

CITY OF BROWNWOOD  
Brownwood, Texas

ANNUAL FINANCIAL STATEMENTS

September 30, 2013

CITY OF BROWNWOOD, TEXAS

Brownwood, Texas

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

## INDEPENDENT AUDITOR'S REPORT

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

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

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Brownwood, Texas as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

### ***Opinions***

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Brownwood, Texas, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

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

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

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

In accordance with *Government Auditing Standards*, I have also issued my report dated February 6, 2014, on my consideration of the City of Brownwood, Texas internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Brownwood, Texas internal control over financial reporting and compliance.



Krischke CPA, PC

February 6, 2014

**City of Brownwood**  
**Management's Discussion and Analysis**  
**For Year Ended September 30, 2013**

**(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, 2013. 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 \$45,578,272 (net position). Of this amount, \$9,171,944 is restricted for debt service, construction and other uses. The amount invested in fixed assets is \$35,886,919 leaving \$519,409 in unrestricted net position.
- The government's total net position decreased by \$905,427 primarily due to two factors. First, non-capital assets increased by \$1,038,538. Second, total liabilities increased by \$2,112,512. The net of these two changes is \$1,073,974 which accounts for most of the reduction in net position. The net change is primarily in restricted assets and liabilities related to bond proceeds. Proceeds from a bond issued in 2012 were spent down by \$1,511,345 for work on various street projects and work on building a new fire station. New proceeds of \$3,440,000 were received to make improvements to the wastewater treatment plant. Of this amount, only \$10,000 was spent in the current fiscal year.
- As of the close of the current fiscal year, the City's governmental activities reported combined ending net position of \$24,817,843, a reduction of \$342,775 in comparison with the prior year.
- At the end of the current fiscal year, unrestricted net position for the governmental activities was \$178,996 as compared to \$159,772 in the prior year. While net position invested in capital assets for governmental activities went up due to improvements funded by the 2012 bond, and while net position invested in restricted assets for governmental activities went down due to expending bond proceeds, unrestricted net position for governmental activities improved slightly due to improvements in net position for short-term and operating needs. The primary example is the improvement in unrestricted cash in governmental activities of \$146,626.
- The City's total liabilities increased by \$1,943,965 during the current fiscal year primarily due to increases in bonds payable of \$1,636,347. This increase was primarily caused by the issuance of a new Certificate of Obligation of \$3,440,000 in December 2012 netted by reductions in other bond balances.
- Total revenue increased by \$884,208 over the prior year primarily because of an increase in franchise fees charged inter-departmentally.
- Expenditures increased by \$1,074,439 also due primarily to the increase in inter-departmental fees.
- The year ended with a net deficit for the current year of \$1,040,387 compared with a deficit of \$850,156 in the prior year.

**Overview of the Financial Statements**

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

**Required Components of Annual Financial Report**

**Basic Financial Statements**

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

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

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

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

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

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

The Government-wide Financial Statements are on pages 9-12 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 Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Governmental Fund Financial Statements are on pages 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 Position 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 22-45 of this report.

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

**Government-Wide Financial Analysis**

The City’s combined net position decreased from \$46,483,699 last year to \$45,578,272 this year, a decrease of \$905,427. Although there were a variety of factors, the key changes are described under the Financial Highlights section.

**City of Brownwood Net Position**

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 11,638,950	\$ 12,920,706	\$ 8,937,665	\$ 5,419,423	\$ 20,576,615	\$ 18,340,129
Capital Assets	31,128,463	30,765,399	30,729,274	32,290,286	61,857,737	63,055,685
Total Assets	\$ 42,767,413	\$ 43,686,105	\$ 39,666,939	\$ 37,709,709	\$ 82,434,352	\$ 81,395,814
Current liabilities	\$ 3,194,754	\$ 3,052,096	\$ 2,067,152	\$ 2,378,357	\$ 5,261,906	\$ 5,430,453
Long-term liabilities	14,754,816	15,473,391	16,839,358	14,008,271	31,594,174	29,481,662
Total Liabilities	\$ 17,949,570	\$ 18,525,487	\$ 18,906,510	\$ 16,386,628	\$ 36,856,080	\$ 34,912,115
Net Position:						
Invested in capital assets net of related debt	\$ 15,466,903	\$ 14,470,619	\$ 20,420,016	\$ 20,971,518	\$ 35,886,919	\$ 35,442,137
Restricted	9,171,944	10,530,227	-	-	9,171,944	10,530,227
Unrestricted	178,996	159,772	340,413	351,563	519,409	511,335
Total Net Position	\$ 24,817,843	\$ 25,160,618	\$ 20,760,429	\$ 21,323,081	\$ 45,578,272	\$ 46,483,699

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

As noted earlier, net position may serve over time as one useful indicator of a government’s financial condition. The assets of the City of Brownwood exceeded liabilities by \$45,578,272 as of September 30, 2013. However, the largest portion of the City’s net position (78.7%) reflects the City’s investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City’s net position (20.1%) 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 \$519,409 or 1.2% of total net position.

**Governmental activities:** Governmental activities decreased the City’s net position by \$342,775.

**Business-type activities:** Business-type activities decreased the City’s net position by \$697,612.

The following table provides a summary of the City's operations for year ended September 30, 2013.

**City of Brownwood Changes in Net Position**

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues:						
Fees, fines, and charges for services	\$ 2,502,444	\$ 2,287,322	\$ 14,655,150	\$ 14,721,708	\$ 17,157,594	\$ 17,009,030
Operating grants and contributions	770,785	701,871	4,543	-	775,328	701,871
Capital grants and contributions	-	-	173,073	186,275	173,073	186,275
General Revenues:						
Ad valorem taxes	5,365,912	5,387,983	-	-	5,365,912	5,387,983
Sales tax	4,579,841	4,489,108	-	-	4,579,841	4,489,108
Other revenues	3,833,178	3,259,595	157,360	124,216	3,990,538	3,383,811
Total Revenues	<u>\$ 17,052,160</u>	<u>\$ 16,125,879</u>	<u>\$ 14,990,126</u>	<u>\$ 15,032,199</u>	<u>\$ 32,042,286</u>	<u>\$ 31,158,078</u>
Expenses:						
General government and administration	\$ 5,148,452	\$ 5,044,688	\$ -	\$ -	\$ 5,148,452	\$ 5,044,688
Public Safety	7,429,686	7,605,653	-	-	7,429,686	7,605,653
Streets	2,523,359	2,305,236	-	-	2,523,359	2,305,236
Parks & Community Facilities	1,922,974	1,879,654	-	-	1,922,974	1,879,654
Special Rev Activities	1,075,671	995,523	-	-	1,075,671	995,523
Water & Sewer	-	-	8,133,000	7,703,809	8,133,000	7,703,809
Sanitation & Landfill	-	-	4,455,838	4,459,474	4,455,838	4,459,474
Airport	-	-	1,352,671	1,397,768	1,352,671	1,397,768
Pecan Field Station	-	-	36,859	16,242	36,859	16,242
Interest on long-term debt	694,793	233,720	309,370	346,467	1,004,163	600,187
Total Expenses	<u>\$ 18,794,935</u>	<u>\$ 18,084,474</u>	<u>\$ 14,287,738</u>	<u>\$ 13,923,760</u>	<u>\$ 33,082,673</u>	<u>\$ 32,008,234</u>
Increases in net position before transfers	\$ (1,742,775)	\$ (1,958,595)	\$ 702,388	\$ 1,108,439	\$ (1,040,387)	\$ (850,156)
Transfers	<u>1,400,000</u>	<u>1,800,000</u>	<u>(1,400,000)</u>	<u>(1,800,000)</u>	<u>-</u>	<u>-</u>
Decrease in net position	\$ (342,775)	\$ (158,595)	\$ (697,612)	\$ (691,561)	\$ (1,040,387)	\$ (850,156)
Net position October 1	25,160,618	25,319,213	21,323,081	22,014,642	46,483,699	47,333,855
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>134,960</u>	<u>-</u>	<u>134,960</u>	<u>-</u>
Net position September 30	<u>\$ 24,817,843</u>	<u>\$ 25,160,618</u>	<u>\$ 20,760,429</u>	<u>\$ 21,323,081</u>	<u>\$ 45,578,272</u>	<u>\$ 46,483,699</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 \$(387,517), while total fund balance was \$(195,278). These balances represent increases from the prior year of \$132,699 and \$163,769 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 (2.5)% and (1.2)% respectively.

At September 30, 2013, the governmental funds of the City reported a combined fund balance of \$8,942,375.

**Proprietary Funds.** The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Utility (Water Delivery, Wastewater Collection and Wastewater Treatment), Sanitation (Trash Collection and Landfill), Airport and Pecan Station Funds at the end of the fiscal year amounted to \$340,413. This represented a decrease of \$11,150 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 \$425,332 or 3.1% while expenditures came in over budget by \$387,653 or 2.5%. This represented a net positive variance of \$37,679.

### **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, 2013, totals \$61,857,737 (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, 2013, the City had total bonded debt outstanding of \$26,778,287. 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 2013 was 5.9% which is 0.5% lower than the Texas Average and 1.6% lower than the national average.
- Increasing property values. Taxable assessed values for 2013 increased by 1.2% over the prior year after removing the impact of one lawsuit.
- 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 recruit manufacturing and retail businesses. At the end of the fiscal year, efforts through Retail Coach, a company that specializes in retail recruitment efforts, were bearing fruit. In January, 2014, an announcement was made the United Supermarkets was going to open a store locally. We continue to see growth in Commerce Square, including the addition of a new Buffalo Wild Wings restaurant. During the first four months of the new fiscal year, we have seen an increase of 5.7% in local sales tax revenue.

The new Bert V. Massey II Sports Complex hosted numerous softball and baseball tournaments throughout the year. The economic impact from these tournaments in 2013 is estimated to be more than \$800,000.

**Budget Highlights for the Fiscal Year Ending September 30, 2014**

**Governmental Activities:** The property tax rate remained unchanged over the prior year at .7462 cents per hundred dollars valuation. Sales tax is projected to increase by 1.5% over the last fiscal year. Budgeted expenditures in the General Fund are expected to increase by 1.2. No pay raises were granted.

**Business – type Activities:** Water rates were increased by 3.2% to fund an increase in the cost of treated water from the Brown County Water Improvement District. Sewer rates were increased by 6% to fund the new bond payments for improvements to the Wastewater Treatment Plant. Sanitation rates were increased by 3% to fund the rising costs of operations.

**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 POSITION

September 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<u>ASSETS</u>				
Pooled cash and cash equivalents	\$ 629,046	\$ (1,899,976)	\$ (1,270,930)	\$ 53,750
Non pooled cash and cash equivalents	1,415	3,627	5,042	5
Investments	128	2,838,781	2,838,909	2,510,780
Investments designated for closure and postclosure		925,816	925,816	
Receivables, net	1,561,496	1,407,528	2,969,024	2,748,907
Inventory	17,340	563,843	581,183	
Prepaid expense	4,833	275,858	280,691	69,844
Restricted assets	9,217,139	4,667,144	13,884,283	
Deferred charges	207,553	155,044	362,597	
Land held for development			-	507,366
Capital assets, net	31,128,463	30,729,274	61,857,737	
<b>TOTAL ASSETS</b>	<b>\$ 42,767,413</b>	<b>\$ 39,666,939</b>	<b>\$ 82,434,352</b>	<b>\$ 5,890,652</b>
<u>LIABILITIES</u>				
Accounts payable	\$ 603,108	\$ 433,414	\$ 1,036,522	\$ 90,691
Accrued salaries	290,542	76,142	366,684	3,746
Liabilities payable from restricted assets:				
Bonds payable	81,308	477,247	558,555	
Noncurrent liabilities:				
Customer utility deposits		692,086	692,086	
Estimated liability for landfill closure and postclosure care costs		3,381,096	3,381,096	
Deferred revenue		94,093	94,093	
Compensated absences				
Portion due or payable within one year	1,050,074	127,767	1,177,841	1,009
Portion due or payable after one year	344,286	31,742	376,028	132
Capital leases payable				
Portion due or payable within one year	128,350	516,989	645,339	
Portion due or payable after one year	302,529	1,138,716	1,441,245	
Notes payable:				
Portion due or payable within one year		35,520	35,520	242,115
Portion due or payable after one year		231,339	231,339	1,561,993
Tax note payable:				
Portion due or payable within one year	22,680	47,320	70,000	
Portion due or payable after one year	171,720	358,280	530,000	
Bonds payable:				
Portion due or payable within one year	1,018,692	352,753	1,371,445	
Portion due or payable after one year	13,936,281	10,912,006	24,848,287	
<b>TOTAL LIABILITIES</b>	<b>\$ 17,949,570</b>	<b>\$ 18,906,510</b>	<b>\$ 36,856,080</b>	<b>\$ 1,899,686</b>
<u>NET POSITION</u>				
Invested in capital assets, net of related debt	\$ 15,466,903	\$ 20,420,016	\$ 35,886,919	\$ -
Restricted for:				
Municipal Court	56,623		56,623	
Tourism promotion	41,833		41,833	
Vehicular child safety	17,774		17,774	
Law enforcement	15,570		15,570	
Drug awareness education	3,494		3,494	
Beautification	22		22	
Debt service	46,558		46,558	
Fabis Park	67,645		67,645	
Construction	8,922,425		8,922,425	
Unrestricted	178,996	340,413	519,409	3,990,966
<b>TOTAL NET POSITION</b>	<b>\$ 24,817,843</b>	<b>\$ 20,760,429</b>	<b>\$ 45,578,272</b>	<b>\$ 3,990,966</b>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2013

<u>Functions/programs</u>	Program Revenue			
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General government	\$ 3,930,130	\$ 1,210,920	\$ -	\$ -
Municipal court	293,987			
Police	4,275,907	432,043		
Fire	2,609,697	22,300		
Development services	582,946	81,939		
Street	2,523,359			
Health	250,095	178,240		
Community facilities	564,572	115,963		
Parks and recreation	1,358,402	108,205		
Public works/engineering	347,921			
Motel tax to CVB	287,455			
Interest on long-term debt	694,793			
Special revenue activities	1,075,671	352,834	770,785	
Total Governmental Activities	\$ 18,794,935	\$ 2,502,444	\$ 770,785	\$ -
<b>Business-type Activities:</b>				
Water	\$ 5,217,979	\$ 5,568,362	\$ -	\$ -
Waste water collection	1,772,004	3,450,113		84,600
Waste water treatment	1,143,017			
Sanitation	1,939,473	2,917,299		
Landfill	2,516,365	1,746,300	4,543	
Airport	1,352,671	973,076		88,473
Pecan Field Station	36,859			
Interest on long-term debt	309,370			
Total Business-type Activities	\$ 14,287,738	\$ 14,655,150	\$ 4,543	\$ 173,073
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 33,082,673</b>	<b>\$ 17,157,594</b>	<b>\$ 775,328</b>	<b>\$ 173,073</b>
<b>Component Unit:</b>				
BEDC - Economic development	\$ 1,067,114	\$ -	\$ -	\$ -
<b>TOTAL COMPONENT UNIT</b>	<b>\$ 1,067,114</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

See accompanying notes to basic financial statement

Net (Expense) Revenue and Changes in Net Position

Primary Government			
	Governmental Activities	Business-type Activities	Total
			Component Unit
\$	(2,719,210)		\$ (2,719,210)
	(293,987)		(293,987)
	(3,843,864)		(3,843,864)
	(2,587,397)		(2,587,397)
	(501,007)		(501,007)
	(2,523,359)		(2,523,359)
	(71,855)		(71,855)
	(448,609)		(448,609)
	(1,250,197)		(1,250,197)
	(347,921)		(347,921)
	(287,455)		(287,455)
	(694,793)		(694,793)
	47,948		47,948
\$	<u>(15,521,706)</u>		\$ <u>(15,521,706)</u>
		\$ 350,383	\$ 350,383
		1,762,709	1,762,709
		(1,143,017)	(1,143,017)
		977,826	977,826
		(765,522)	(765,522)
		(291,122)	(291,122)
		(36,859)	(36,859)
		<u>(309,370)</u>	<u>(309,370)</u>
		\$ 545,028	\$ 545,028
\$	<u>(15,521,706)</u>	\$ 545,028	\$ <u>(14,976,678)</u>

\$ (1,067,114)

\$ (1,067,114)

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENT OF ACTIVITIES (CONT.)

For the Year Ended September 30, 2013

	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
CHANGE IN NET POSITION:				
Net Income (Expense)	\$ (15,521,706)	\$ 545,028	\$ (14,976,678)	\$ (1,067,114)
General Revenues:				
Taxes:				
Ad valorem	\$ 5,365,912	\$ -	\$ 5,365,912	\$ -
Sales	4,579,841		4,579,841	1,526,613
Other	3,413,163		3,413,163	
Earnings on investments	11,528	4,003	15,531	82,043
Miscellaneous	345,392	123,357	468,749	42,815
Gain on disposal of capital assets	63,095	30,000	93,095	
Transfers	1,400,000	(1,400,000)	-	
Total General Revenue	\$ 15,178,931	\$ (1,242,640)	\$ 13,936,291	\$ 1,651,471
CHANGE IN NET POSITION	\$ (342,775)	\$ (697,612)	\$ (1,040,387)	\$ 584,357
NET POSITION AS RESTATED	25,160,618	21,458,041	46,618,659	3,406,609
NET POSITION - END OF YEAR	\$ 24,817,843	\$ 20,760,429	\$ 45,578,272	\$ 3,990,966

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

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

September 30, 2013

	<u>Major Fund</u>	<u>Major Fund</u>	<u>Nonmajor Fund</u>	Total
	<u>General</u>	<u>Capital</u>	<u>Other</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Projects</u>	<u>Governmental</u>	<u>Governmental</u>
<u>ASSETS</u>	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>	<u>Funds</u>
<b>ASSETS:</b>				
Pooled cash and cash equivalents	\$ 598,151	\$ 55,948	\$ (25,053)	\$ 629,046
Non pooled cash and cash equivalents	1,390		25	1,415
Investments	128			128
Receivables, net	1,219,084		212,613	1,431,697
Inventory	17,340			17,340
Prepaid expense	4,833			4,833
Internal balances	34,750		(34,750)	-
Restricted assets	136,086	8,932,100	148,953	9,217,139
<b>TOTAL ASSETS</b>	<b>\$ 2,011,762</b>	<b>\$ 8,988,048</b>	<b>\$ 301,788</b>	<b>\$ 11,301,598</b>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 567,576	\$ 9,675	\$ 25,857	\$ 603,108
Accrued salaries	274,208		16,334	290,542
Deferred ad valorem taxes	315,182		100,317	415,499
Compensated absences	1,050,074			1,050,074
<b>TOTAL LIABILITIES</b>	<b>\$ 2,207,040</b>	<b>\$ 9,675</b>	<b>\$ 142,508</b>	<b>\$ 2,359,223</b>
 <b>FUND BALANCES:</b>				
Nonspendable:				
Inventory	\$ 17,340	\$ -	\$ -	\$ 17,340
Prepaid expense	4,833			4,833
Internal balances	34,750			34,750
Restricted for:				
Municipal Court	56,623			56,623
Tourism promotion	41,833			41,833
Vehicular child safety	17,774			17,774
Law enforcement	15,570			15,570
Drug awareness education	3,494			3,494
Beautification	22			22
Debt service			46,558	46,558
Fabis Park			67,645	67,645
Construction		8,922,425		8,922,425
Committed to:				
Construction		55,948		55,948
Assigned to:				
Health and nutrition programs			28,270	28,270
Unassigned	(387,517)		16,807	(370,710)
<b>TOTAL FUND BALANCES</b>	<b>\$ (195,278)</b>	<b>\$ 8,978,373</b>	<b>\$ 159,280</b>	<b>\$ 8,942,375</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,011,762</b>	<b>\$ 8,988,048</b>	<b>\$ 301,788</b>	<b>\$ 11,301,598</b>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

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

September 30, 2013

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 8,942,375
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds balance sheet, net of accumulated depreciation and amortization of \$48,396,991.	31,128,463
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.	207,553
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 \$153,630.	129,799
Deferred bond issuance costs are not current financial resources and are not reported in the governmental funds balance sheet.	415,499
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds balance sheet	<u>(16,005,846)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 24,817,843</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, 2013

	<u>Major Fund</u>		<u>Nonmajor Fund</u>	
	<u>Major Fund</u>	Capital	Other	Total
	General Fund	Projects Funds	Governmental Funds	Governmental Funds
REVENUES:				
Ad valorem taxes	\$ 3,932,542	\$ -	\$ 1,539,831	\$ 5,472,373
Sales taxes	4,579,841			4,579,841
Other taxes	3,413,163			3,413,163
Fines	255,768			255,768
Licenses and fees	106,939			106,939
Charges for services	403,601			403,601
Intergovernmental	1,377,832			1,377,832
Interest	1,845	9,281	402	11,528
Grants and contributions			770,785	770,785
Miscellaneous	233,075	3,105	504,543	740,723
Total Revenue	<u>\$ 14,304,606</u>	<u>\$ 12,386</u>	<u>\$ 2,815,561</u>	<u>\$ 17,132,553</u>
EXPENDITURES:				
Current:				
City Council	\$ 75,041	\$ -	\$ -	\$ 75,041
Administration	197,727			197,727
City Secretary	77,782			77,782
Finance/accounting	317,960			317,960
Municipal Court	293,917			293,917
Police	4,244,258			4,244,258
Fire	2,553,053			2,553,053
Development services	582,446			582,446
Street	1,592,447			1,592,447
Health	246,162			246,162
Community services	611,212			611,212
Intergovernmental	196,529			196,529
Utility billing	212,800			212,800
Community facilities	413,317			413,317
Operations support	127,754			127,754
Purchasing/warehouse	184,681			184,681
Parks and recreation	1,135,944			1,135,944
Fleet services	478,197			478,197
City Attorney	179,619			179,619
Public works/engineering	348,210			348,210
Emergency management	26,639			26,639
Human resources	224,317			224,317
Fire Marshal	120,508			120,508
General fund contingency	374,353			374,353
Information technology	538,218			538,218
Transportation museum	108,616			108,616
Motel tax to CVB	287,455			287,455
Other	19,191			19,191
Special revenue funds			1,106,868	1,106,868
Capital outlay		1,672,417		1,672,417
Debt Service:				
Principal			965,000	965,000
Interest			678,090	678,090
Bond issuance costs			2,268	2,268
Fiscal agent fees			1,337	1,337
Total Expenditures	<u>\$ 15,768,353</u>	<u>\$ 1,672,417</u>	<u>\$ 2,753,563</u>	<u>\$ 20,194,333</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (1,463,747)</u>	<u>\$ (1,660,031)</u>	<u>\$ 61,998</u>	<u>\$ (3,061,780)</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, 2013

	<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	\$ (1,463,747)	\$ (1,660,031)	\$ 61,998	\$ (3,061,780)
OTHER FINANCING SOURCES (USES):				
Transfers in	\$ 1,391,641	\$ 50,856	\$ 2,268	\$ 1,444,765
Transfers out		(2,268)	(42,497)	(44,765)
Tax note proceeds		194,400		194,400
Note proceeds	234,480			234,480
Proceeds from sale of capital assets	1,395			1,395
Net Other Financing Sources (Uses)	\$ 1,627,516	\$ 242,988	\$ (40,229)	\$ 1,830,275
NET CHANGE IN FUND BALANCES	\$ 163,769	\$ (1,417,043)	\$ 21,769	\$ (1,231,505)
FUND BALANCE - BEGINNING OF YEAR	(359,047)	10,395,416	137,511	10,173,880
FUND BALANCE - END OF YEAR	\$ (195,278)	\$ 8,978,373	\$ 159,280	\$ 8,942,375

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, 2013

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (1,231,505)

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

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

Capital assets purchased	2,157,091
Depreciation and amortization	(1,794,027)

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	2,268
Refund of prior issuance costs	(42,497)
Current amortization of bond issuance costs	(28,557)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Principal advances on long-term debt	(428,880)
Principal payments on long-term debt	1,090,082
Additional accrual of compensated absences	22,387
Current amortization of bond premiums	11,854

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. (106,461)

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. 5,470

CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (342,775)

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENTS OF NET POSITION  
PROPRIETARY FUNDS

September 30, 2013

	<u>Business-Type Activities - Enterprise Fund</u>				Total
	<u>Major Funds</u>			Nonmajor Proprietary Fund	
	Water and Sewer Fund	Sanitation Fund	Airport Fund		
<u>ASSETS</u>					
Current Assets:					
Pooled cash and cash equivalents	\$ (1,232,966)	\$ (695,325)	\$ 11,204	\$ 17,111	\$ (1,899,976)
Non pooled cash and cash equivalents	2,500	727	400		3,627
Investments	1,659,975	1,178,806			2,838,781
Investments designated for closure and postclosure		925,816			925,816
Accounts receivable, net	947,543	414,109	45,876		1,407,528
Inventory	457,217		106,626		563,843
Prepaid expenses	8,887	3,870	263,101		275,858
Total Current Assets	<u>\$ 1,843,156</u>	<u>\$ 1,828,003</u>	<u>\$ 427,207</u>	<u>\$ 17,111</u>	<u>\$ 4,115,477</u>
Noncurrent Assets:					
Restricted assets	\$ 4,541,847		\$ 125,297	\$ -	\$ 4,667,144
Deferred charges	150,312		4,732		155,044
Capital assets, net	21,905,546	6,029,786	2,793,942		30,729,274
Total Noncurrent Assets	<u>\$ 26,597,705</u>	<u>\$ 6,029,786</u>	<u>\$ 2,923,971</u>	<u>\$ -</u>	<u>\$ 35,551,462</u>
<b>TOTAL ASSETS</b>	<u>\$ 28,440,861</u>	<u>\$ 7,857,789</u>	<u>\$ 3,351,178</u>	<u>\$ 17,111</u>	<u>\$ 39,666,939</u>
<u>LIABILITIES</u>					
Current Liabilities:					
Accounts payable	\$ 335,673	\$ 62,155	\$ 35,586	\$ -	\$ 433,414
Accrued salaries	37,210	32,364	6,568		76,142
Capital leases payable	14,342	502,647			516,989
Notes payable			35,520		35,520
Tax note payable			47,320		47,320
Bonds payable	352,753				352,753
Compensated absences	62,932	55,334	9,501		127,767
Total Current Liabilities	<u>\$ 802,910</u>	<u>\$ 652,500</u>	<u>\$ 134,495</u>	<u>\$ -</u>	<u>\$ 1,589,905</u>
Liabilities Payable from Restricted Assets:					
Bonds payable	\$ 477,247	\$ -	\$ -	\$ -	\$ 477,247
Total Liabilities Payable from Restricted Funds	<u>\$ 477,247</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 477,247</u>
Noncurrent Liabilities:					
Deferred revenue	\$ -	\$ -	\$ 94,093	\$ -	\$ 94,093
Compensated absences	14,450	16,037	1,255		31,742
Customer water meter deposits	692,086				692,086
Capital leases payable	22,066	1,116,650			1,138,716
Notes payable			231,339		231,339
Tax note payable			358,280		358,280
Bonds payable	10,912,006				10,912,006
Accrued landfill closure and postclosure care costs		3,381,096			3,381,096
Total Noncurrent Liabilities	<u>\$ 11,640,608</u>	<u>\$ 4,513,783</u>	<u>\$ 684,967</u>	<u>\$ -</u>	<u>\$ 16,839,358</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 12,920,765</u>	<u>\$ 5,166,283</u>	<u>\$ 819,462</u>	<u>\$ -</u>	<u>\$ 18,906,510</u>
<u>NET POSITION</u>					
Invested in capital assets, net of related debt	\$ 13,499,646	\$ 4,410,489	\$ 2,509,881	\$ -	\$ 20,420,016
Unrestricted	2,020,450	(1,718,983)	21,835	17,111	340,413
<b>TOTAL NET POSITION</b>	<u>\$ 15,520,096</u>	<u>\$ 2,691,506</u>	<u>\$ 2,531,716</u>	<u>\$ 17,111</u>	<u>\$ 20,760,429</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

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

For the Year Ended September 30, 2013

	Business-Type Activities - Enterprise Fund				Total
	Major Funds			Nonmajor Proprietary Fund	
	Water and Sewer Fund	Sanitation Fund	Airport Fund		
<b>OPERATING REVENUES:</b>					
Charges for service	\$ 9,018,475	\$ 4,663,599	\$ 973,076	\$ -	\$ 14,655,150
Miscellaneous	43,279	40,425	45	39,608	123,357
Total Operating Revenues	<u>\$ 9,061,754</u>	<u>\$ 4,704,024</u>	<u>\$ 973,121</u>	<u>\$ 39,608</u>	<u>\$ 14,778,507</u>
<b>OPERATING EXPENSES:</b>					
Personnel services	\$ 1,764,579	\$ 1,434,380	\$ 262,323	\$ 25,886	\$ 3,487,168
Supplies	352,089	558,029	707,174	3,095	1,620,387
Contractual	2,912,934	378,479	64,839	3,369	3,359,621
Maintenance	638,079	246,972	48,367	4,509	937,927
Sundry charges	706,196	343,200			1,049,396
Support services	698,400	430,800			1,129,200
Depreciation and amortization	1,060,723	1,063,978	269,968		2,394,669
Total Operating Expenses	<u>\$ 8,133,000</u>	<u>\$ 4,455,838</u>	<u>\$ 1,352,671</u>	<u>\$ 36,859</u>	<u>\$ 13,978,368</u>
<b>OPERATING GAIN (LOSS)</b>	<u>\$ 928,754</u>	<u>\$ 248,186</u>	<u>\$ (379,550)</u>	<u>\$ 2,749</u>	<u>\$ 800,139</u>
<b>NON-OPERATING REVENUE AND EXPENSE:</b>					
Sale of equipment	\$ -	\$ 30,000	\$ -	\$ -	\$ 30,000
Grant income	84,600	4,543	88,473		177,616
Interest income	2,549	1,454			4,003
Interest expense	(282,185)	(27,185)			(309,370)
Net Non-Operating Revenue (Expense)	<u>\$ (195,036)</u>	<u>\$ 8,812</u>	<u>\$ 88,473</u>	<u>\$ -</u>	<u>\$ (97,751)</u>
<b>GAIN (LOSS) BEFORE OPERATING TRANSFERS</b>	<u>\$ 733,718</u>	<u>\$ 256,998</u>	<u>\$ (291,077)</u>	<u>\$ 2,749</u>	<u>\$ 702,388</u>
<b>OPERATING TRANSFERS:</b>					
Operating transfers in	\$ -	\$ -	\$ 150,000	\$ -	\$ 150,000
Operating transfers out	(1,060,000)	(490,000)			(1,550,000)
Net Operating Transfers	<u>\$ (1,060,000)</u>	<u>\$ (490,000)</u>	<u>\$ 150,000</u>	<u>\$ -</u>	<u>\$ (1,400,000)</u>
<b>CHANGES IN NET POSITION</b>	<u>\$ (326,282)</u>	<u>\$ (233,002)</u>	<u>\$ (141,077)</u>	<u>\$ 2,749</u>	<u>\$ (697,612)</u>
<b>NET POSITION - BEGINNING AS RESTATED</b>	<u>15,846,378</u>	<u>2,924,508</u>	<u>2,672,793</u>	<u>14,362</u>	<u>21,458,041</u>
<b>NET POSITION - ENDING</b>	<u>\$ 15,520,096</u>	<u>\$ 2,691,506</u>	<u>\$ 2,531,716</u>	<u>\$ 17,111</u>	<u>\$ 20,760,429</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, 2013

	<u>Business-Type Activities - Enterprise Fund</u>				Total
	<u>Major Funds</u>			Nonmajor Proprietary Fund	
	Water and Sewer Fund	Sanitation Fund	Airport Fund		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash received from customers	\$ 9,210,022	\$ 4,672,661	\$ 953,118	\$ 39,608	\$ 14,875,409
Cash payments to suppliers for goods and services	(5,238,029)	(1,843,512)	(1,081,704)	(10,973)	(8,174,218)
Cash payments to employees for services	(1,761,516)	(1,423,258)	(259,938)	(25,886)	(3,470,598)
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,210,477</u>	<u>\$ 1,405,891</u>	<u>\$ (388,524)</u>	<u>\$ 2,749</u>	<u>\$ 3,230,593</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Increase in customer meter deposits	\$ 28,354	\$ -	\$ -	\$ -	\$ 28,354
Operating transfers in			150,000		150,000
Operating transfers out	(1,060,000)	(490,000)			(1,550,000)
Grant income		4,543			4,543
Net Cash Provided (Used) by Noncapital Financing Activities	<u>\$ (1,031,646)</u>	<u>\$ (485,457)</u>	<u>\$ 150,000</u>	<u>\$ -</u>	<u>\$ (1,367,103)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Proceeds from bonds	\$ 3,402,122	\$ -	\$ -	\$ -	\$ 3,402,122
Principal payments on bonds	(820,000)				(820,000)
Proceeds from tax note			400,868		400,868
Proceeds from notes and capital leases		27,508			27,508
Payments on notes and capital leases	(34,336)	(527,430)	(53,690)		(615,456)
Acquisition and construction of capital assets	(406,714)	(115,658)	(95,001)		(617,373)
Grant income	84,600		119,364		203,964
Interest expense	(378,670)	(27,185)			(405,855)
Sale of capital assets		30,000			30,000
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ 1,847,002</u>	<u>\$ (612,765)</u>	<u>\$ 371,541</u>	<u>\$ -</u>	<u>\$ 1,605,778</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchase of investments	\$ (4,871,588)	\$ (1,182,153)	\$ -	\$ -	\$ (6,053,741)
Sale of investments	1,569,639	668,900			2,238,539
Interest income	2,549	1,454			4,003
Net Cash Used by Investing Activities	<u>\$ (3,299,400)</u>	<u>\$ (511,799)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,811,199)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>\$ (273,567)</u>	<u>\$ (204,130)</u>	<u>\$ 133,017</u>	<u>\$ 2,749</u>	<u>\$ (341,931)</u>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>(264,722)</u>	<u>(490,468)</u>	<u>3,884</u>	<u>14,362</u>	<u>(736,944)</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ (538,289)</u>	<u>\$ (694,598)</u>	<u>\$ 136,901</u>	<u>\$ 17,111</u>	<u>\$ (1,078,875)</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, 2013

	<u>Business-Type Activities - Enterprise Fund</u>				Total
	<u>Major Funds</u>			Nonmajor Proprietary Fund	
	Water and Sewer Fund	Sanitation Fund	Airport Fund		
<b>RECONCILIATION OF OPERATING INCOME TO <u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>					
OPERATING GAIN (LOSS)	\$ 928,754	\$ 248,186	\$ (379,550)	\$ 2,749	\$ 800,139
<b>ADJUSTMENTS TO RECONCILE OPERATING GAIN (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>					
Depreciation and amortization	1,060,723	1,063,978	269,968		2,394,669
Closure and postclosure care costs		107,788			107,788
Changes in assets and liabilities:					
Receivables	148,268	(31,363)	(12,425)		104,480
Inventories	154,551		(9,078)		145,473
Prepaid expense	(7,872)	(3,870)	(263,101)		(274,843)
Accounts payable	(77,010)	10,050	10,855		(56,105)
Accrued salaries	1,197	5,888	2,453		9,538
Compensated absences	1,866	5,234	(68)		7,032
Deferred revenue			(7,578)		(7,578)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 2,210,477</b>	<b>\$ 1,405,891</b>	<b>\$ (388,524)</b>	<b>\$ 2,749</b>	<b>\$ 3,230,593</b>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

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

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

Financial Reporting Entity

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

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

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

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

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

Brownwood Economic Development Corporation  
501 Center Avenue  
Brownwood, Texas 76801

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2013

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

Basis of Presentation

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

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.

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.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2013

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

Basis of Presentation (Cont.)

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

The City has presented the following major proprietary funds:

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

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable"

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2013

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

Measurement Focus/Basis of Accounting (Cont.)

means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

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

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

Budgets and Budgetary Accounting

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

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

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

Cash and Investments

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

Inventories

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

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2013

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

Interfund Receivables and Payables

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

Transactions Between Funds

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

Receivables

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

Capital Assets

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

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

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

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

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 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

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2013

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

Compensated Absences (cont.)

Leave Pool Committee. No more than 90 days may be used from the pool during their employment. When a member leaves employment with the City all unused hours the employee has donated to the pool are removed from the pool.

Use of Estimates

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

Government-wide and Proprietary Net Position

In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This Statement provides financial reporting guidance for deferred outflows and inflows of resources, which Concepts Statement No. 4 introduced and defined those elements as consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. This Statement amends the net assets reporting requirements of Statement No. 34 by incorporating deferred inflows and outflows into the definitions of the required components of residual measure and by renaming that measure as net position, rather than net assets. This Statement became effective for the current fiscal year and has been adopted accordingly. All references in the report, financial statements and footnotes to net assets have been changed to net position.

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

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

Governmental Fund Balance

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

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

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2013

NOTE 1: SUMMARY OF ACCOUNTING POLICIES (CONT.)

Governmental Fund Balance (Cont.)

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.

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. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. At September 30, 2013, \$1,289,617 of the City's deposit balances were exposed to custodial credit risk by being uninsured by FDIC but collateralized by securities held by the pledging financial institution's agent not in the City's name.

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

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2013

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, 2013, TexPool's portfolio maintained a weighted average maturity of approximately 60 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, 2013, TexStar's portfolio maintained a weighted average maturity of approximately 51 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, 2013, 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, 2013 are as follows:

	Water and Sewer Fund	Sanitation Fund	Airport Fund	Pecan Field Station Fund
Pooled cash and cash equivalents	\$ (1,232,966)	\$ (695,325)	\$ 11,204	\$ 17,111
Non pooled cash and cash equivalents	2,500	727	400	
Restricted cash	692,177		125,297	
 Total	 \$ (538,289)	 \$ (694,598)	 \$ 136,901	 \$ 17,111

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2013

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, 2013:

	Governmental Activities	Business-type Activities
Restricted for debt service payments	\$ 81,308	\$ 477,247
Restricted for drug awareness education	3,494	
Restricted for law enforcement	15,570	
Restricted for vehicular child safety	17,774	
Restricted for beautification	535	
Restricted for municipal court	56,880	
Restricted for tourism promotion	41,833	
Restricted for Fabis Park	67,645	
Restricted for construction or purchase of fixed assets	8,932,100	3,497,811
Restricted for customer deposits		692,086
	<u>\$ 9,217,139</u>	<u>\$ 4,667,144</u>
Total Restricted Assets		

Restricted assets included \$1,342,141 in cash and \$12,542,142 in investments.

NOTE 5: RECEIVABLES

A summary of the net receivables at September 30, 2013 is as follows:

	Governmental Activities	Business-type Activities	Component Unit
Ad valorem taxes	\$ 437,368	\$ -	\$ -
Sales taxes	789,918		263,306
Utility		2,544,603	
Warrants and citations	283,429		
Airport		18,993	
Grants receivable	105,339	29,883	
Other receivables	252,262	474	6,000
Notes receivable			2,509,601
	<u>\$ 1,868,316</u>	<u>\$ 2,593,953</u>	<u>\$ 2,778,907</u>
Less allowance for uncollectable accounts	(306,820)	(1,186,425)	(30,000)
Receivables, net	<u>\$ 1,561,496</u>	<u>\$ 1,407,528</u>	<u>\$ 2,748,907</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2013

NOTE 6: CAPITAL ASSETS

Capital asset activity in the City for the year ended September 30, 2013 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 2,768,975	\$ -	\$ -	\$ 2,768,975
Construction in progress	52,468	1,672,417	(1,000,841)	724,044
Total capital assets not being depreciated	<u>\$ 2,821,443</u>	<u>\$ 1,672,417</u>	<u>\$ (1,000,841)</u>	<u>\$ 3,493,019</u>
Capital assets being depreciated and amortized:				
Building and grounds	\$ 11,991,399	\$ 45,934	\$ -	\$ 12,037,333
Improvements	51,054,564	961,078		52,015,642
Machinery/equipment	10,694,269	393,129	(114,219)	10,973,179
Intangible assets	920,907	85,374		1,006,281
Total capital assets being depreciated and amortized	<u>\$ 74,661,139</u>	<u>\$ 1,485,515</u>	<u>\$ (114,219)</u>	<u>\$ 76,032,435</u>
Less accumulated depreciation and amortization:				
Buildings	\$ (4,242,312)	\$ (277,421)	\$ -	\$ (4,519,733)
Improvements	(32,115,025)	(1,146,508)		(33,261,533)
Machinery/equipment	(9,858,823)	(340,775)	114,219	(10,085,379)
Intangible assets	(501,023)	(29,323)		(530,346)
Total accumulated depreciation and amortization	<u>\$ (46,717,183)</u>	<u>\$ (1,794,027)</u>	<u>\$ 114,219</u>	<u>\$ (48,396,991)</u>
Total Capital Assets Being Depreciated and Amortized, Net	<u>\$ 27,943,956</u>	<u>\$ (308,512)</u>	<u>\$ -</u>	<u>\$ 27,635,444</u>
Governmental Activities Capital Assets, Net	<u>\$ 30,765,399</u>	<u>\$ 1,363,905</u>	<u>\$ (1,000,841)</u>	<u>\$ 31,128,463</u>
Business-type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 383,351	\$ -	\$ -	\$ 383,351
Construction in progress	515,960	444,179	(328,444)	631,695
Total capital assets not being depreciated	<u>\$ 899,311</u>	<u>\$ 444,179</u>	<u>\$ (328,444)</u>	<u>\$ 1,015,046</u>
Capital assets being depreciated and amortized:				
Building and grounds	\$ 3,164,506	\$ -	\$ -	\$ 3,164,506
Improvements	72,927,983	548,099		73,476,082
Landfill cell development	9,852,042	43,483		9,895,525
Machinery/equipment	13,500,504	145,690	(95,547)	13,550,647
Total capital assets being depreciated and amortized	<u>\$ 99,445,035</u>	<u>\$ 737,272</u>	<u>\$ (95,547)</u>	<u>\$ 100,086,760</u>
Less accumulated depreciation and amortization:				
Buildings	\$ (2,215,222)	\$ (101,207)	\$ -	\$ (2,316,429)
Improvements	(49,278,576)	(1,177,217)		(50,455,793)
Landfill cell development	(5,498,819)	(426,935)		(5,925,754)
Machinery/equipment	(11,080,793)	(689,310)	95,547	(11,674,556)
Total accumulated depreciation and amortization	<u>\$ (68,073,410)</u>	<u>\$ (2,394,669)</u>	<u>\$ 95,547</u>	<u>\$ (70,372,532)</u>
Total Capital Assets Being Depreciated and Amortized, Net	<u>\$ 31,371,625</u>	<u>\$ (1,657,397)</u>	<u>\$ -</u>	<u>\$ 29,714,228</u>
Business-type Activities Capital Assets, Net	<u>\$ 32,270,936</u>	<u>\$ (1,213,218)</u>	<u>\$ (328,444)</u>	<u>\$ 30,729,274</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2013

NOTE 6: CAPITAL ASSETS (CONT.)

Assets under capital leases totaled \$2,668,697 in governmental funds and \$6,689,159 in the business type funds. Accumulated amortization on those assets at September 30, 2013 amounted to \$2,138,901 and \$5,113,253, respectively. This equipment is being amortized over 3 to 20 years. The amount of the amortization for the year ended September 30, 2013 was \$172,324 and \$599,104 in the governmental and business-type activities respectively.

Construction period interest capitalized in the current year amounts to \$112,216.

Depreciation and amortization expense was charged to the following functions:

Governmental Activities:		
General government	\$	220,370
Police		96,764
Fire		93,382
Street		966,895
Health		3,761
Community facilities		158,171
Parks and recreation		254,684
	\$	<u>1,794,027</u>
Business-type Activities:		
Water	\$	771,594
Waste water		284,822
Waste water treatment		4,307
Sanitation		282,318
Landfill		781,660
Airport		269,968
	\$	<u>2,394,669</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2013

NOTE 7: LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended September 30, 2013:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds, Notes and Leases Payable:					
Certificates of obligation	\$ 14,690,000	\$ -	\$ (370,000)	\$ 14,320,000	\$ 715,000
General obligation bonds	1,160,000		(595,000)	565,000	385,000
Tax note payable	-	194,400		194,400	22,680
Capital leases payable	321,481	234,480	(125,082)	430,879	128,350
	<u>\$ 16,171,481</u>	<u>\$ 428,880</u>	<u>\$ (1,090,082)</u>	<u>\$ 15,510,279</u>	<u>\$ 1,251,030</u>
Deferred amount for premium	163,135		(11,854)	151,281	
Total Bonds, Notes and Leases Payable	<u>\$ 16,334,616</u>	<u>\$ 428,880</u>	<u>\$ (1,101,936)</u>	<u>\$ 15,661,560</u>	<u>\$ 1,251,030</u>
Compensated absences	1,440,053	314,711	(360,404)	1,394,360	1,050,074
Total Governmental Activities	<u>\$ 17,774,669</u>	<u>\$ 743,591</u>	<u>\$ (1,462,340)</u>	<u>\$ 17,055,920</u>	<u>\$ 2,301,104</u>
Business-type Activities:					
Bonds, Notes and Leases Payable:					
Certificates of obligation	\$ 4,540,000	\$ 3,440,000	\$ (285,000)	\$ 7,695,000	\$ 290,000
General obligation bonds	4,535,000		(535,000)	4,000,000	540,000
Tax note payable	-	405,600		405,600	47,320
Notes payable	320,549		(53,690)	266,859	35,520
Capital leases payable	2,189,963	27,508	(561,766)	1,655,705	516,989
	<u>\$ 11,585,512</u>	<u>\$ 3,873,108</u>	<u>\$ (1,435,456)</u>	<u>\$ 14,023,164</u>	<u>\$ 1,429,829</u>
Deferred amount on refunding	(47,453)		5,583	(41,870)	
Deferred amount for premium	101,258		(12,382)	88,876	
Total Bonds, Notes and Leases Payable	<u>\$ 11,639,317</u>	<u>\$ 3,873,108</u>	<u>\$ (1,442,255)</u>	<u>\$ 14,070,170</u>	<u>\$ 1,429,829</u>
Compensated absences	152,477	91,888	(84,856)	159,509	127,767
Total Business-type Activities	<u>\$ 11,791,794</u>	<u>\$ 3,964,996</u>	<u>\$ (1,527,111)</u>	<u>\$ 14,229,679</u>	<u>\$ 1,557,596</u>
Total Primary Government	<u>\$ 29,566,463</u>	<u>\$ 4,708,587</u>	<u>\$ (2,989,451)</u>	<u>\$ 31,285,599</u>	<u>\$ 3,858,700</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. Tax notes are used to fund specific projects and are generally repaid from tax revenues over shorter periods of time.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2013

NOTE 7: LONG-TERM OBLIGATIONS (CONT.)

A summary of the bonds follows:

	Date of Issue	Original Amount	Interest Rate	Maturity Date	Amount Outstanding 9/30/2013
Combination tax and revenue certificates of obligation:					
Series 2002	4/15/2002	\$ 2,000,000	4.45 to 5.25%	3/15/2021	\$ 1,125,000
Series 2003	7/15/2003	2,375,000	3.0 to 4.0%	3/15/2018	970,000
Series 2005	9/1/2005	1,995,000	4.0 to 4.5%	3/15/2026	1,475,000
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	565,000
					<u>\$ 14,885,000</u>

The following represents the future maturities on these bonds:

Year Ending September 30,	Principal	Interest	Total
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	915,000	419,299	1,334,299
2019-2023	3,650,000	1,613,069	5,263,069
2024-2028	3,535,000	922,387	4,457,387
2029-2032	2,960,000	246,234	3,206,234
Total	<u>\$ 14,885,000</u>	<u>\$ 5,211,013</u>	<u>\$ 20,096,013</u>

On September 26, 2013, the City issued the Tax Note, Taxable Series 2013 in the face amount of \$600,000. The note was issued to pay costs associated with improving, renovating and equipping both governmental and business-type municipal facilities. As result, \$194,400 of the proceeds are accounted for in governmental activities and \$405,600 are accounted for in business-type activities. Principal payments begin September 15, 2014 and continue through September 15, 2020 with interest rates from 4.0% to 4.7%.

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

Year Ending September 30,	Principal	Interest	Total
2014	\$ 22,680	\$ 8,260	\$ 30,940
2015	25,920	7,613	33,533
2016	25,920	6,550	32,470
2017	27,540	5,449	32,989
2018	29,160	4,251	33,411
2018-2020	63,180	4,461	67,641
Total	<u>\$ 194,400</u>	<u>\$ 36,584</u>	<u>\$ 230,984</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2013

NOTE 7: LONG-TERM OBLIGATIONS (CONT.)

Governmental activities are obligated under a number of long-term capital leases. In the prior year, one of those leases was considered a short-term obligation expected to be refinanced due to cancellation provisions subject to annual appropriations by the City Council. During the current year, this lease was refinanced into long-term obligations secured by an ad valorem tax pledge as well as the asset subject to lease. This refinanced lease is now included in long-term obligations accordingly.

The following represents the future maturities on these capital leases:

Year Ending September 30,	Principal	Interest	Total
2014	\$ 128,350	\$ 7,722	\$ 136,072
2015	118,055	5,201	123,256
2016	96,629	2,992	99,621
2017	67,652	1,206	68,858
2018	20,193	152	20,345
Total	<u>\$ 430,879</u>	<u>\$ 17,273</u>	<u>\$ 448,152</u>

Business-type activities

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

	Date of Issue	Original Amount	Interest Rate	Maturity Date	Amount Outstanding 9/30/2013
Combination tax and revenue certificates of obligation:					
Series 2004	3/15/2004	\$ 6,335,000	.3 to 3.35%	3/15/2022	\$ 4,255,000
Series 2012A	12/1/2012	3,440,000	1.96 to 4.64%	3/15/2044	3,440,000
Combination tax and revenue refunding general obligation,					
Series 2005	9/1/2005	1,030,000	3.5 to 3.625%	3/15/2015	100,000
General obligation refunding bonds,					
Series 2010	3/15/2010	5,050,000	2.0 to 4.0%	3/15/2021	<u>3,900,000</u>
					<u>\$ 11,695,000</u>

On December 1, 2012, the City issued the Combination Tax and Surplus Revenue Certificate of Obligation, Series 2012A in the face amount of \$3,440,000. The bond was issued to provide funds for improvements to the water and wastewater treatment plants. Principal payments begin March 15, 2015 and continue through March 15, 2044 with interest rates from 1.96% to 4.64%.

The following represents the future maturities on these bonds:

Year Ending September 30,	Principal	Interest	Total
2014	\$ 830,000	\$ 389,830	\$ 1,219,830
2015	815,000	370,114	1,185,114
2016	835,000	348,317	1,183,317
2017	860,000	324,296	1,184,296
2018	890,000	297,755	1,187,755
2019-2023	3,820,000	1,040,742	4,860,742
2024-2028	1,310,000	601,830	1,911,830
2029-2033	560,000	468,306	1,028,306
2034-2038	700,000	331,831	1,031,831
2039-2043	875,000	151,495	1,026,495
2044	200,000	4,640	204,640
Total	<u>\$ 11,695,000</u>	<u>\$ 4,329,156</u>	<u>\$ 16,024,156</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2013

NOTE 7: LONG-TERM OBLIGATIONS (CONT.)

The Tax Note, Taxable Series 2013 issued in the current year is discussed above. The following represents the future maturities on the business-type portion of this tax note:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 47,320	\$ 17,234	\$ 64,554
2015	54,080	15,885	69,965
2016	54,080	13,667	67,747
2017	57,460	11,369	68,829
2018	60,840	8,869	69,709
2018-2020	131,820	9,308	141,128
Total	<u>\$ 405,600</u>	<u>\$ 76,332</u>	<u>\$ 481,932</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 was a one year note due on September 30 with a principal payment of \$16,000 due on September 15. The expectation was that it would be refinanced each year on the same terms with interest at zero percent. The note was paid off in the current year.

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, 2013 is \$266,859.

The following represents the future maturities on this note:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 35,520	\$ -	\$ 35,520
2015	35,520	-	35,520
2016	35,520	-	35,520
2017	35,520	-	35,520
2018	35,520	-	35,520
2019-2022	89,259	-	89,259
Total	<u>\$ 266,859</u>	<u>\$ -</u>	<u>\$ 266,859</u>

Business-type activities are obligated under a number of long-term capital leases. In the prior year, one of those leases was considered a short-term obligation expected to be refinanced due to cancellation provisions subject to annual appropriations by the City Council. During the current year, this lease was refinanced into long-term obligations secured by an ad valorem tax pledge as well as the asset subject to lease. This refinanced lease is now included in long-term obligations accordingly.

The following represents the future maturities on these capital leases:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 516,989	\$ 29,465	\$ 546,454
2015	641,681	21,504	663,185
2016	451,156	8,384	459,540
2017	45,879	385	46,264
Total	<u>\$ 1,655,705</u>	<u>\$ 59,738</u>	<u>\$ 1,715,443</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2013

NOTE 8: LONG-TERM OBLIGATIONS - BEDC

The following is a summary of changes in long-term obligations for the year ended September 30, 2013:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Note payable	\$ 2,040,866	\$ -	\$ (236,758)	\$ 1,804,108	\$ 242,115
Compensated absences	1,866	466	(1,191)	1,141	1,009
	<u>\$ 2,042,732</u>	<u>\$ 466</u>	<u>\$ (237,949)</u>	<u>\$ 1,805,249</u>	<u>\$ 243,124</u>

BEDC has a note payable to Citizens National Bank of Brownwood dated December 30, 2011 with a balance of \$1,804,108. The note bears interest at 65% of Wall Street Journal prime rate which was 2.015% at September 30, 2013 and is payable in monthly payments of \$23,020 through September 30, 2020. The note is secured by a pledge of sales tax revenues and the assignment of a promissory note from Superior Essex Communications LP to BEDC.

The following represents the future maturities on this note:

Year Ending September 30,	Principal	Interest	Total
2014	\$ 242,115	\$ 34,125	\$ 276,240
2015	247,039	29,201	276,240
2016	252,063	24,177	276,240
2017	257,189	19,051	276,240
2018	262,420	13,820	276,240
2019-2020	543,282	11,521	554,803
Total	<u>\$ 1,804,108</u>	<u>\$ 131,895</u>	<u>\$ 1,936,003</u>

NOTE 9: LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

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

The estimated liability for landfill closure and postclosure care costs has a balance of \$3,381,096 as of September 30, 2013 which is based on 23.14% usage (filled) of the overall landfill. It is estimated that an additional \$5,336,455 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, \$8,286,127, 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, 2013. 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 \$9,228,927 and is being met by the government financial test specified in 30 TAC Chapter 37.271.

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

September 30, 2013

NOTE 10: 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 2012	Plan Year 2013
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)	1,254,894	29,450
2. Interest on Net Pension Obligation	0	0
3. Adjustment to the ARC	0	0
4. Annual Pension cost (APC)	1,254,894	29,450
5. Contributions Made	1,254,894	29,450
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, 2013

NOTE 10: 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)
2011	1,180,244	1,180,244	100%	0
2012	1,255,122	1,255,122	100%	0
2013	1,254,894	1,254,894	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)
2011	38,552	38,552	100%	0
2012	28,284	28,284	100%	0
2013	29,450	29,450	100%	0

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuation. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Valuation Date	12/31/2010	12/31/2011	12/31/2012
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	27.3 years;closed period	26.3 years;closed period	25.3 years;closed period
Plan 30190 Health Dept.	23.6 years;closed period	22.6 years;closed period	21.2 years;closed period
Amortization Period for new Gains/Losses:			
Plan 10190 City	30 years	30 years	30 years
Plan 30190 Health Dept.	17 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 *	7.0%	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, 2013

NOTE 10: PENSION PLANS (CONT.)

Contributions (Cont.)

The funded status as of December 31, 2012, 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	12/31/2012	\$ 31,259,602	\$ 37,869,829	82.5%	\$ 6,610,227	\$ 8,447,299	78.3%
Plan 30190	12/31/2012	\$ 964,245	\$ 1,031,140	93.5%	\$ 66,895	\$ 376,902	17.7%

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:

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 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.

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.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2013

NOTE 10: PENSION PLANS (CONT.)

Contributions Required and Contributions Made

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.

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.

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 32-year amortization period in the December 31, 2011 actuarial valuation is based on the assumption that these contribution rates will continue to be made into the future.

For the fiscal year ending September 30, 2013, the City of Brownwood's Annual Pension Cost (APC) for the Brownwood Firefighter's Relief and Retirement Fund was equal to \$328,522 as described in item 4 of the Net Pension Obligation development below. Based on the results of the December 31, 2011 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 contribution arrangement based on the current level of the firefighter contribution rate and the City of Brownwood contribution rate.

The Annual Required Contributions (ARC) by the City for the fiscal year ending September 30, 2013 were based on the results of the actuarial valuation as of December 31, 2009 and December 31, 2011 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	12/31/2009	12/31/2011
Actuarial cost method	Entry age	Entry age
Amortization method	Level percent of payroll, open	Level percent of payroll, open
Amortization period for ARC	27 years	30 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 as percent of payroll for plan (calendar) year	2010-20.00%	2012-20.48%
	2011-20.00%	2013-20.48%

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2013

NOTE 10: PENSION PLANS (CONT.)

Development of the Net Pension Obligation (NPO) as of September 30, 2013:

1. Annual Required Contributions (ARC)	\$ 328,522
2. Interest on NPO	+ 0
3. Adjustment to ARC	- 0
4. Annual Pension Cost (APC)(sum of 1,2, and 3)	\$ 328,522
5. Actual City contributions made	- 328,522
6. Increase (decrease) in NPO (subtract 5 from 4)	\$ 0
7. NPO at October 1, 2012	\$ 0
8. NPO at September 30, 2013 (sum of 6 and 7)	\$ 0

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/(Asset)
2011	308,698	308,698	100%	0
2012	319,433	319,433	100%	0
2013	328,522	328,522	100%	0

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	Entry Age 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)
	12/31/2011	\$ 2,848,174	\$ 7,137,177	39.9%	\$ 4,289,003	\$ 1,609,304	267%

NOTE 11: TRANSFERS

Transfers to/from other funds during the year ended September 30, 2013, consist of the following:

From Utility Fund to the General Fund to supplement the functions of that fund	\$ 910,000
From Sanitation Fund to General Fund to supplement the functions of that fund	490,000

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2013

NOTE 12: COMMITMENTS

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

In November 2009, the BEDC board approved a five year incentive to 3M Company of \$400,000. At September 30, 2013 there is \$160,000 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, 2013 there is \$2,470 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, 2013 there is \$100,000 remaining to be paid on this incentive. In June 2013, the BEDC board approved a six year incentive to B & W Carrier, Inc. dba Willie's T's of up to \$100,000. No payments were made on this commitment during the current fiscal year.

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, 2013 the unpaid balance was \$13,195,000 with an additional \$3,060,000 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, 2013 including multiple street improvements, soccer fields, a fire station, waste water treatment plant improvements, landfill construction and airport improvements. Total estimated cost of these projects is approximately \$20,460,000 with remaining costs of approximately \$18,281,000 at September 30, 2013.

In September 2012, Texas Water Development Board approved an application from the City to borrow \$12,000,000 from Texas Water Developmental Fund II for renovations to the waste water treatment plant and for construction of a new supplemental water treatment plant. Certificate of Obligation, Series 2012A for \$3,440,000 was issued in December 2012 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.

NOTE 13: 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 14: SUBSEQUENT EVENTS

Subsequent to year end the City issued the Combination Tax and Revenue Certificate of Obligation, Series 2013 for \$3,870,000 to provide funds for landfill improvements.

Subsequent to September 30, 2013, BECD committed to providing an economic development incentive not to exceed \$360,000 to a major grocery store. The incentive is a reimbursement for site work in the construction of a store in Brownwood.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2013

NOTE 15: 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 position to cover any potential losses on the non-covered vehicles. The City employee health care is provided by commercial insurance with no risk retained by the City. The management of the City has not been notified and is not aware of any significant claims against the City not covered by insurance.

NOTE 16: UTILITY

The Utility Department was serving the following number of customers:

	9/30/13	9/30/12
Water Department	7,365	7,345
Sewer Department	6,886	6,883
Sanitation Department	7,058	7,043

NOTE 17: ELECTED OFFICIALS

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

NOTE 18: 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

NOTE 19: INSURANCE COVERAGE - BUILDINGS AND CONTENTS

A summary of the buildings and contents insurance coverage follows:

Insurer:	Texas Municipal League	
Expiration date:	October 1 through September 30	
Coverage:	Buildings	\$ 49,282,498
	Contents	4,102,287
Risk covered:	Fire, lightning, extended coverage including Replacement cost endorsement.	

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2013

NOTE 20: RESTATEMENT OF NET POSITION

During the current year it was determined that prior year airport grant revenues were not recorded in error and airport grant match was capitalized in error. These items were corrected in the current year by restating beginning net position in the Airport fund. Beginning net position was increased by \$104,070 and the change in net position in the preceding years would have been increased by the same amount. There is no effect on the change in net position for the current year.

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:						
12/31/2010	\$ 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
12/31/2012	31,259,602	37,869,829	82.5	6,610,227	8,447,299	78.3
Plan 3: (Health Department)						
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
12/31/2012	964,245	1,031,140	93.5	66,895	376,902	17.7
Brownwood Firefighter's Relief and Retirement Fund (an actuarial study done every 2 years)						
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
12/31/2011	2,848,174	7,137,177	39.9	4,289,003	1,609,304	267.0

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

For the Year Ended September 30, 2013

	Original Budget	Final Budget	Actual Budgetary Basis (See Note A)	Variance with Final Budget Positive (Negative)
<b>RESOURCES (INFLOWS):</b>				
Ad valorem taxes	\$ 3,825,215	\$ 3,825,215	\$ 3,932,542	\$ 107,327
Sales tax	4,650,000	4,650,000	4,527,292	(122,708)
Other taxes	3,180,700	3,180,700	3,413,163	232,463
Fines	271,500	271,500	255,768	(15,732)
License and fees	77,100	77,100	106,939	29,839
Charges for services	417,600	417,600	403,601	(13,999)
Intergovernmental	1,365,810	1,365,810	1,377,832	12,022
Miscellaneous	38,800	38,800	234,920	196,120
Total Resources (Inflows)	<u>\$ 13,826,725</u>	<u>\$ 13,826,725</u>	<u>\$ 14,252,057</u>	<u>\$ 425,332</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
City Council	\$ 83,616	\$ 83,616	\$ 75,041	\$ 8,575
Administration	211,039	211,039	196,895	14,144
City Secretary	81,836	81,836	77,661	4,175
Finance/Accounting	320,245	320,245	319,364	881
Municipal Court	297,529	297,529	293,911	3,618
Police	4,354,319	4,354,319	4,179,566	174,753
Fire	2,627,640	2,627,640	2,590,504	37,136
Development services	643,482	643,482	581,772	61,710
Street	1,585,594	1,585,594	1,594,909	(9,315)
Health	243,055	243,055	244,541	(1,486)
Community services	610,343	612,343	611,212	1,131
Intergovernmental	208,796	208,796	196,529	12,267
Utility billing	216,983	216,983	211,950	5,033
Community facilities	362,642	368,813	415,167	(46,354)
Operations support	153,310	153,310	127,288	26,022
Purchasing/warehouse	177,202	177,902	180,029	(2,127)
Parks and recreation	1,129,601	1,138,601	1,132,670	5,931
Fleet services	485,508	485,508	479,534	5,974
City Attorney	182,935	182,935	179,252	3,683
Public works/engineering	364,864	364,864	344,555	20,309
Emergency management	20,900	20,900	26,639	(5,739)
Human Resources	218,904	220,604	221,639	(1,035)
Fire Marshall	125,213	125,213	120,310	4,903
General fund contingency	127,000	127,000	374,353	(247,353)
Information technology	372,987	372,987	534,159	(161,172)
Transportation museum	109,143	111,143	107,816	3,327
Motel tax to CVB	-	-	287,455	(287,455)
Other	-	-	19,189	(19,189)
Total Charges to Appropriations (Outflows)	<u>\$ 15,314,686</u>	<u>\$ 15,336,257</u>	<u>\$ 15,723,910</u>	<u>\$ (387,653)</u>
EXCESS CHARGES TO APPROPRIATIONS	\$ (1,487,961)	\$ (1,509,532)	\$ (1,471,853)	\$ 37,679
FUND BALANCE - BEGINNING	<u>(4,244,763)</u>	<u>(4,244,763)</u>	<u>(4,244,763)</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ (5,732,724)</u>	<u>\$ (5,754,295)</u>	<u>\$ (5,716,616)</u>	<u>\$ -</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BUDGETARY COMPARISON SCHEDULE

For the Year Ended September 30, 2013

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.	\$ 14,252,057
The City budgets for sales tax based on the amount collected rather than on the modified accrual basis.	<u>52,549</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances governmental fund.	<u>\$ 14,304,606</u>

Uses/outflows of Resources:

Actual amount (budgetary basis) charges to appropriations from the budgetary comparison schedule.	\$ 15,723,910
The City budgets for salaries on the cash basis rather than on the modified accrual basis.	67,750
The City budgets for compensated absences on the cash basis rather than the modified accrual basis.	<u>(23,307)</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances governmental fund.	<u>\$ 15,768,353</u>

SUPPLEMENTARY INFORMATION

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

OTHER GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS

September 30, 2013

	Total Debt Service Fund	Total Special Revenue Fund	Total Other Governmental Funds
<u>ASSETS</u>			
ASSETS:			
Pooled cash and cash equivalents	\$ -	\$ (25,053)	\$ (25,053)
Non pooled cash and cash equivalents		25	25
Receivables, net	100,317	112,296	212,613
Restricted assets	81,308	67,645	148,953
	<u>\$ 181,625</u>	<u>\$ 154,913</u>	<u>\$ 336,538</u>
<u>LIABILITIES AND FUND BALANCES</u>			
LIABILITIES:			
Accounts payable	\$ -	\$ 25,857	\$ 25,857
Accrued payroll		16,334	16,334
Internal balances	34,750		34,750
Deferred ad valorem taxes	100,317		100,317
	<u>\$ 135,067</u>	<u>\$ 42,191</u>	<u>\$ 177,258</u>
FUND BALANCES:			
Restricted for:			
Debt service	\$ 46,558	\$ -	\$ 46,558
Fabis Park		67,645	67,645
Assigned to:			
Health and nutrition programs		28,270	28,270
Unassigned		16,807	16,807
	<u>\$ 46,558</u>	<u>\$ 112,722</u>	<u>\$ 159,280</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 181,625</u>	<u>\$ 154,913</u>	<u>\$ 336,538</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, 2013

	Total Debt Service Fund	Total Special Revenue Fund	Total Other Governmental Funds
<b>REVENUES:</b>			
Ad valorem taxes	\$ 1,539,831	\$ -	\$ 1,539,831
Grants and contributions		770,785	770,785
Other revenue	151,709	352,834	504,543
Interest	338	64	402
Total Revenues	\$ 1,691,878	\$ 1,123,683	\$ 2,815,561
<b>EXPENDITURES:</b>			
Debt service:			
Principal	\$ 965,000	\$ -	\$ 965,000
Interest	678,090		678,090
Bond issuance costs	2,268		2,268
Fiscal agent fees	1,337		1,337
Special revenue fund		1,106,868	1,106,868
Total Expenditures	\$ 1,646,695	\$ 1,106,868	\$ 2,753,563
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	\$ 45,183	\$ 16,815	\$ 61,998
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	\$ 2,268	\$ -	\$ 2,268
Transfers out	(42,497)		(42,497)
Total Other Financing Sources (Uses)	\$ (40,229)	\$ -	\$ (40,229)
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES</b>	\$ 4,954	\$ 16,815	\$ 21,769
<b>FUND BALANCE - BEGINNING OF YEAR</b>	41,604	95,907	137,511
<b>FUND BALANCE - END OF YEAR</b>	\$ 46,558	\$ 112,722	\$ 159,280

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

GENERAL FUND  
COMPARATIVE BALANCE SHEET

September 30, 2013 and 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
<b>ASSETS:</b>		
Pooled cash and cash equivalents	\$ 598,151	\$ 471,057
Non pooled cash and cash equivalents	1,390	1,390
Investments	128	879
Receivables, net	1,219,084	1,201,038
Internal balances	34,750	-
Inventory	17,340	18,786
Prepaid expense	4,833	4,189
Restricted assets	136,086	138,194
<b>TOTAL ASSETS</b>	<b><u>\$ 2,011,762</u></b>	<b><u>\$ 1,835,533</u></b>
 <u>LIABILITIES AND FUND BALANCES</u>  		
<b>LIABILITIES:</b>		
Accounts payable	\$ 567,576	\$ 508,090
Accrued salaries	274,208	206,460
Deferred ad valorem taxes	315,182	406,650
Compensated absences	1,050,074	1,073,380
<b>TOTAL LIABILITIES</b>	<b><u>\$ 2,207,040</u></b>	<b><u>\$ 2,194,580</u></b>
 <b>FUND BALANCES:</b>		
Nonspendable:		
Internal balances	\$ 34,750	\$ -
Inventory	17,340	18,786
Prepaid expense	4,833	4,189
Restricted for:		
Municipal Court	56,623	78,068
Tourism promotion	41,833	29,378
Vehicular child safety	17,774	19,039
Law enforcement	15,570	7,679
Drug awareness education	3,494	3,494
Beautification	22	536
Unassigned	(387,517)	(520,216)
<b>TOTAL FUND BALANCES</b>	<b><u>\$ (195,278)</u></b>	<b><u>\$ (359,047)</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 2,011,762</u></b>	<b><u>\$ 1,835,533</u></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, 2013 and 2012

	2013	2012
<b>REVENUES:</b>		
Ad valorem taxes	\$ 3,932,542	\$ 4,287,841
Sales taxes	4,579,841	4,489,108
Other taxes	3,413,163	2,978,538
Fines	255,768	291,701
Licenses and fees	106,939	115,200
Charges for services	403,601	374,958
Intergovernmental	1,377,832	1,210,701
Interest	1,845	2,179
Grants and contributions	-	3,259
Miscellaneous	233,075	127,002
Total Revenues	\$ 14,304,606	\$ 13,880,487
<b>EXPENDITURES:</b>		
City Council	\$ 75,041	\$ 100,701
Administration	197,727	217,978
City Secretary	77,782	77,148
Finance/accounting	317,960	308,904
Municipal court	293,917	294,380
Police	4,244,258	4,344,536
Fire	2,553,053	2,660,069
Development services	582,446	563,956
Street	1,592,447	1,895,157
Health	246,162	236,470
Community services	611,212	564,319
Intergovernmental	196,529	201,725
Utility billing	212,800	198,339
Community facilities	413,317	360,312
Operations support	127,754	144,583
Purchasing/warehouse	184,681	176,290
Parks and recreation	1,135,944	1,120,758
Fleet services	478,197	464,701
City Attorney	179,619	177,309
Public works/engineering	348,210	315,361
Emergency management	26,639	14,441
Human resources	224,317	205,253
Fire Marshal	120,508	123,995
General fund contingency	374,353	315,277
Information technology	538,218	402,080
Transportation museum	108,616	133,601
Motel tax to CVB	287,455	301,160
Other	19,191	50,508
Total Expenditures	\$ 15,768,353	\$ 15,969,311

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, 2013 and 2012

EXCESS OF EXPENDITURES OVER REVENUES	\$ (1,463,747)	\$ (2,088,824)
OTHER FINANCING SOURCES:		
Transfers in	\$ 1,391,641	\$ 1,800,000
Note proceeds	234,480	177,377
Proceeds from sale of capital assets	1,395	499
Net Other Financing Sources	<u>\$ 1,627,516</u>	<u>\$ 1,977,876</u>
NET CHANGES IN FUND BALANCES	\$ 163,769	\$ (110,948)
FUND BALANCE - BEGINNING OF YEAR	<u>(359,047)</u>	<u>(248,099)</u>
FUND BALANCE - END OF YEAR	<u><u>\$ (195,278)</u></u>	<u><u>\$ (359,047)</u></u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

PROPRIETARY FUNDS  
COMPARATIVE STATEMENTS OF NET POSITION

September 30, 2013 and 2012

	Total Proprietary Funds	
	2013	2012
<u>ASSETS</u>		
Current Assets:		
Pooled cash and cash equivalents	\$ (1,899,976)	\$ (1,404,367)
Non pooled cash and cash equivalents	3,627	3,627
Investments	2,838,781	2,706,390
Investments designated for closure and postclosure	925,816	800,057
Accounts receivable, net	1,407,528	1,512,008
Inventory	563,843	709,316
Prepaid expense	275,858	22,515
Total Current Assets	\$ 4,115,477	\$ 4,349,546
Noncurrent Assets:		
Restricted assets	\$ 4,667,144	\$ 956,414
Deferred charges	155,044	134,963
Capital assets, net	30,729,274	32,403,746
Total Noncurrent Assets	\$ 35,551,462	\$ 33,495,123
<b>TOTAL ASSETS</b>	<b>\$ 39,666,939</b>	<b>\$ 37,844,669</b>
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable	\$ 433,414	\$ 489,519
Accrued salaries	76,142	66,604
Capital leases payable	516,989	826,689
Notes payable	35,520	51,520
Tax notes payable	47,320	-
Bonds payable	352,753	527,318
Compensated absences	127,767	124,025
Total Current Liabilities	\$ 1,589,905	\$ 2,085,675
Liabilities Payable from Restricted Assets:		
Bonds payable	\$ 477,247	\$ 292,682
Total Liabilities Payable from Restricted Funds	\$ 477,247	\$ 292,682
Noncurrent Liabilities:		
Deferred revenue	\$ 94,093	\$ 101,671
Compensated absences	31,742	28,452
Customer water meter deposits	692,086	663,732
Capital leases payable	1,138,716	1,363,274
Notes payable	231,339	269,029
Tax notes payable	358,280	-
Bonds payable	10,912,006	8,308,805
Accrued landfill closure and postclosure care costs	3,381,096	3,273,308
Total Noncurrent Liabilities	\$ 16,839,358	\$ 14,008,271
<b>TOTAL LIABILITIES</b>	<b>\$ 18,906,510</b>	<b>\$ 16,386,628</b>
<u>NET POSITION</u>		
Invested in capital assets, net of related debt	\$ 20,420,016	\$ 21,084,978
Unrestricted	340,413	373,063
<b>TOTAL NET POSITION</b>	<b>\$ 20,760,429</b>	<b>\$ 21,458,041</b>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

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

September 30, 2013 and 2012

	Total Proprietary Funds	
	2013	2012
OPERATING REVENUES:		
Charges for services	\$ 14,655,150	\$ 14,721,708
Miscellaneous	123,357	90,630
Total Operating Revenues	\$ 14,778,507	\$ 14,812,338
OPERATING EXPENSES:		
Personnel services	\$ 3,487,168	\$ 3,360,550
Supplies	1,620,387	1,516,919
Contractual	3,359,621	3,454,108
Maintenance	937,927	824,794
Sundry charges	1,049,396	571,730
Support services	1,129,200	979,800
Depreciation and amortization	2,394,669	2,867,242
Total Operating Expenses	\$ 13,978,368	\$ 13,575,143
OPERATING GAIN	\$ 800,139	\$ 1,237,195
NON-OPERATING REVENUE AND EXPENSE:		
Sale of equipment	\$ 30,000	\$ 28,737
Grant income	177,616	319,085
Interest income	4,003	4,849
Interest expense	(309,370)	(346,467)
Net Non-Operating Revenue (Expense)	\$ (97,751)	\$ 6,204
GAIN BEFORE CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS	\$ 702,388	\$ 1,243,399
CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS:		
Operating transfers in	\$ 150,000	\$ 200,000
Operating transfers out	(1,550,000)	(2,000,000)
Net Capital Contributions and Operating Transfers	\$ (1,400,000)	\$ (1,800,000)
CHANGES IN NET POSITION	\$ (697,612)	\$ (556,601)
NET POSITION - BEGINNING AS RESTATED	21,458,041	22,014,642
NET POSITION - ENDING	\$ 20,760,429	\$ 21,458,041

SINGLE AUDIT SECTION

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

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

The Honorable Mayor and City Council  
City of Brownwood, Texas

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Brownwood, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City of Brownwood, Texas basic financial statements, and have issued my report thereon dated February 6, 2014.

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

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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



Krischke CPA, PC  
February 6, 2014



America Counts on CPAs®

**D. A. “Tony” Krischke, CPA**

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

The Honorable Mayor and City Council  
City of Brownwood, Texas

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

I have audited City of Brownwood, Texas compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Brownwood, Texas major federal programs for the year ended September 30, 2013. City of Brownwood, Texas major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

***Management’s Responsibility***

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

***Auditor’s Responsibility***

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

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

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

In my opinion, City of Brownwood, Texas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

**Report on Internal Control Over Compliance**

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

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

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

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



Krischke CPA, PC  
February 6, 2014

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2013

	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	\$ 299,928	\$ -
U.S. Department of Housing and Urban Development:				
Passed through Texas Department of Agriculture:				
Community Development Block Grant				
	14.228	TCDPGR 711079	\$ 97,484	\$ -
U.S. Department of Transportation:				
Passed through Texas Department of Transportation:				
Airport Improvement Program				
	20.106	1223BWOOD	\$ 63,176	\$ -
General Services Administration:				
Non-monetary pass through from Texas Facilities Commission:				
Donation of Federal Surplus Personal Property				
	39.003	26171	\$ 2,192	\$ -
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		\$ 72,481	\$ -
Passed through Texas Department of State Health Services:				
Special Programs for the Aging Title III, Part C Nutrition Services				
	93.045		56,928	
Public Health Emergency Preparedness				
	93.069	2013-041411-004	25,274	
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements				
	93.074	2013-041411-002	110,451	
Immunization Cooperative Agreements:				
Immunization				
	93.268	2013-041411-001	132,087	
Tuberculosis				
	93.268	2013-042542-001	17,670	
Preventive Health and Health Services Block Grant				
	93.991	2013-039450	12,050	
Total U.S. Department of Health and Human Services			\$ 426,941	\$ -
Total Federal Assistance			\$ 889,721	\$ -

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2013

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, 2013. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Brownwood, Texas, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Brownwood, Texas.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year ended September 30, 2013

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

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

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

Section II - Financial Statement Findings

None noted

Section III - Federal Award Findings and Questioned Costs

None noted

Section IV - Prior Year Audit Findings

No prior year findings