

CITY OF BROWNWOOD
Brownwood, Texas

ANNUAL FINANCIAL STATEMENTS

September 30, 2016

CITY OF BROWNWOOD, TEXAS

Brownwood, Texas

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Brownwood, Texas

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D. A. "Tony" Krischke, CPA

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of City of Brownwood, Texas as of and for the year ended September 30, 2016, 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 units, each major fund, and the aggregate remaining fund information of the City of Brownwood, Texas, as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of changes in net pension liability and related ratios, the schedules of pension contributions and budgetary comparison information on pages 3-8 and 48-55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Brownwood, Texas basic financial statements. The combining and comparative financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State of Texas *Single Audit Circular*, and is also not a required part of the basic financial statements.

The combining and comparative financial statements and the schedule of expenditures of federal and state 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 April 3, 2017, 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
April 3, 2017

City of Brownwood
Management's Discussion and Analysis
For Year Ended September 30, 2016

(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, 2016. 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 \$38,920,477 (net position). Of this amount, \$3,433,799 is restricted for debt service, construction and other uses. The amount invested in fixed assets is \$43,897,171 leaving a negative \$(8,410,493) in unrestricted net position.
- The government's total net position decreased by \$574,692. There were increases and decreases in several areas including a net reduction in current assets versus liabilities of \$685,216, a net increase in pension liability net of deferred outflows and inflows of \$289,311 and an overall improvement in unrestricted fund balances of \$351,870.
- As of the close of the current fiscal year, the City's governmental activities reported combined ending net position of \$20,163,684, a decrease of \$235,404 in comparison with the prior year. This reduction was primarily due to a net increase in pension liability net of deferred outflows and inflows of \$304,791.
- At the end of the current fiscal year, unrestricted net position for the governmental activities was a negative \$(5,373,182) as compared to a negative \$(5,457,520) in the prior year, an improvement of \$84,338. Net position invested in capital assets for governmental activities went down due to an increase in the netting of related debt against capital assets, and net position invested in restricted assets for governmental activities went up due to net bond proceeds received during the year.
- The City's total liabilities increased by \$10,198,212 during the current fiscal year primarily due to an increase in pension liability of \$2,430,427 and an increase in long-term liabilities of \$5,605,467 primarily due to new bond proceeds.
- Total revenue increased by \$1,304,715 over the prior year. General revenues such as property taxes, sales tax and other taxes increased by \$851,935 while operating revenues such as water sales, sewer fees and sanitation fees increased by \$371,501.
- Expenditures increased by \$1,662,374 or 4.9%. Almost half of this was in Public Safety due to pay raises provided to Police and Fire departments. There were also increases in Community Services in Parks and Facilities of \$267,038 and Water/Sewer costs of \$201,032.
- The year ended with a net deficit for the current year of \$574,692 compared with a surplus of \$289,734 in the prior year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Basic Financial Statements

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

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City government. These statements provide more detail than the government-wide statements. There are three parts

to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary funds statements.

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

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

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

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

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

The Notes to the Financial Statements are on pages 23-47 of this report.

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

Government-Wide Financial Analysis

The City’s combined net position decreased from \$39,495,169 last year to \$38,920,477 this year, a decrease of \$574,692. 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	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 9,037,464	\$ 6,752,253	\$ 6,130,021	\$ 7,388,886	\$ 15,167,485	\$ 14,141,139
Capital Assets	38,617,726	38,439,025	40,403,611	34,577,010	79,021,337	73,016,035
Deferred Outflows	3,353,725	1,373,192	997,607	386,268	4,351,332	1,759,460
Total Assets	\$ 51,008,915	\$ 46,564,470	\$ 47,531,239	\$ 42,352,164	\$ 98,540,154	\$ 88,916,634
Current liabilities	\$ 3,328,366	\$ 3,062,862	\$ 3,020,804	\$ 2,554,123	\$ 6,349,170	\$ 5,616,985
Long-term liabilities	15,717,996	13,588,975	23,055,824	18,600,001	38,773,820	32,188,976
Net Pension Liability	10,912,360	8,970,379	2,364,902	1,876,456	13,277,262	10,846,835
Deferred Inflows	886,509	543,166	332,916	225,503	1,219,425	768,669
Total Liabilities	\$ 30,845,231	\$ 26,165,382	\$ 28,774,446	\$ 23,256,083	\$ 59,619,677	\$ 49,421,465
Net Position:						
Invested in capital assets						
net of related debt	\$ 22,103,067	\$ 24,141,211	\$ 21,794,104	\$ 22,400,924	\$ 43,897,171	\$ 46,542,135
Restricted	3,433,799	1,715,397	-	-	3,433,799	1,715,397
Unrestricted	(5,373,182)	(5,457,520)	(3,037,311)	(3,304,843)	(8,410,493)	(8,762,363)
Total Net Position	\$ 20,163,684	\$ 20,399,088	\$ 18,756,793	\$ 19,096,081	\$ 38,920,477	\$ 39,495,169

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 \$38,920,477 as of September 30, 2016. However, the largest portion of the City’s net position (113%) 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 (8.8%) represents resources that are subject to external restrictions on how they may be used, primarily bond funds that must be used for specific projects. This leaves a negative unrestricted balance of \$(8,410,493). This was an improvement of \$351,870 or 0.4% over the prior year.

Governmental activities: Governmental activities decreased the City’s net position by \$235,404 after booking transfers.

Business-type activities: Business-type activities decreased the City’s net position by \$339,288 after booking transfers.

The following table provides a summary of the City's operations for year ended September 30, 2016.

City of Brownwood Changes in Net Position

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues:						
Fees, fines, and charges for services	\$ 2,567,886	\$ 2,486,347	\$ 15,537,133	\$ 15,247,171	\$ 18,105,019	\$ 17,733,518
Operating grants and contributions	846,876	798,671	4,836	-	851,712	798,671
Capital grants and contributions	200,000	100,000	50,000	121,762	250,000	221,762
General Revenues:						
Ad valorem taxes	6,144,091	5,954,559	-	-	6,144,091	5,954,559
Sales tax	5,955,717	5,177,646	-	-	5,955,717	5,177,646
Other revenues	4,108,333	4,257,924	163,771	129,848	4,272,104	4,387,772
Total Revenues	\$ 19,822,903	\$ 18,775,147	\$ 15,755,740	\$ 15,498,781	\$ 35,578,643	\$ 34,273,928
Expenses:						
General government and administration	\$ 5,706,061	\$ 5,235,401	\$ -	\$ -	\$ 5,706,061	\$ 5,235,401
Public Safety	8,932,336	8,152,855	-	-	8,932,336	8,152,855
Streets	2,535,353	2,472,746	-	-	2,535,353	2,472,746
Parks & Community Facilities	2,299,757	2,032,719	-	-	2,299,757	2,032,719
Special Rev Activities	1,172,370	1,141,189	-	-	1,172,370	1,141,189
Water & Sewer	-	-	8,297,277	8,096,245	8,297,277	8,096,245
Sanitation & Landfill	-	-	4,594,600	4,718,331	4,594,600	4,718,331
Airport	-	-	1,122,051	1,214,889	1,122,051	1,214,889
Pecan Field Station	-	-	25,309	44,627	25,309	44,627
Interest on long-term debt	432,156	523,862	529,298	351,330	961,454	875,192
Total Expenses	\$ 21,078,033	\$ 19,558,772	\$ 14,568,535	\$ 14,425,422	\$ 35,646,568	\$ 33,984,194
Increases in net position before capital contributions, transfers and special items						
	\$ (1,255,130)	\$ (783,625)	\$ 1,187,205	\$ 1,073,359	\$ (67,925)	\$ 289,734
Capital contributions	6,068,411	-	-	-	6,068,411	-
Transfers	1,526,493	3,699,644	(1,526,493)	(3,699,644)	-	-
Special items	(6,575,178)	-	-	-	(6,575,178)	-
Increase in net position	\$ (235,404)	\$ 2,916,019	\$ (339,288)	\$ (2,626,285)	\$ (574,692)	\$ 289,734
Net position October 1	20,399,088	25,666,259	19,096,081	23,674,224	39,495,169	49,340,483
Prior Period Adjustment	-	(8,183,190)	-	(1,951,858)	-	(10,135,048)
Net position September 30	\$ 20,163,684	\$ 20,399,088	\$ 18,756,793	\$ 19,096,081	\$ 38,920,477	\$ 39,495,169

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 \$2,778,521 as compared to \$2,498,900 in the prior year, an improvement of \$279,621. Total fund balance was \$2,946,972 this year compared to \$2,674,152 in the prior year, an improvement of \$272,820. These improvements were primarily due to an increase in the cash balance in the General Fund of \$166,359.

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 15.3% and 16.3% respectively.

At September 30, 2016, the governmental funds of the City reported a combined fund balance of \$6,480,800 compared to the prior year which was \$4,371,609, an improvement of \$2,109,191.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Utility (Water Delivery, Wastewater Collection and Wastewater Treatment), Sanitation (Trash Collection and Landfill), Airport and Pecan Station Funds at the end of the fiscal year amounted to a negative \$(3,247,311). This represented an improvement of \$57,532.

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 \$1,134,053 or 7.2% while expenditures came in over budget by \$1,111,847 or 6.5%. This represented a net positive variance of \$22,206.

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, 2016, totals \$79,021,337 (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, 2016, the City had total bonded debt outstanding of \$31,713,569. 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 2016 was 4.3% which is lower than the state average (4.6%) and national average (4.9%).
- Increasing property values. Taxable assessed values for 2016 increased by 3.74% from \$814,960,673 in 2015 to \$845,462,662 in 2016.
- Population growth. The City's population increased 0.8% from the official census numbers in 2010 to 2016. This indicates continuing growth in the City's manufacturing, commercial and residential infrastructure.
- Sales tax collections remained steady at \$1.7M for the economic development 1/2 cent tax.
- Closed real estate sales rose from 282 in 2015 to 321 in 2016.
- Residential certificates of occupancy were at a ten year high with 21 issued in 2016.

- Hotel occupancy remained strong with \$385,606 in hotel occupancy collected in 2016.
- Building valuation for new construction reached a ten year high at \$21.6M.

The City and Brownwood Economic Development Corporation (BEDC) continued to help local companies grow and recruit manufacturing and retail businesses. The BEDC was dissolved in May, 2016, and was replaced by the Brownwood Municipal Development District (BMDD), which assumed the obligations of the BEDC. At the end of the fiscal year, industrial expansions that have taken place or underway include: two new product lines for 3M, a mixing tower for Lortscher Animal Nutrition, an expansion of facilities at Wright Asphalt, and a 90,000 square foot WT Harris warehouse. The Commerce Square Retail Center is fully leased. A new shopping center, The Shoppes at Pecan Bayou was begun, and the Cotton Patch Café and McAlister’s Deli were under construction. The Brownwood Regional Medical Center and surrounding medical complex has continued to expand with the addition of the Brownwood Women’s Clinic, DaVita Dialysis, and the Hendrick Surgical Center. Employment growth took place with several major employers including 3M, Kohler, Superior Essex, Brownwood Regional Medical Center, and others.

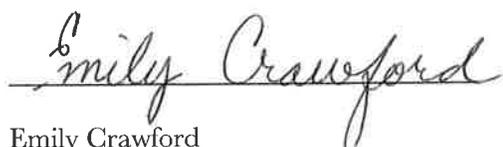
Budget Highlights for the Fiscal Year Ending September 30, 2017

Governmental Activities: The property tax rate remained unchanged over the prior year at 0.7463 cents per hundred dollars valuation. Sales tax is projected to increase by 2% over the last fiscal year. Budgeted expenditures in the General Fund are expected to increase by 1.6%. A 2% pay raise was granted to all non-civil service employees while Police and Fire received an overall net effective raise of 4.7%. In addition, employees identified as still being under a minimum standard were granted raises to bring them to the minimum.

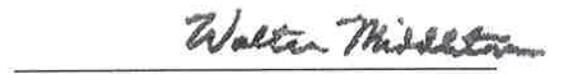
Business – type Activities: Water consumption rates were increased by 5.4% to offset an increase in the wholesale cost of water to the City of 8.2%. The water base rate, sewer rate and sanitation rates were unchanged.

Requests for Information

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



 Emily Crawford
 City Manager

 Walter Middleton, CPA, CGFO
 Director of Finance

BASIC FINANCIAL STATEMENTS

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

STATEMENT OF NET POSITION

September 30, 2016

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	BEDC	BMDD
ASSETS:					
Pooled cash and cash equivalents	\$ (1,975,924)	\$ 291,545	\$ (1,684,379)	\$ 50,000	\$ 37,960
Pooled cash designated for special projects		201,820	201,820		
Non pooled cash and cash equivalents	4,281	3,594	7,875		
Investments	5,230,500	2,592	5,233,092		3,325,131
Investments designated for closure and postclosure		1,246,527	1,246,527		
Receivables, net	2,468,842	1,524,041	3,992,883		1,856,647
Inventory	24,405	806,274	830,679		
Prepaid expense	2,798	2,705	5,503		
Restricted assets	3,282,562	2,050,923	5,333,485		
Land held for development			-		971,570
Capital assets, net	38,617,726	40,403,611	79,021,337		
Total Assets	<u>\$ 47,655,190</u>	<u>\$ 46,533,632</u>	<u>\$ 94,188,822</u>	<u>\$ 50,000</u>	<u>\$ 6,191,308</u>
DEFERRED OUTFLOWS OF RESOURCES:					
Amounts related to pensions	<u>\$ 3,353,725</u>	<u>\$ 997,607</u>	<u>\$ 4,351,332</u>	<u>\$ -</u>	<u>\$ -</u>
Total Deferred Outflows of Resources	<u>\$ 3,353,725</u>	<u>\$ 997,607</u>	<u>\$ 4,351,332</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES:					
Accounts payable	\$ 933,506	\$ 814,184	\$ 1,747,690	\$ -	\$ 4,578
Accrued salaries	72,618	20,094	92,712		1,243
Liabilities payable from restricted assets:					
Bonds payable	70,529	11,364	81,893		
Noncurrent liabilities:					
Customer utility deposits		786,717	786,717		
Estimated liability for landfill closure and postclosure care costs		4,395,902	4,395,902		
Net pension liability	10,912,360	2,364,902	13,277,262		
Compensated absences:					
Portion due or payable within one year	1,050,675	151,989	1,202,664		1,127
Portion due or payable after one year	474,904	53,683	528,587		231
Capital leases payable:					
Portion due or payable within one year	344,027	697,077	1,041,104		
Portion due or payable after one year	974,910	2,269,135	3,244,045		
Tax note payable:					
Portion due or payable within one year	27,540	57,460	85,000		
Portion due or payable after one year	92,340	192,660	285,000		
Bonds payable:					
Portion due or payable within one year	829,471	1,268,636	2,098,107		
Portion due or payable after one year	14,175,842	13,357,727	29,533,569		
Total Liabilities	<u>\$ 29,958,722</u>	<u>\$ 28,441,530</u>	<u>\$ 58,400,252</u>	<u>\$ -</u>	<u>\$ 7,179</u>
DEFERRED INFLOWS OF RESOURCES:					
Amounts related to pensions	<u>\$ 861,745</u>	<u>\$ 332,916</u>	<u>\$ 1,194,661</u>	<u>\$ -</u>	<u>\$ -</u>
Amounts related to bond refunding	<u>24,764</u>		<u>24,764</u>		
Total Deferred Inflows of Resources	<u>\$ 886,509</u>	<u>\$ 332,916</u>	<u>\$ 1,219,425</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

STATEMENT OF NET POSITION (CONT.)

September 30, 2016

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	BEDC	BMDD
NET POSITION					
Invested in capital assets, net of related debt	\$ 22,103,067	\$ 21,794,104	\$ 43,897,171	\$	\$
Restricted for:					
Municipal Court	43,565		43,565		
Tourism promotion	51,213		51,213		
Vehicular child safety	19,543		19,543		
Law enforcement	16,794		16,794		
Drug awareness education	3,494		3,494		
Lehnis Museum	6,002		6,002		
Beautification	637		637		
Debt service	70,529		70,529		
Fabis Park	61,926		61,926		
Construction	3,160,096		3,160,096		
Unrestricted	(5,373,182)	(3,037,311)	(8,410,493)	50,000	6,184,129
Total Net Position	<u>\$ 20,163,684</u>	<u>\$ 18,756,793</u>	<u>\$ 38,920,477</u>	<u>\$ 50,000</u>	<u>\$ 6,184,129</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2016

<u>Functions/programs</u>	Program Revenue			
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 4,179,025	\$ 1,239,946	\$ 20,496	\$
Municipal court	322,118			
Police	4,740,167	512,874	5,532	
Fire	3,537,992	12,887		
Development services	707,006	101,966		
Street	2,535,353			
Health	332,059	158,518		
Community facilities	622,077	99,741		
Parks and recreation	1,677,680	83,668		200,000
Public works/engineering	500,322			
Motel tax to CVB	319,708			
Interest on long-term debt	432,156			
Special revenue activities	1,172,370	358,286	820,848	
Total Governmental Activities	\$ 21,078,033	\$ 2,567,886	\$ 846,876	\$ 200,000
Business-type Activities:				
Water	\$ 5,098,222	\$ 5,773,164	\$ 4,836	\$
Waste water collection	1,866,503	3,934,025		
Waste water treatment	1,332,552			
Sanitation	2,050,859	3,048,437		
Landfill	2,543,741	2,092,245		
Airport	1,122,051	685,091		50,000
Pecan Field Station	25,309	4,171		
Interest on long-term debt	529,298			
Total Business-type Activities	\$ 14,568,535	\$ 15,537,133	\$ 4,836	\$ 50,000
TOTAL PRIMARY GOVERNMENT	\$ 35,646,568	\$ 18,105,019	\$ 851,712	\$ 250,000
Component Units:				
BEDC - Economic development	\$ 701,705	\$	\$	\$
BMDD - Economic development	413,902		6,575,177	
TOTAL COMPONENT UNITS	\$ 1,115,607	\$ -	\$ 6,575,177	\$ -

See accompanying notes to basic financial statement

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	BEDC	BMDD
\$ (2,918,583)		\$ (2,918,583)		
(322,118)		(322,118)		
(4,221,761)		(4,221,761)		
(3,525,105)		(3,525,105)		
(605,040)		(605,040)		
(2,535,353)		(2,535,353)		
(173,541)		(173,541)		
(522,336)		(522,336)		
(1,394,012)		(1,394,012)		
(500,322)		(500,322)		
(319,708)		(319,708)		
(432,156)		(432,156)		
6,764		6,764		
\$ (17,463,271)		\$ (17,463,271)		
	\$ 679,778	\$ 679,778		
	2,067,522	2,067,522		
	(1,332,552)	(1,332,552)		
	997,578	997,578		
	(451,496)	(451,496)		
	(386,960)	(386,960)		
	(21,138)	(21,138)		
	(529,298)	(529,298)		
	\$ 1,023,434	\$ 1,023,434		
\$ (17,463,271)	\$ 1,023,434	\$ (16,439,837)		
			\$ (701,705)	\$ 6,161,275
			\$ (701,705)	\$ 6,161,275

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

STATEMENT OF ACTIVITIES (CONT.)

For the Year Ended September 30, 2016

	Net (Expense) Revenue and Changes in Net Position				
	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	BEDC	BMDD
CHANGE IN NET POSITION:					
Net Income (Expense)	\$ (17,463,271)	\$ 1,023,434	\$ (16,439,837)	\$ (701,705)	\$ 6,161,275
General Revenues:					
Taxes:					
Ad valorem	\$ 6,144,091		\$ 6,144,091		
Sales	5,955,717		5,955,717	1,043,967	
Other	3,814,882		3,814,882		
Earnings on investments	15,712	19,645	35,357	50,748	16,314
Miscellaneous	257,347	148,725	406,072	18,480	6,540
Gain on disposal of capital assets	20,392	(4,599)	15,793		
Capital contributions	6,068,411		6,068,411		
Transfers	1,526,493	(1,526,493)	-		
Special item-Contribution of assets to BMDD	(6,575,178)		(6,575,178)		
Extraordinary item-Transfer assets in dissolution			-	(5,834,150)	
Total General Revenue	<u>\$ 17,227,867</u>	<u>\$ (1,362,722)</u>	<u>\$ 15,865,145</u>	<u>\$ (4,720,955)</u>	<u>\$ 22,854</u>
CHANGE IN NET POSITION	\$ (235,404)	\$ (339,288)	\$ (574,692)	\$ (5,422,660)	\$ 6,184,129
NET POSITION - BEGINNING OF YEAR	<u>20,399,088</u>	<u>19,096,081</u>	<u>39,495,169</u>	<u>5,472,660</u>	<u>-</u>
NET POSITION - END OF YEAR	<u>\$ 20,163,684</u>	<u>\$ 18,756,793</u>	<u>\$ 38,920,477</u>	<u>\$ 50,000</u>	<u>\$ 6,184,129</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

BALANCE SHEETS
GOVERNMENTAL FUNDS

September 30, 2016

	<u>Major Fund</u>	<u>Nonmajor Fund</u>	Total
	General Fund	Other Governmental Funds	Governmental Funds
<u>ASSETS</u>			
ASSETS:			
Pooled cash and cash equivalents	\$ (2,121,166)	\$ 145,242	\$ (1,975,924)
Non pooled cash and cash equivalents	4,256	25	4,281
Investments	5,230,500		5,230,500
Receivables, net	1,907,494	416,347	2,323,841
Inventory	24,405		24,405
Prepaid expense	2,798		2,798
Restricted assets	144,300	3,138,262	3,282,562
	<u>\$ 5,192,587</u>	<u>\$ 3,699,876</u>	<u>\$ 8,892,463</u>
<u>LIABILITIES, DEFERRED INFLOWS AND FUND</u>			
<u>BALANCES</u>			
LIABILITIES:			
Accounts payable	\$ 852,410	\$ 81,096	\$ 933,506
Accrued salaries	68,132	4,486	72,618
Compensated absences	1,050,675		1,050,675
	<u>\$ 1,971,217</u>	<u>\$ 85,582</u>	<u>\$ 2,056,799</u>
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenue	\$ 274,398	\$ 80,466	\$ 354,864
FUND BALANCES:			
Nonspendable:			
Inventory	\$ 24,405		\$ 24,405
Prepaid expense	2,798		2,798
Restricted for:			
Municipal Court	43,565		43,565
Tourism promotion	51,213		51,213
Vehicular child safety	19,543		19,543
Law enforcement	16,794		16,794
Drug awareness education	3,494		3,494
Lehnis Museum	6,002		6,002
Beautification	637		637
Debt service		70,529	70,529
Fabis Park		61,926	61,926
Construction		3,160,096	3,160,096
Committed to:			
Construction		142,255	142,255
Assigned to:			
Health and nutrition programs		43,291	43,291
Unassigned	2,778,521	55,731	2,834,252
	<u>\$ 2,946,972</u>	<u>\$ 3,533,828</u>	<u>\$ 6,480,800</u>
TOTAL FUND BALANCES	<u>\$ 2,946,972</u>	<u>\$ 3,533,828</u>	<u>\$ 6,480,800</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,192,587</u>	<u>\$ 3,699,876</u>	<u>\$ 8,892,463</u>

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, 2016

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 6,480,800
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 \$53,898,484.	38,617,726
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.	354,864
Revenues receivable on warrants are not current financial resources and are not reported in the governmental funds balance sheet, net of allowance for uncollected warrants of \$159,956.	145,001
Deferred inflows from bond refunding are not reported in the governmental funds balance sheet	(24,764)
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds balance sheet	<u>(25,409,943)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 20,163,684</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

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

For the Year Ended September 30, 2016

	<u>Major Fund</u>		<u>Nonmajor Fund</u>	
	<u>General</u>	<u>Other</u>	<u>Other</u>	<u>Total</u>
	<u>Fund</u>	<u>Governmental</u>	<u>Governmental</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>	<u>Funds</u>
REVENUES:				
Ad valorem taxes	\$ 4,973,561	\$ 1,177,324		\$ 6,150,885
Sales taxes	5,955,717			5,955,717
Other taxes	3,814,882			3,814,882
Fines	310,908			310,908
Licenses and fees	122,153			122,153
Charges for services	350,346			350,346
Intergovernmental	1,408,010			1,408,010
Interest	10,898	4,814		15,712
Grants and contributions	6,091,838	1,023,448		7,115,286
Miscellaneous	146,983	468,650		615,633
Total Revenue	<u>\$ 23,185,296</u>	<u>\$ 2,674,236</u>		<u>\$ 25,859,532</u>
EXPENDITURES:				
Current:				
City Council	\$ 57,555			\$ 57,555
Administration	225,789			225,789
City Secretary	102,163			102,163
Finance/accounting	355,339			355,339
Municipal Court	343,719			343,719
Police	4,726,637			4,726,637
Fire	3,077,508			3,077,508
Development services	711,985			711,985
Street	1,755,522			1,755,522
Health	296,163			296,163
Community services	603,008			603,008
Intergovernmental	220,668			220,668
Utility billing	243,129			243,129
Community facilities	583,203			583,203
Operations support	164,705			164,705
Purchasing/warehouse	185,293			185,293
Parks and recreation	1,381,370			1,381,370
Fleet services	508,891			508,891
City Attorney	192,117			192,117
Public works/engineering	668,469			668,469
Emergency management	11,482			11,482
Human resources	253,359			253,359
Fire Marshal	183,163			183,163
General fund contingency	134,740			134,740
Information technology	660,004			660,004
Transportation museum	149,187			149,187
Motel tax to CVB	319,708			319,708
Other	15,028			15,028
Special revenue funds		1,169,421		1,169,421
Capital outlay		1,461,363		1,461,363
Debt Service:				
Principal		3,135,920		3,135,920
Interest		440,753		440,753
Bond issuance costs		64,308		64,308
Fiscal agent fees		1,407		1,407
Total Expenditures	<u>\$ 18,129,904</u>	<u>\$ 6,273,172</u>		<u>\$ 24,403,076</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 5,055,392</u>	<u>\$ (3,598,936)</u>		<u>\$ 1,456,456</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, 2016

	<u>Major Fund</u> General Fund	<u>Nonmajor Fund</u> Other Governmental Funds	Total Governmental Funds
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 5,055,392	\$ (3,598,936)	\$ 1,456,456
OTHER FINANCING SOURCES (USES):			
Transfers in	\$ 1,437,102	\$ 142,007	\$ 1,579,109
Transfers out	(45,916)	(6,700)	(52,616)
Bond proceeds		5,300,000	5,300,000
Capital lease proceeds	374,551		374,551
Proceeds from sale of capital assets	26,869		26,869
Net Other Financing Sources (Uses)	<u>\$ 1,792,606</u>	<u>\$ 5,435,307</u>	<u>\$ 7,227,913</u>
SPECIAL ITEMS:			
Contribution of assets to Brownwood Municipal Development District	\$ (6,575,178)	\$ -	\$ (6,575,178)
Total Special Items	<u>\$ (6,575,178)</u>	<u>\$ -</u>	<u>\$ (6,575,178)</u>
NET CHANGE IN FUND BALANCES	\$ 272,820	\$ 1,836,371	\$ 2,109,191
FUND BALANCE - BEGINNING OF YEAR	<u>2,674,152</u>	<u>1,697,457</u>	<u>4,371,609</u>
FUND BALANCE - END OF YEAR	<u>\$ 2,946,972</u>	<u>\$ 3,533,828</u>	<u>\$ 6,480,800</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, 2016

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 2,109,191

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

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

Capital assets purchased 2,507,533
Depreciation and amortization (2,328,833)

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 (5,674,551)
Principal payments on long-term debt 3,424,346
Additional accrual of compensated absences (13,051)
Current amortization of bond premiums and deferred amount on refunding 8,597
Change in net pension liability and related deferred outflows and inflows (280,026)

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.

(6,794)

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.

18,184

CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ (235,404)

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

STATEMENTS OF NET POSITION
PROPRIETARY FUNDS

September 30, 2016

	<u>Business-Type Activities - Enterprise Fund</u>				Total
	<u>Major Funds</u>			Nonmajor Proprietary Fund	
	Utility Fund	Sanitation Fund	Airport Fund		
CURRENT ASSETS:					
Pooled cash and cash equivalents	\$ 101,831	\$ 186,625	\$ 1,403	\$ 1,686	\$ 291,545
Pooled cash designated for special projects	201,820				201,820
Non pooled cash and cash equivalents	2,500	694	400		3,594
Investments	1,814	778			2,592
Investments designated for closure and postclosure		1,246,527			1,246,527
Accounts receivable, net	1,012,719	449,549	61,773		1,524,041
Inventory	757,267		49,007		806,274
Prepaid expenses	2,705				2,705
Total Current Assets	\$ 2,080,656	\$ 1,884,173	\$ 112,583	\$ 1,686	\$ 4,079,098
NONCURRENT ASSETS:					
Restricted assets	\$ 2,047,344	\$ 3,469	\$ 110	\$ -	\$ 2,050,923
Capital assets, net	27,279,346	8,941,181	4,180,224	2,860	40,403,611
Total Noncurrent Assets	\$ 29,326,690	\$ 8,944,650	\$ 4,180,334	\$ 2,860	\$ 42,454,534
TOTAL ASSETS	\$ 31,407,346	\$ 10,828,823	\$ 4,292,917	\$ 4,546	\$ 46,533,632
DEFERRED OUTFLOWS OF RESOURCES:					
Amounts related to pensions	\$ 507,128	\$ 407,229	\$ 79,087	\$ 4,163	\$ 997,607
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 507,128	\$ 407,229	\$ 79,087	\$ 4,163	\$ 997,607
CURRENT LIABILITIES:					
Accounts payable	\$ 727,483	\$ 69,318	\$ 17,383	\$ -	\$ 814,184
Accrued salaries	10,859	7,507	1,728		20,094
Capital leases payable	80,962	603,519	12,596		697,077
Tax note payable			57,460		57,460
Bonds payable	1,052,000	216,636			1,268,636
Compensated absences	67,060	67,091	17,838		151,989
Total Current Liabilities	\$ 1,938,364	\$ 964,071	\$ 107,005	\$ -	\$ 3,009,440
LIABILITIES PAYABLE FROM RESTRICTED ASSETS:					
Bonds payable	\$ 8,000	\$ 3,364	\$ -	\$ -	\$ 11,364
Total Liabilities Payable from Restricted Assets	\$ 8,000	\$ 3,364	\$ -	\$ -	\$ 11,364
NONCURRENT LIABILITIES:					
Compensated absences	\$ 21,751	\$ 25,753	\$ 6,179	\$ -	\$ 53,683
Net pension liability	1,202,186	965,367	187,482	9,867	2,364,902
Customer water meter deposits	786,717				786,717
Capital leases payable	68,477	2,171,309	29,349		2,269,135
Tax note payable			192,660		192,660
Bonds payable	12,947,727	2,410,000			15,357,727
Accrued landfill closure and postclosure care costs		4,395,902			4,395,902
Total Noncurrent Liabilities	\$ 15,026,858	\$ 9,968,331	\$ 415,670	\$ 9,867	\$ 25,420,726
TOTAL LIABILITIES	\$ 16,973,222	\$ 10,935,766	\$ 522,675	\$ 9,867	\$ 28,441,530
DEFERRED INFLOWS OF RESOURCES:					
Amounts related to pensions	\$ 169,236	\$ 135,898	\$ 26,393	\$ 1,389	\$ 332,916
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 169,236	\$ 135,898	\$ 26,393	\$ 1,389	\$ 332,916
NET POSITION:					
Invested in capital assets, net of related debt	\$ 14,576,628	\$ 3,536,457	\$ 3,888,159	\$ 2,860	\$ 22,004,104
Unrestricted	195,388	(3,372,069)	(65,223)	(5,407)	(3,247,311)
TOTAL NET POSITION	\$ 14,772,016	\$ 164,388	\$ 3,822,936	\$ (2,547)	\$ 18,756,793

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, 2016

	Business-Type Activities - Enterprise Fund				Total
	Major Funds			Nonmajor Proprietary Fund	
	Utility Fund	Sanitation Fund	Airport Fund		
OPERATING REVENUES:					
Charges for service	\$ 9,707,189	\$ 5,140,682	\$ 685,091	\$ 4,171	\$ 15,537,133
Miscellaneous	108,003	40,721	1		148,725
Total Operating Revenues	\$ 9,815,192	\$ 5,181,403	\$ 685,092	\$ 4,171	\$ 15,685,858
OPERATING EXPENSES:					
Personnel services	\$ 1,815,098	\$ 1,610,588	\$ 315,101	\$ 11,013	\$ 3,751,800
Supplies	250,433	268,067	256,239	602	775,341
Contractual	2,789,123	673,530	66,110	994	3,529,757
Maintenance	801,180	356,415	68,331	11,985	1,237,911
Sundry charges	707,848	343,200			1,051,048
Support services	698,400	430,800			1,129,200
Depreciation and amortization	1,192,718	912,000	416,270	715	2,521,703
Total Operating Expenses	\$ 8,254,800	\$ 4,594,600	\$ 1,122,051	\$ 25,309	\$ 13,996,760
OPERATING GAIN (LOSS)	\$ 1,560,392	\$ 586,803	\$ (436,959)	\$ (21,138)	\$ 1,689,098
NON-OPERATING REVENUE AND EXPENSE:					
Sale of equipment	\$ 3,125	\$ (8,024)	\$ 300	\$ -	\$ (4,599)
Grants and contributions	4,836		50,000		54,836
Interest income	13,254	6,304	87		19,645
Bond issuance costs	(42,477)				(42,477)
Interest expense	(387,505)	(127,058)	(14,735)		(529,298)
Net Non-Operating Revenue (Expense)	\$ (408,767)	\$ (128,778)	\$ 35,652	\$ -	\$ (501,893)
GAIN (LOSS) BEFORE TRANSFERS	\$ 1,151,625	\$ 458,025	\$ (401,307)	\$ (21,138)	\$ 1,187,205
TRANSFERS:					
Operating transfers in	\$ -	\$ -	\$ 277,752	\$ 25,000	\$ 302,752
Operating transfers out	(891,527)	(845,311)	(92,407)		(1,829,245)
Net Operating Transfers	\$ (891,527)	\$ (845,311)	\$ 185,345	\$ 25,000	\$ (1,526,493)
CHANGES IN NET POSITION	\$ 260,098	\$ (387,286)	\$ (215,962)	\$ 3,862	\$ (339,288)
NET POSITION - BEGINNING	14,511,918	551,674	4,038,898	(6,409)	19,096,081
NET POSITION - ENDING	\$ 14,772,016	\$ 164,388	\$ 3,822,936	\$ (2,547)	\$ 18,756,793

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, 2016

	<u>Business-Type Activities - Enterprise Fund</u>				Total
	<u>Major Funds</u>			Nonmajor Proprietary Fund	
	Utility Fund	Sanitation Fund	Airport Fund		
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 9,825,852	\$ 5,175,501	\$ 608,182	\$ 4,171	\$ 15,613,706
Cash payments to suppliers for goods and services	(4,910,199)	(1,716,230)	(387,094)	(13,581)	(7,027,104)
Cash payments to employees for services	(1,882,270)	(1,637,507)	(316,608)	(11,753)	(3,848,138)
Net Cash Provided (Used) by Operating Activities	<u>\$ 3,033,383</u>	<u>\$ 1,821,764</u>	<u>\$ (95,520)</u>	<u>\$ (21,163)</u>	<u>\$ 4,738,464</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Decrease in customer meter deposits	\$ (16,763)				\$ (16,763)
Grant income	4,836				4,836
Operating transfers in			277,752	25,000	302,752
Operating transfers out	(891,527)	(845,311)	(92,407)		(1,829,245)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>\$ (903,454)</u>	<u>\$ (845,311)</u>	<u>\$ 185,345</u>	<u>\$ 25,000</u>	<u>\$ (1,538,420)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds of bonds payable	\$ 4,815,000				\$ 4,815,000
Principal payments on bonds	(910,000)	(210,000)			(1,120,000)
Bond issuance costs	(42,477)				(42,477)
Principal payments on tax note			(54,080)		(54,080)
Proceeds from notes and capital leases	50,548	1,467,270			1,517,818
Principal payments on notes and capital leases	(83,489)	(745,897)	(12,280)		(841,666)
Proceeds from sale of capital assets	3,125	333,823	300		337,248
Acquisition and construction of capital assets	(7,011,552)	(1,541,903)	(62,386)	(3,575)	(8,619,416)
Grant income			50,000		50,000
Interest expense	(469,957)	(127,058)	(14,735)		(611,750)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (3,648,802)</u>	<u>\$ (823,765)</u>	<u>\$ (93,181)</u>	<u>\$ (3,575)</u>	<u>\$ (4,569,323)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of investments	\$ (6,921,554)	\$ (2,130,005)			\$ (9,051,559)
Sale of investments	8,551,596	2,033,000			10,584,596
Interest income	13,254	6,304	87		19,645
Net Cash Provided (Used) by Investing Activities	<u>\$ 1,643,296</u>	<u>\$ (90,701)</u>	<u>\$ 87</u>	<u>\$ -</u>	<u>\$ 1,552,682</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>\$ 124,423</u>	<u>\$ 61,987</u>	<u>\$ (3,269)</u>	<u>\$ 262</u>	<u>\$ 183,403</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,253,171</u>	<u>125,332</u>	<u>5,182</u>	<u>1,424</u>	<u>1,385,109</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,377,594</u>	<u>\$ 187,319</u>	<u>\$ 1,913</u>	<u>\$ 1,686</u>	<u>\$ 1,568,512</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, 2016

	<u>Business-Type Activities - Enterprise Fund</u>				Total
	<u>Major Funds</u>			Nonmajor Proprietary Fund	
	Utility Fund	Sanitation Fund	Airport Fund		
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
OPERATING GAIN (LOSS)	\$ 1,560,392	\$ 586,803	\$ (436,959)	\$ (21,138)	\$ 1,689,098
ADJUSTMENTS TO RECONCILE OPERATING GAIN (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Depreciation and amortization	1,192,718	912,000	416,270	715	2,521,703
Closure and postclosure care costs		344,222			344,222
Changes in assets and liabilities:					
Receivables	10,660	(5,902)	2,027		6,785
Inventories	(96,633)		321		(96,312)
Prepaid expense	(1,242)				(1,242)
Accounts payable	434,660	11,560	3,265		449,485
Accrued salaries	(40,231)	(34,179)	(6,762)		(81,172)
Compensated absences	(9,904)	6,554	3,665		315
Pension assets and liabilities	(17,037)	706	1,590	(740)	(15,481)
Rents received in advance			(78,937)		(78,937)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 3,033,383	\$ 1,821,764	\$ (95,520)	\$ (21,163)	\$ 4,738,464

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2016

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 units, the Brownwood Economic Development Corporation (BEDC) and Brownwood Municipal Development District (BMDD). 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.

BMDD was created by voters in a Special Election held in the City of Brownwood on May 7, 2016. The District is a political subdivision of the State of Texas and the City of Brownwood and has the powers and duties given by Section 377 of the Texas Local Government Code (Act). The District was established for the purpose of developing and financing all permissible development projects prescribed by the Act. The District received its primary funding in the current year from a grant from the City of Brownwood. In future years, funding will be provided by a local sales tax approved by the voters that goes into effect on October 1, 2016. The affairs of the District are managed by a Board of Directors. The Board has five members appointed by the Mayor of the City of Brownwood with the approval of the City of Brownwood City Council. The BMDD is reported as a component unit due to the City's power to appoint a voting majority of the Board.

Condensed statements of the discretely presented component units are shown on the Statement of Net Position and the Statement of Activities in separate component unit columns.

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

Brownwood Economic Development Corporation
501 Center Avenue
Brownwood, Texas 76801

Brownwood Municipal Development District
501 Center Avenue
Brownwood, Texas 76801

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2016

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

Basis of Presentation

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

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

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

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

The City has presented the following major governmental fund:

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

Additionally, the government reports the following nonmajor governmental funds:

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

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

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

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

The City has presented the following major proprietary funds:

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

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

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2016

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

Basis of Presentation (Cont.)

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

Additionally, the City reports the following nonmajor proprietary fund:

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

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

Measurement Focus/Basis of Accounting

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" 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, 2016

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, 2016

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

Compensated Absences

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

Use of Estimates

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

Government-wide and Proprietary Net Position

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

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

Governmental Fund Balance

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

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

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

Deferred Inflows/Outflows of Resources

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

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2016

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

Deferred Inflows/Outflows of Resources (Cont.)

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 three items that qualify for reporting in this category. Two of the items, amounts related to pensions and amounts related to bond refunding, are reported on the government wide statement of position. The City has another item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the respective fiduciary. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2: PROPERTY TAX

Property taxes are levied by October 1, in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1, of the year following the year in which imposed. On January 1, of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period or expected to be collected during the sixty day period after the close of the fiscal year.

NOTE 3: DEPOSITS AND INVESTMENTS

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

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, 2016

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, 2016, \$960,739 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.

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, 2016, TexPool's portfolio maintained a weighted average maturity of approximately 44 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, 2016, TexStar's portfolio maintained a weighted average maturity of approximately 41 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, 2016, 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, 2016 are as follows:

	Utility Fund	Sanitation Fund	Airport Fund	Pecan Field Station Fund
Pooled cash and cash equivalents	\$ 101,831	\$ 186,625	\$ 1,403	\$ 1,686
Pooled cash designated for special projects	201,820			
Non pooled cash and cash equivalents	2,500	694	400	
Restricted cash	1,071,443		110	
Total	\$ 1,377,594	\$ 187,319	\$ 1,913	\$ 1,686

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2016

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, 2016:

	Governmental Activities	Business-type Activities
Restricted for debt service payments	\$ 70,529	\$ 11,474
Restricted for drug awareness education	3,494	
Restricted for law enforcement	16,794	
Restricted for vehicular child safety	19,543	
Restricted for beautification	1,052	
Restricted for municipal court	46,202	
Restricted for tourism promotion	51,213	
Restricted for Lehnis Museum	6,002	
Restricted for Fabis Park	61,926	
Restricted for construction or purchase of fixed assets	3,005,807	1,252,732
Restricted for customer deposits		786,717
	\$ 3,282,562	\$ 2,050,923
Total Restricted Assets		

Restricted assets included \$1,726,367 in cash and \$3,607,118 in investments.

NOTE 5: RECEIVABLES

A summary of the net receivables at September 30, 2016 is as follows:

	Governmental Activities	Business-type Activities	Component Unit
Ad valorem taxes	\$ 373,540	\$	\$
Sales taxes	1,174,459		
Utility		2,768,013	
Warrants and citations	314,193		
Airport		14,773	
Grants receivable	316,683	50,000	
PILOT payments	84,036		
Other receivables	532,828	20,420	293,615
Notes receivable			1,723,032
	\$ 2,795,739	\$ 2,853,206	\$ 2,016,647
Less allowance for uncollectable accounts	(326,897)	(1,329,165)	(160,000)
Receivables, net	\$ 2,468,842	\$ 1,524,041	\$ 1,856,647

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2016

NOTE 6: CAPITAL ASSETS

Capital asset activity in the City for the year ended September 30, 2016 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 2,768,975	\$ 68,210	\$	\$ 2,837,185
Construction in progress	2,029,617	1,449,334	(3,168,269)	310,682
Total capital assets not being depreciated	<u>\$ 4,798,592</u>	<u>\$ 1,517,544</u>	<u>\$ (3,168,269)</u>	<u>\$ 3,147,867</u>
Capital assets being depreciated and amortized:				
Building and grounds	\$ 15,624,123	\$ 66,175	\$	\$ 15,690,298
Improvements	56,450,129	3,379,225		59,829,354
Machinery/equipment	12,110,061	593,215	(218,868)	12,484,408
Intangible assets	1,238,162	126,121		1,364,283
Total capital assets being depreciated and amortized	<u>\$ 85,422,475</u>	<u>\$ 4,164,736</u>	<u>\$ (218,868)</u>	<u>\$ 89,368,343</u>
Less accumulated depreciation and amortization:				
Buildings	\$ (5,030,373)	\$ (379,787)	\$	\$ (5,410,160)
Improvements	(35,623,925)	(1,394,346)		(37,018,271)
Machinery/equipment	(10,508,731)	(511,990)	212,391	(10,808,330)
Intangible assets	(619,013)	(42,710)		(661,723)
Total accumulated depreciation and amortization	<u>\$ (51,782,042)</u>	<u>\$ (2,328,833)</u>	<u>\$ 212,391</u>	<u>\$ (53,898,484)</u>
Total Capital Assets Being Depreciated and Amortized, Net	<u>\$ 33,640,433</u>	<u>\$ 1,835,903</u>	<u>\$ (6,477)</u>	<u>\$ 35,469,859</u>
Governmental Activities Capital Assets, Net	<u>\$ 38,439,025</u>	<u>\$ 3,353,447</u>	<u>\$ (3,174,746)</u>	<u>\$ 38,617,726</u>
Business-type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 383,351	\$	\$	\$ 383,351
Construction in progress	584,686	6,911,536	(407,154)	7,089,068
Total capital assets not being depreciated	<u>\$ 968,037</u>	<u>\$ 6,911,536</u>	<u>\$ (407,154)</u>	<u>\$ 7,472,419</u>
Capital assets being depreciated and amortized:				
Building and grounds	\$ 3,321,484	\$	\$	\$ 3,321,484
Improvements	76,585,288	535,626		77,120,914
Landfill cell development	12,836,858			12,836,858
Machinery/equipment	14,584,197	1,650,143	(1,055,266)	15,179,074
Intangible assets	493,054			493,054
Total capital assets being depreciated and amortized	<u>\$ 107,820,881</u>	<u>\$ 2,185,769</u>	<u>\$ (1,055,266)</u>	<u>\$ 108,951,384</u>
Less accumulated depreciation and amortization:				
Buildings	\$ (2,520,564)	\$ (108,247)	\$	\$ (2,628,811)
Improvements	(52,937,167)	(1,312,590)		(54,249,757)
Landfill cell development	(6,620,050)	(114,982)		(6,735,032)
Machinery/equipment	(12,077,322)	(929,079)	713,419	(12,292,982)
Intangible assets	(56,805)	(56,805)		(113,610)
Total accumulated depreciation and amortization	<u>\$ (74,211,908)</u>	<u>\$ (2,521,703)</u>	<u>\$ 713,419</u>	<u>\$ (76,020,192)</u>
Total Capital Assets Being Depreciated and Amortized, Net	<u>\$ 33,608,973</u>	<u>\$ (335,934)</u>	<u>\$ (341,847)</u>	<u>\$ 32,931,192</u>
Business-type Activities Capital Assets, Net	<u>\$ 34,577,010</u>	<u>\$ 6,575,602</u>	<u>\$ (749,001)</u>	<u>\$ 40,403,611</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2016

NOTE 6: CAPITAL ASSETS (CONT.)

Assets under capital leases totaled \$4,378,543 in governmental funds and \$9,122,788 in the business type funds. Accumulated amortization on those assets at September 30, 2016 amounted to \$2,994,441 and \$6,208,543, respectively. This equipment is being amortized over 3 to 20 years. The amount of the amortization for the year ended September 30, 2016 was \$338,134 and \$816,536 in the governmental and business-type activities respectively.

Construction period interest capitalized in the current year amounts to \$70,735.

Depreciation and amortization expense was charged to the following functions:

Governmental Activities:	
General government	\$ 203,252
Police	110,172
Fire	259,366
Development services	1,080
Street	1,153,693
Health	3,761
Community facilities	188,293
Parks and recreation	365,067
Public works	44,149
	<u>\$ 2,328,833</u>
Business-type Activities:	
Water	\$ 866,760
Waste water	314,509
Waste water treatment	11,449
Sanitation	277,126
Landfill	634,874
Airport	416,270
Pecan Field Station	715
	<u>\$ 2,521,703</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2016

NOTE 7: LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended September 30, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds, Notes and Leases Payable:					
Certificates of obligation	\$ 12,790,000	\$ 3,050,000	\$ (2,815,000)	\$ 13,025,000	\$ 640,000
General obligation bonds	-	2,250,000	(295,000)	1,955,000	260,000
Tax note payable	145,800		(25,920)	119,880	27,540
Capital leases payable	1,232,811	374,551	(288,425)	1,318,937	344,027
	<u>\$ 14,168,611</u>	<u>\$ 5,674,551</u>	<u>\$ (3,424,345)</u>	<u>\$ 16,418,817</u>	<u>\$ 1,271,567</u>
Bond premiums	129,203		(33,361)	95,842	
Total Bonds, Notes and Leases Payable	<u>\$ 14,297,814</u>	<u>\$ 5,674,551</u>	<u>\$ (3,457,706)</u>	<u>\$ 16,514,659</u>	<u>\$ 1,271,567</u>
Compensated absences	1,431,299	1,149,933	(1,055,653)	1,525,579	1,050,675
Total Governmental Activities	<u>\$ 15,729,113</u>	<u>\$ 6,824,484</u>	<u>\$ (4,513,359)</u>	<u>\$ 18,040,238</u>	<u>\$ 2,322,242</u>
Business-type Activities:					
Bonds, Notes and Leases Payable:					
Certificates of obligation	\$ 9,880,000	\$ 4,815,000	\$ (660,000)	\$ 14,035,000	\$ 805,000
General obligation bonds	3,010,000		(460,000)	2,550,000	475,000
Tax note payable	304,200		(54,080)	250,120	57,460
Capital leases payable	2,290,060	1,517,818	(841,666)	2,966,212	697,077
	<u>\$ 15,484,260</u>	<u>\$ 6,332,818</u>	<u>\$ (2,015,746)</u>	<u>\$ 19,801,332</u>	<u>\$ 2,034,537</u>
Bond premiums	64,444		(11,717)	52,727	
Total Bonds, Notes and Leases Payable	<u>\$ 15,548,704</u>	<u>\$ 6,332,818</u>	<u>\$ (2,027,463)</u>	<u>\$ 19,854,059</u>	<u>\$ 2,034,537</u>
Compensated absences	205,357	163,565	(163,250)	205,672	151,989
Total Business-type Activities	<u>\$ 15,754,061</u>	<u>\$ 6,496,383</u>	<u>\$ (2,190,713)</u>	<u>\$ 20,059,731</u>	<u>\$ 2,186,526</u>
Total Primary Government	<u>\$ 31,483,174</u>	<u>\$ 13,320,867</u>	<u>\$ (6,704,072)</u>	<u>\$ 38,099,969</u>	<u>\$ 4,508,768</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.

On October 15, 2015, the City issued \$2,250,000 General Obligation Refunding Bonds, Series 2015 with interest rates ranging between 0.45% and 2.2% and a final maturity on March 15, 2026. The City issued the bonds to refund the \$890,000 outstanding balance of Combination Tax and Revenue Certificates of Obligation, Series 2002 with interest rates from 4.45% to 5.25% and the \$1,300,000 outstanding balance of Combination Tax and Revenue Certificates of Obligation, Series 2005 with interest rates from 4.0% to 4.5%. The refunding reduced total debt service payments over the next 10 ½ years by \$252,717. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$228,594.

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2016

NOTE 7: LONG-TERM OBLIGATIONS (CONT.)

Governmental Activities (Cont.)

On July 1, 2016, the City issued \$3,050,000 Combination Tax and Revenue Certificates of Obligation, Series 2016 with interest rates ranging between 3.2% and 4.5% and a final maturity on March 15, 2031. The City issued the bonds to pay costs of street improvements, drainage improvements, constructing/improving/equipping facilities in public works, parks, airport, law enforcement, fire and City Hall, and the related costs of the projects.

A summary of the bonds follows:

	Date of Issue	Original Amount	Interest Rate	Maturity Date	Amount Outstanding 9/30/2016
Combination tax and revenue certificates of obligation:					
Series 2003	7/15/2003	\$ 2,375,000	3.0 to 4.0%	3/15/2018	\$ 410,000
Series 2012	6/19/2012	10,750,000	2.0 to 4.125%	3/15/2032	9,565,000
Series 2016	7/1/2016	3,050,000	3.2 to 4.5%	3/15/2031	3,050,000
					<u>\$ 13,025,000</u>

The following represents the future maturities on these bonds:

Year Ending September 30,	Principal	Interest	Total
2017	\$ 640,000	\$ 512,639	\$ 1,152,639
2018	690,000	465,034	1,155,034
2019	665,000	438,661	1,103,661
2020	690,000	412,779	1,102,779
2021	715,000	385,736	1,100,736
2022-2026	3,995,000	1,515,521	5,510,521
2027-2031	4,845,000	671,975	5,516,975
2032	785,000	16,191	801,191
Total	<u>\$ 13,025,000</u>	<u>\$ 4,418,536</u>	<u>\$ 17,443,536</u>

A summary of the tax note follows:

	Date of Issue	Original Amount	Interest Rate	Maturity Date	Amount Outstanding 9/30/2016
Tax Note, Taxable Series 2013					
Governmental portion	9/1/2013	\$ 194,400	4.4 to 4.7%	9/15/2020	\$ 119,880
Business-type portion	9/1/2013	405,600	4.4 to 4.7%	9/15/2020	250,120
		<u>\$ 600,000</u>			<u>\$ 370,000</u>

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

Year Ending September 30,	Principal	Interest	Total
2017	\$ 27,540	\$ 5,449	\$ 32,989
2018	29,160	4,251	33,411
2019	30,780	2,939	33,719
2020	32,400	1,522	33,922
Total	<u>\$ 119,880</u>	<u>\$ 14,161</u>	<u>\$ 134,041</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2016

NOTE 7: LONG-TERM OBLIGATIONS (CONT.)

Governmental Activities (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>
2017	\$ 344,027	\$ 25,792	\$ 369,819
2018	281,195	18,763	299,958
2019	258,792	12,897	271,689
2020	216,162	7,644	223,806
2021	181,366	3,096	184,462
Thereafter	37,395	211	37,606
Total	<u>\$ 1,318,937</u>	<u>\$ 68,403</u>	<u>\$ 1,387,340</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.

On October 15, 2015, the City issued \$4,815,000 Combination Tax and Revenue Certificates of Obligation, Series 2015 with an interest rate of 2.95% for 10 years and 150% of the U. S. Treasury rate thereafter (3.5% floor, 4.5% ceiling) and a final maturity on March 15, 2035. The City issued the bonds to pay costs of wastewater treatment plant improvements, construction of a water storage facility, rehabilitation of a sewer lift station, and the related costs of the projects.

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 9/30/2016</u>
Combination tax and revenue certificates of obligation:					
Series 2004	3/15/2004	\$ 6,335,000	.3 to 3.35%	3/15/2022	\$ 3,355,000
Series 2012A	12/1/2012	3,440,000	1.96 to 4.64%	3/15/2044	3,310,000
Series 2013	10/8/2013	3,870,000	3.18%	3/15/2029	2,630,000
Series 2015	10/15/2015	4,815,000	2.95%	9/30/2035	4,740,000
General obligation refunding bonds,					
Series 2010	3/15/2010	5,050,000	2.0 to 4.0%	3/15/2021	<u>2,550,000</u>
					<u>\$ 16,585,000</u>

The following represents the future maturities on these bonds:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,280,000	\$ 541,350	\$ 1,821,350
2018	1,320,000	501,756	1,821,756
2019	1,360,000	459,167	1,819,167
2020	1,420,000	413,099	1,833,099
2021	1,470,000	363,439	1,833,439
2022-2026	4,610,000	1,341,376	5,951,376
2027-2031	1,885,000	939,142	2,824,142
2032-2036	1,865,000	505,379	2,370,379
2037-2041	800,000	228,997	1,028,997
2042-2044	575,000	40,716	615,716
Total	<u>\$ 16,585,000</u>	<u>\$ 5,334,421</u>	<u>\$ 21,919,421</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2016

NOTE 7: LONG-TERM OBLIGATIONS (CONT.)

Business-type activities (cont.)

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 250,120</u>	<u>\$ 29,546</u>	<u>\$ 279,666</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>
2017	\$ 697,077	\$ 58,615	\$ 755,692
2018	631,398	44,005	675,403
2019	646,070	30,046	676,116
2020	546,563	18,115	564,678
2021	445,104	6,145	451,249
Total	<u>\$ 2,966,212</u>	<u>\$ 156,926</u>	<u>\$ 3,123,138</u>

NOTE 8: LEASE COMMITMENTS

The City had telephone equipment under operating leases during the year. Rent expense amounted to \$24,905 for the year ended September 30, 2016. The minimum future lease payments under the remaining lease at September 30, 2016 are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2017	\$ 11,977
2018	11,977
2019	11,977
2020	6,987

NOTE 9: LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

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

The estimated liability for landfill closure and postclosure care costs has a balance of \$4,395,902 as of September 30, 2016 which is based on 25.49% usage (filled) of the overall landfill. It is estimated that an additional \$12,887,956 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2110). The estimated total current cost of the landfill closure and postclosure care, \$17,283,856, 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, 2016. 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 \$9,593,489 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, 2016

NOTE 10: DEFINED BENEFIT PENSION PLAN

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

TMRS Plan Descriptions

The City of Brownwood participates as two of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tMrs.com.

All eligible employees of the city are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	
Plan 10190 City	114
Plan 30190 Health Department	10
Inactive employees entitled to but not yet receiving benefits	
Plan 10190 City	70
Plan 30190 Health Department	3
Active employees	
Plan 10190 City	223
Plan 30190 Health Department	12

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2016

NOTE 10: DEFINED BENEFIT PENSION PLAN

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

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

	Calendar Year	
	2015	2016
Plan 10190 City	14.73%	14.01%
Plan 30190 Health Department	8.65%	9.35%

The city's contributions to TMRS for the year ended September 30, 2016, for Plan 10190 City and Plan 30190 Health Department were \$1,369,431 and \$40,367, respectively, and were equal to the required contributions.

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions. The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2016

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONT.)

Net Pension Liability (cont.)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.00%	

Discount Rate. The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2016

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONT.)

Net Pension Liability (cont.)

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Plan 10190 City			
Balance 12/31/2014	\$ 44,194,095	\$ 37,797,828	\$ 6,396,267
Changes for the year:			
Service cost	\$ 1,371,151	\$	\$ 1,371,151
Interest	3,072,001		3,072,001
Difference between expected and actual experience	(811,345)		(811,345)
Change of assumptions	155,985		155,985
Contributions-employer		1,315,768	(1,315,768)
Contributions-employee		625,281	(625,281)
Net investment income		55,774	(55,774)
Benefit payments, including refunds of employee contributions	(1,987,889)	(1,987,889)	
Administrative expense		(33,971)	33,971
Other changes		(1,679)	1,679
Net changes	\$ 1,799,903	\$ (26,716)	\$ 1,826,619
Balance 12/31/2015	\$ 45,993,998	\$ 37,771,112	\$ 8,222,886
Plan 30190 Health Department			
Balance 12/31/2014	\$ 1,229,291	\$ 1,144,847	\$ 84,444
Changes for the year:			
Service cost	\$ 62,460	\$	\$ 62,460
Interest	84,570		84,570
Difference between expected and actual experience	16,940		16,940
Change of assumptions	27,809		27,809
Contributions-employer		36,407	(36,407)
Contributions-employee		29,462	(29,462)
Net investment income		1,689	(1,689)
Benefit payments, including refunds of employee contributions	(104,759)	(104,759)	
Administrative expense		(1,029)	1,029
Other changes		(50)	50
Net changes	\$ 87,020	\$ (38,280)	\$ 125,300
Balance 12/31/2015	\$ 1,316,311	\$ 1,106,567	\$ 209,744

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2016

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONT.)

Net Pension Liability (cont.)

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

City's Net Pension Liability	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
Plan 10190 City	\$14,785,337	\$8,222,886	\$2,862,979
Plan 30190 Health Department	\$368,843	\$209,744	\$76,989

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

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

For the year ended September 30, 2016, the City recognized pension expense of \$1,502,404. At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Plan 10190 City		
Differences between expected and actual economic experience	\$	\$ 1,157,566
Changes in actuarial assumptions	118,032	
Difference between projected and actual investment earnings	2,347,149	
Contributions subsequent to the measurement date	1,003,549	
Total	<u>\$ 3,468,730</u>	<u>\$ 1,157,566</u>
Plan 30190 Health Department		
Differences between expected and actual economic experience	\$ 17,130	\$
Changes in actuarial assumptions	21,219	
Difference between projected and actual investment earnings	71,129	
Contributions subsequent to the measurement date	30,556	
Total	<u>\$ 140,034</u>	<u>\$ -</u>

\$1,034,105 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Plan 10190 City	Plan 30190 Health Dept.
Net Deferred Outflows (Inflows) of Resources		
Plan year 2016	\$ 225,216	\$ 31,007
2017	225,216	31,007
2018	356,709	29,441
2019	500,474	18,023
Total	<u>\$ 1,307,615</u>	<u>\$ 109,478</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2016

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONT.)

Brownwood Firefighter's Relief and Retirement Fund Plan Description

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

Benefits Provided

Firefighters in the Brownwood Fire Department are covered by the Brownwood Firefighter's Relief and Retirement Fund which provides service retirement, death, disability, and withdrawal benefits. These benefits fully vest after 20 years of credited service. Firefighters may retire at age 50 with 20 years of service. A vested benefit deferred to age 50 is provided for firefighters who terminate employment before age 50 with at least 20 years of service. As of the December 31, 2015 actuarial valuation date, the plan effective October 1, 2008 provides a monthly normal service retirement benefit, payable in a Joint and Two-Thirds to Spouse form of annuity, equal to 50% of Highest 60-Month Average Salary plus \$54.50 per month for each year of service in excess of 20.

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

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

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

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

Contributions

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

The funding policy of the Brownwood Firefighter's Relief and Retirement Fund requires contributions equal to 8% of pay by the firefighters, the rate elected by the firefighters according to TLFFRA. The City currently contributes 20% of payroll based on a contract between the City and the Fund. The City contribution rate has been 20% since 2009. The December 31, 2015 actuarial valuation includes the assumption that the City contribution rate will be 20% over the UAAL amortization period. The costs of administering the plan are paid from the Fund assets.

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2016

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONT.)

Ultimately, the funding policy also depends upon the total return of the Fund's assets, which varies from year to year. Investment policy decisions are established and maintained by the board of trustees. The board selects and employs investment managers with the advice of their investment consultant who is completely independent of the investment managers. For the year ending December 31, 2015, the money-weighted rate of return on pension plan investments was -2.47%. This measurement of the investment performance is net of investment-related expenses, reflecting the effect of the timing of the contributions received and the benefits paid during the year.

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

Net Pension Liability

The City of Brownwood's net pension liability was measured as December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015.

Actuarial assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5%
Salary increases	3.4%, plus promotion, step and longevity increases that vary by service
Investment rate of return	7.4%, net of pension plan investment expense, including inflation

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

The long-term expected rate of return on pension plan investments is reviewed for each biennial actuarial valuation and was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future net real rates of return by the target asset allocation percentage (currently resulting in 4.0%) and by adding expected inflation (3.4%). In addition, the final 7.4% assumption was selected without "rounding down" and thereby reflects no reduction for adverse deviation. The target allocation and expected arithmetic net real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Large Cap Domestic Equity	29%	5.3%
Small Cap Domestic Equity	11%	5.8%
International Developed Equity	20%	5.8%
Emerging Markets Equity	5%	7.3%
Fixed Income	35%	0.8%
Cash	0%	0.0%
Total	100%	
Weighted Average		4.0%

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2016

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONT.)

Discount Rate. The discount rate used to measure the total pension liability was 7.4%. No projection of cash flows was used to determine the discount rate because the December 31, 2015 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 36 years. Because of the 36-year amortization period of the UAAL, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments of 7.4% was applied to all periods of projected benefit payments as the discount rate to determine the total pension liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance 12/31/2014	\$ 7,809,933	\$ 3,443,809	\$ 4,366,124
Changes for the year:			
Service cost	\$ 219,098	\$	\$ 219,098
Interest	586,487		586,487
Difference between expected and actual experience	(42,542)		(42,542)
Contributions-employer		340,092	(340,092)
Contributions-employee		136,036	(136,036)
Net investment income		(85,706)	85,706
Benefit payments	(418,411)	(418,411)	
Administrative expense		(18,346)	18,346
Assumption changes	87,541		87,541
Other changes			
Net changes	\$ 432,173	\$ (46,335)	\$ 478,508
Balance 12/31/2015	\$ 8,242,106	\$ 3,397,474	\$ 4,844,632

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the City, calculated using the discount rate of 7.4%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.4%) or 1-percentage-point higher (8.4%) than the current rate:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City's Net Pension Liability	\$5,885,281	\$4,844,632	\$3,974,806

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

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2016

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONT.)

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

For the year ended September 30, 2016, the City recognized pension expense of \$541,530. Amounts recognized in the fiscal year represent changes between the current and prior measurement dates. At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings	\$ 391,996	\$
Differences between expected and actual experience		37,095
Changes of assumptions	76,332	
Contributions subsequent to the measurement date	274,240	
Total	\$ 742,568	\$ 37,095

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

Net Deferred Outflows (Inflows) of Resources		
Plan year 2016		\$ 113,397
2017		113,397
2018		113,395
2019		74,855
2020		5,762
Thereafter		10,427
Total		\$ 431,233

\$274,240 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017.

NOTE 11: TRANSFERS

Transfers to/from other funds during the year ended September 30, 2016, consist of the following:

From Utility Fund to the General Fund to supplement the functions of that fund	\$ 650,000
From Sanitation Fund to the General Fund to supplement the functions of that fund	\$ 780,000
From Utility Fund to the General Fund for completed special project	\$ 3,402
From Utility Fund to the Capital Projects Fund to consolidate project	\$ 3,125
From Sanitation Fund to the Capital Projects Fund to consolidate project	\$ 58,495
From Airport Fund to the Capital Projects Fund to consolidate project	\$ 31,471

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2016

NOTE 12: COMMITMENTS

Brownwood Municipal Development District assumed several project financial obligations from Brownwood Economic Development Corporation (BEDC) that have not yet been fully funded as follows:

- BEDC approved a six year incentive to B & W Carrier, Inc. dba Willie's T's of up to \$100,000. At September 30, 2016 there is \$35,000 remaining to be paid on this incentive.
- BEDC approved an incentive to Wright Asphalt for \$250,000 dependent upon the completion of a production plant. At September 30, 2016 there is \$150,000 remaining to be paid on this incentive.
- BEDC approved two economic incentives to 3M Company to support two product lines. One is a five year incentive of up to \$250,000 and the other is a five year incentive up to \$300,000. Neither of these have been funded.
- BEDC approved a \$300,000 incentive to Leeco Energy & Investments for infrastructure improvements to be paid as construction is completed. At September 30, 2016 there is \$240,000 remaining to be paid on this incentive.

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, 2016 including waste water treatment plant improvements, lift station improvements, park improvements, airport office improvements, street improvements and a walking trail. Total cost of these projects is approximately \$8,288,000 with remaining costs of approximately \$888,000 at September 30, 2016.

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, 2016 the unpaid balance was \$13,480,000. 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.

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: DISSOLUTION AND LIQUIDATION OF BROWNWOOD ECONOMIC DEVELOPMENT CORPORATION

The City of Brownwood called for a special election to terminate the Brownwood Economic Development Corporation (BEDC) and authorized the creation of the Brownwood Municipal Development District (BMDD). The proposal was approved by the voters on May 7, 2016. A plan of dissolution was adopted which involved satisfying all bonds, debts and financial obligations and transferring any remaining assets to City of Brownwood. Contingency funds of \$50,000 were placed in a reserve/escrow account to pay future miscellaneous Project expenses/costs and unknown contingencies including potential claims. After all liabilities are paid the remaining balance in the escrow account will be transferred to City of Brownwood. BEDC will remain in existence for liability purposes for a period of three years from the date a Certificate of Dissolution is issued.

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2016

NOTE 16: UTILITY

The Utility Department was serving the following number of customers:

	9/30/16	9/30/15
Water Department	7,387	7,384
Sewer Department	6,890	6,896
Sanitation Department	7,073	7,075

NOTE 17: ELECTED OFFICIALS

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

NOTE 18: APPOINTED OFFICIALS AND FIDELITY BONDS

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

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

NOTE 19: INSURANCE COVERAGE - BUILDINGS AND CONTENTS

A summary of the buildings and contents insurance coverage follows:

Insurer:	Texas Municipal League	
Expiration date:	October 1 through September 30	
Coverage:	Buildings	\$ 53,916,891
	Contents	4,397,346
Risk covered:	Fire, lightning, extended coverage including Replacement cost endorsement.	

NOTE 20: EXTRAORDINARY ITEM – TRANSFER ASSETS TO CITY OF BROWNWOOD IN DISSOLUTION

As described in Note 15, Brownwood Economic Development Corporation was dissolved and the assets were transferred to City of Brownwood in the current year. The Extraordinary Item – Transfer Assets in Dissolution was computed as follows:

Prepaid lease	54,375
Notes receivable	1,872,860
Land and improvements held for development	882,122
Total	\$ 5,834,150

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

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

Last Two Plan Years

	2014	2015
TOTAL PENSION LIABILITY:		
Service cost	\$ 1,271,262	\$ 1,371,151
Interest (on total pension liability)	2,978,273	3,072,001
Changes in benefit terms	-	-
Difference between expected and actual experience	(993,709)	(811,345)
Change of assumptions	-	155,985
Benefit payments, including refunds of employee contributions	<u>(1,945,700)</u>	<u>(1,987,889)</u>
Net Change in Total Pension Liability	\$ 1,310,126	\$ 1,799,903
Total Pension Liability - Beginning	42,883,969	44,194,095
Total Pension Liability - Ending (a)	<u>\$ 44,194,095</u>	<u>\$ 45,993,998</u>
 PLAN FIDUCIARY NET POSITION:		
Contributions - employer	\$ 1,276,612	\$ 1,315,768
Contributions - employee	601,366	625,281
Net investment income	2,050,213	55,774
Benefit payments, including refunds of employee contributions	(1,945,700)	(1,987,889)
Administrative expense	(21,405)	(33,971)
Other	<u>(1,760)</u>	<u>(1,679)</u>
Net Change in Plan Fiduciary Net Position	\$ 1,959,326	\$ (26,716)
Plan Fiduciary Net Position - Beginning	35,838,502	37,797,828
Plan Fiduciary Net Position - Ending (b)	<u>\$ 37,797,828</u>	<u>\$ 37,771,112</u>
 NET PENSION LIABILITY - ENDING (a) - (b)	\$ 6,396,267	\$ 8,222,886
 PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	85.53%	82.12%
 COVERED EMPLOYEE PAYROLL	\$ 8,590,941	\$ 8,932,582
 NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	74.45%	92.05%
 NOTES TO SCHEDULE: N/A		

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

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

Last Two Plan Years

	2014	2015
TOTAL PENSION LIABILITY:		
Service cost	\$ 59,025	\$ 62,460
Interest (on total pension liability)	80,118	84,570
Changes in benefit terms	-	-
Difference between expected and actual experience	8,050	16,940
Change of assumptions	-	27,809
Benefit payments, including refunds of employee contributions	(65,871)	(104,759)
Net Change in Total Pension Liability	\$ 81,322	\$ 87,020
Total Pension Liability - Beginning	1,147,969	1,229,291
Total Pension Liability - Ending (a)	\$ 1,229,291	\$ 1,316,311
PLAN FIDUCIARY NET POSITION:		
Contributions - employer	\$ 31,483	\$ 36,407
Contributions - employee	27,582	29,462
Net investment income	62,351	1,689
Benefit payments, including refunds of employee contributions	(65,871)	(104,759)
Administrative expense	(651)	(1,029)
Other	(54)	(50)
Net Change in Plan Fiduciary Net Position	\$ 54,840	\$ (38,280)
Plan Fiduciary Net Position - Beginning	1,090,007	1,144,847
Plan Fiduciary Net Position - Ending (b)	\$ 1,144,847	\$ 1,106,567
NET PENSION LIABILITY - ENDING (a) - (b)	\$ 84,444	\$ 209,744
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	93.13%	84.07%
COVERED EMPLOYEE PAYROLL	\$ 394,031	\$ 420,889
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	21.43%	49.83%
NOTES TO SCHEDULE:		
N/A		

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

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

Last Two Plan Years

	2014	2015
TOTAL PENSION LIABILITY:		
Service cost	\$ 211,640	\$ 219,098
Interest (on total pension liability)	561,844	586,487
Changes in benefit terms	-	-
Difference between expected and actual experience	-	(42,542)
Change of assumptions	-	87,541
Benefit payments, including refunds of employee contributions	(486,325)	(418,411)
Net Change in Total Pension Liability	\$ 287,159	\$ 432,173
Total Pension Liability - Beginning	7,522,774	7,809,933
Total Pension Liability - Ending (a)	\$ 7,809,933	\$ 8,242,106
PLAN FIDUCIARY NET POSITION:		
Contributions - employer	\$ 323,975	\$ 340,092
Contributions - employee	129,581	136,036
Net investment income	62,582	(85,706)
Benefit payments, including refunds of employee contributions	(486,325)	(418,411)
Administrative expense	(12,414)	(18,346)
Other	-	-
Net Change in Plan Fiduciary Net Position	\$ 17,399	\$ (46,335)
Plan Fiduciary Net Position - Beginning	3,426,410	3,443,809
Plan Fiduciary Net Position - Ending (b)	\$ 3,443,809	\$ 3,397,474
NET PENSION LIABILITY - ENDING (a) - (b)	\$ 4,366,124	\$ 4,844,632
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	44.10%	41.20%
COVERED EMPLOYEE PAYROLL	\$ 1,619,763	\$ 1,700,450
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	269.60%	284.90%

NOTES TO SCHEDULE:

Until a full 10-year trend is compiled, only available information is shown. The measurement date is December 31, nine months prior to the fiscal year end. Amounts recognized in the fiscal year represent changes between the current and prior measurement dates.

Total pension liability was determined from the total pension liability as of December 31, 2015

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

TEXAS MUNICIPAL RETIREMENT SYSTEM PLAN 10190 CITY
SCHEDULE OF PENSION CONTRIBUTIONS

Last Two Fiscal Years

	2015	2016
Actuarially determined contribution	\$ 1,299,125	\$ 1,369,431
Contributions in relation to the actuarially determined contribution	1,299,125	1,369,431
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	8,798,850	9,647,016
Contributions as a percentage of covered employee payroll	14.76%	14.20%

NOTES TO SCHEDULE OF PENSION CONTRIBUTIONS:

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January thirteen months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 years in 2015, 30 years in 2016
Asset Valuation Method	10 year smoothed market; 15% soft corridor
Inflation	3% in 2015, 2.5% in 2016
Salary Increases	3.5% to 12.0% including inflation in 2015, 3.5% to 10.5% including inflation in 2016
Investment Rate of Return	7% in 2015, 6.75% in 2016
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplies by 103% and projected on a fully generational basis with scale BB

Other information:

Notes There were no benefit changes during the year.

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

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

Last Two Fiscal Years

	2015	2016
Actuarially determined contribution	\$ 35,246	\$ 40,367
Contributions in relation to the actuarially determined contribution	35,246	40,367
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	415,734	440,225
Contributions as a percentage of covered employee payroll	8.48%	9.17%

NOTES TO SCHEDULE OF PENSION CONTRIBUTIONS:

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January thirteen months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 years in 2015, 28 years in 2016
Asset Valuation Method	10 year smoothed market; 15% soft corridor
Inflation	3% in 2015, 2.5% in 2016
Salary Increases	3.5% to 12.0% including inflation in 2015, 3.5% to 10.5% including inflation in 2016
Investment Rate of Return	7% in 2015, 6.75% in 2016
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other information:

Notes There were no benefit changes during the year.

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

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

Last Two Fiscal Years

	2015	2016
Required contributions	\$ 333,681	\$ 369,587
Contributions in relation to the actuarially determined contribution	333,681	369,587
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	1,668,407	1,847,936
Contributions as a percentage of covered employee payroll	20.00%	20.00%

NOTES TO SCHEDULE OF PENSION CONTRIBUTIONS:

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age
Amortization Method	Actuarially determined using an open, level percentage of payroll
Remaining Amortization Period	37 years in 2015, 36 years in 2016
Inflation	3.5% in 2015, 3.4% in 2016
Salary Increases	3.5% plus promotion, step and longevity increases that vary by service in 2015, 3.4% plus promotion, step and longevity increases that vary by service in 2016
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation in 2015 7.4%, net of pension plan investment expense, including inflation in 2015
Retirement Age	Age 50 with 20 years of service
Mortality	RP2000 Combined Healthy Mortality Tables for males and for females (sex distinct) projected to 2024 by scale AA

Other information:

Notes There were no benefit changes during the year.

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended September 30, 2016

	Original Budget	Final Budget	Actual Budgetary Basis (See Note A)	Final Budget Positive (Negative)
RESOURCES (INFLOWS):				
Ad valorem taxes	\$ 4,922,805	\$ 4,922,805	\$ 4,973,561	\$ 50,756
Sales tax	5,310,000	5,310,000	5,675,713	365,713
Other taxes	3,407,600	3,407,600	3,814,882	407,282
Fines	188,000	188,000	310,908	122,908
License and fees	65,500	65,500	122,153	56,653
Charges for services	374,900	374,900	350,346	(24,554)
Intergovernmental	1,386,890	1,386,890	1,408,010	21,120
Miscellaneous	25,750	47,133	181,308	134,175
Total Resources (Inflows)	\$ 15,681,445	\$ 15,702,828	\$ 16,836,881	\$ 1,134,053
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
City Council	\$ 83,875	\$ 83,875	\$ 57,555	\$ 26,320
Administration	216,072	216,072	235,527	(19,455)
City Secretary	102,078	102,078	103,798	(1,720)
Finance/Accounting	339,417	339,417	348,170	(8,753)
Municipal Court	343,535	344,910	348,790	(3,880)
Police	4,763,862	4,775,316	4,800,975	(25,659)
Fire	3,011,971	3,041,330	3,092,295	(50,965)
Development services	712,920	713,345	723,181	(9,836)
Street	1,857,300	1,860,291	1,775,957	84,334
Health	278,007	286,582	296,111	(9,529)
Community services	601,993	601,993	603,008	(1,015)
Intergovernmental	231,815	231,815	220,668	11,147
Utility billing	252,745	252,745	245,145	7,600
Community facilities	445,099	445,099	588,097	(142,998)
Operations support	158,250	158,250	165,284	(7,034)
Purchasing/warehouse	192,699	192,699	202,153	(9,454)
Parks and recreation	1,309,952	1,321,392	1,397,324	(75,932)
Fleet services	500,314	504,264	518,553	(14,289)
City Attorney	193,705	193,705	195,987	(2,282)
Public works/engineering	457,618	461,498	665,413	(203,915)
Emergency management	27,970	27,970	11,482	16,488
Human Resources	259,130	260,088	257,738	2,350
Fire Marshal	176,260	176,260	185,050	(8,790)
General fund contingency	(10,000)	(10,000)	134,740	(144,740)
Information technology	491,134	491,134	658,091	(166,957)
Transportation museum	132,551	132,551	150,698	(18,147)
Motel tax to CVB			319,708	(319,708)
Other			15,028	(15,028)
Total Charges to Appropriations (Outflows)	\$ 17,130,272	\$ 17,204,679	\$ 18,316,526	\$ (1,111,847)
EXCESS CHARGES TO APPROPRIATIONS	\$ (1,448,827)	\$ (1,501,851)	\$ (1,479,645)	\$ 22,206
FUND BALANCE - BEGINNING	(9,291,866)	(9,291,866)	(9,291,866)	-
FUND BALANCE - ENDING	\$ (10,740,693)	\$ (10,793,717)	\$ (10,771,511)	\$ -

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BUDGETARY COMPARISON SCHEDULE

For the Year Ended September 30, 2016

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.	\$ 16,836,881
The City budgets for sales tax based on the amount collected rather than on the modified accrual basis.	280,004
The City did not budget for the capital contribution from Brownwood Economic Development Corporation	<u>6,068,411</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances governmental fund.	<u>\$ 23,185,296</u>

Uses/outflows of Resources:

Actual amount (budgetary basis) charges to appropriations from the budgetary comparison schedule.	\$ 18,316,526
The City budgets for salaries on the cash basis rather than on the modified accrual basis.	(267,851)
The City budgets for compensated absences on the cash basis rather than the modified accrual basis.	<u>81,229</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances governmental fund.	<u>\$ 18,129,904</u>

SUPPLEMENTARY INFORMATION

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

**OTHER GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS**

September 30, 2016

	Total Debt Service Fund	Total Capital Projects Fund	Total Special Revenue Fund	Total Other Governmental Funds
<u>ASSETS</u>				
ASSETS:				
Pooled cash and cash equivalents	\$	\$ 142,255	\$ 2,987	\$ 145,242
Non pooled cash and cash equivalents			25	25
Receivables, net	80,466	212,900	122,981	416,347
Restricted assets	70,529	3,005,807	61,926	3,138,262
TOTAL ASSETS	\$ 150,995	\$ 3,360,962	\$ 187,919	\$ 3,699,876
<u>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</u>				
LIABILITIES:				
Accounts payable	\$	\$ 58,611	\$ 22,485	\$ 81,096
Accrued payroll			4,486	4,486
TOTAL LIABILITIES	\$ -	\$ 58,611	\$ 26,971	\$ 85,582
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue	\$ 80,466	\$	\$	\$ 80,466
FUND BALANCES:				
Restricted for:				
Debt service	\$ 70,529	\$	\$	\$ 70,529
Construction		3,160,096		3,160,096
Fabis Park			61,926	61,926
Committed to:				
Construction		142,255		142,255
Assigned to:				
Health and nutrition programs			43,291	43,291
Unassigned			55,731	55,731
TOTAL FUND BALANCES	\$ 70,529	\$ 3,302,351	\$ 160,948	\$ 3,533,828
TOTAL LIABILITIES AND FUND BALANCES	\$ 150,995	\$ 3,360,962	\$ 187,919	\$ 3,699,876

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, 2016

	Total Debt Service Fund	Total Capital Projects Fund	Total Special Revenue Fund	Total Other Governmental Funds
REVENUES:				
Ad valorem taxes	\$ 1,177,324			\$ 1,177,324
Grants and contributions		202,600	820,848	1,023,448
Other revenue	110,364		358,286	468,650
Interest	991	3,643	180	4,814
Total Revenues	<u>\$ 1,288,679</u>	<u>\$ 206,243</u>	<u>\$ 1,179,314</u>	<u>\$ 2,674,236</u>
EXPENDITURES:				
Debt service:				
Principal	\$ 3,135,920			\$ 3,135,920
Interest	440,753			440,753
Bond issuance costs	30,194	34,114		64,308
Fiscal agent fees	1,407			1,407
Capital outlay		1,461,363		1,461,363
Special revenue fund			1,169,421	1,169,421
Total Expenditures	<u>\$ 3,608,274</u>	<u>\$ 1,495,477</u>	<u>\$ 1,169,421</u>	<u>\$ 6,273,172</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ (2,319,595)</u>	<u>\$ (1,289,234)</u>	<u>\$ 9,893</u>	<u>\$ (3,598,936)</u>
OTHER FINANCING SOURCES:				
Transfers in	\$ 35,472	\$ 106,535		\$ 142,007
Transfers out		(3,000)	\$ (3,700)	(6,700)
Bond proceeds	2,250,000	3,050,000		5,300,000
Total Other Financing Sources	<u>\$ 2,285,472</u>	<u>\$ 3,153,535</u>	<u>\$ (3,700)</u>	<u>\$ 5,435,307</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	<u>\$ (34,123)</u>	<u>\$ 1,864,301</u>	<u>\$ 6,193</u>	<u>\$ 1,836,371</u>
FUND BALANCE - BEGINNING OF YEAR	<u>104,652</u>	<u>1,438,050</u>	<u>154,755</u>	<u>1,697,457</u>
FUND BALANCE - END OF YEAR	<u>\$ 70,529</u>	<u>\$ 3,302,351</u>	<u>\$ 160,948</u>	<u>\$ 3,533,828</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

GENERAL FUND
COMPARATIVE BALANCE SHEETS

September 30, 2016 and 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
ASSETS:		
Pooled cash and cash equivalents	\$ (2,121,166)	\$ 419,787
Non pooled cash and cash equivalents	4,256	4,257
Investments	5,230,500	2,523,187
Receivables, net	1,907,494	1,566,893
Inventory	24,405	21,383
Prepaid expense	2,798	2,216
Restricted assets	144,300	152,868
	<u>\$ 5,192,587</u>	<u>\$ 4,690,591</u>
 <u>LIABILITIES AND FUND BALANCES</u> 		
LIABILITIES:		
Accounts payable	\$ 852,410	\$ 437,936
Accrued salaries	68,132	335,983
Compensated absences	1,050,675	969,446
	<u>\$ 1,971,217</u>	<u>\$ 1,743,365</u>
DEFERRED INFLOWS OF RESOURCES:		
Unavailable revenue	\$ 274,398	\$ 273,074
 FUND BALANCES:		
Nonspendable:		
Inventory	\$ 24,405	\$ 21,383
Prepaid expense	2,798	2,216
Restricted for:		
Municipal Court	43,565	46,403
Tourism promotion	51,213	54,964
Vehicular child safety	19,543	18,624
Law enforcement	16,794	26,332
Drug awareness education	3,494	3,494
Lehnis Museum	6,002	1,459
Beautification	637	377
Unassigned	2,778,521	2,498,900
	<u>\$ 2,946,972</u>	<u>\$ 2,674,152</u>
TOTAL FUND BALANCES	<u>\$ 2,946,972</u>	<u>\$ 2,674,152</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,192,587</u>	<u>\$ 4,690,591</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

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

For the Years Ended September 30, 2016 and 2015

	2016	2015
REVENUES:		
Ad valorem taxes	\$ 4,973,561	\$ 4,575,326
Sales taxes	5,955,717	5,177,646
Other taxes	3,814,882	3,672,248
Fines	310,908	230,264
Licenses and fees	122,153	103,755
Charges for services	350,346	396,077
Intergovernmental	1,408,010	1,386,350
Interest	10,898	883
Grants and contributions	6,091,838	11,365
Miscellaneous	146,983	95,958
Total Revenues	\$ 23,185,296	\$ 15,649,872
EXPENDITURES:		
City Council	\$ 57,555	\$ 106,987
Administration	225,789	221,044
City Secretary	102,163	87,749
Finance/accounting	355,339	335,817
Municipal court	343,719	340,157
Police	4,726,637	4,312,104
Fire	3,077,508	3,810,022
Development services	711,985	762,629
Street	1,755,522	1,564,979
Health	296,163	267,318
Community services	603,008	626,339
Intergovernmental	220,668	214,264
Utility billing	243,129	240,036
Community facilities	583,203	542,900
Operations support	164,705	157,278
Purchasing/warehouse	185,293	192,147
Parks and recreation	1,381,370	1,248,438
Fleet services	508,891	457,633
City Attorney	192,117	186,692
Public works/engineering	668,469	556,124
Emergency management	11,482	19,472
Human resources	253,359	218,048
Fire Marshal	183,163	125,878
General fund contingency	134,740	159,389
Information technology	660,004	524,012
Transportation museum	149,187	132,727
Motel tax to CVB	319,708	350,977
Other	15,028	40,351
Total Expenditures	\$ 18,129,904	\$ 17,801,511
EXCESS OF REVENUES OVER EXPENDITURES	\$ 5,055,392	\$ (2,151,639)
OTHER FINANCING SOURCES (USES):		
Transfers in	\$ 1,437,102	\$ 3,722,616
Transfers out	(45,916)	(33,599)
Capital lease proceeds	374,551	1,089,802
Proceeds from sale of capital assets	26,869	386,872
Net Other Financing Sources (Uses)	\$ 1,792,606	\$ 5,165,691
SPECIAL ITEMS:		
Contribution of asset to Brownwood Municipal Development District	\$ (6,575,178)	\$ -
Total Special Items	\$ (6,575,178)	\$ -
NET CHANGES IN FUND BALANCES	\$ 272,820	\$ 3,014,052
FUND BALANCE - BEGINNING OF YEAR	2,674,152	(339,900)
FUND BALANCE - END OF YEAR	\$ 2,946,972	\$ 2,674,152

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

PROPRIETARY FUNDS
COMPARATIVE STATEMENTS OF NET POSITION

September 30, 2016 and 2015

	2016	2015
CURRENT ASSETS:		
Pooled cash and cash equivalents	\$ 291,545	\$ 191,475
Pooled cash designated for special projects	201,820	332,120
Non pooled cash and cash equivalents	3,594	3,560
Investments	2,592	1,251
Investments designated for closure and postclosure	1,246,527	1,093,369
Accounts receivable, net	1,524,041	1,530,826
Inventory	806,274	709,962
Prepaid expenses	2,705	1,463
Total Current Assets	\$ 4,079,098	\$ 3,864,026
NONCURRENT ASSETS:		
Restricted assets	\$ 2,050,923	\$ 3,524,860
Capital assets, net	40,403,611	34,577,010
Total Noncurrent Assets	\$ 42,454,534	\$ 38,101,870
TOTAL ASSETS	\$ 46,533,632	\$ 41,965,896
DEFERRED OUTFLOWS OF RESOURCES:		
Amounts related to pensions	\$ 997,607	\$ 386,268
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 997,607	\$ 386,268
CURRENT LIABILITIES:		
Accounts payable	\$ 814,184	\$ 364,699
Accrued salaries	20,094	101,266
Capital leases payable	697,077	843,841
Tax note payable	57,460	54,080
Bonds payable	1,268,636	978,173
Compensated absences	151,989	145,236
Total Current Liabilities	\$ 3,009,440	\$ 2,487,295
LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Bonds payable	\$ 11,364	\$ 66,827
Total Liabilities Payable from Restricted Assets	\$ 11,364	\$ 66,827
NONCURRENT LIABILITIES:		
Rents received in advance	\$ -	\$ 78,937
Compensated absences	53,683	60,121
Net pension liability	2,364,902	1,876,457
Customer water meter deposits	786,717	803,480
Capital leases payable	2,269,135	1,446,219
Tax note payable	192,660	250,120
Bonds payable	15,357,727	11,909,444
Accrued landfill closure and postclosure care costs	4,395,902	4,051,680
Total Noncurrent Liabilities	\$ 25,420,726	\$ 20,476,458
TOTAL LIABILITIES	\$ 28,441,530	\$ 23,030,580
DEFERRED INFLOWS OF RESOURCES:		
Amounts related to pensions	\$ 332,916	\$ 225,503
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 332,916	\$ 225,503
NET POSITION:		
Invested in capital assets, net of related debt	\$ 22,004,104	\$ 22,400,924
Unrestricted	(3,247,311)	(3,304,843)
TOTAL NET POSITION	\$ 18,756,793	\$ 19,096,081

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

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

For the Years Ended September 30, 2016 and 2015

	2016	2015
OPERATING REVENUES:		
Charges for services	\$ 15,537,133	\$ 15,247,171
Miscellaneous	148,725	119,696
Total Operating Revenues	\$ 15,685,858	\$ 15,366,867
OPERATING EXPENSES:		
Personnel services	\$ 3,751,800	\$ 3,478,231
Supplies	775,341	1,042,707
Contractual	3,529,757	3,758,178
Maintenance	1,237,911	1,043,978
Sundry charges	1,051,048	1,049,420
Support services	1,129,200	1,129,200
Depreciation and amortization	2,521,703	2,572,378
Total Operating Expenses	\$ 13,996,760	\$ 14,074,092
OPERATING GAIN	\$ 1,689,098	\$ 1,292,775
NON-OPERATING REVENUE AND EXPENSE:		
Sale of equipment	\$ (4,599)	\$ 7,001
Grants and contributions	54,836	121,762
Interest income	19,645	3,151
Bond issuance costs	(42,477)	
Interest expense	(529,298)	(351,330)
Net Non-Operating Revenue (Expense)	\$ (501,893)	\$ (219,416)
GAIN BEFORE TRANSFERS	\$ 1,187,205	\$ 1,073,359
TRANSFERS:		
Operating transfers in	\$ 302,752	\$ 398,977
Operating transfers out	(1,829,245)	(4,098,621)
Net Operating Transfers	\$ (1,526,493)	\$ (3,699,644)
CHANGES IN NET POSITION	\$ (339,288)	\$ (2,626,285)
NET POSITION - BEGINNING	19,096,081	21,722,366
NET POSITION - ENDING	\$ 18,756,793	\$ 19,096,081

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 units, each major fund, and the aggregate remaining fund information of City of Brownwood, Texas, as of and for the year ended September 30, 2016, 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 April 3, 2017.

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
April 3, 2017



D. A. "Tony" Krischke, CPA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Honorable Mayor and City Council
City of Brownwood, Texas

Report on Compliance for Each Major Federal or State Program

I have audited City of Brownwood, Texas compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the State of Texas *Single Audit Circular* that could have a direct and material effect on each of City of Brownwood, Texas major federal and state programs for the year ended September 30, 2016. City of Brownwood, Texas major federal and state 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 federal and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal and state programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of City of Brownwood, Texas major federal and state 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the State of Texas *Single Audit Circular*. Those standards, the Uniform Guidance, and the State of Texas *Single Audit Circular* 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 or state 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 and state 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 and state programs for the year ended September 30, 2016.

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 and state 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 and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 or state 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 or state 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 or state 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 the Uniform Guidance and the State of Texas *Single Audit Circular*. Accordingly, this report is not suitable for any other purpose.



Krischke CPA, PC

April 3, 2017

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended September 30, 2016

	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	2016-048745-001	\$ 312,222	\$ -
U.S. Department of Transportation:				
Highway Planning and Construction Cluster:				
Passed through Texas Parks and Wildlife Department:				
Recreational Trails Program				
	20.219	RT 14004	\$ 200,000	\$ -
General Services Administration:				
Non-monetary pass through from Texas Facilities Commission:				
Donation of Federal Surplus Personal Property				
	39.003	26171	\$ 1,570	\$ -
U.S. Department of Health and Human Services:				
Aging Cluster:				
Passed through West Central Texas Council of Governments:				
Special Programs for the Aging_Title III, Part C_Nutrition Services				
	93.045		\$ 126,822	\$ -
Passed through Amerigroup:				
Special Programs for the Aging_Title III, Part C_Nutrition Services				
	93.045		13,044	
Passed through Superior Health:				
Special Programs for the Aging_Title III, Part C_Nutrition Services				
	93.045		4,861	
Passed through Texas Health and Human Services Commission:				
Special Programs for the Aging_Title III, Part C_Nutrition Services				
	93.045	000169900	51,005	
Total Aging Cluster			\$ 195,732	\$ -
Passed through Texas Department of State Health Services:				
Public Health Emergency Preparedness:				
OT-Unique				
	93.069	2016-004060-01	26,854	
Ebola Grant				
	93.069	2015-003648-01	9,777	
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements:				
Bio-terrorism-Investigations and Technical Assistance				
	93.074	2016-001107-002	97,755	
Immunization Cooperative Agreements-Immunization				
	93.268	2016-004060-01	131,046	
Preventive Health and Health Services Block Grant				
	93.991	2016-000017-00	9,702	
Total U.S. Department of Health and Human Services			\$ 470,866	\$ -
Total Federal Assistance			\$ 984,658	\$ -
STATE ASSISTANCE:				
Texas Department of Agriculture:				
Texans Feeding Texans-Home Delivered Meals Program				
		HDM-16-1725	\$ 9,490	\$ -
Texas Department of State Health Services:				
HSR 2/3-TBS Region 2/3 TB Prevention and Control- State				
		2016-004087-00	\$ 4,755	\$ -
Texas Water Development Board:				
State Loan Program Texas Water Development Fund II				
		L1000075	\$ 2,656,114	\$ -
Texas Department of Transportation				
Routine Airport Maintenance Program				
		M1523BWNW	\$ 50,000	\$ -
Total State Assistance			\$ 2,720,359	\$ -

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2016

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards (the Schedule) includes the federal and state grant activity of City of Brownwood, Texas under programs of the federal and state government for the year ended September 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, Audit Requirements for Federal Awards* (Uniform Guidance), and State of Texas *Single Audit Circular*. Because the Schedule presents only a selected portion of the operations of City of Brownwood, Texas, it is not intended to and does not present the net position, changes in net position, or cash flows of 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The City of Brownwood, Texas has elected to not use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

The City of Brownwood, Texas received \$3,440,000 financial assistance in a prior year from the Texas Water Development Board's State Loan Program Texas Water Development Fund II (DFund) for modifications to the wastewater treatment plant. This assistance was received by Texas Water Development Board purchasing the City of Brownwood, Texas bonds issued for that purpose. The amount listed on the Schedule represents the bond proceeds expended during the current year. The outstanding balance on the bonds was \$3,310,000 and \$3,375,000 at September 30, 2016 and 2015, respectively.

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year ended September 30, 2016

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 X no

Significant deficiency(s) identified not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal and State Awards

Internal Control over major programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency(s) identified not considered to be material weaknesses? _____ yes X 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 2 CFR section 200.516(a)? _____ yes X no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.219	Recreational Trails Program
<u>Grant Numbers</u>	<u>Name of State Program or Cluster</u>
Loan L1000075	State Loan Program Texas Water Development Fund II

Dollar threshold used to distinguish between Type A and Type B programs \$ 750,000

Auditee qualified as low-risk auditee? X yes _____ no

Section II - Financial Statement Findings

None noted

Section III – Federal and State Award Findings and Questioned Costs

None noted

Section IV - Prior Year Audit Findings

No prior year findings