

CITY OF BROWNWOOD
Brownwood, Texas

ANNUAL FINANCIAL STATEMENTS

September 30, 2014

CITY OF BROWNWOOD, TEXAS

Brownwood, Texas

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CITY OF BROWNWOOD
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, 2014, 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, 2014, 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 46-48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated January 20, 2015, 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
January 20, 2015

**City of Brownwood
Management's Discussion and Analysis
For Year Ended September 30, 2014**

(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, 2014. 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 \$49,340,483 (net position). Of this amount, \$5,643,158 is restricted for debt service, construction and other uses. The amount invested in fixed assets is \$43,305,872 leaving \$391,453 in unrestricted net position.
- The government's total net position increased by \$3,762,211 primarily due to three factors. First, non-capital assets decreased by \$463,841. Second, capital assets increased by \$7,532,523. Third, total liabilities increased by \$3,306,471. The net of these changes is \$3,762,211 which agrees with the total change in net position. The net change is primarily in capital assets which saw the position net of liabilities increase by \$7,418,953 due to capital projects during the year including construction of two new cells at the landfill and completion of a runway project at the airport. There were also reductions in the net position of construction funds totaling \$3,560,176 as construction projects proceeded during the year.
- As of the close of the current fiscal year, the City's governmental activities reported combined ending net position of \$25,666,259, an increase of \$848,416 in comparison with the prior year.
- At the end of the current fiscal year, unrestricted net position for the governmental activities was a negative \$376,196 as compared to \$178,996 in the prior year. While net position invested in capital assets for governmental activities went up due to projects completed during the year, and while net position invested in restricted assets for governmental activities went down due to expending bond proceeds, unrestricted net position for governmental activities decreased by \$555,192 due to reclassifications of deferred assets and an increase in short-term operating liabilities.
- The City's total liabilities increased by \$3,306,471 during the current fiscal year primarily due to increases in bonds payable of \$2,074,593 and an increase in short-term accounts payable of \$1,421,700.
- Total revenue increased by \$5,429,517 over the prior year primarily because of booking capital grants totaling \$3,781,827 of which \$1,947,112 came from FAA funding of runway improvements at the airport and \$1,730,558 came from TxDOT funding of various street projects that became the property of the City.
- Expenditures increased by \$222,452 which represented .7% of overall expenditures and so was a negligible difference.
- The year ended with a net surplus for the current year of \$4,166,678 compared with a deficit of \$1,040,387 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 two parts to the Fund Financial Statements: 1) the governmental funds statements and 2) 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 9-17 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 18-20 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 22-44 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 and combining financial statements.

Government-Wide Financial Analysis

The City’s combined net position increased from \$45,578,272 last year to \$49,340,483 this year, an increase of \$3,762,211. 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	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 8,329,279	\$ 11,638,950	\$ 11,783,495	\$ 8,937,665	\$ 20,112,774	\$ 20,576,615
Capital Assets	34,885,955	31,128,463	34,504,305	30,729,274	69,390,260	61,857,737
Total Assets	\$ 43,215,234	\$ 42,767,413	\$ 46,287,800	\$ 39,666,939	\$ 89,503,034	\$ 82,434,352
Current liabilities	\$ 3,848,752	\$ 3,194,754	\$ 3,243,196	\$ 2,067,152	\$ 7,091,948	\$ 5,261,906
Long-term liabilities	13,700,223	14,754,816	19,370,380	16,839,358	33,070,603	31,594,174
Total Liabilities	\$ 17,548,975	\$ 17,949,570	\$ 22,613,576	\$ 18,906,510	\$ 40,162,551	\$ 36,856,080
Net Position:						
Invested in capital assets net of related debt	\$ 20,399,297	\$ 15,466,903	\$ 22,906,575	\$ 20,420,016	\$ 43,305,872	\$ 35,886,919
Restricted	5,643,158	9,171,944	-	-	5,643,158	9,171,944
Unrestricted	(376,196)	178,996	767,649	340,413	391,453	519,409
Total Net Position	\$ 25,666,259	\$ 24,817,843	\$ 23,674,224	\$ 20,760,429	\$ 49,340,483	\$ 45,578,272

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 \$49,340,483 as of September 30, 2014. However, the largest portion of the City’s net position (87.8%) 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 (11.4%) 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 \$391,453 or 0.8% of total net position.

Governmental activities: Governmental activities increased the City’s net position by \$1,055,969.

Business-type activities: Business-type activities increased the City’s net position by \$3,110,709.

The following table provides a summary of the City's operations for year ended September 30, 2014.

City of Brownwood Changes in Net Position

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program Revenues:						
Fees, fines, and charges for services	\$ 2,430,402	\$ 2,502,444	\$ 15,151,882	\$ 14,655,150	\$ 17,582,284	\$ 17,157,594
Operating grants and contributions	778,333	770,785	-	4,543	778,333	775,328
Capital grants and contributions	1,730,558	-	2,224,342	173,073	3,954,900	173,073
General Revenues:						
Ad valorem taxes	5,549,016	5,365,912	-	-	5,549,016	5,365,912
Sales tax	4,870,128	4,579,841	-	-	4,870,128	4,579,841
Other revenues	3,783,106	3,833,178	954,036	157,360	4,737,142	3,990,538
Total Revenues	\$ 19,141,543	\$ 17,052,160	\$ 18,330,260	\$ 14,990,126	\$ 37,471,803	\$ 32,042,286
Expenses:						
General government and administration	\$ 5,347,639	\$ 5,148,452	\$ -	\$ -	\$ 5,347,639	\$ 5,148,452
Public Safety	7,625,558	7,429,686	-	-	7,625,558	7,429,686
Streets	2,469,962	2,523,359	-	-	2,469,962	2,523,359
Parks & Community Facilities	1,910,197	1,922,974	-	-	1,910,197	1,922,974
Special Rev Activities	1,074,913	1,075,671	-	-	1,074,913	1,075,671
Water & Sewer	-	-	8,378,059	8,133,000	8,378,059	8,133,000
Sanitation & Landfill	-	-	4,439,385	4,455,838	4,439,385	4,455,838
Airport	-	-	1,226,777	1,352,671	1,226,777	1,352,671
Pecan Field Station	-	-	5,404	36,859	5,404	36,859
Interest on long-term debt	545,805	694,793	281,426	309,370	827,231	1,004,163
Total Expenses	\$ 18,974,074	\$ 18,794,935	\$ 14,331,051	\$ 14,287,738	\$ 33,305,125	\$ 33,082,673
Increases in net position before transfers	\$ 167,469	\$ (1,742,775)	\$ 3,999,209	\$ 702,388	\$ 4,166,678	\$ (1,040,387)
Transfers	888,500	1,400,000	(888,500)	(1,400,000)	-	-
Increase in net position	\$ 1,055,969	\$ (342,775)	\$ 3,110,709	\$ (697,612)	\$ 4,166,678	\$ (1,040,387)
Net position October 1	24,817,843	25,160,618	20,760,429	21,323,081	45,578,272	46,483,699
Prior Period Adjustment	(207,553)	-	(196,914)	134,960	(404,467)	134,960
Net position September 30	\$ 25,666,259	\$ 24,817,843	\$ 23,674,224	\$ 20,760,429	\$ 49,340,483	\$ 45,578,272

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 \$(704,770), while total fund balance was \$(539,900). These balances represent decreases from the prior year of \$317,253 and \$344,622 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 (4.0)% and (3.1)% respectively.

At September 30, 2014, the governmental funds of the City reported a combined fund balance of \$5,112,488.

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 \$877,415. This represented an increase of \$537,002 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 \$2,417,974 or 17.4% while expenditures came in over budget by \$1,950,754 or 12.4%. This represented a net positive variance of \$467,220. This was primarily due to the booking of capital improvement grants received from the state for street projects that are not included in the budget.

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, 2014, totals \$69,390,260 (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, 2014, the City had total bonded debt outstanding of \$28,735,589. 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 2014 was 4.9 which is 0.6% lower than the Texas Average and 1.6% lower than the national average.
- Increasing property values. Taxable assessed values for 2014 increased by 2.6% over the prior year.
- Population growth. The City's population increased by 475 from the official census numbers in 2000 to 2010. This indicates continuing growth in the City's manufacturing, commercial and residential infrastructure.

The City and BEDC continue to help local companies grow and recruit manufacturing and retail businesses. At the end of the fiscal year, several industrial expansions had taken place or were underway including: new industry Ethos expansion into former Texas Feathers facility, Ingram Concrete regional headquarters expansion, Loadcraft expansion into former Fenton facility, and Ron Jackson Correctional Facility training and office space expansion. Commerce Square is now fully leased out due to the most recent tenant, Aldi. In addition, new national retailers announcing to locate in Brownwood in 2014 were: Stripes Fuel Station and Convenience Store, Dollar General, and Burger King. During the first four months of the new fiscal year, we have seen an increase of 7.6% 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 2014 is estimated to be more than \$800,000.

Budget Highlights for the Fiscal Year Ending September 30, 2015

Governmental Activities: The property tax rate remained unchanged over the prior year at .7463 cents per hundred dollars valuation. Sales tax is projected to increase by 3% over the last fiscal year. Budgeted expenditures in the General Fund are expected to increase by 5%. A 3% pay raise was granted to all full-time City employees.

Business – type Activities: Water rates were decreased by one cent due to a slight reduction in the cost of treated water from the Brown County Water Improvement District. No other rates or fees were changed.

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. 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, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<u>ASSETS</u>				
Pooled cash and cash equivalents	\$ 501,317	\$ (1,677,842)	\$ (1,176,525)	\$ 46,255
Non pooled cash and cash equivalents	1,415	3,571	4,986	5
Investments	114,590	3,875,760	3,990,350	3,169,466
Investments designated for closure and postclosure		942,848	942,848	
Receivables, net	1,616,824	2,251,321	3,868,145	2,668,345
Inventory	19,830	560,741	580,571	
Prepaid expense	1,513	987	2,500	64,219
Restricted assets	6,073,790	5,826,109	11,899,899	
Land held for development				507,366
Capital assets, net	34,885,955	34,504,305	69,390,260	
TOTAL ASSETS	\$ 43,215,234	\$ 46,287,800	\$ 89,503,034	\$ 6,455,656
<u>LIABILITIES</u>				
Accounts payable	\$ 1,356,504	\$ 1,101,718	\$ 2,458,222	\$ 40,594
Accrued salaries	299,056	91,988	391,044	4,454
Liabilities payable from restricted assets:				
Bonds payable	66,779	374,485	441,264	
Noncurrent liabilities:				
Customer utility deposits		725,281	725,281	
Estimated liability for landfill closure and postclosure care costs		3,509,013	3,509,013	
Rents received in advance		86,516	86,516	
Compensated absences:				
Portion due or payable within one year	1,021,110	143,205	1,164,315	3,518
Portion due or payable after one year	385,647	45,311	430,958	529
Capital leases payable:				
Portion due or payable within one year	151,162	737,785	888,947	
Portion due or payable after one year	239,348	770,684	1,010,032	
Notes payable:				
Portion due or payable within one year		35,520	35,520	247,029
Portion due or payable after one year		197,114	197,114	1,315,440
Tax note payable:				
Portion due or payable within one year	25,920	54,080	80,000	
Portion due or payable after one year	145,800	304,200	450,000	
Bonds payable:				
Portion due or payable within one year	928,221	704,415	1,632,636	
Portion due or payable after one year	12,929,428	13,732,261	26,661,689	
TOTAL LIABILITIES	\$ 17,548,975	\$ 22,613,576	\$ 40,162,551	\$ 1,611,564
<u>NET POSITION</u>				
Invested in capital assets, net of related debt	\$ 20,399,297	\$ 22,906,575	\$ 43,305,872	\$
Restricted for:				
Municipal Court	47,633		47,633	
Tourism promotion	31,285		31,285	
Vehicular child safety	17,899		17,899	
Law enforcement	36,377		36,377	
Drug awareness education	3,494		3,494	
Lehnis Museum	6,732		6,732	
Beautification	107		107	
Debt service	71,589		71,589	
Fabis Park	65,793		65,793	
Construction	5,362,249		5,362,249	
Unrestricted	(376,196)	767,649	391,453	4,844,092
TOTAL NET POSITION	\$ 25,666,259	\$ 23,674,224	\$ 49,340,483	\$ 4,844,092

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2014

<u>Functions/programs</u>	<u>Program Revenue</u>			
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General government	\$ 3,920,028	\$ 1,214,889	\$	\$
Municipal court	292,071			
Police	4,194,325	381,059	3,031	
Fire	2,873,846	12,696	1,000	
Development services	761,176	96,586		
Street	2,469,962			1,730,558
Health	265,316	163,242		
Community facilities	570,817	106,663		
Parks and recreation	1,339,380	103,189		
Public works/engineering	351,098			
Motel tax to CVB	315,337			
Interest on long-term debt	545,805			
Special revenue activities	1,074,913	352,078	774,302	
Total Governmental Activities	<u>\$ 18,974,074</u>	<u>\$ 2,430,402</u>	<u>\$ 778,333</u>	<u>\$ 1,730,558</u>
Business-type Activities:				
Water	\$ 5,399,302	\$ 5,727,190	\$	\$
Waste water collection	1,828,802	3,761,403		277,230
Waste water treatment	1,149,955			
Sanitation	1,911,148	3,005,556		
Landfill	2,528,237	1,842,428		
Airport	1,226,777	815,305		1,947,112
Pecan Field Station	5,404			
Interest on long-term debt	281,426			
Total Business-type Activities	<u>\$ 14,331,051</u>	<u>\$ 15,151,882</u>	<u>\$ -</u>	<u>\$ 2,224,342</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 33,305,125</u>	<u>\$ 17,582,284</u>	<u>\$ 778,333</u>	<u>\$ 3,954,900</u>
Component Unit:				
BEDC - Economic development	\$ 862,041	\$	\$	\$
TOTAL COMPONENT UNIT	<u>\$ 862,041</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to basic financial statement

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	

\$ (2,705,139)		\$ (2,705,139)
(292,071)		(292,071)
(3,810,235)		(3,810,235)
(2,860,150)		(2,860,150)
(664,590)		(664,590)
(739,404)		(739,404)
(102,074)		(102,074)
(464,154)		(464,154)
(1,236,191)		(1,236,191)
(351,098)		(351,098)
(315,337)		(315,337)
(545,805)		(545,805)
51,467		51,467
<u>\$ (14,034,781)</u>		<u>\$ (14,034,781)</u>

\$ 327,888	\$ 327,888
2,209,831	2,209,831
(1,149,955)	(1,149,955)
1,094,408	1,094,408
(685,809)	(685,809)
1,535,640	1,535,640
(5,404)	(5,404)
(281,426)	(281,426)
<u>\$ 3,045,173</u>	<u>\$ 3,045,173</u>

\$ (14,034,781)	\$ 3,045,173	\$ (10,989,608)
-----------------	--------------	-----------------

\$ (862,041)

\$ (862,041)

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

STATEMENT OF ACTIVITIES (CONT.)

For the Year Ended September 30, 2014

	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)	\$ (14,034,781)	\$ 3,045,173	\$ (10,989,608)	\$ (862,041)
General Revenues:				
Taxes:				
Ad valorem	\$ 5,549,016	\$	\$ 5,549,016	\$
Sales	4,870,128		4,870,128	1,623,376
Other	3,521,793		3,521,793	
Earnings on investments	3,710	2,707	6,417	73,918
Reimbursement from Brown County Water				
Improvement District #1		822,087	822,087	
Miscellaneous	249,046	86,708	335,754	17,873
Gain on disposal of capital assets	8,557	42,534	51,091	
Transfers	888,500	(888,500)	-	
Total General Revenue	<u>\$ 15,090,750</u>	<u>\$ 65,536</u>	<u>\$ 15,156,286</u>	<u>\$ 1,715,167</u>
CHANGE IN NET POSITION	\$ 1,055,969	\$ 3,110,709	\$ 4,166,678	\$ 853,126
NET POSITION AS RESTATED	<u>24,610,290</u>	<u>20,563,515</u>	<u>45,173,805</u>	<u>3,990,966</u>
NET POSITION - END OF YEAR	<u>\$ 25,666,259</u>	<u>\$ 23,674,224</u>	<u>\$ 49,340,483</u>	<u>\$ 4,844,092</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

BALANCE SHEETS
GOVERNMENTAL FUNDS

September 30, 2014

	<u>Major Fund</u>	<u>Major Fund</u>	<u>Nonmajor Fund</u>	Total
	General	Capital	Other	Total
	Fund	Projects	Governmental	Governmental
	Fund	Funds	Funds	Funds
<u>ASSETS</u>				
ASSETS:				
Pooled cash and cash equivalents	\$ 412,633	\$ 54,338	\$ 34,346	\$ 501,317
Non pooled cash and cash equivalents	1,390		25	1,415
Investments	114,590			114,590
Receivables, net	1,281,921		216,318	1,498,239
Inventory	19,830			19,830
Prepaid expense	1,513			1,513
Restricted assets	144,526	5,796,692	132,572	6,073,790
	\$ 1,976,403	\$ 5,851,030	\$ 383,261	\$ 8,210,694
TOTAL ASSETS				
 <u>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</u>				
LIABILITIES:				
Accounts payable	\$ 899,217	\$ 434,443	\$ 22,844	\$ 1,356,504
Accrued salaries	281,320		17,736	299,056
Compensated absences	1,021,110			1,021,110
	\$ 2,201,647	\$ 434,443	\$ 40,580	\$ 2,676,670
TOTAL LIABILITIES				
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue	\$ 314,656		\$ 106,880	\$ 421,536
FUND BALANCES:				
Nonspendable:				
Inventory	\$ 19,830			\$ 19,830
Prepaid expense	1,513			1,513
Restricted for:				
Municipal Court	47,633			47,633
Tourism promotion	31,285			31,285
Vehicular child safety	17,899			17,899
Law enforcement	36,377			36,377
Drug awareness education	3,494			3,494
Lehnis Museum	6,732			6,732
Beautification	107			107
Debt service			71,589	71,589
Fabis Park			65,793	65,793
Construction		5,362,249		5,362,249
Committed to:				
Construction		54,338		54,338
Assigned to:				
Health and nutrition programs			30,163	30,163
Unassigned	(704,770)		68,256	(636,514)
	\$ (539,900)	\$ 5,416,587	\$ 235,801	\$ 5,112,488
TOTAL FUND BALANCES				
TOTAL LIABILITIES AND FUND BALANCES				
	\$ 1,976,403	\$ 5,851,030	\$ 383,261	\$ 8,210,694

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, 2014

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 5,112,488
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 \$50,267,334.	34,885,955
Some of the City's taxes will be collected after year end, but are not available soon enough to pay for the current period's expenditures and are reported as unavailable revenue in the governmental funds.	421,536
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 \$152,294.	118,585
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds balance sheet	<u>(14,872,305)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 25,666,259</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

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

For the Year Ended September 30, 2014

	<u>Major Fund</u>		<u>Nonmajor Fund</u>	Total Governmental Funds
	<u>Major Fund</u>	Capital	Other	
	General Fund	Projects Funds	Governmental Funds	
REVENUES:				
Ad valorem taxes	\$ 3,975,117	\$	\$ 1,567,862	\$ 5,542,979
Sales taxes	4,870,128			4,870,128
Other taxes	3,521,793			3,521,793
Fines	225,636			225,636
Licenses and fees	117,776			117,776
Charges for services	366,623			366,623
Intergovernmental	1,379,504			1,379,504
Interest	1,041	2,529	140	3,710
Grants and contributions	1,733,588	1,000	774,302	2,508,890
Miscellaneous	135,544	4,615	460,966	601,125
Total Revenue	<u>\$ 16,326,750</u>	<u>\$ 8,144</u>	<u>\$ 2,803,270</u>	<u>\$ 19,138,164</u>
EXPENDITURES:				
Current:				
City Council	\$ 73,884	\$	\$	\$ 73,884
Administration	200,679			200,679
City Secretary	80,983			80,983
Finance/accounting	321,840			321,840
Municipal Court	291,838			291,838
Police	4,161,948			4,161,948
Fire	2,636,716			2,636,716
Development services	759,336			759,336
Street	3,292,546			3,292,546
Health	260,881			260,881
Community services	592,422			592,422
Intergovernmental	218,863			218,863
Utility billing	227,246			227,246
Community facilities	410,095			410,095
Operations support	165,823			165,823
Purchasing/warehouse	186,704			186,704
Parks and recreation	1,138,653			1,138,653
Fleet services	427,776			427,776
City Attorney	181,002			181,002
Public works/engineering	355,629			355,629
Emergency management	11,969			11,969
Human resources	215,512			215,512
Fire Marshal	135,466			135,466
General fund contingency	351,820			351,820
Information technology	464,071			464,071
Transportation museum	108,152			108,152
Motel tax to CVB	315,337			315,337
Other	39,780			39,780
Special revenue funds			1,074,913	1,074,913
Capital outlay		3,568,430		3,568,430
Debt Service:				
Principal			1,122,680	1,122,680
Interest			557,658	557,658
Fiscal agent fees			2,438	2,438
Total Expenditures	<u>\$ 17,626,971</u>	<u>\$ 3,568,430</u>	<u>\$ 2,757,689</u>	<u>\$ 23,953,090</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (1,300,221)</u>	<u>\$ (3,560,286)</u>	<u>\$ 45,581</u>	<u>\$ (4,814,926)</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, 2014

	<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	\$ (1,300,221)	\$ (3,560,286)	\$ 45,581	\$ (4,814,926)
OTHER FINANCING SOURCES (USES):				
Transfers in	\$ 859,060	\$	\$ 30,940	\$ 890,000
Transfers out		(1,500)		(1,500)
Note proceeds	87,982			87,982
Proceeds from sale of capital assets	8,557			8,557
Net Other Financing Sources (Uses)	<u>\$ 955,599</u>	<u>\$ (1,500)</u>	<u>\$ 30,940</u>	<u>\$ 985,039</u>
NET CHANGE IN FUND BALANCES	\$ (344,622)	\$ (3,561,786)	\$ 76,521	\$ (3,829,887)
FUND BALANCE - BEGINNING OF YEAR	<u>(195,278)</u>	<u>8,978,373</u>	<u>159,280</u>	<u>8,942,375</u>
FUND BALANCE - END OF YEAR	<u>\$ (539,900)</u>	<u>\$ 5,416,587</u>	<u>\$ 235,801</u>	<u>\$ 5,112,488</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

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

For the Year Ended September 30, 2014

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (3,829,887)

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

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

Capital assets purchased 5,627,835
Depreciation and amortization (1,870,343)

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 (87,982)
Principal payments on long-term debt 1,251,031
Additional accrual of compensated absences (41,360)
Current amortization of bond premiums 11,853

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. 6,037

Revenues on warrants and citations will not be collected for several months after the City's fiscal year end and are not considered available revenue and are not included in the governmental fund. Revenues accrued from warrants and citations increased by this amount this year. (11,215)

CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,055,969

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

STATEMENTS OF NET POSITION
PROPRIETARY FUNDS

September 30, 2014

	<u>Business-Type Activities - Enterprise Fund</u>				Total
	<u>Major Funds</u>			Nonmajor	
	Utility Fund	Sanitation Fund	Airport Fund	Proprietary Fund	
<u>ASSETS</u>					
Current Assets:					
Pooled cash and cash equivalents	\$ (1,057,391)	\$ (640,969)	\$ 8,126	\$ 12,392	\$ (1,677,842)
Non pooled cash and cash equivalents	2,500	671	400		3,571
Investments	1,933,422	1,942,338			3,875,760
Investments designated for closure and postclosure		942,848			942,848
Accounts receivable, net	1,779,745	421,932	49,644		2,251,321
Inventory	507,008		53,733		560,741
Prepaid expenses	987				987
Total Current Assets	<u>\$ 3,166,271</u>	<u>\$ 2,666,820</u>	<u>\$ 111,903</u>	<u>\$ 12,392</u>	<u>\$ 5,957,386</u>
Noncurrent Assets:					
Restricted assets	\$ 3,731,675	\$ 2,014,926	\$ 79,508		\$ 5,826,109
Capital assets, net	<u>21,922,029</u>	<u>7,869,546</u>	<u>4,712,730</u>		<u>34,504,305</u>
Total Noncurrent Assets	<u>\$ 25,653,704</u>	<u>\$ 9,884,472</u>	<u>\$ 4,792,238</u>	<u>\$ -</u>	<u>\$ 40,330,414</u>
TOTAL ASSETS	<u>\$ 28,819,975</u>	<u>\$ 12,551,292</u>	<u>\$ 4,904,141</u>	<u>\$ 12,392</u>	<u>\$ 46,287,800</u>
<u>LIABILITIES</u>					
Current Liabilities:					
Accounts payable	\$ 293,503	\$ 794,098	\$ 14,058	\$ 59	\$ 1,101,718
Accrued salaries	45,329	39,310	6,723	626	91,988
Capital leases payable	73,950	663,835			737,785
Notes payable			35,520		35,520
Tax note payable			54,080		54,080
Bonds payable	704,415				704,415
Compensated absences	67,857	60,059	15,289		143,205
Total Current Liabilities	<u>\$ 1,185,054</u>	<u>\$ 1,557,302</u>	<u>\$ 125,670</u>	<u>\$ 685</u>	<u>\$ 2,868,711</u>
Liabilities Payable from Restricted Assets:					
Bonds payable	\$ 110,585	\$ 263,900			\$ 374,485
Total Liabilities Payable from Restricted Funds	<u>\$ 110,585</u>	<u>\$ 263,900</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 374,485</u>
Noncurrent Liabilities:					
Rents received in advance			\$ 86,516		\$ 86,516
Compensated absences	19,482	21,445	4,384		45,311
Customer water meter deposits	725,281				725,281
Capital leases payable	146,591	624,093			770,684
Notes payable			197,114		197,114
Tax note payable			304,200		304,200
Bonds payable	10,126,161	3,606,100			13,732,261
Accrued landfill closure and postclosure care costs		<u>3,509,013</u>			<u>3,509,013</u>
Total Noncurrent Liabilities	<u>\$ 11,017,515</u>	<u>\$ 7,760,651</u>	<u>\$ 592,214</u>	<u>\$ -</u>	<u>\$ 19,370,380</u>
TOTAL LIABILITIES	<u>\$ 12,313,154</u>	<u>\$ 9,581,853</u>	<u>\$ 717,884</u>	<u>\$ 685</u>	<u>\$ 22,613,576</u>
<u>NET POSITION</u>					
Invested in capital assets, net of related debt	\$ 14,132,841	\$ 4,462,644	\$ 4,201,324		\$ 22,796,809
Unrestricted	<u>2,373,980</u>	<u>(1,493,205)</u>	<u>(15,067)</u>	11,707	<u>877,415</u>
TOTAL NET POSITION	<u>\$ 16,506,821</u>	<u>\$ 2,969,439</u>	<u>\$ 4,186,257</u>	<u>\$ 11,707</u>	<u>\$ 23,674,224</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, 2014

	Business-Type Activities - Enterprise Fund				Total
	Major Funds			Nonmajor Proprietary Fund	
	Utility Fund	Sanitation Fund	Airport Fund		
OPERATING REVENUES:					
Charges for service	\$ 9,488,593	\$ 4,847,984	\$ 815,305	\$	\$ 15,151,882
Miscellaneous	50,940	35,767	1		86,708
Total Operating Revenues	\$ 9,539,533	\$ 4,883,751	\$ 815,306	\$ -	\$ 15,238,590
OPERATING EXPENSES:					
Personnel services	\$ 1,808,245	\$ 1,480,048	\$ 293,397	\$ 4,299	\$ 3,585,989
Supplies	311,705	533,024	546,769	318	1,391,816
Contractual	3,087,697	328,097	70,199	25	3,486,018
Maintenance	643,866	225,311	46,308	762	916,247
Sundry charges	706,773	343,200			1,049,973
Support services	698,400	430,800			1,129,200
Depreciation and amortization	1,121,373	1,059,359	270,104		2,450,836
Total Operating Expenses	\$ 8,378,059	\$ 4,399,839	\$ 1,226,777	\$ 5,404	\$ 14,010,079
OPERATING GAIN (LOSS)	\$ 1,161,474	\$ 483,912	\$ (411,471)	\$ (5,404)	\$ 1,228,511
NON-OPERATING REVENUE AND EXPENSE:					
Sale of equipment	\$ 42,534				\$ 42,534
Grant income			1,947,112		1,947,112
Interest income	871	1,836			2,707
Bond issuance costs		(39,546)			(39,546)
Interest expense	(235,289)	(28,903)	(17,234)		(281,426)
Net Non-Operating Revenue (Expense)	\$ (191,884)	\$ (66,613)	\$ 1,929,878	\$ -	\$ 1,671,381
GAIN (LOSS) BEFORE CONTRIBUTIONS, EXTRAORDINARY ITEMS AND TRANSFERS	\$ 969,590	\$ 417,299	\$ 1,518,407	\$ (5,404)	\$ 2,899,892
CONTRIBUTIONS, EXTRAORDINARY ITEMS AND TRANSFERS:					
Capital contributions	\$ 277,230				\$ 277,230
Reimbursement from Brown County Water Improvement District #1	822,087				822,087
Operating transfers in		47,089			47,089
Operating transfers out	(890,000)	(186,455)	140,866		(935,589)
Net Operating Transfers	\$ 209,317	\$ (139,366)	\$ 140,866	\$ -	\$ 210,817
CHANGES IN NET POSITION	\$ 1,178,907	\$ 277,933	\$ 1,659,273	\$ (5,404)	\$ 3,110,709
NET POSITION - BEGINNING AS RESTATED	15,327,914	2,691,506	2,526,984	17,111	20,563,515
NET POSITION - ENDING	\$ 16,506,821	\$ 2,969,439	\$ 4,186,257	\$ 11,707	\$ 23,674,224

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, 2014

	<u>Business-Type Activities - Enterprise Fund</u>				Total
	<u>Utility Fund</u>	<u>Major Funds Sanitation Fund</u>	<u>Airport Fund</u>	<u>Nonmajor Proprietary Fund</u>	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 9,529,418	\$ 4,875,928	\$ 803,961	\$	\$ 15,209,307
Cash payments to suppliers for goods and services	(5,532,502)	(996,702)	(368,810)	(1,046)	(6,899,060)
Cash payments to employees for services	<u>(1,790,169)</u>	<u>(1,462,969)</u>	<u>(284,325)</u>	<u>(3,673)</u>	<u>(3,541,136)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,206,747</u>	<u>\$ 2,416,257</u>	<u>\$ 150,826</u>	<u>\$ (4,719)</u>	<u>\$ 4,769,111</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Increase in customer meter deposits	\$ 33,195	\$	\$	\$	\$ 33,195
Operating transfers in		47,089			47,089
Operating transfers out	<u>(890,000)</u>	<u>(186,455)</u>	<u>140,866</u>	<u></u>	<u>(935,589)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>\$ (856,805)</u>	<u>\$ (139,366)</u>	<u>\$ 140,866</u>	<u>\$ -</u>	<u>\$ (855,305)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from bonds	\$	\$ 3,870,000	\$	\$	\$ 3,870,000
Principal payments on bonds	(830,000)				(830,000)
Principal payments on tax note			(47,320)		(47,320)
Proceeds from notes and capital leases	198,475	171,207			369,682
Principal payments on notes and capital leases	(14,342)	(502,576)	(34,225)		(551,143)
Acquisition and construction of capital assets	(675,639)	(2,899,119)	(2,188,892)		(5,763,650)
Grant income			1,947,112		1,947,112
Interest expense	(390,457)	(28,903)	(17,234)		(436,594)
Bond issuance costs		<u>(39,546)</u>	<u></u>	<u></u>	<u>(39,546)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (1,711,963)</u>	<u>\$ 571,063</u>	<u>\$ (340,559)</u>	<u>\$ -</u>	<u>\$ (1,481,459)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of investments	\$ (2,568,614)	\$ (5,148,737)	\$	\$	\$ (7,717,351)
Sale of investments	3,309,462	2,353,247			5,662,709
Interest income	<u>871</u>	<u>1,836</u>	<u></u>	<u></u>	<u>2,707</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 741,719</u>	<u>\$ (2,793,654)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,051,935)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS					
	\$ 379,698	\$ 54,300	\$ (48,867)	\$ (4,719)	\$ 380,412
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR					
	<u>(538,289)</u>	<u>(694,598)</u>	<u>136,901</u>	<u>17,111</u>	<u>(1,078,875)</u>
CASH AND CASH EQUIVALENTS - END OF YEAR					
	<u>\$ (158,591)</u>	<u>\$ (640,298)</u>	<u>\$ 88,034</u>	<u>\$ 12,392</u>	<u>\$ (698,463)</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, 2014

	<u>Business-Type Activities - Enterprise Fund</u>				Total
	<u>Major Funds</u>			Nonmajor	
	Utility Fund	Sanitation Fund	Airport Fund	Proprietary Fund	
RECONCILIATION OF OPERATING INCOME TO <u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>					
OPERATING GAIN (LOSS)	\$ 1,161,474	\$ 483,912	\$ (411,471)	\$ (5,404)	\$ 1,228,511
ADJUSTMENTS TO RECONCILE OPERATING GAIN (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Depreciation and amortization	1,121,373	1,059,359	270,104		2,450,836
Closure and postclosure care costs		127,917			127,917
Changes in assets and liabilities:					
Receivables	(10,115)	(7,823)	(3,768)		(21,706)
Inventories	(49,791)		52,893		3,102
Prepaid expense	7,900	3,870	263,101		274,871
Accounts payable	(42,170)	731,943	(21,528)	59	668,304
Accrued salaries	8,119	6,946	155	626	15,846
Compensated absences	9,957	10,133	8,917		29,007
Rents received in advance			(7,577)		(7,577)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 2,206,747	\$ 2,416,257	\$ 150,826	\$ (4,719)	\$ 4,769,111

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2014

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.seg., and the additional powers as provided in Article 5190.6, Section 23, including the issuance of bonds. It receives its primary funding from a local sales tax approved by the voters. The affairs of the Corporation are managed by a Board of Directors. The Board has five members appointed by the City of Brownwood City Council. Because the directors of the Corporation are appointed by the City of Brownwood City Council, the Corporation is included in the City of Brownwood annual financial statements as a component unit of the City.

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

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

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

Brownwood Economic Development Corporation
501 Center Avenue
Brownwood, Texas 76801

Basis of Presentation

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

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2014

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

Basis of Presentation (Cont.)

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

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

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

The City has presented the following major governmental 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.

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

The City has presented the following major proprietary funds:

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

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

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

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2014

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

Basis of Presentation (Cont.)

Additionally, the City reports the following nonmajor proprietary fund:

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

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

Measurement Focus/Basis of Accounting

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

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

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

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

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

Budgets and Budgetary Accounting

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

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

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2014

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

Budgets and Budgetary Accounting (Cont.)

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

Cash and Investments

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

Inventories

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

Interfund Receivables and Payables

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

Transactions Between Funds

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

Receivables

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

Capital Assets

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

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

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

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

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2014

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

Compensated Absences

The City Council has adopted a policy whereby employees are paid lump sum payments for vacation, sick leave and holiday leave if they leave City employment. Upon termination, up to twenty-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 Leave Pool Committee. No more than 90 days may be used from the pool during their employment. When a member leaves employment with the City all unused hours the employee has donated to the pool are removed from the pool.

Use of Estimates

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

Government-wide and Proprietary Net Position

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

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

Governmental Fund Balance

The City 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, 2014

NOTE 1: SUMMARY OF SIGNIFICANT 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.

Deferred Inflows/Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The City did not have any items that qualified for reporting in this category.

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

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

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.

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2014

NOTE 3: DEPOSITS AND INVESTMENTS (CONT.)

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, 2014, \$1,810,970 of the City's deposit balances were exposed to custodial credit risk by being uninsured by FDIC but collateralized by securities held by the pledging financial institution's agent not in the City's name.

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

Interest Rate Risk

For short term liquidity requirements, the City utilized two local government investment pools. TexPool is managed by Federated Investors for the Texas Comptroller of Public Accounts and was created to invest funds on behalf of Texas political subdivisions. The pool operates on a \$1 net asset value basis and allows same day or next day redemptions and deposits. At September 30, 2014, TexPool's portfolio maintained a weighted average maturity of approximately 48 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, 2014, 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, 2014, 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, 2014 are as follows:

	Utility Fund	Sanitation Fund	Airport Fund	Pecan Field Station Fund
Pooled cash and cash equivalents	\$ (1,057,391)	\$ (640,969)	\$ 8,126	\$ 12,392
Non pooled cash and cash equivalents	2,500	671	400	
Restricted cash	896,300		79,508	
Total	<u>\$ (158,591)</u>	<u>\$ (640,298)</u>	<u>\$ 88,034</u>	<u>\$ 12,392</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2014

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, 2014:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Restricted for debt service payments	\$ 66,779	\$ 374,485
Restricted for drug awareness education	3,494	
Restricted for law enforcement	36,377	
Restricted for vehicular child safety	17,899	
Restricted for beautification	621	
Restricted for municipal court	48,118	
Restricted for tourism promotion	31,285	
Restricted for Lehnis Museum	6,732	
Restricted for Fabis Park	65,793	
Restricted for construction or purchase of fixed assets	5,796,692	4,726,343
Restricted for customer deposits		725,281
	<u>\$ 6,073,790</u>	<u>\$ 5,826,109</u>
Total Restricted Assets		

Restricted assets included \$1,467,560 in cash and \$10,432,339 in investments.

NOTE 5: RECEIVABLES

A summary of the net receivables at September 30, 2014 is as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Ad valorem taxes	\$ 462,320	\$	\$
Sales taxes	834,737		278,246
Utility		2,595,002	
Warrants and citations	270,878		
Airport		21,100	
Grants receivable	92,976	31,544	
Reimbursement receivable		822,087	
Other receivables	298,091	7,749	
Notes receivable			2,420,099
	<u>\$ 1,959,002</u>	<u>\$ 3,477,482</u>	<u>\$ 2,698,345</u>
Less allowance for uncollectable accounts	<u>(342,178)</u>	<u>(1,226,161)</u>	<u>(30,000)</u>
Receivables, net	<u>\$ 1,616,824</u>	<u>\$ 2,251,321</u>	<u>\$ 2,668,345</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2014

NOTE 6: CAPITAL ASSETS

Capital asset activity in the City for the year ended September 30, 2014 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	724,044	4,300,616	(1,228,754)	3,795,906
Total capital assets not being depreciated	\$ 3,493,019	\$ 4,300,616	\$ (1,228,754)	\$ 6,564,881
Capital assets being depreciated and amortized:				
Building and grounds	\$ 12,037,333	\$ 153,979	\$	\$ 12,191,312
Improvements	52,015,642	2,063,810		54,079,452
Machinery/equipment	10,973,179	306,303		11,279,482
Intangible assets	1,006,281	31,881		1,038,162
Total capital assets being depreciated and amortized	\$ 76,032,435	\$ 2,555,973	\$ -	\$ 78,588,408
Less accumulated depreciation and amortization:				
Buildings	\$ (4,519,733)	\$ (279,166)	\$	\$ (4,798,899)
Improvements	(33,261,533)	(1,182,836)		(34,444,369)
Machinery/equipment	(10,085,379)	(373,575)		(10,458,954)
Intangible assets	(530,346)	(34,766)		(565,112)
Total accumulated depreciation and amortization	\$ (48,396,991)	\$ (1,870,343)	\$ -	\$ (50,267,334)
Total Capital Assets Being Depreciated and Amortized, Net	\$ 27,635,444	\$ 685,630	\$ -	\$ 28,321,074
Governmental Activities Capital Assets, Net	\$ 31,128,463	\$ 4,986,246	\$ (1,228,754)	\$ 34,885,955
Business-type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 383,351	\$	\$	\$ 383,351
Construction in progress	631,695	5,386,707	(45,589)	5,972,813
Total capital assets not being depreciated	\$ 1,015,046	\$ 5,386,707	\$ (45,589)	\$ 6,356,164
Capital assets being depreciated and amortized:				
Building and grounds	\$ 3,164,506	\$ 45,589	\$	\$ 3,210,095
Improvements	73,476,082	449,260		73,925,342
Landfill cell development	9,895,525			9,895,525
Machinery/equipment	13,550,647	425,566	(279,806)	13,696,407
Total capital assets being depreciated and amortized	\$ 100,086,760	\$ 920,415	\$ (279,806)	\$ 100,727,369
Less accumulated depreciation and amortization:				
Buildings	\$ (2,316,429)	\$ (99,899)	\$	\$ (2,416,328)
Improvements	(50,455,793)	(1,177,423)		(51,633,216)
Landfill cell development	(5,925,754)	(436,406)		(6,362,160)
Machinery/equipment	(11,674,556)	(737,108)	244,140	(12,167,524)
Total accumulated depreciation and amortization	\$ (70,372,532)	\$ (2,450,836)	\$ 244,140	\$ (72,579,228)
Total Capital Assets Being Depreciated and Amortized, Net	\$ 29,714,228	\$ (1,530,421)	\$ (35,666)	\$ 28,148,141
Business-type Activities Capital Assets, Net	\$ 30,729,274	\$ 3,856,286	\$ (81,255)	\$ 34,504,305

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2014

NOTE 6: CAPITAL ASSETS (CONT.)

Assets under capital leases totaled \$2,785,810 in governmental funds and \$6,870,454 in the business type funds. Accumulated amortization on those assets at September 30, 2014 amounted to \$2,332,376 and \$5,663,486, respectively. This equipment is being amortized over 3 to 20 years. The amount of the amortization for the year ended September 30, 2014 was \$193,475 and \$644,261 in the governmental and business-type activities respectively.

Construction period interest capitalized in the current year amounts to \$142,453.

Depreciation and amortization expense was charged to the following functions:

Governmental Activities:	
General government	\$ 204,260
Police	102,708
Fire	93,603
Street	1,045,581
Health	3,761
Community facilities	160,078
Parks and recreation	259,007
Public works	1,345
	<u>\$ 1,870,343</u>
Business-type Activities:	
Water	\$ 803,822
Waste water	313,244
Waste water treatment	4,307
Sanitation	286,630
Landfill	772,729
Airport	270,104
	<u>\$ 2,450,836</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2014

NOTE 7: LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended September 30, 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds, Notes and Leases Payable:					
Certificates of obligation	\$ 14,320,000		\$ (715,000)	\$ 13,605,000	\$ 815,000
General obligation bonds	565,000		(385,000)	180,000	180,000
Tax note payable	194,400		(22,680)	171,720	25,920
Capital leases payable	430,879	87,982	(128,351)	390,510	151,162
	<u>\$ 15,510,279</u>	<u>\$ 87,982</u>	<u>\$ (1,251,031)</u>	<u>\$ 14,347,230</u>	<u>\$ 1,172,082</u>
Bond premiums	151,281		(11,853)	139,428	
Total Bonds, Notes and Leases Payable	<u>\$ 15,661,560</u>	<u>\$ 87,982</u>	<u>\$ (1,262,884)</u>	<u>\$ 14,486,658</u>	<u>\$ 1,172,082</u>
Compensated absences	1,394,360	1,190,730	(1,178,333)	1,406,757	1,021,110
Total Governmental Activities	<u>\$ 17,055,920</u>	<u>\$ 1,278,712</u>	<u>\$ (2,441,217)</u>	<u>\$ 15,893,415</u>	<u>\$ 2,193,192</u>
Business-type Activities:					
Bonds, Notes and Leases Payable:					
Certificates of obligation	\$ 7,695,000	\$ 3,870,000	\$ (290,000)	\$ 11,275,000	\$ 570,000
General obligation bonds	4,000,000		(540,000)	3,460,000	450,000
Tax note payable	405,600		(47,320)	358,280	54,080
Notes payable	266,859		(34,225)	232,634	35,520
Capital leases payable	1,655,705	369,682	(516,918)	1,508,469	737,785
	<u>\$ 14,023,164</u>	<u>\$ 4,239,682</u>	<u>\$ (1,428,463)</u>	<u>\$ 16,834,383</u>	<u>\$ 1,847,385</u>
Bond premiums	88,876		(12,715)	76,161	
Total Bonds, Notes and Leases Payable	<u>\$ 14,112,040</u>	<u>\$ 4,239,682</u>	<u>\$ (1,441,178)</u>	<u>\$ 16,910,544</u>	<u>\$ 1,847,385</u>
Compensated absences	159,509	222,612	(193,605)	188,516	143,205
Total Business-type Activities	<u>\$ 14,271,549</u>	<u>\$ 4,462,294</u>	<u>\$ (1,634,783)</u>	<u>\$ 17,099,060</u>	<u>\$ 1,990,590</u>
Total Primary Government	<u>\$ 31,327,469</u>	<u>\$ 5,741,006</u>	<u>\$ (4,076,000)</u>	<u>\$ 32,992,475</u>	<u>\$ 4,183,782</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, 2014

NOTE 7: LONG-TERM OBLIGATIONS (CONT.)

A summary of the bonds follows:

	Date of Issue	Original Amount	Interest Rate	Maturity Date	Amount Outstanding 9/30/2014
Combination tax and revenue certificates of obligation:					
Series 2002	4/15/2002	\$ 2,000,000	4.45 to 5.25%	3/15/2021	\$ 1,010,000
Series 2003	7/15/2003	2,375,000	3.0 to 4.0%	3/15/2018	790,000
Series 2005	9/1/2005	1,995,000	4.0 to 4.5%	3/15/2026	1,390,000
Series 2012	6/19/2012	10,750,000	2.0 to 4.125%	3/15/2032	10,415,000
Combination tax and revenue refunding general obligation:					
Series 2005	9/1/2005	4,970,000	3.5 to 3.625%	3/15/2015	180,000
					<u>\$ 13,785,000</u>

The following represents the future maturities on these bonds:

Year Ending September 30,	Principal	Interest	Total
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	735,000	384,606	1,119,606
2020-2024	3,630,000	1,467,394	5,097,394
2025-2029	3,515,000	788,937	4,303,937
2030-2032	2,265,000	140,753	2,405,753
Total	<u>\$ 13,785,000</u>	<u>\$ 4,661,614</u>	<u>\$ 18,446,614</u>

A summary of the tax note follows:

	Date of Issue	Original Amount	Interest Rate	Maturity Date	Amount Outstanding 9/30/2014
Tax Note, Taxable Series 2013					
Governmental portion	9/1/2013	\$ 194,400	4.4 to 4.7%	9/15/2020	\$ 171,200
Business-type portion	9/1/2013	405,600	4.4 to 4.7%	9/15/2020	358,280
		<u>\$ 600,000</u>			<u>\$ 529,480</u>

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

Year Ending September 30,	Principal	Interest	Total
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
2019	30,780	2,939	33,719
2020	32,400	1,523	33,923
Total	<u>\$ 171,720</u>	<u>\$ 28,325</u>	<u>\$ 200,045</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2014

NOTE 7: LONG-TERM OBLIGATIONS (CONT.)

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 151,162	\$ 6,730	\$ 157,892
2016	130,413	3,844	134,257
2017	88,743	1,467	90,210
2018	20,192	152	20,344
Total	<u>\$ 390,510</u>	<u>\$ 12,193</u>	<u>\$ 402,703</u>

Business-type activities

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

	<u>Date of Issue</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount Outstanding 9/30/2014</u>
Combination tax and revenue certificates of obligation:					
Series 2004	3/15/2004	\$ 6,335,000	.3 to 3.35%	3/15/2022	\$ 3,965,000
Series 2012A	12/1/2012	3,440,000	1.96 to 4.64%	3/15/2044	3,440,000
Series 2013	10/8/2013	3,870,000	3.1815%	3/15/2029	3,870,000
General obligation refunding bonds,					
Series 2010	3/15/2010	5,050,000	2.0 to 4.0%	3/15/2021	<u>3,460,000</u>
					<u>\$ 14,735,000</u>

On October 8, 2013, the City issued the Combination Tax and Revenue Certificate of Obligation, Series 2013 in the face amount of \$3,870,000. The bond was issued to provide funds for landfill improvements and related costs. Principal payments begin March 15, 2015 and continue through March 15, 2029 with an interest rate of 3.1815%.

The following represents the future maturities on these bonds:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,020,000	\$ 489,977	\$ 1,509,977
2016	1,045,000	461,578	1,506,578
2017	1,080,000	430,717	1,510,717
2018	1,115,000	397,097	1,512,097
2019	1,150,000	360,629	1,510,629
2020-2024	4,680,000	1,258,190	5,938,190
2025-2029	2,415,000	684,089	3,099,089
2030-2034	580,000	444,013	1,024,013
2035-2039	735,000	299,280	1,034,280
2040-2044	915,000	110,041	1,025,041
Total	<u>\$ 14,735,000</u>	<u>\$ 4,935,611</u>	<u>\$ 19,670,611</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2014

NOTE 7: LONG-TERM OBLIGATIONS (CONT.)

The Tax Note, Taxable Series 2013 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>
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
2019	64,220	6,131	70,351
2020	67,600	3,177	70,777
Total	<u>\$ 358,280</u>	<u>\$ 59,098</u>	<u>\$ 417,378</u>

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, 2014 is \$232,634.

The following represents the future maturities on this note:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 35,520	\$	\$ 35,520
2016	35,520		35,520
2017	35,520		35,520
2018	35,520		35,520
2019	35,520		35,520
2020-2021	55,034		55,034
Total	<u>\$ 232,634</u>	<u>\$ -</u>	<u>\$ 232,634</u>

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 737,785	\$ 28,251	\$ 766,036
2016	549,149	13,160	562,309
2017	129,072	3,241	132,313
2018	63,217	1,321	64,538
2019	29,246	258	29,504
Total	<u>\$ 1,508,469</u>	<u>\$ 46,231</u>	<u>\$ 1,554,700</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2014

NOTE 8: LONG-TERM OBLIGATIONS - BEDC

The following is a summary of changes in long-term obligations for the year ended September 30, 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Note payable	\$ 1,804,108	\$	\$ (241,639)	\$ 1,562,469	\$ 247,029
Compensated absences	1,141	17,273	(14,367)	4,047	3,518
	<u>\$ 1,805,249</u>	<u>\$ 17,273</u>	<u>\$ (256,006)</u>	<u>\$ 1,566,516</u>	<u>\$ 250,547</u>

BEDC has a note payable to Citizens National Bank of Brownwood dated December 30, 2011 with a balance of \$1,562,469. The note bears interest at 65% of Wall Street Journal prime rate which was 2.015% at September 30, 2014 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
2015	247,029	29,210	\$ 276,239
2016	252,053	24,187	276,240
2017	257,179	19,061	276,240
2018	262,410	13,830	276,240
2019	267,746	8,494	276,240
2020	276,052	189	276,241
Total	<u>\$ 1,562,469</u>	<u>\$ 94,971</u>	<u>\$ 1,657,440</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 \$3,509,013 as of September 30, 2014 which is based on 24.01% usage (filled) of the overall landfill. It is estimated that an additional \$4,759,171 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, \$8,268,183, 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, 2014. 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 \$9,367,361 and is being met by the government financial test specified in 30 TAC Chapter 37.271.

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2014

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.

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 2013	Plan Year 2014
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 Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, Projected Unit Credit actuarial cost method had been used). 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 for an employee is the contribution rate which, if applied to a member' compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. 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 (i.e., the December 31, 2013 valuation will determine the contribution rate beginning January 1, 2015). The annual pension cost and net pension obligation/(asset) are as follows:

	Plan 10190	Plan 30190
1. Annual Required Contribution (ARC)	1,266,541	31,155
2. Interest on Net Pension Obligation	0	0
3. Adjustment to the ARC	0	0
4. Annual Pension cost (APC)	1,266,541	31,155
5. Contributions Made	1,266,541	31,155
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, 2014

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)
2012	1,255,122	1,255,122	100%	0
2013	1,254,894	1,254,894	100%	0
2014	1,266,541	1,266,541	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)
2012	28,284	28,284	100%	0
2013	29,450	29,450	100%	0
2014	31,155	31,155	100%	0

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuation. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation Date	12/31/2011	12/31/2012	12/31/2013
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent single Amortization Period:			
Plan 10190 City	26.3 years;closed period	25.3 years;closed period	25.0 years;closed period
Plan 30190 Health Dept.	22.6 years;closed period	21.2 years;closed period	30.0 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, 2014

NOTE 10: PENSION PLANS (CONT.)

Contributions (Cont.)

In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of the Annuity Purchase Rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2013, 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	12/31/2013	\$ 33,773,869	\$ 42,883,969	78.8%	\$ 9,110,100	\$ 8,636,409	105.5%
Plan 30190	12/31/2013	\$ 1,025,304	\$ 1,147,969	89.3%	\$ 122,665	\$ 390,880	31.4%

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, 2014

NOTE 10: PENSION PLANS (CONT.)

Contributions Required and Contributions Made

The contribution provisions of this plan are authorized by TLFRA. TLFRA 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, 2014, the City of Brownwood's Annual Pension Cost (APC) for the Brownwood Firefighter's Relief and Retirement Fund was equal to \$321,917 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, 2014 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, 2014

NOTE 10: PENSION PLANS (CONT.)

Development of the Net Pension Obligation (NPO) as of September 30, 2014:

1. Annual Required Contributions (ARC)	\$ 321,917
2. Interest on NPO	+ 0
3. Adjustment to ARC	- 0
4. Annual Pension Cost (APC)(sum of 1,2, and 3)	\$ 321,917
5. Actual City contributions made	- 321,917
6. Increase (decrease) in NPO (subtract 5 from 4)	\$ 0
7. NPO at October 1, 2013	\$ 0
8. NPO at September 30, 2014 (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)
2012	319,433	319,433	100%	0
2013	328,522	328,522	100%	0
2014	321,917	321,917	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, 2014, consist of the following:

From Utility Fund to the General Fund to supplement the functions of that fund	\$ 890,000
From Capital Projects Fund to Sanitation Fund for capital outlay expenditures	(1,500)

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2014

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, 2014 there is \$80,000 remaining to be paid on this incentive. In September 2012, the BEDC board approved a four year incentive to 3M Company of \$200,000. At September 30, 2014 there is \$50,000 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. At September 30, 2014 there is \$75,000 remaining to be paid on this incentive. In May 2014, the BEDC board approved an incentive to Lyric Performing Arts Company, Inc. of up to \$21,000. At September 30, 2014 there is \$9,489 remaining to be paid on this incentive.

Several BEDC commitments have been made that have not yet been funded at September 30, 2014. The following commitments are in this category. In January 2014, the BEDC board approved an incentive to United Supermarkets, LLC for infrastructure costs up to \$360,000. This incentive will be funded upon completion of construction. At the same meeting the BEDC board approved a loan to Ingram Concrete of \$300,000 to be funded upon completion of construction. In February 2014, the BEDC board approved an incentive to Wright Asphalt for \$250,000 dependent upon the completion of a production plant. In May 2014, the BEDC board approved an infrastructure incentive of up to \$30,000 to Stripes, LLC.

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, 2014 including 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 \$13,300,000 with remaining costs of approximately \$6,183,000 at September 30, 2014.

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

The City of Brownwood is the primary guarantor for payment of principal and interest on Revenue Bonds issued by Brown County Water Improvement District #1 with an approved original balance of \$20,490,000. At September 30, 2014 the unpaid balance was \$14,650,000 with an additional \$700,000 to be drawn. Principal payments on the bonds began February 1, 2009 and the final payment is due February 1, 2028. Payments are made monthly as a debt service charge on the statement to the City for water purchases. The payments are shared by charges added to the statements of all of the contracting parties for the purchase of treated water from Brown County Water Improvement District #1. Two additional contracting parties began to purchase treated water this year and were required to "buy-into" the system back to a date in prior years. This "buy-in" resulted in the City of Brownwood receiving a reimbursement of \$822,087 of debt service charges paid in prior years.

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

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2014

NOTE 14: RISK MANAGEMENT

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

NOTE 15: UTILITY

The Utility Department was serving the following number of customers:

	9/30/14	9/30/13
Water Department	7,364	7,365
Sewer Department	6,879	6,886
Sanitation Department	7,060	7,058

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, 2014

NOTE 20: NEW PRONOUNCEMENTS

During fiscal year 2014, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement reclassifies, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Statement No. 65 requires debt issuance costs, except any portion related to prepaid insurance costs to be recognized as an expense in the period incurred rather than an asset amortized over the life of the bonds as previously reported.

The implementation resulted in a restatement of beginning net position in the government-wide financial statement. The deferred charges for issuance costs were reclassified as expenses of prior periods and resulted in the adjustment below:

	Governmental Activities	Business-type Activities
Net position September 30, 2013	\$ 24,817,843	\$ 20,760,429
Change in reporting for deferred charges for debt issuance costs	<u>(207,553)</u>	<u>(196,914)</u>
Net position September 30, 2013 restated	<u>\$ 24,610,290</u>	<u>\$ 20,563,515</u>

The implementation resulted in a restatement of beginning net position in the Statement of Revenues, Expenses, and Changes in Net Position for the Proprietary Funds. The deferred charges for issuance costs were reclassified as expenses of prior periods and resulted in the adjustment below:

	Business-type Activities - Enterprise Fund	
	Utility Fund	Airport Fund
Net position September 30, 2013	\$ 15,520,096	\$ 2,531,716
Change in reporting for deferred charges for debt issuance costs	<u>(192,182)</u>	<u>(4,732)</u>
Net position September 30, 2013 restated	<u>\$ 15,327,914</u>	<u>\$ 2,526,984</u>

The GASB issued the following statement which will have a significant impact in the coming fiscal year. In June 2013, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement 27*. This Statement requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability on the statement of net position and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement will require the City to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the TMRS plan. This Statement requires the use of the entry age normal method to be used with each period's service cost determined as a level percentage of pay and requires certain other changes to compute the pension liability and expense. This Statement also requires revised and new note disclosures and required supplementary information (RSI) to be reported by employers. The provisions of this Statement are effective for periods beginning after June 15, 2014.

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:						
12/31/2011	\$ 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
12/31/2013	33,773,869	42,883,969	78.8	9,110,100	8,636,409	105.5
Plan 3: (Health Department)						
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
12/31/2013	1,025,304	1,147,969	89.3	122,665	390,880	31.4
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, 2014

	Original Budget	Final Budget	Actual Budgetary Basis (See Note A)	Variance with Final Budget Positive (Negative)
RESOURCES (INFLOWS):				
Ad valorem taxes	\$ 3,960,266	\$ 3,960,266	\$ 3,975,117	\$ 14,851
Sales tax	4,560,600	4,560,600	4,825,308	264,708
Other taxes	3,210,500	3,210,500	3,521,793	311,293
Fines	210,000	210,000	225,636	15,636
License and fees	69,000	69,000	117,776	48,776
Charges for services	422,500	422,500	366,623	(55,877)
Intergovernmental	1,392,390	1,392,390	1,379,504	(12,886)
Grants and contributions			1,733,588	1,733,588
Miscellaneous	37,500	38,700	136,585	97,885
Total Resources (Inflows)	\$ 13,862,756	\$ 13,863,956	\$ 16,281,930	\$ 2,417,974
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
City Council	\$ 80,435	\$ 80,435	\$ 73,884	\$ 6,551
Administration	207,107	207,107	199,981	7,126
City Secretary	89,376	89,376	80,258	9,118
Finance/Accounting	323,332	323,332	321,723	1,609
Municipal Court	291,861	291,861	289,885	1,976
Police	4,330,475	4,332,385	4,182,791	149,594
Fire	2,643,321	2,678,945	2,635,844	43,101
Development services	653,208	790,300	755,600	34,700
Street	1,582,455	1,582,455	3,288,353	(1,705,898)
Health	242,664	242,664	259,860	(17,196)
Community services	589,671	589,671	592,422	(2,751)
Intergovernmental	221,771	221,771	218,863	2,908
Utility billing	230,922	230,922	226,809	4,113
Community facilities	354,823	355,577	407,445	(51,868)
Operations support	132,658	150,131	165,640	(15,509)
Purchasing/warehouse	180,896	180,896	183,871	(2,975)
Parks and recreation	1,222,334	1,222,334	1,141,106	81,228
Fleet services	492,494	492,494	448,449	44,045
City Attorney	182,191	182,191	180,142	2,049
Public works/engineering	387,079	394,627	358,447	36,180
Emergency management	21,290	21,290	11,969	9,321
Human Resources	261,107	261,107	225,850	35,257
Fire Marshall	125,629	125,629	124,744	885
General fund contingency	128,500	128,500	351,820	(223,320)
Information technology	409,131	409,131	458,739	(49,608)
Transportation museum	112,937	112,937	109,210	3,727
Motel tax to CVB			315,337	(315,337)
Other			39,780	(39,780)
Total Charges to Appropriations (Outflows)	\$ 15,497,667	\$ 15,698,068	\$ 17,648,822	\$ (1,950,754)
EXCESS CHARGES TO APPROPRIATIONS	\$ (1,634,911)	\$ (1,834,112)	\$ (1,366,892)	\$ 467,220
FUND BALANCE - BEGINNING	(5,716,616)	(5,716,616)	(5,716,616)	-
FUND BALANCE - ENDING	\$ (7,351,527)	\$ (7,550,728)	\$ (7,083,508)	\$ -

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BUDGETARY COMPARISON SCHEDULE

For the Year Ended September 30, 2014

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.	\$ 16,281,930
The City budgets for sales tax based on the amount collected rather than on the modified accrual basis.	<u>44,820</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances governmental fund.	<u>\$ 16,326,750</u>

Uses/outflows of Resources:

Actual amount (budgetary basis) charges to appropriations from the budgetary comparison schedule.	\$ 17,648,822
The City budgets for salaries on the cash basis rather than on the modified accrual basis.	(28,963)
The City budgets for compensated absences on the cash basis rather than the modified accrual basis.	<u>7,112</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances governmental fund.	<u>\$ 17,626,971</u>

SUPPLEMENTARY INFORMATION

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

OTHER GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS

September 30, 2014

	Total Debt Service Fund	Total Special Revenue Fund	Total Other Governmental Funds
<u>ASSETS</u>			
ASSETS:			
Pooled cash and cash equivalents	\$	\$ 34,346	\$ 34,346
Non pooled cash and cash equivalents		25	25
Receivables, net	111,690	104,628	216,318
Restricted assets	66,779	65,793	132,572
TOTAL ASSETS	\$ 178,469	\$ 204,792	\$ 383,261
<u>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</u>			
LIABILITIES:			
Accounts payable	\$	\$ 22,844	\$ 22,844
Accrued payroll		17,736	17,736
TOTAL LIABILITIES	\$ -	\$ 40,580	\$ 40,580
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenue	\$ 106,880	\$ -	\$ 106,880
FUND BALANCES:			
Restricted for:			
Debt service	\$ 71,589	\$	\$ 71,589
Fabis Park		65,793	65,793
Assigned to:			
Health and nutrition programs		30,163	30,163
Unassigned		68,256	68,256
TOTAL FUND BALANCES	\$ 71,589	\$ 164,212	\$ 235,801
TOTAL LIABILITIES AND FUND BALANCES	\$ 178,469	\$ 204,792	\$ 383,261

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, 2014

	Total Debt Service Fund	Total Special Revenue Fund	Total Other Governmental Funds
REVENUES:			
Ad valorem taxes	\$ 1,567,862	\$	\$ 1,567,862
Grants and contributions		774,302	774,302
Other revenue	108,888	352,078	460,966
Interest	117	23	140
Total Revenues	\$ 1,676,867	\$ 1,126,403	\$ 2,803,270
EXPENDITURES:			
Debt service:			
Principal	\$ 1,122,680	\$	\$ 1,122,680
Interest	557,658		557,658
Fiscal agent fees	2,438		2,438
Special revenue fund		1,074,913	1,074,913
Total Expenditures	\$ 1,682,776	\$ 1,074,913	\$ 2,757,689
EXCESS OF REVENUES OVER EXPENDITURES	\$ (5,909)	\$ 51,490	\$ 45,581
OTHER FINANCING SOURCES:			
Transfers in	\$ 30,940	\$	\$ 30,940
Total Other Financing Sources	\$ 30,940	\$ -	\$ 30,940
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	\$ 25,031	\$ 51,490	\$ 76,521
FUND BALANCE - BEGINNING OF YEAR	46,558	112,722	159,280
FUND BALANCE - END OF YEAR	\$ 71,589	\$ 164,212	\$ 235,801

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, 2014, 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 January XX, 2015.

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
January 20, 2015



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, 2014. 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, 2014.

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
January 20, 2015

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2014

	Federal CFDA Number	Pass Through Entity ID Number	Amount Expended	Amount Expended to Sub-recipients
FEDERAL ASSISTANCE:				
U.S. Department of Agriculture:				
Passed through Texas Department of State Health Services:				
Special Supplemental Nutrition Program for Women, Infants and Children				
	10.557	2014-039936	\$ 311,520	\$ -
U.S. Department of the Interior:				
Passed through Texas Parks and Wildlife Department:				
Outdoor Recreation_Acquisition, Development and Planning				
	15.916	48-001126	\$ 6,490	\$ -
U.S. Department of Transportation:				
Passed through Texas Department of Transportation:				
Airport Improvement Program				
	20.106	1323BWOOD 14BPWOOD	\$ 2,369,608	\$ -
General Services Administration:				
Non-monetary pass through from Texas Facilities Commission:				
Donation of Federal Surplus Personal Property				
	39.003	26171	\$ 1,972	\$ -
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		\$ 117,483	\$ -
Passed through Texas Department of State Health Services:				
Special Programs for the Aging_Title III, Part C_Nutrition Services				
	93.045		55,285	
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements:				
Bio-terrorism-Investigations and Technical Assistance				
	93.074	2014-041411-002	97,324	
Bio-terrorism-Printer Grant				
	93.074	2014-041411-002	2,995	
Immunization Cooperative Agreements-Immunization				
	93.268	2014-041411-001	132,722	
Preventive Health and Health Services Block Grant				
	93.991	2014-041411-003	12,050	
Total U.S. Department of Health and Human Services			\$ 417,859	\$ -
Total Federal Assistance			\$ 3,107,449	\$ -

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2014

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, 2014. 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, 2014

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	
20.106	Airport Improvement Program	
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