUND BALANCES</b>	<b>\$ (359,047)</b>	<b>\$ 10,395,416</b>	<b>\$ 137,511</b>	<b>\$ 10,173,880</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,835,533</b>	<b>\$ 10,399,385</b>	<b>\$ 285,120</b>	<b>\$ 12,520,038</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 ASSETS

September 30, 2012

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 10,173,880
Amounts reported for governmental activities in the statement of net assets 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 \$46,717,183.	30,765,399
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 deferred revenue in the governmental funds.	521,960
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 \$151,639.	124,329
Deferred bond issuance costs are not current financial resources and are not reported in the governmental funds balance sheet.	276,339
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds balance sheet	<u>(16,701,289)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 25,160,618</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, 2012

	<u>Major Fund</u> General Fund	<u>Major Fund</u> Capital Projects Funds	<u>Nonmajor Fund</u> Other Governmental Funds	Total Governmental Funds
REVENUES:				
Ad valorem taxes	\$ 4,287,841	\$ -	\$ 1,064,884	\$ 5,352,725
Sales taxes	4,489,108			4,489,108
Other taxes	2,978,538			2,978,538
Fines	291,701			291,701
Licenses and fees	115,200			115,200
Charges for services	374,958			374,958
Intergovernmental	1,210,701			1,210,701
Interest	2,179	4,121	300	6,600
Grants and contributions	3,259		698,612	701,871
Miscellaneous	127,002	4,986	410,216	542,204
Total Revenue	<u>\$ 13,880,487</u>	<u>\$ 9,107</u>	<u>\$ 2,174,012</u>	<u>\$ 16,063,606</u>
EXPENDITURES:				
Current:				
City Council	\$ 100,701	\$ -	\$ -	\$ 100,701
Administration	217,978			217,978
City Secretary	77,148			77,148
Finance/accounting	308,904			308,904
Municipal Court	294,380			294,380
Police	4,344,536			4,344,536
Fire	2,660,069			2,660,069
Development services	563,956			563,956
Street	1,895,157			1,895,157
Health	236,470			236,470
Community services	564,319			564,319
Intergovernmental	201,725			201,725
Utility billing	198,339			198,339
Community facilities	360,312			360,312
Operations support	144,583			144,583
Purchasing/warehouse	176,290			176,290
Parks and recreation	1,120,758			1,120,758
Fleet services	464,701			464,701
City Attorney	177,309			177,309
Public works/engineering	315,361			315,361
Emergency management	14,441			14,441
Human resources	205,253			205,253
Fire Marshal	123,995			123,995
General fund contingency	315,277			315,277
Information technology	402,080			402,080
Transportation museum	133,601			133,601
Motel tax to CVB	301,160			301,160
Other	50,508			50,508
Special revenue funds			995,523	995,523
Capital outlay		434,978		434,978
Debt Service:				
Principal			955,000	955,000
Interest			228,222	228,222
Bond issuance costs			238,431	238,431
Fiscal agent fees			650	650
Total Expenditures	<u>\$ 15,969,311</u>	<u>\$ 434,978</u>	<u>\$ 2,417,826</u>	<u>\$ 18,822,115</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (2,088,824)</u>	<u>\$ (425,871)</u>	<u>\$ (243,814)</u>	<u>\$ (2,758,509)</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, 2012

	<u>Major Fund</u> General Fund	<u>Major Fund</u> Capital Projects Funds	<u>Nonmajor Fund</u> Other Governmental Funds	Total Governmental Funds
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (2,088,824)	\$ (425,871)	\$ (243,814)	\$ (2,758,509)
OTHER FINANCING SOURCES (USES):				
Transfers in	\$ 1,800,000	\$ -	\$ 116,632	\$ 1,916,632
Transfers out		(116,632)		(116,632)
Bond proceeds		10,750,000		10,750,000
Bond premium			121,799	121,799
Note proceeds	177,377			177,377
Proceeds from sale of capital assets	499			499
Net Other Financing Sources (Uses)	<u>\$ 1,977,876</u>	<u>\$ 10,633,368</u>	<u>\$ 238,431</u>	<u>\$ 12,849,675</u>
NET CHANGE IN FUND BALANCES	\$ (110,948)	\$ 10,207,497	\$ (5,383)	\$ 10,091,166
FUND BALANCE - BEGINNING OF YEAR	<u>(248,099)</u>	<u>187,919</u>	<u>142,894</u>	<u>82,714</u>
FUND BALANCE - END OF YEAR	<u>\$ (359,047)</u>	<u>\$ 10,395,416</u>	<u>\$ 137,511</u>	<u>\$ 10,173,880</u>

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, 2012

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 10,091,166

The change in net assets 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 1,157,728  
Depreciation and amortization (1,825,655)

Governmental funds report bond issuance costs as expenditures while governmental activities report these costs over the estimated lives of the related bonds as an adjustment of interest expense.

Current bond issuance costs 238,431  
Current amortization of bond issuance costs (33,359)

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 assets.

Principal advances on long-term debt (10,927,377)  
Principal payments on long-term debt 1,158,643  
Additional accrual of compensated absences 64,483  
Current bond premiums (121,799)  
Current amortization of bond premiums 7,860

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.

35,258

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 decreased by this amount this year.

(3,974)

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ (158,595)

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENTS OF NET ASSETS  
PROPRIETARY FUNDS

September 30, 2012

	Business-Type Activities - Enterprise Fund				Total
	Major Funds			Nonmajor Proprietary Fund	
	Water and Sewer Fund	Sanitation Fund	Airport Fund		
<u>ASSETS</u>					
Current Assets:					
Pooled cash and cash equivalents	\$ (931,018)	\$ (491,195)	\$ 3,484	\$ 14,362	\$ (1,404,367)
Non pooled cash and cash equivalents	2,500	727	400		3,627
Investments	1,915,078	791,312			2,706,390
Investments designated for closure and postclosure		800,057			800,057
Accounts receivable, net	1,095,811	382,746	33,451		1,512,008
Inventory	611,768		97,548		709,316
Prepaid expenses	1,015				1,015
Total Current Assets	<u>\$ 2,695,154</u>	<u>\$ 1,483,647</u>	<u>\$ 134,883</u>	<u>\$ 14,362</u>	<u>\$ 4,328,046</u>
Noncurrent Assets:					
Restricted assets	\$ 956,414	\$ -	\$ -	\$ -	\$ 956,414
Deferred charges	134,963				134,963
Capital assets, net	22,447,340	6,978,106	2,864,840		32,290,286
Total Noncurrent Assets	<u>\$ 23,538,717</u>	<u>\$ 6,978,106</u>	<u>\$ 2,864,840</u>	<u>\$ -</u>	<u>\$ 33,381,663</u>
<b>TOTAL ASSETS</b>	<u>\$ 26,233,871</u>	<u>\$ 8,461,753</u>	<u>\$ 2,999,723</u>	<u>\$ 14,362</u>	<u>\$ 37,709,709</u>
<u>LIABILITIES</u>					
Current Liabilities:					
Accounts payable	\$ 412,683	\$ 52,105	\$ 24,731	\$ -	\$ 489,519
Accrued salaries	36,013	26,476	4,115		66,604
Capital leases payable	34,336	792,353			826,689
Notes payable			51,520		51,520
Bonds payable	527,318				527,318
Compensated absences	61,938	52,330	9,757		124,025
Total Current Liabilities	<u>\$ 1,072,288</u>	<u>\$ 923,264</u>	<u>\$ 90,123</u>	<u>\$ -</u>	<u>\$ 2,085,675</u>
Liabilities Payable from Restricted Assets:					
Bonds payable	\$ 292,682	\$ -	\$ -	\$ -	\$ 292,682
Total Liabilities Payable from Restricted Funds	<u>\$ 292,682</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 292,682</u>
Noncurrent Liabilities:					
Deferred revenue	\$ -	\$ -	\$ 101,671	\$ -	\$ 101,671
Compensated absences	13,578	13,807	1,067		28,452
Customer water meter deposits	663,732				663,732
Capital leases payable	36,408	1,326,866			1,363,274
Notes payable			269,029		269,029
Bonds payable	8,308,805				8,308,805
Accrued landfill closure and postclosure care costs		3,273,308			3,273,308
Total Noncurrent Liabilities	<u>\$ 9,022,523</u>	<u>\$ 4,613,981</u>	<u>\$ 371,767</u>	<u>\$ -</u>	<u>\$ 14,008,271</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 10,387,493</u>	<u>\$ 5,537,245</u>	<u>\$ 461,890</u>	<u>\$ -</u>	<u>\$ 16,386,628</u>
<u>NET ASSETS</u>					
Invested in capital assets, net of related debt	\$ 13,247,791	\$ 4,858,887	\$ 2,864,840	\$ -	\$ 20,971,518
Unrestricted	2,598,587	(1,934,379)	(327,007)	14,362	351,563
<b>TOTAL NET ASSETS</b>	<u>\$ 15,846,378</u>	<u>\$ 2,924,508</u>	<u>\$ 2,537,833</u>	<u>\$ 14,362</u>	<u>\$ 21,323,081</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

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

For the Year Ended September 30, 2012

	Business-Type Activities - Enterprise Fund				Total
	Major Funds			Nonmajor Proprietary Fund	
	Water and Sewer Fund	Sanitation Fund	Airport Fund		
OPERATING REVENUES:					
Charges for service	\$ 9,135,205	\$ 4,625,801	\$ 960,702	\$ -	\$ 14,721,708
Miscellaneous	48,803	35,804	3	6,020	90,630
Total Operating Revenues	<u>\$ 9,184,008</u>	<u>\$ 4,661,605</u>	<u>\$ 960,705</u>	<u>\$ 6,020</u>	<u>\$ 14,812,338</u>
OPERATING EXPENSES:					
Personnel services	\$ 1,692,992	\$ 1,414,697	\$ 242,369	\$ 10,492	\$ 3,360,550
Supplies	298,218	487,827	730,082	792	1,516,919
Contractual	2,851,537	510,243	87,658	4,670	3,454,108
Maintenance	514,027	248,448	62,031	288	824,794
Sundry charges	394,130	177,600			571,730
Support services	606,000	373,800			979,800
Depreciation and amortization	1,346,905	1,246,859	275,628		2,869,392
Total Operating Expenses	<u>\$ 7,703,809</u>	<u>\$ 4,459,474</u>	<u>\$ 1,397,768</u>	<u>\$ 16,242</u>	<u>\$ 13,577,293</u>
OPERATING GAIN (LOSS)	<u>\$ 1,480,199</u>	<u>\$ 202,131</u>	<u>\$ (437,063)</u>	<u>\$ (10,222)</u>	<u>\$ 1,235,045</u>
NON-OPERATING REVENUE AND EXPENSE:					
Sale of equipment	\$ -	\$ 28,737	\$ -	\$ -	\$ 28,737
Grant income	186,275				186,275
Interest income	3,220	1,629			4,849
Interest expense	(333,840)	(12,555)	(72)		(346,467)
Net Non-Operating Revenue (Expense)	<u>\$ (144,345)</u>	<u>\$ 17,811</u>	<u>\$ (72)</u>	<u>\$ -</u>	<u>\$ (126,606)</u>
GAIN (LOSS) BEFORE OPERATING TRANSFERS	<u>\$ 1,335,854</u>	<u>\$ 219,942</u>	<u>\$ (437,135)</u>	<u>\$ (10,222)</u>	<u>\$ 1,108,439</u>
OPERATING TRANSFERS:					
Operating transfers in	\$ -	\$ -	\$ 200,000	\$ -	\$ 200,000
Operating transfers out	(1,350,000)	(650,000)			(2,000,000)
Net Operating Transfers	<u>\$ (1,350,000)</u>	<u>\$ (650,000)</u>	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ (1,800,000)</u>
CHANGES IN NET ASSETS	<u>\$ (14,146)</u>	<u>\$ (430,058)</u>	<u>\$ (237,135)</u>	<u>\$ (10,222)</u>	<u>\$ (691,561)</u>
NET ASSETS - BEGINNING	<u>15,860,524</u>	<u>3,354,566</u>	<u>2,774,968</u>	<u>24,584</u>	<u>22,014,642</u>
NET ASSETS - ENDING	<u>\$ 15,846,378</u>	<u>\$ 2,924,508</u>	<u>\$ 2,537,833</u>	<u>\$ 14,362</u>	<u>\$ 21,323,081</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, 2012

	<u>Business-Type Activities - Enterprise Fund</u>				Total
	<u>Major Funds</u>			Nonmajor	
	<u>Water and Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Airport Fund</u>	<u>Proprietary Fund</u>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash received from customers	\$ 9,203,328	\$ 4,807,986	\$ 979,718	\$ 6,020	\$ 14,997,052
Cash payments to suppliers for goods and services	(4,502,152)	(1,570,871)	(875,709)	(5,750)	(6,954,482)
Cash payments to employees for services	(1,697,198)	(1,408,710)	(240,063)	(10,960)	(3,356,931)
Net Cash Provided (Used) by Operating Activities	<u>\$ 3,003,978</u>	<u>\$ 1,828,405</u>	<u>\$ (136,054)</u>	<u>\$ (10,690)</u>	<u>\$ 4,685,639</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Increase in customer meter deposits	\$ 24,803	\$ -	\$ -	\$ -	\$ 24,803
Operating transfers in			200,000		200,000
Operating transfers out	(1,350,000)	(650,000)			(2,000,000)
Grant income	186,275				186,275
Net Cash Provided (Used) by Noncapital Financing Activities	<u>\$ (1,138,922)</u>	<u>\$ (650,000)</u>	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ (1,588,922)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Proceeds from bonds	\$ 190,000	\$ -	\$ -	\$ -	\$ 190,000
Principal payments on bonds	(1,280,000)				(1,280,000)
Principal payments on tax notes		(700,000)			(700,000)
Proceeds from notes and capital leases		336,332			336,332
Payments on notes and capital leases	(107,670)	(643,131)	(57,226)		(808,027)
Acquisition and construction of capital assets	(957,842)	(923,878)	(4,736)		(1,886,456)
Interest expense	(283,911)	(8,726)	(72)		(292,709)
Sale of capital assets		170,635			170,635
Net Cash Used by Capital and Related Financing Activities	<u>\$ (2,439,423)</u>	<u>\$ (1,768,768)</u>	<u>\$ (62,034)</u>	<u>\$ -</u>	<u>\$ (4,270,225)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchase of investments	\$ (2,374,141)	\$ (1,027,630)	\$ -	\$ -	\$ (3,401,771)
Sale of investments	3,107,236	1,086,007			4,193,243
Interest income	3,220	1,629			4,849
Net Cash Provided by Investing Activities	<u>\$ 736,315</u>	<u>\$ 60,006</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 796,321</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>\$ 161,948</u>	<u>\$ (530,357)</u>	<u>\$ 1,912</u>	<u>\$ (10,690)</u>	<u>\$ (377,187)</u>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>(426,670)</u>	<u>39,889</u>	<u>1,972</u>	<u>25,052</u>	<u>(359,757)</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ (264,722)</u>	<u>\$ (490,468)</u>	<u>\$ 3,884</u>	<u>\$ 14,362</u>	<u>\$ (736,944)</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, 2012

	<u>Business-Type Activities - Enterprise Fund</u>				Total
	<u>Major Funds</u>			Nonmajor Proprietary Fund	
	<u>Water and Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Airport Fund</u>		
RECONCILIATION OF OPERATING INCOME TO <u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>					
OPERATING GAIN (LOSS)	\$ 1,480,199	\$ 202,131	\$ (437,063)	\$ (10,222)	\$ 1,235,045
ADJUSTMENTS TO RECONCILE OPERATING GAIN (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Depreciation and amortization	1,346,905	1,246,859	275,628		2,869,392
Closure and postclosure care costs		225,454			225,454
Changes in assets and liabilities:					
Receivables	19,320	146,381	26,591		192,292
Inventories	50,094		34,737		84,831
Prepaid expense	190				190
Accounts payable	111,476	1,593	(30,675)		82,394
Accrued salaries	2,262	(3,194)	173	(468)	(1,227)
Compensated absences	(6,468)	9,181	2,133		4,846
Deferred revenue			(7,578)		(7,578)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 3,003,978</u>	<u>\$ 1,828,405</u>	<u>\$ (136,054)</u>	<u>\$ (10,690)</u>	<u>\$ 4,685,639</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2012

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 accounting and reporting policies of the City conform to U.S. generally accepted accounting principles (GAAP) applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), which includes all statements and interpretations of the National Council on Governmental Accounting unless modified by the GASB, and those principles prescribed by the American Institute of Certified Public Accountants in the publication *Audits of State and Local Governments*. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

Financial Reporting Entity

These financial statements present the City (primary government) and its component unit, the Brownwood Economic Development Corporation (BEDC). As defined by GASBS 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 Assets and the Statement of Activities in a separate component unit column.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2012

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

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 assets and the statement of changes in net assets) 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.

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 funds:

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.

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).

Additionally, the government reports the following nonmajor governmental 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.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2012

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

Basis of Presentation (Cont.)

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 Assets.

The City has presented the following major proprietary funds:

Water and Sewer Fund - Water and Sewer 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.

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 assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2012

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

Measurement Focus/Basis of Accounting (Cont.)

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 assets), 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.

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 Assets “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.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2012

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

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. Interest has not been capitalized during the construction period on property, plant and equipment.

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.

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-three days of accumulated vacation at full pay and up to forty-five days of accumulated sick leave at full pay will be paid if the employee meets the prescribed

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2012

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

Compensated Absences (cont.)

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 nine 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 80 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.

Fund Equity

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of the governments.

The City has implemented GASB No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* which provides more 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, 2012

NOTE 1: SUMMARY OF ACCOUNTING POLICIES (CONT.)

Comparative Data/Reclassifications

Certain comparative data have been reclassified to present such amounts in a manner consistent with the current year's financial statements.

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.

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. The City's bank balances at September 30, 2012 and during the year ended September 30, 2012 were entirely secured by FDIC insurance.

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

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2012

NOTE 3: DEPOSITS AND INVESTMENTS (CONT.)

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, 2012, 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, 2012, TexStar's portfolio maintained a weighted average maturity of approximately 46 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, 2012, 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, 2012 are as follows:

	Water and Sewer Fund	Sanitation Fund	Airport Fund	Pecan Field Station Fund
Pooled cash and cash equivalents	\$ (931,018)	\$ (491,195)	\$ 3,484	\$ 14,362
Non pooled cash and cash equivalents	2,500	727	400	
Restricted cash	663,796			
 Total	 \$ (264,722)	 \$ (490,468)	 \$ 3,884	 \$ 14,362

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2012

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, 2012:

	Governmental Activities	Business-type Activities
Restricted for debt service payments	\$ 39,836	\$ 292,682
Restricted for drug awareness education	3,494	
Restricted for law enforcement	7,679	
Restricted for vehicular child safety	19,039	
Restricted for beautification	536	
Restricted for municipal court	78,068	
Restricted for tourism promotion	29,378	
Restricted for Fabis Park	68,878	
Restricted for construction or purchase of fixed assets	10,281,581	
Restricted for customer deposits		663,732
Total Restricted Assets	\$ 10,528,489	\$ 956,414

Restricted assets included \$1,042,891 in cash and \$10,442,012 in investments.

NOTE 5: RECEIVABLES

A summary of the net receivables at September 30, 2012 is as follows:

	Governmental Activities	Business-type Activities	Component Unit
Ad valorem taxes	\$ 551,200	\$ -	\$ -
Sales taxes	737,369		245,790
Utility		2,428,324	
Warrants and citations	275,968		
Airport		36,451	
Grants receivable	160,609	173,900	
Other receivables	194,226		
Notes receivable			2,701,059
	\$ 1,919,372	\$ 2,638,675	\$ 2,946,849
Less allowance for uncollectable accounts	(310,432)	(1,126,667)	
Receivables, net	\$ 1,608,940	\$ 1,512,008	\$ 2,946,849

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2012

NOTE 6: CAPITAL ASSETS

Capital asset activity in the City for the year ended September 30, 2012 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 2,469,975	\$ 299,000	\$ -	\$ 2,768,975
Construction in progress	4,608,301	434,977	(4,990,810)	52,468
Total capital assets not being depreciated	<u>\$ 7,078,276</u>	<u>\$ 733,977</u>	<u>\$ (4,990,810)</u>	<u>\$ 2,821,443</u>
Capital assets being depreciated and amortized:				
Building and grounds	\$ 11,991,399	\$ -	\$ -	\$ 11,991,399
Improvements	46,242,530	4,812,034		51,054,564
Machinery/equipment	10,389,110	434,372	(129,213)	10,694,269
Intangible assets	752,753	168,154		920,907
Total capital assets being depreciated and amortized	<u>\$ 69,375,792</u>	<u>\$ 5,414,560</u>	<u>\$ (129,213)</u>	<u>\$ 74,661,139</u>
Less accumulated depreciation and amortization:				
Buildings	\$ (3,965,835)	\$ (276,477)	\$ -	\$ (4,242,312)
Improvements	(31,000,012)	(1,115,013)		(32,115,025)
Machinery/equipment	(9,582,133)	(405,903)	129,213	(9,858,823)
Intangible assets	(472,761)	(28,262)		(501,023)
Total accumulated depreciation and amortization	<u>\$ (45,020,741)</u>	<u>\$ (1,825,655)</u>	<u>\$ 129,213</u>	<u>\$ (46,717,183)</u>
Total Capital Assets Being Depreciated and Amortized, Net	<u>\$ 24,355,051</u>	<u>\$ 3,588,905</u>	<u>\$ -</u>	<u>\$ 27,943,956</u>
Governmental Activities Capital Assets, Net	<u>\$ 31,433,327</u>	<u>\$ 4,322,882</u>	<u>\$ (4,990,810)</u>	<u>\$ 30,765,399</u>
Business-type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 383,351	\$ -	\$ -	\$ 383,351
Construction in progress	-	705,960	(190,000)	515,960
Total capital assets not being depreciated	<u>\$ 383,351</u>	<u>\$ 705,960</u>	<u>\$ (190,000)</u>	<u>\$ 899,311</u>
Capital assets being depreciated and amortized:				
Building and grounds	\$ 3,159,770	\$ 4,736	\$ -	\$ 3,164,506
Improvements	72,559,969	389,514		72,949,483
Landfill cell development	9,852,042			9,852,042
Machinery/equipment	13,055,990	976,246	(531,732)	13,500,504
Total capital assets being depreciated and amortized	<u>\$ 98,627,771</u>	<u>\$ 1,370,496</u>	<u>\$ (531,732)</u>	<u>\$ 99,466,535</u>
Less accumulated depreciation and amortization:				
Buildings	\$ (2,117,602)	\$ (97,620)	\$ -	\$ (2,215,222)
Improvements	(47,930,955)	(1,349,771)		(49,280,726)
Landfill cell development	(4,970,051)	(528,768)		(5,498,819)
Machinery/equipment	(10,577,394)	(893,233)	389,834	(11,080,793)
Total accumulated depreciation and amortization	<u>\$ (65,596,002)</u>	<u>\$ (2,869,392)</u>	<u>\$ 389,834</u>	<u>\$ (68,075,560)</u>
Total Capital Assets Being Depreciated and Amortized, Net	<u>\$ 33,031,769</u>	<u>\$ (1,498,896)</u>	<u>\$ (141,898)</u>	<u>\$ 31,390,975</u>
Business-type Activities Capital Assets, Net	<u>\$ 33,415,120</u>	<u>\$ (792,936)</u>	<u>\$ (331,898)</u>	<u>\$ 32,290,286</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2012

NOTE 6: CAPITAL ASSETS (CONT.)

Assets under capital leases totaled \$2,054,114 in governmental funds and \$6,654,275 in the business type funds. This equipment is being amortized over 3 to 20 years. The amount of the amortization included above for the year ended September 30, 2012 was \$215,779 and \$830,959 in the governmental and business-type activities respectively.

Depreciation and amortization expense was charged to the following functions:

Governmental Activities:		
General government	\$	176,400
Police		86,184
Fire		114,686
Development services		393
Street		1,018,277
Health		3,761
Community facilities		152,007
Parks and recreation		255,445
Public works/engineering		18,502
	\$	<u>1,825,655</u>
Business-type Activities:		
Water	\$	801,733
Waste water		372,295
Waste water treatment		172,877
Sanitation		363,902
Landfill		882,957
Airport		275,628
	\$	<u>2,869,392</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2012

NOTE 7: LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended September 30, 2012:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and Notes Payable:					
Certificates of obligation	\$ 4,290,000	\$ 10,750,000	\$ (350,000)	\$ 14,690,000	\$ 370,000
General obligation bonds	1,765,000		(605,000)	1,160,000	595,000
Capital leases payable	347,747		(203,643)	144,104	85,521
	<u>\$ 6,402,747</u>	<u>\$ 10,750,000</u>	<u>\$ (1,158,643)</u>	<u>\$ 15,994,104</u>	<u>\$ 1,050,521</u>
Deferred amount for premium	49,197	121,798	(7,860)	163,135	
Total Bonds Payable	<u>\$ 6,451,944</u>	<u>\$ 10,871,798</u>	<u>\$ (1,166,503)</u>	<u>\$ 16,157,239</u>	<u>\$ 1,050,521</u>
Compensated absences	1,385,819	401,412	(347,178)	1,440,053	1,073,380
Total Governmental Activities	<u>\$ 7,837,763</u>	<u>\$ 11,273,210</u>	<u>\$ (1,513,681)</u>	<u>\$ 17,597,292</u>	<u>\$ 2,123,901</u>
Business-type Activities:					
Bonds and Notes Payable:					
Certificates of obligation	\$ 4,625,000	\$ 190,000	\$ (275,000)	\$ 4,540,000	\$ 285,000
General obligation bonds	5,540,000		(1,005,000)	4,535,000	535,000
Tax notes payable	700,000		(700,000)	-	
Notes payable	372,069		(51,520)	320,549	51,520
Capital leases payable	2,610,138		(756,507)	1,853,631	490,357
	<u>\$ 13,847,207</u>	<u>\$ 190,000</u>	<u>\$ (2,788,027)</u>	<u>\$ 11,249,180</u>	<u>\$ 1,361,877</u>
Deferred amount on refunding	\$ (53,036)		5,583	(47,453)	
Deferred amount for premium	113,640		(12,382)	101,258	
	<u>\$ 13,907,811</u>	<u>\$ 190,000</u>	<u>\$ (2,794,826)</u>	<u>\$ 11,302,985</u>	<u>\$ 1,361,877</u>
Compensated absences	147,631	83,125	(78,279)	152,477	124,025
Total Business-type Activities	<u>\$ 14,055,442</u>	<u>\$ 273,125</u>	<u>\$ (2,873,105)</u>	<u>\$ 11,455,462</u>	<u>\$ 1,485,902</u>
Total Primary Government	<u>\$ 21,893,205</u>	<u>\$ 11,546,335</u>	<u>\$ (4,386,786)</u>	<u>\$ 29,052,754</u>	<u>\$ 3,609,803</u>

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.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2012

NOTE 7: LONG-TERM OBLIGATIONS (CONT.)

A summary of the bonds follows:

	Date of Issue	Original Amount	Interest Rate	Maturity Date	Amount Outstanding 9/30/2012
Combination tax and revenue certificates of obligation:					
Series 2002	4/15/2002	\$ 2,000,000	4.45 to 5.25%	3/15/2021	\$ 1,235,000
Series 2003	7/15/2003	2,375,000	3.0 to 4.0%	3/15/2018	1,145,000
Series 2005	9/1/2005	1,995,000	4.0 to 4.5%	3/15/2026	1,560,000
Series 2012	6/19/2012	10,750,000	2.0 to 4.125%	3/15/2032	10,750,000
Combination tax and revenue refunding general obligation:					
Series 2005	9/1/2005	4,970,000	3.5 to 3.625%	3/15/2015	<u>1,160,000</u>
					<u>\$ 15,850,000</u>

On June 19, 2012, the City issued the Combination Tax and Revenue Certificates of Obligation, Series 2012 in the face amount of \$10,750,000. The bonds were issued to provide funds for park development, a new fire station and street improvements. Principal payments begin March 15, 2014 and continue through March 15, 2032 with interest rates from 2% to 4.125%.

The following represents the future maturities on these bonds:

Year Ending September 30,	Principal	Interest	Total
2013	\$ 965,000	\$ 678,090	\$ 1,643,090
2014	1,100,000	549,399	1,649,399
2015	995,000	516,250	1,511,250
2016	855,000	487,781	1,342,781
2017	875,000	456,594	1,331,594
2018-2022	3,880,000	1,766,224	5,646,224
2023-2027	3,550,000	1,056,587	4,606,587
2028-2032	3,630,000	378,178	4,008,178
Total	<u>\$ 15,850,000</u>	<u>\$ 5,889,103</u>	<u>\$ 21,739,103</u>

Governmental activities are obligated under a number of capital leases that in prior years were considered short-term obligations expected to be refinanced due to cancellation provisions subject to annual appropriations by the City Council. During the current year, these leases were refinanced into long-term obligations secured by an ad valorem tax pledge as well as the asset subject to lease. These refinanced leases are now included in long-term obligations accordingly.

The following represents the future maturities on these capital leases:

Year Ending September 30,	Principal	Interest	Total
2013	\$ 85,521	\$ 2,078	\$ 87,599
2014	35,413	857	36,270
2015	23,170	286	23,456
Total	<u>\$ 144,104</u>	<u>\$ 3,221</u>	<u>\$ 147,325</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2012

NOTE 7: LONG-TERM OBLIGATIONS (CONT.)

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. Tax notes paid off this year were used to fund construction of a new cell at the municipal solid waste landfill. A summary of the bonds follows:

	Date of Issue	Original Amount	Interest Rate	Maturity Date	Amount Outstanding 9/30/2012
Combination tax and revenue certificates of obligation, Series 2004	3/15/2004	\$ 6,335,000	.3 to 3.35%	3/15/2022	\$ 4,540,000
Combination tax and revenue refunding general obligation, Series 2005	9/1/2005	1,030,000	3.5 to 3.625%	3/15/2015	205,000
General obligation refunding bonds, Series 2010	3/15/2010	5,050,000	2.0 to 4.0%	3/15/2021	4,330,000
					<u>\$ 9,075,000</u>

The following represents the future maturities on these bonds:

Year Ending September 30,	Principal	Interest	Total
2013	\$ 820,000	\$ 266,061	\$ 1,086,061
2014	830,000	247,088	1,077,088
2015	750,000	228,007	978,007
2016	770,000	207,550	977,550
2017	795,000	185,018	980,018
2018-2022	3,860,000	514,047	4,374,047
2023-2025	1,250,000	63,474	1,313,474
Total	<u>\$ 9,075,000</u>	<u>\$ 1,711,245</u>	<u>\$ 10,786,245</u>

The Airport Fund borrowed \$160,000 from Brownwood Economic Development Corporation on October 1, 2003 to build a building at the airport to be leased by Federal Express. The note is a one year note due on September 30 with a principal payment of \$16,000 due on September 15. The expectation is that it will be refinanced each year on the same terms with interest at zero percent. The outstanding balance at September 30, 2012 is \$16,000.

The Airport Fund borrowed \$520,000 from Brownwood Economic Development Corporation on September 1, 2004 to build T hangers to be leased to customers of the Brownwood airport. Payments are monthly installments equal to the total gross monthly rents collected from rentals of the hangers for the prior month. The note bears interest at zero percent and is payable on the 15th of each month. The outstanding balance at September 30, 2012 is \$304,549.

The following represents the future maturities on these notes:

Year Ending September 30,	Principal	Interest	Total
2013	\$ 51,520	\$ -	\$ 51,520
2014	35,520	-	35,520
2015	35,520	-	35,520
2016	35,520	-	35,520
2017	35,520	-	35,520
2018-2022	126,949	-	126,949
Total	<u>\$ 320,549</u>	<u>\$ -</u>	<u>\$ 320,549</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2012

NOTE 7: LONG-TERM OBLIGATIONS (CONT.)

Business-type activities are obligated under a number of capital leases that in prior years were considered short-term obligations expected to be refinanced due to cancellation provisions subject to annual appropriations by the City Council. During the current year, these leases were refinanced into long-term obligations secured by a ad valorem tax pledge as well as the asset subject to lease. These refinanced leases are now included in long-term obligations accordingly.

The following represents the future maturities on these capital leases:

Year Ending September 30,	Principal	Interest	Total
2013	\$ 490,357	\$ 33,412	\$ 523,769
2014	436,523	24,131	460,654
2015	559,416	14,853	574,269
2016	367,335	6,402	373,737
Total	<u>\$ 1,853,631</u>	<u>\$ 78,798</u>	<u>\$ 1,932,429</u>

NOTE 8: CAPITAL LEASE OBLIGATIONS

The City is obligated under certain leases which contain cancellation provisions subject to annual appropriations by the City Council. These have been recorded as capital leases and are supported by notes payable with one year terms due on September 30. The notes are being repaid over a period that exceeds the one year term. All represent short-term obligations expected to be refinanced. These capital leases have been included in current liabilities due to the short-term nature of each underlying note.

Changes in capital lease obligations are as follows:

	Beginning Balance	Advances	Payments	Ending Balance
Governmental Activities	\$ -	\$ 177,377	\$ -	\$ 177,377
Business-type Activities	-	336,332	-	336,332
Total	<u>\$ -</u>	<u>\$ 513,709</u>	<u>\$ -</u>	<u>\$ 513,709</u>

The following is a schedule of maturities in accordance with the payment terms of the leases and notes:

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 39,596	\$ 3,968	\$ 71,593	\$ 7,555
2014	40,571	2,993	73,356	5,792
2015	41,571	1,993	75,162	3,986
2016	42,603	961	77,013	2,135
2017	13,036	122	39,208	366
Total	<u>\$ 177,377</u>	<u>\$ 10,037</u>	<u>\$ 336,332</u>	<u>\$ 19,834</u>

The above leases are secured by capital assets.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2012

NOTE 9: LONG-TERM OBLIGATIONS - BEDC

The following is a summary of changes in long-term obligations for the year ended September 30, 2012:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Note payable	\$ -	\$ 2,215,140	\$ (174,274)	\$ 2,040,866	\$ 237,300
Compensated absences	1,100	1,431	(665)	1,866	1,682
	<u>\$ 1,100</u>	<u>\$ 2,216,571</u>	<u>\$ (174,939)</u>	<u>\$ 2,042,732</u>	<u>\$ 238,982</u>

BEDC has a note payable to Citizens National Bank of Brownwood dated December 30, 2011 with a balance of \$2,040,866. The note bears interest at 65% of Wall Street Journal prime rate which was 2.015% at September 30, 2012 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 note was originally short-term due September 30 of each year but was refinanced into a long-term obligation in the current year.

The following represents the future maturities on this note:

Year Ending September 30,	Principal	Interest	Total
2013	\$ 237,300	\$ 38,940	\$ 276,240
2014	242,126	34,114	276,240
2015	247,050	29,190	276,240
2016	252,075	24,165	276,240
2017	257,201	19,039	276,240
2018-2020	805,114	25,304	830,418
Total	<u>\$ 2,040,866</u>	<u>\$ 170,752</u>	<u>\$ 2,211,618</u>

NOTE 10: 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 \$3,273,308 as of September 30, 2012 which is based on 22.41% usage (filled) of the overall landfill. It is estimated that an additional \$5,021,912 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, \$8,295,219, 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, 2012. 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 \$9,065,744 and is being met by the government financial test specified in 30 TAC Chapter 37.271.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2012

NOTE 11: PENSION PLANS

Texas Municipal Retirement System:

Plan Description

The City provides pension benefits for all of its eligible employees except firefighters through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at [www.TMRS.com](http://www.TMRS.com).

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

	Plan Year 2011	Plan Year 2012
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5,0/20	60/5,0/20
Updated Service Credit:		
Plan 10190 City	100% Repeating, Transfers	100% Repeating, Transfers
Plan 30190 Health Department	70% Repeating, Transfers	70% Repeating, Transfers
Annuity Increase (to retirees):		
Plan 10190 City	70% of CPI Repeating	70% of CPI Repeating
Plan 30190 Health Department	0% of CPI	0% of CPI

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases. The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

	Plan 10190	Plan 30190
1. Annual Required Contribution (ARC)	1,255,122	28,284
2. Interest on Net Pension Obligation	0	0
3. Adjustment to the ARC	0	0
4. Annual Pension cost (APC)	1,255,122	28,284
5. Contributions Made	1,255,122	28,284
6. Increase (decrease in net pension obligation)	0	0
7. Net Pension Obligation/(Asset), beginning of year	0	0
8. Net Pension Obligation/(Asset), end of year	0	0

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2012

NOTE 11: PENSION PLANS (CONT.)

Plan 10190

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/(Asset)
2010	1,104,392	1,104,392	100%	0
2011	1,180,244	1,180,244	100%	0
2012	1,255,122	1,255,122	100%	0

Plan 30190

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/(Asset)
2010	34,741	34,741	100%	0
2011	38,552	38,552	100%	0
2012	28,284	28,284	100%	0

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuation. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

Valuation Date	12/31/2009	12/31/2010	12/31/2011
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent single Amortization Period:			
Plan 10190 City	28.1 years;closed period	27.3 years;closed period	26.3 years;closed period
Plan 30190 Health Dept.	23.6 years;closed period	23.6 years;closed period	22.6 years;closed period
Amortization Period for new Gains/Losses:			
Plan 10190 City	30 years	30 years	30 years
Plan 30190 Health Dept.	25 years	17 years	17 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return *	7.5%	7.0%	7.0%
Projected Salary Increase *	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at Cost of Living Adjustments	3.00%	3.00%	3.00%
Plan 10190 City	2.1%	2.1%	2.1%
Plan 30190 Health Dept.	0%	0%	0%

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2012

NOTE 11: PENSION PLANS (CONT.)

Contributions (Cont.)

The funded status as of December 31, 2011, the most recent actuarial valuation date, is presented as follows:

	Actuarial Valuation Date	Actuarial value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
		(1)	(2)	(3)	(4)	(5)	(6)
				(1)/(2)	(2)-(1)		(4)/(5)
Plan 10190	12/31/2011	\$ 28,793,607	\$ 35,665,713	80.7%	\$ 6,872,106	\$ 8,396,244	81.8%
Plan 30190	12/31/2011	\$ 913,422	\$ 974,418	93.7%	\$ 60,996	\$ 376,286	16.2%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Brownwood Firefighter's Relief and Retirement Fund:

Schedule of Employer Contributions

Plan Year Ended December 31	Actual Contribution	Percentage of Required Contribution Contributed
2008	223,094	100%
2009	273,058	100%
2010	298,275	100%
2011	308,698	100%
2012	319,433	100%

Notes to Required Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2009
Actuarial cost method	Entry Age
Amortization method	Level percentage of projected payroll, open
Amortization period	27 years
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market

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

September 30, 2012

NOTE 11: PENSION PLANS (CONT.)

Actuarial assumptions:

Investment rate of return, net of expenses	7.25% per year
Inflation	4.0% per year
Projected salary increases	
General	4.0% per year
Promotion and longevity	0% to 5.20% per year
Total increase	4.0% to 9.20% per year
Payroll growth rate	4.0% per year
Postretirement cost-of-living adjustments	None

Actuarial Information

A. Plan Description

The Board of Trustees of the Brownwood Firefighter’s Relief and Retirement Fund is the administrator of a single-employer defined benefit pension plan. Firefighters in the Brownwood Fire Department are covered by the Brownwood Firefighter’s Relief and Retirement Fund.

The table below summarizes the membership of the fund reflected in the actuarial valuation as of December 31, 2009, the most recent actuarial valuation.

	<u>December 31, 2009</u>
1. Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	23
2. Current members	
a. Fully vested	4
b. Nonvested	<u>28</u>
3. Total	55

The Brownwood Firefighter’s Relief and Retirement Fund provides service retirement, death, disability and withdrawal benefits. These benefits fully vest after 20 years of credited service. Firefighter’s may retire at age 50 with 20 years of service. The Plan effective January 1, 2005 provides a monthly normal service retirement benefit, payable in a joint and two-thirds to spouse form of annuity, equal to 50.00% of highest 60-month average salary plus \$54.50 per month for each year of service in excess of 20 years.

A firefighter has the option to participate in a Retroactive Deferred Option Plan (RETRO DROP) which will provide a lump sum benefit and a reduced annuity upon termination of employment. Firefighters must be at least age 52 with 20 years of service at the selected “RETRO DROP benefit calculation date” (which is prior to date of employment termination). Optional forms are also available to provide 100% to the surviving spouse instead of the standard two-thirds form and to coordinate with Social Security.

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

September 30, 2012

NOTE 11: PENSION PLANS (CONT.)

There is no provision for automatic postretirement benefit increases. The fund has the authority to provide, and has in the past provided for, ad hoc postretirement benefit increases. The benefit provisions of this plan are authorized by the Texas Local Fire Fighters' Retirement Act (TLFFRA). TLFFRA provides the authority and procedure to amend benefit provisions.

B. Contributions Required and Contributions Made

1. The contribution provisions of this plan 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 as a percentage of payroll by the city.
2. While the actual contribution rates are not actuarially determined, state law requires that each plan of benefits adopted by the fund must be approved by an eligible actuary. The actuary certifies that the contribution commitment by the firefighters and the City provides 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), and the number of years needed to amortize the plan's UAAL is determined using a level percentage of payroll method.

The costs of administering the plan are paid from the fund.

3. The current funding policy of the Brownwood Firefighter's Relief and Retirement Fund requires contributions equal to 8.00% of pay by the firefighters and 20.00% of payroll by the City of Brownwood. The 27-year amortization period in the December 31, 2009 actuarial valuation is based on the assumption that these contribution rates will continue to be made into the future.

Annual Pension Cost

For the fiscal year ending September 30, 2012, the City of Brownwood's Annual Pension Cost (APC) for the Brownwood Firefighter's Relief and Retirement Fund was equal to \$319,433 as described in item 4 of the Net Pension Obligation development below. Based on the results of the December 31, 2009 actuarial valuation of the Plan Effective January 1, 2005, the most recent actuarial valuation, the Board's actuary found that the fund has an adequate financing arrangement based on the current level of the firefighter contribution rate and the City of Brownwood contribution rate. The December 31, 2009 actuarial valuation assumes that the current contribution rates will continue to be made in the future.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2012

NOTE 11: PENSION PLANS (CONT.)

The Annual Required Contributions (ARC) by the City for the fiscal year ending September 30, 2012 were based on the results of the actuarial valuation as of December 31, 2009 using the entry age actuarial cost method and were determined in compliance with the GASB Statement No. 27 parameters. The actuarial methods and assumptions used for the two most recent valuations are shown below:

Valuation date	12/31/2007	12/31/2009
Actuarial cost method	Entry age	Entry age
Amortization method	Level percent of payroll, open	Level percent of payroll, open
Amortization period for ARC	29 years	27 years
Asset valuation method	5-year adjusted market value	5-year adjusted market value
Actuarial assumptions		
Investment return	7.25%	7.25%
Inflation	4.0%	4.0%
Projected salary increases per year		
General salary increase	4.0%	4.0%
Promotion and longevity increase	0.00%-5.00%	0.00%-5.00%
Total increase	4.00%-9.00%	4.00%-9.00%
Cost-of-living increases	0.0%	0.0%
Payroll increases	4.0%	4.0%
ARC	Actual contributions	Actual contributions

Development of the Net Pension Obligation (NPO) as of September 30, 2012:

1. Annual Required Contributions (ARC)	\$ 319,433
2. Interest on NPO	+ 0
3. Adjustment to ARC	+ 0
4. Annual Pension Cost (APC)(sum of 1,2, and 3)	\$ 319,433
5. Actual City contributions made	- 319,433
6. Increase (decrease) in NPO (subtract 5 from 4)	\$ 0
7. NPO at October 1, 2011	\$ 0
8. NPO at September 30, 2012 (sum of 6 and 7)	\$ 0

NOTE 12: TRANSFERS

Transfers to/from other funds during the year ended September 30, 2012, consist of the following:

From Utility Fund to the General Fund to supplement the functions of that fund	\$1,150,000
From Sanitation Fund to General Fund to supplement the functions of that fund	650,000

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2012

NOTE 13: 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 November 2009, the BEDC board approved a five year incentive to 3M Company of \$400,000. At September 30, 2012 there is \$240,000 remaining to be paid on this incentive. In June 2010, the BEDC board approved a four year incentive to Wall Moulding and Associates of \$43,750. At September 30, 2012 there is \$14,070 remaining to be paid on this incentive. In January 2012, the BEDC board approved a one year incentive to Barr Fabrication of \$30,000. At September 30, 2012 there is \$30,000 remaining to be paid on this incentive. In September 2012, the BEDC board approved a four year incentive to 3M Company of \$200,000. At September 30, 2012 there is \$150,000 remaining to be paid on this incentive.

In July 2011, the BEDC board committed to providing funding with the Texas Department of Transportation for improvements to an entrance to a local industry. The expected funding of \$135,000 will be provided in the coming fiscal year. In May 2012, the BEDC board committed to buy back a tract in the light industrial park for \$25,000. In August 2012, the BEDC board committed to an infrastructure incentive to Canidae Corporation of up to \$100,000 for paving. Subsequent to year end, the BEDC board approved funding a water line project for Superior Essex not to exceed \$55,000.

The City of Brownwood has the primary liability 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, 2012 the unpaid balance was \$13,565,000 with an additional \$3,575,000 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 by the City may be reduced by charges added to the statements of other contracting parties for the purchase of treated water from Brown County Water Improvement District #1.

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, 2012 including a sewer line project, multiple street improvements, soccer fields, a fire station and waste water treatment plant improvements. Total estimated cost of these projects is approximately \$13,860,000 with remaining costs of approximately \$13,286,000 at September 30, 2012.

In September 2012, Texas Water Development Board approved an application from the City to borrow \$12,000,000 from their Developmental Fund for renovations to the waste water treatment plant and for construction of a new supplemental water treatment plant. The City is committed to perform the waste water treatment plant renovations and the engineering for the supplemental water treatment plant. Currently, the City is not committed to go forward with construction of the supplemental water treatment plant which represents \$8,560,000 of the \$12,000,000 approved loan.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2012

NOTE 14: CONTINGENT LIABILITIES

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 15: SUBSEQUENT EVENTS

Subsequent to year end the City issued a certificate of obligation for \$3,440,000 to fund the waste water treatment plant renovations and the engineering costs of the supplemental water treatment plant discussed in Note 13 above.

NOTE 16: 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 \$52,049 of net assets 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.

NOTE 17: UTILITY

The Utility Department was serving the following number of customers:

	<u>9/30/12</u>	<u>9/30/11</u>
Water Department	7,345	7,361
Sewer Department	6,883	6,888
Sanitation Department	7,043	7,050

NOTE 18: ELECTED OFFICIALS

Stephen Haynes	Mayor
Jerry DeHay	Councilman
H.D. Jones	Councilman
Draco Miller	Councilman
Carl McMillan	Councilman
Eddie Watson	Councilman

NOTE 19: APPOINTED OFFICIALS AND FIDELITY BONDS

Bobby Rountree	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

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2012

NOTE 20: 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	\$ 44,100,648
	Contents	2,997,565
Risk covered:	Fire, lightning, extended coverage including Replacement cost endorsement.	

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

PENSION PLAN FUNDING PROGRESS

Last Three Years

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability	Percentage Funded (1)/(2)	Unfunded Actuarial Accrued Liability	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
Texas Municipal Retirement System:						
Plan 1:						
12/31/2009	\$ 16,697,195	\$ 25,173,376	66.3%	\$ 8,476,181	\$ 8,410,388	100.8%
12/31/2010	26,731,834	33,736,026	79.2	7,004,192	8,147,433	86.0
12/31/2011	28,793,607	35,665,713	80.7	6,872,106	8,396,244	81.8
Plan 3: (Health Department)						
12/31/2009	\$ 432,558	\$ 531,041	81.5%	\$ 98,483	\$ 364,781	27.0%
12/31/2010	851,500	916,227	92.9	64,727	382,316	16.9
12/31/2011	913,422	974,418	93.7	60,996	376,286	16.2
Brownwood Firefighter's Relief and Retirement Fund (an actuarial study done every 2 years)						
12/31/2005	\$ 2,199,924	\$ 5,131,198	42.9%	\$ 2,931,274	\$ 1,103,927	265.5%
12/31/2007	2,368,793	5,766,332	41.1	3,397,539	1,286,160	264.0
12/31/2009	2,460,557	6,207,931	39.6	3,747,374	1,484,837	252.0

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

For the Year Ended September 30, 2012

	Original Budget	Final Budget	Actual Budgetary Basis (See Note A)	Variance with Final Budget Positive (Negative)
<b>RESOURCES (INFLOWS):</b>				
Ad valorem taxes	\$ 4,297,523	\$ 4,297,523	\$ 4,287,841	\$ (9,682)
Sales tax	4,463,714	4,463,714	4,523,760	60,046
Other taxes	2,581,700	2,581,700	2,978,538	396,838
Fines	251,500	251,500	291,701	40,201
License and fees	73,000	73,000	115,200	42,200
Charges for services	425,100	425,100	374,958	(50,142)
Intergovernmental	1,235,660	1,235,660	1,210,701	(24,959)
Miscellaneous	111,000	111,000	132,440	21,440
Total Resources (Inflows)	<u>\$ 13,439,197</u>	<u>\$ 13,439,197</u>	<u>\$ 13,915,139</u>	<u>\$ 475,942</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
City Council	\$ 129,583	\$ 135,269	\$ 100,701	\$ 34,568
Administration	204,815	204,815	194,517	10,298
City Secretary	84,522	84,522	76,571	7,951
Finance/Accounting	311,412	311,412	308,710	2,702
Municipal Court	280,033	280,033	292,564	(12,531)
Police	4,187,993	4,310,371	4,309,437	934
Fire	2,609,468	2,644,438	2,616,027	28,411
Development services	676,710	676,710	590,174	86,536
Street	1,832,891	1,832,891	1,898,899	(66,008)
Health	241,007	241,007	236,424	4,583
Community services	576,434	576,434	564,319	12,115
Intergovernmental	203,519	203,519	201,725	1,794
Utility billing	211,326	211,326	196,951	14,375
Community facilities	328,060	328,060	358,372	(30,312)
Operations support	165,930	168,930	143,834	25,096
Purchasing/warehouse	171,282	171,282	174,479	(3,197)
Parks and recreation	1,070,957	1,073,504	1,113,565	(40,061)
Fleet services	473,325	473,325	460,653	12,672
City Attorney	177,276	177,276	175,757	1,519
Public works/engineering	317,609	317,609	286,830	30,779
Emergency management	20,000	20,000	14,441	5,559
Human Resources	207,581	207,581	203,972	3,609
Fire Marshall	122,038	122,038	123,112	(1,074)
General fund contingency	127,000	127,000	315,277	(188,277)
Information technology	402,673	402,673	401,433	1,240
Transportation museum	127,936	127,936	135,439	(7,503)
Motel tax to CVB	-	-	301,160	(301,160)
Other	-	-	50,506	(50,506)
Total Charges to Appropriations (Outflows)	<u>\$ 15,261,380</u>	<u>\$ 15,429,961</u>	<u>\$ 15,845,849</u>	<u>\$ (415,888)</u>
EXCESS CHARGES TO APPROPRIATIONS	\$ (1,822,183)	\$ (1,990,764)	\$ (1,930,710)	\$ 60,054
FUND BALANCE - BEGINNING	<u>(2,314,053)</u>	<u>(2,314,053)</u>	<u>(2,314,053)</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ (4,136,236)</u>	<u>\$ (4,304,817)</u>	<u>\$ (4,244,763)</u>	<u>\$ -</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BUDGETARY COMPARISON SCHEDULE

For the Year Ended September 30, 2012

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.	\$ 13,915,139
The City budgets for sales tax based on the amount collected rather than on the modified accrual basis.	<u>(34,652)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances governmental fund.	<u>\$ 13,880,487</u>

Uses/outflows of Resources:

Actual amount (budgetary basis) charges to appropriations from the budgetary comparison schedule.	\$ 15,845,849
The City budgets for salaries on the cash basis rather than on the modified accrual basis.	4,743
The City budgets for compensated absences on the cash basis rather than the modified accrual basis.	<u>118,719</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances governmental fund.	<u>\$ 15,969,311</u>

SUPPLEMENTARY INFORMATION

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

OTHER GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS

September 30, 2012

	Total Debt Service Fund	Total Special Revenue Fund	Total Other Governmental Funds
<u>ASSETS</u>			
ASSETS:			
Pooled cash and cash equivalents	\$ -	\$ (54,692)	\$ (54,692)
Non pooled cash and cash equivalents		25	25
Receivables, net	117,078	113,995	231,073
Restricted assets	39,836	68,878	108,714
	<u>\$ 156,914</u>	<u>\$ 128,206</u>	<u>\$ 285,120</u>
<u>LIABILITIES AND FUND BALANCES</u>			
LIABILITIES:			
Accounts payable	\$ -	\$ 17,360	\$ 17,360
Accrued payroll		14,939	14,939
Deferred ad valorem taxes	115,310		115,310
	<u>\$ 115,310</u>	<u>\$ 32,299</u>	<u>\$ 147,609</u>
TOTAL LIABILITIES	<u>\$ 115,310</u>	<u>\$ 32,299</u>	<u>\$ 147,609</u>
FUND BALANCES:			
Restricted for:			
Debt service	\$ 41,604	\$ -	\$ 41,604
Fabis Park		68,848	68,848
Assigned to:			
Health and nutrition programs		27,478	27,478
Unassigned		(419)	(419)
	<u>\$ 41,604</u>	<u>\$ 95,907</u>	<u>\$ 137,511</u>
TOTAL FUND BALANCES	<u>\$ 41,604</u>	<u>\$ 95,907</u>	<u>\$ 137,511</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 156,914</u>	<u>\$ 128,206</u>	<u>\$ 285,120</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, 2012

	Total Debt Service Fund	Total Special Revenue Fund	Total Other Governmental Funds
<b>REVENUES:</b>			
Ad valorem taxes	\$ 1,064,884	\$ -	\$ 1,064,884
Grants and contributions		698,612	698,612
Other revenue	111,480	298,736	410,216
Interest	224	76	300
Total Revenues	\$ 1,176,588	\$ 997,424	\$ 2,174,012
<b>EXPENDITURES:</b>			
Debt service:			
Principal	\$ 955,000	\$ -	\$ 955,000
Interest	228,222		228,222
Bond issuance costs	238,431		238,431
Fiscal agent fees	650		650
Special revenue fund		995,523	995,523
Total Expenditures	\$ 1,422,303	\$ 995,523	\$ 2,417,826
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES</b>	\$ (245,715)	\$ 1,901	\$ (243,814)
<b>OTHER FINANCING SOURCES:</b>			
Transfers in	\$ 116,632	\$ -	\$ 116,632
Bond premium	121,799		121,799
Total Other Financing Sources	\$ 238,431	\$ -	\$ 238,431
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES</b>	\$ (7,284)	\$ 1,901	\$ (5,383)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	48,888	94,006	142,894
<b>FUND BALANCE - END OF YEAR</b>	\$ 41,604	\$ 95,907	\$ 137,511

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

GENERAL FUND  
COMPARATIVE BALANCE SHEET

September 30, 2012 and 2011

<u>ASSETS</u>	2012	2011
<b>ASSETS:</b>		
Pooled cash and cash equivalents	\$ 471,057	\$ 130,033
Non pooled cash and cash equivalents	1,390	1,305
Investments	879	300
Receivables, net	1,201,038	1,294,271
Internal balances	-	9,190
Inventory	18,786	18,608
Prepaid expense	4,189	128,747
Restricted assets	138,194	140,218
<b>TOTAL ASSETS</b>	<b>\$ 1,835,533</b>	<b>\$ 1,722,672</b>
 <u>LIABILITIES AND FUND BALANCES</u> 		
<b>LIABILITIES:</b>		
Accounts payable	\$ 508,090	\$ 439,752
Accrued salaries	206,460	201,715
Deferred ad valorem taxes	406,650	374,641
Compensated absences	1,073,380	954,663
<b>TOTAL LIABILITIES</b>	<b>\$ 2,194,580</b>	<b>\$ 1,970,771</b>
<b>FUND BALANCES:</b>		
Nonspendable:		
Internal balances	\$ -	\$ 9,190
Inventory	18,786	18,608
Prepaid expense	4,189	128,747
Restricted for:		
Municipal Court	78,068	79,245
Tourism promotion	29,378	29,667
Vehicular child safety	19,039	18,661
Law enforcement	7,679	8,593
Drug awareness education	3,494	3,494
Beautification	536	558
Unassigned	(520,216)	(544,862)
<b>TOTAL FUND BALANCES</b>	<b>\$ (359,047)</b>	<b>\$ (248,099)</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,835,533</b>	<b>\$ 1,722,672</b>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

GENERAL FUND  
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES

For the Years Ended September 30, 2012 and 2011

	2012	2011
<b>REVENUES:</b>		
Ad valorem taxes	\$ 4,287,841	\$ 4,254,640
Sales taxes	4,489,108	4,360,548
Other taxes	2,978,538	2,923,554
Fines	291,701	252,243
Licenses and fees	115,200	115,433
Charges for services	374,958	378,244
Intergovernmental	1,210,701	1,206,370
Interest	2,179	5,122
Grants and contributions	3,259	70,481
Miscellaneous	127,002	167,841
Total Revenues	\$ 13,880,487	\$ 13,734,476
<b>EXPENDITURES:</b>		
City Council	\$ 100,701	\$ 111,874
Administration	217,978	207,219
City Secretary	77,148	73,809
Finance/accounting	308,904	298,838
Municipal court	294,380	279,540
Police	4,344,536	4,060,815
Fire	2,660,069	2,468,599
Development services	563,956	583,400
Street	1,895,157	1,852,132
Health	236,470	223,088
Community services	564,319	520,503
Intergovernmental	201,725	237,654
Utility billing	198,339	196,796
Community facilities	360,312	422,006
Operations support	144,583	151,005
Purchasing/warehouse	176,290	169,846
Parks and recreation	1,120,758	1,033,038
Fleet services	464,701	466,250
City Attorney	177,309	165,844
Public works/engineering	315,361	261,519
Emergency management	14,441	19,653
Human resources	205,253	210,965
Fire Marshal	123,995	115,059
General fund contingency	315,277	268,104
Information technology	402,080	458,832
Transportation museum	133,601	144,216
Motel tax to CVB	301,160	274,231
Other	50,508	37,089
Total Expenditures	\$ 15,969,311	\$ 15,311,924
<b>EXCESS OF EXPENDITURES OVER REVENUES</b>	<b>\$ (2,088,824)</b>	<b>\$ (1,577,448)</b>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

GENERAL FUND  
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES (CONT.)

For the Years Ended September 30, 2012 and 2011

EXCESS OF EXPENDITURES OVER REVENUES	\$ (2,088,824)	\$ (1,577,448)
OTHER FINANCING SOURCES (USES):		
Transfers in	\$ 1,800,000	\$ 2,000,000
Transfers out	-	(3,803)
Note proceeds	177,377	-
Proceeds from sale of capital assets	499	5,680
Net Other Financing Sources (Uses)	<u>\$ 1,977,876</u>	<u>\$ 2,001,877</u>
NET CHANGES IN FUND BALANCES	\$ (110,948)	\$ 424,429
FUND BALANCE - BEGINNING OF YEAR	<u>(248,099)</u>	<u>(672,528)</u>
FUND BALANCE - END OF YEAR	<u>\$ (359,047)</u>	<u>\$ (248,099)</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

PROPRIETARY FUNDS  
COMPARATIVE STATEMENTS OF NET ASSETS

September 30, 2012 and 2011

	Total Proprietary Funds	
	2012	2011
<u>ASSETS</u>		
Current Assets:		
Pooled cash and cash equivalents	\$ (1,404,367)	\$ (1,002,250)
Non pooled cash and cash equivalents	3,627	3,551
Investments	2,706,390	3,593,745
Investments designated for closure and postclosure	800,057	674,288
Accounts receivable, net	1,512,008	1,704,300
Inventory	709,316	794,147
Prepaid expense	1,015	1,205
Total Current Assets	\$ 4,328,046	\$ 5,768,986
Noncurrent Assets:		
Restricted assets	\$ 956,414	\$ 961,446
Deferred charges	134,963	195,520
Capital assets, net	32,290,286	33,415,120
Total Noncurrent Assets	\$ 33,381,663	\$ 34,572,086
<b>TOTAL ASSETS</b>	<b>\$ 37,709,709</b>	<b>\$ 40,341,072</b>
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable	\$ 489,519	\$ 407,125
Accrued salaries	66,604	67,831
Capital leases payable	826,689	2,610,138
Notes payable	51,520	50,920
Bonds payable	527,318	957,483
Tax notes payable	-	700,000
Compensated absences	124,025	112,088
Total Current Liabilities	\$ 2,085,675	\$ 4,905,585
Liabilities Payable from Restricted Assets:		
Bonds payable	\$ 292,682	\$ 322,517
Total Liabilities Payable from Restricted Funds	\$ 292,682	\$ 322,517
Noncurrent Liabilities:		
Deferred revenue	\$ 101,671	\$ 109,249
Compensated absences	28,452	35,543
Customer water meter deposits	663,732	638,929
Capital leases payable	1,363,274	-
Notes payable	269,029	321,149
Bonds payable	8,308,805	8,945,604
Accrued landfill closure and postclosure care costs	3,273,308	3,047,854
Total Noncurrent Liabilities	\$ 14,008,271	\$ 13,098,328
<b>TOTAL LIABILITIES</b>	<b>\$ 16,386,628</b>	<b>\$ 18,326,430</b>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	\$ 20,971,518	\$ 19,885,084
Unrestricted	351,563	2,129,558
<b>TOTAL NET ASSETS</b>	<b>\$ 21,323,081</b>	<b>\$ 22,014,642</b>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

PROPRIETARY FUNDS  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES  
IN FUND NET ASSETS

September 30, 2012 and 2011

	Total Proprietary Funds	
	2012	2011
OPERATING REVENUES:		
Charges for services	\$ 14,721,708	\$ 15,611,296
Miscellaneous	90,630	267,511
Total Operating Revenues	\$ 14,812,338	\$ 15,878,807
OPERATING EXPENSES:		
Personnel services	\$ 3,360,550	\$ 3,299,573
Supplies	1,516,919	1,654,316
Contractual	3,454,108	3,929,903
Maintenance	824,794	1,293,963
Sundry charges	571,730	559,280
Support services	979,800	979,800
Depreciation and amortization	2,869,392	2,772,896
Total Operating Expenses	\$ 13,577,293	\$ 14,489,731
OPERATING GAIN	\$ 1,235,045	\$ 1,389,076
NON-OPERATING REVENUE AND EXPENSE:		
Sale of equipment	\$ 28,737	\$ 3,293
Grant income	186,275	63,225
Interest income	4,849	6,459
Interest expense	(346,467)	(408,361)
Net Non-Operating Revenue (Expense)	\$ (126,606)	\$ (335,384)
GAIN BEFORE CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS	\$ 1,108,439	\$ 1,053,692
CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS:		
Capital contributions	\$ -	\$ 111,315
Operating transfers in	200,000	108,500
Operating transfers out	(2,000,000)	(2,505,000)
Net Capital Contributions and Operating Transfers	\$ (1,800,000)	\$ (2,285,185)
CHANGES IN NET ASSETS	\$ (691,561)	\$ (1,231,493)
NET ASSETS - BEGINNING	22,014,642	23,246,135
NET ASSETS - ENDING	\$ 21,323,081	\$ 22,014,642

SINGLE AUDIT SECTION

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

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 the 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, 2012, which collectively comprise the City of Brownwood, Texas basic financial statements and have issued my report thereon dated February 6, 2013. 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.

Internal Control Over Financial Reporting

Management of City of Brownwood, Texas, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered City of Brownwood, Texas internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Brownwood, Texas internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Brownwood, Texas internal control over financial reporting.

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.

My consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Brownwood, Texas financial statements are free of 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*.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
Krischke CPA, PC  
February 6, 2013



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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable Mayor and City Council  
City of Brownwood, Texas

Compliance

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 the City of Brownwood, Texas major federal programs for the year ended September 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Brownwood, Texas management. My responsibility is to express an opinion on City of Brownwood, Texas compliance based on my audit.

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. My audit does not provide a legal determination on City of Brownwood, Texas compliance with those requirements.

In my opinion, City of Brownwood, Texas complied, in all material respects, with the requirements referred to above that could have a direct and of material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

Management of City of Brownwood, Texas, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered City of Brownwood, Texas internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing my opinion on compliance 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 the City's internal control over compliance.

Internal Control Over Compliance (Cont.)

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.

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 deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of City of Brownwood, Texas major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on City of Brownwood, Texas compliance but not to provide an opinion on the effectiveness of City of Brownwood, Texas internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Brownwood, Texas compliance with requirements applicable to each major program and its internal control compliance. Accordingly, this report is not suitable for any other purpose.

  
Krischke CPA, PC  
February 6, 2013

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2012

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2012

	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	2011-037173-001	\$ 288,122	\$ -
U.S. Department of Housing and Urban Development:				
Passed through Texas Department of Agriculture:				
Community Development Block Grant				
	14.228	TCDPGR 711079	\$ 186,275	\$ -
General Services Administration:				
Non-monetary pass through from Texas Facilities Commission:				
Donation of Federal Surplus Personal Property				
	39.003	26171	\$ 2,977	\$ -
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		\$ 93,023	\$ -
Passed through Texas Department of State Health Services:				
Special Programs for the Aging_ Title III, Part C_ Nutrition Services				
	93.045		58,156	
Immunization Cooperative Agreements:				
Immunization				
	93.268	2011-035296-001	162,388	
Tuberculosis				
	93.268	2011-035726-001	10,490	
The Affordable Care Act: Centers for Disease Control and Prevention_ Investigations and Technical Assistance				
	93.283	2011-038783-001	82,395	
Preventive Health and Health Services Block Grant				
	93.991	2011-035583-001	12,050	
Total U.S. Department of Health and Human Services			<u>\$ 418,502</u>	<u>\$ -</u>
Total Federal Assistance			<u>\$ 895,876</u>	<u>\$ -</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2012

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, 2012. 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 assets, 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, 2012

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
14.228	Community Development Block Grant
93.283	The Affordable Care Act: Centers for Disease Control and Prevention_ Investigations and Technical Assistance

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