

CITY OF BROWNWOOD
Brownwood, Texas

ANNUAL FINANCIAL STATEMENTS

September 30, 2017

CITY OF BROWNWOOD, TEXAS

Brownwood, Texas

CONTENTS

September 30, 2017

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government - Wide Financial Statements:	
Statement of Net Position	9
Statement of Activities	11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheets	14
Reconciliation of the Governmental Funds Balance Sheets to the Statement of Net Position	15
Statements of Revenues, Expenditures and Changes in Fund Balances	16
Reconciliation of the Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	18
Proprietary Funds:	
Statements of Net Position	19
Statements of Revenues, Expenses and Changes in Fund Net Position	20
Statements of Cash Flows	21
Notes to Basic Financial Statements	23
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedules of Changes in Net Pension Liability and Related Ratios	49
Schedules of Pension Contributions	52
Budgetary Comparison Schedule - General Fund	55
Notes to Budgetary Comparison Schedule	56

CITY OF BROWNWOOD
Brownwood, Texas

CONTENTS (CONT.)

September 30, 2017

	<u>Page</u>
SUPPLEMENTARY INFORMATION:	
Other Governmental Funds Combining Balance Sheets	57
Other Governmental Funds Combining Statements of Revenues, Expenditures and Changes in Fund Balances	58
General Fund Comparative Balance Sheets	59
General Fund Comparative Statements of Revenues, Expenditures and Changes in Fund Balances	60
Proprietary Funds Comparative Statements of Net Position	61
Proprietary Funds Comparative Statements of Revenues, Expenditures and Changes in Fund Net Position	62
 SINGLE AUDIT SECTION:	
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 <i>Government Auditing Standards</i>	63
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	64
Schedule of Expenditures of Federal Awards	66
Notes to the Schedule of Expenditures of Federal Awards	67
Schedule of Findings and Questioned Costs	68

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, 2017, 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, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of changes in net pension liability and related ratios, the schedules of pension contributions and budgetary comparison information on pages 3-8 and 49-56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated February 2, 2018, on my consideration of the City of Brownwood, Texas internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Brownwood, Texas internal control over financial reporting and compliance.



Krischke CPA, PC
February 2, 2018

City of Brownwood
Management's Discussion and Analysis
For Year Ended September 30, 2017

(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, 2017. 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 \$37,386,413 (net position). Of this amount, \$2,120,179 is restricted for debt service, construction and other uses. The amount invested in fixed assets is \$43,979,931 leaving a negative \$(8,713,697) in unrestricted net position.
- The government's total net position decreased by \$1,534,064. There were increases and decreases in several areas including a net reduction in current assets versus liabilities of \$1,563,656, a net increase in pension liability net of deferred outflows and inflows of \$455,120 and an overall decrease in unrestricted net position of \$303,204.
- As of the close of the current fiscal year, the City's governmental activities reported combined ending net position of \$19,483,347, a decrease of \$680,337 in comparison with the prior year. This reduction was primarily due to a net decrease in current assets versus liabilities of \$1,185,241.
- At the end of the current fiscal year, unrestricted net position for the governmental activities was a negative \$(5,805,999) as compared to a negative \$(5,373,182) in the prior year, a decrease of \$432,817. Net position invested in capital assets for governmental activities increased by \$1,066,100 due to continuing investment in capital assets from bond proceeds, and net position invested in restricted assets for governmental activities decreased by \$1,313,620 due to net bond proceeds being spent down during the year.
- The City's total liabilities decreased by \$1,982,015 during the current fiscal year primarily due to current and long-term liabilities being paid down by \$1,742,688 net during the year.
- Total revenue increased by \$778,566 over the prior year. General revenues such as property taxes, sales tax and other taxes increased by \$275,104 while operating revenues such as water sales, sewer fees and sanitation fees increased by \$503,462.
- Expenditures increased by \$1,619,190 or 4.5%. The increases were in three major areas: Public Safety costs increased by \$425,788 while General Government and Administration costs increased by \$539,798, primarily due to increased benefit costs for medical insurance and increased Code Enforcement priorities; Sanitation and Landfill operating costs increased by \$210,235, primarily due to increasing costs for maintenance of aging equipment.
- The year ended with a net deficit for the current year of \$1,415,316 compared with a deficit of \$574,692 in the prior year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Basic Financial Statements

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

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

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

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

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

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

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

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

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

Government-Wide Financial Analysis

The City's combined net position decreased from \$38,920,477 last year to \$37,386,413 this year, a decrease of \$1,534,064. 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	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 8,128,007	\$ 9,037,464	\$ 5,196,369	\$ 6,130,021	\$ 13,324,376	\$ 15,167,485
Capital Assets	39,241,487	38,617,726	38,801,327	40,403,611	78,042,814	79,021,337
Deferred Outflows	2,880,757	3,353,725	776,128	997,607	3,656,885	4,351,332
Total Assets	\$ 50,250,251	\$ 51,008,915	\$ 44,773,824	\$ 47,531,239	\$ 95,024,075	\$ 98,540,154
Current liabilities	\$ 3,604,150	\$ 3,328,366	\$ 3,444,944	\$ 4,000,181	\$ 7,049,094	\$ 7,328,547
Long-term liabilities	15,350,110	15,717,996	20,981,098	22,076,447	36,331,208	37,794,443
Net Pension Liability	11,040,685	10,912,360	2,184,838	2,364,902	13,225,523	13,277,262
Deferred Inflows	771,959	886,509	259,878	332,916	1,031,837	1,219,425
Total Liabilities	\$ 30,766,904	\$ 30,845,231	\$ 26,870,758	\$ 28,774,446	\$ 57,637,662	\$ 59,619,677
Net Position:						
Invested in capital assets net of related debt	\$ 23,169,167	\$ 22,103,067	\$ 20,810,764	\$ 21,794,104	\$ 43,979,931	\$ 43,897,171
Restricted	2,120,179	3,433,799	-	-	2,120,179	3,433,799
Unrestricted	(5,805,999)	(5,373,182)	(2,907,698)	(3,037,311)	(8,713,697)	(8,410,493)
Total Net Position	\$ 19,483,347	\$ 20,163,684	\$ 17,903,066	\$ 18,756,793	\$ 37,386,413	\$ 38,920,477

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 \$37,386,413 as of September 30, 2017. However, the largest portion of the City's net position (105%) 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 (5.7%) represents resources that are subject to external restrictions on how they may be used, primarily bond funds that must be used for specific projects. This leaves a negative unrestricted balance of \$(8,713,697). This was a decrease of \$303,204 or 3.6% over the prior year.

Governmental activities: Governmental activities decreased the City's net position by \$561,589 after booking transfers.

Business-type activities: Business-type activities decreased the City's net position by \$853,727 after booking transfers.

The following table provides a summary of the City's operations for year ended September 30, 2017.

City of Brownwood Changes in Net Position

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues:						
Fees, fines, and charges for services	\$ 2,650,721	\$ 2,567,886	\$ 15,926,017	\$ 15,537,133	\$ 18,576,738	\$ 18,105,019
Operating grants and contributions	1,183,274	846,876	-	4,836	1,183,274	851,712
Capital grants and contributions	-	200,000	106,012	50,000	106,012	250,000
General Revenues:						
Ad valorem taxes	6,357,280	6,144,091	-	-	6,357,280	6,144,091
Sales tax	5,171,653	5,955,717	-	-	5,171,653	5,955,717
Other revenues	4,228,312	3,601,566	227,173	163,771	4,455,485	3,765,337
Total Revenues	\$ 19,591,240	\$ 19,316,136	\$ 16,259,202	\$ 15,755,740	\$ 35,850,442	\$ 35,071,876
Expenses:						
General government and administration	\$ 6,245,859	\$ 5,706,061	\$ -	\$ -	\$ 6,245,859	\$ 5,706,061
Public Safety	9,358,124	8,932,336	-	-	9,358,124	8,932,336
Streets	2,565,577	2,535,353	-	-	2,565,577	2,535,353
Parks & Community Facilities	2,522,753	2,299,757	-	-	2,522,753	2,299,757
Special Rev Activities	1,178,073	1,172,370	-	-	1,178,073	1,172,370
Water & Sewer	-	-	8,258,030	8,297,277	8,258,030	8,297,277
Sanitation & Landfill	-	-	4,804,835	4,594,600	4,804,835	4,594,600
Airport	-	-	1,166,346	1,122,051	1,166,346	1,122,051
Pecan Field Station	-	-	22,262	25,309	22,262	25,309
Interest on long-term debt	537,758	432,156	606,141	529,298	1,143,899	961,454
Total Expenses	\$ 22,408,144	\$ 21,078,033	\$ 14,857,614	\$ 14,568,535	\$ 37,265,758	\$ 35,646,568
Increases in net position before transfers	\$ (2,816,904)	\$ (1,761,897)	\$ 1,401,588	\$ 1,187,205	\$ (1,415,316)	\$ (574,692)
Transfers	2,255,315	1,526,493	(2,255,315)	(1,526,493)	-	-
Decrease in net position	\$ (561,589)	\$ (235,404)	\$ (853,727)	\$ (339,288)	\$ (1,415,316)	\$ (574,692)
Net position October 1	20,163,684	20,399,088	18,756,793	19,096,081	38,920,477	39,495,169
Prior Period Adjustment	(118,748)	-	-	-	(118,748)	-
Net position September 30	\$ 19,483,347	\$ 20,163,684	\$ 17,903,066	\$ 18,756,793	\$ 37,386,413	\$ 38,920,477

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 \$2,877,033 as compared to \$2,778,521 in the prior year, an improvement of \$98,512. Total fund balance was \$3,038,924 this year compared to \$2,946,972 in the prior year, an improvement of \$91,952. These improvements were primarily due to an increase in the cash balance in the General Fund of \$595,141.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. These percentages were 14.9% and 15.7% respectively.

At September 30, 2017, the governmental funds of the City reported a combined fund balance of \$5,359,369 compared to the prior year which was \$6,480,800, a decrease of \$1,121,431.

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 \$(2,907,698). This represented an improvement of \$339,613.

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 \$218,340 or 1.4% while expenditures came in over budget by \$1,188,270 or 6.7%. This represented a net negative variance of \$969,930.

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, 2017, totals \$78,042,814 (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, 2017, the City had total bonded debt outstanding of \$29,385,000. All of this debt is backed by the full faith and credit of the City. None of the debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds) since the last remaining revenue bond was refunded in September, 2005.

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

Economic Factors

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

- Low unemployment. Brown County's average unemployment rate for 2017 was 4.2% which is lower than the state average (4.6%) and national average (4.5%).
- Increasing property values. Taxable assessed values for 2017 increased by 2.2% from \$845,462,662 in 2016 to \$864,054,487 in 2017.
- Sales tax collections fluctuated from \$1.7M in the prior year to \$1.6M in the current year for the economic development ½ cent tax, primarily due to a transition to a development district instead of an economic development corporation.
- Residential certificates of occupancy were at an eleven year high with 29 issued in 2017.
- Building valuation for new construction reached an eleven year high at \$23.7M.

The City and Brownwood Municipal Development District (BMDD) continued to help local companies grow and recruit manufacturing and retail businesses. In the previous year, the City of Brownwood conducted an election on May 7, 2016 to terminate the Brownwood Economic Development Corporation (BEDC), and concurrently create the Brownwood Municipal Development District (BMDD), a political subdivision of the State of Texas and of the City of Brownwood, Texas. The BMDD is funded by a ½-cent sales tax for the purpose of financing economic development, diversifying the economic base of the community, and improving quality of life. The BMDD was created under Local Government Code Chapter 377, Municipal Development Districts.

The past year was a building year for the BMDD in its first full year of operation. Sales tax revenues decreased over the previous year primarily due to limitations on taxation of residential gas and electric, and the loss of several major retailers. At the same time, the City and the BMDD worked with local property management to recruit Harbor Freight to replace

the retail space vacated by Staples, and continued to market vacated retail spaces to prospective clients. In the industrial sector, the City was able to provide an incentive to Wright Asphalt for a \$7.5 million polymer plant expansion.

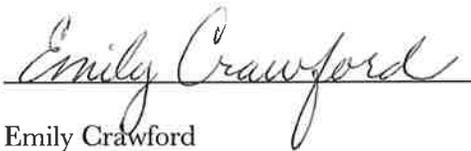
Budget Highlights for the Fiscal Year Ending September 30, 2018

Governmental Activities: The property tax rate increased from .7463 cents per hundred dollars valuation to .7946 cents, an increase of 6.5%. Sales tax is projected to decrease by 7.5% over the last amount budgeted in the prior year. Budgeted expenditures in the General Fund are expected to increase by 2.9%. No pay raises were granted to city employees.

Business – type Activities: Water consumption rates were increased by 1.8% to offset an increase in the wholesale cost of water to the City of 3.6%. Sewer rates were increased by 8.4% to cover bond payments on new bonds issued to improve the wastewater treatment plant in the prior year. Sanitation rates were increased by 4% to cover increasing maintenance costs for an aging fleet.

Requests for Information

This report is designed to provide an overview of the City of Brownwood’s finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Walter Middleton CPA, Director of Finance, City of Brownwood, PO Box 1389, Brownwood, TX 76804, (325) 646-5775. Email address is wmiddleton@brownwoodtexas.gov. Complete financial statements of the component unit can be obtained direct from Brownwood Municipal Development District 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, 2017

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	BEDC	BMDD
ASSETS:					
Pooled cash and cash equivalents	\$ 516,765	\$ 67,195	\$ 583,960	\$ 50,000	\$ 47,627
Pooled cash designated for special projects		60,865	60,865		
Non pooled cash and cash equivalents	1,365	3,550	4,915		
Investments	3,419,959	445,354	3,865,313		4,092,035
Investments designated for closure and postclosure		1,405,197	1,405,197		
Receivables, net	2,042,995	1,605,332	3,648,327		1,513,370
Inventory	26,130	782,881	809,011		
Prepaid expense	1,557		1,557		
Restricted assets	2,119,236	825,995	2,945,231		
Land held for development			-		1,051,185
Capital assets, net	39,241,487	38,801,327	78,042,814		
Total Assets	\$ 47,369,494	\$ 43,997,696	\$ 91,367,190	\$ 50,000	\$ 6,704,217
DEFERRED OUTFLOWS OF RESOURCES:					
Amounts related to pensions	\$ 2,880,757	\$ 776,128	\$ 3,656,885	\$ -	\$ -
Total Deferred Outflows of Resources	\$ 2,880,757	\$ 776,128	\$ 3,656,885	\$ -	\$ -
LIABILITIES:					
Accounts payable	\$ 1,152,285	\$ 421,659	\$ 1,573,944	\$ -	\$ 9,387
Accrued salaries	72,521	20,316	92,837		1,487
Liabilities payable from restricted assets:					
Bonds payable	41,925	10,657	52,582		
Noncurrent liabilities:					
Customer utility deposits		814,916	814,916		
Estimated liability for landfill closure and postclosure care costs		4,957,759	4,957,759		
Net pension liability	11,040,685	2,184,838	13,225,523		
Compensated absences:					
Portion due or payable within one year	977,878	138,685	1,116,563		5,240
Portion due or payable after one year	679,256	82,040	761,296		2,083
Capital leases payable:					
Portion due or payable within one year	422,306	668,528	1,090,834		
Portion due or payable after one year	1,387,822	1,783,469	3,171,291		
Tax note payable:					
Portion due or payable within one year	29,160	60,840	90,000		
Portion due or payable after one year	63,180	131,820	195,000		
Bonds payable:					
Portion due or payable within one year	908,075	1,309,343	2,217,418		
Portion due or payable after one year	13,219,852	14,026,010	27,245,862		
Total Liabilities	\$ 29,994,945	\$ 26,610,880	\$ 56,605,825	\$ -	\$ 18,197
DEFERRED INFLOWS OF RESOURCES:					
Amounts related to pensions	\$ 749,801	\$ 259,878	\$ 1,009,679	\$ -	\$ -
Amounts related to bond refunding	22,158		22,158		
Total Deferred Inflows of Resources	\$ 771,959	\$ 259,878	\$ 1,031,837	\$ -	\$ -

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

STATEMENT OF NET POSITION (CONT.)

September 30, 2017

	<u>Primary Government</u>			Component Units	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>BEDC</u>	<u>BMDD</u>
NET POSITION					
Invested in capital assets, net of related debt	\$ 23,169,167	\$ 20,810,764	\$ 43,979,931	\$	\$
Restricted for:					
Municipal Court	35,726		35,726		
Tourism promotion	52,394		52,394		
Vehicular child safety	22,591		22,591		
Law enforcement	16,674		16,674		
Drug awareness education	3,494		3,494		
Lehnis Museum	2,688		2,688		
Beautification	637		637		
Debt service	27,540		27,540		
Fabis Park	51,685		51,685		
Construction	1,906,750		1,906,750		
Unrestricted	<u>(5,805,999)</u>	<u>(2,907,698)</u>	<u>(8,713,697)</u>	<u>50,000</u>	<u>6,686,020</u>
Total Net Position	<u>\$ 19,483,347</u>	<u>\$ 17,903,066</u>	<u>\$ 37,386,413</u>	<u>\$ 50,000</u>	<u>\$ 6,686,020</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2017

<u>Functions/programs</u>	Program Revenue			
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 4,487,309	\$ 1,240,889	\$ 301,975	\$ -
Municipal court	341,253			
Police	4,965,669	573,363	23,057	
Fire	3,743,562	14,325	18,429	
Development services	837,221	119,604		
Street	2,565,577			
Health	307,640	167,411		
Community facilities	676,573	111,430		
Parks and recreation	1,846,180	88,443		
Public works/engineering	574,415			
Motel tax to CVB	346,914			
Interest on long-term debt	537,758			
Special revenue activities	1,178,073	335,256	839,813	
Total Governmental Activities	<u>\$ 22,408,144</u>	<u>\$ 2,650,721</u>	<u>\$ 1,183,274</u>	<u>\$ -</u>
Business-type Activities:				
Water	\$ 5,032,648	\$ 5,747,046		\$ -
Waste water collection	1,781,751	4,117,651		
Waste water treatment	1,443,631			
Sanitation	1,950,824	3,090,840		
Landfill	2,854,011	2,319,697		
Airport	1,166,346	557,709		106,012
Pecan Field Station	22,262	93,074		
Interest on long-term debt	606,141			
Total Business-type Activities	<u>\$ 14,857,614</u>	<u>\$ 15,926,017</u>	<u>\$ -</u>	<u>\$ 106,012</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 37,265,758</u>	<u>\$ 18,576,738</u>	<u>\$ 1,183,274</u>	<u>\$ 106,012</u>
Component Units:				
BEDC - Economic development	\$ -	\$ -	\$ -	\$ -
BMDD - Economic development	969,165			
TOTAL COMPONENT UNITS	<u>\$ 969,165</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to basic financial statement

Net (Expense) Revenue and Changes in Net Position

Primary Government				
Governmental Activities	Business-type Activities	Total	Component Units	
			BEDC	BMDD
\$ (2,944,445)		\$ (2,944,445)		
(341,253)		(341,253)		
(4,369,249)		(4,369,249)		
(3,710,808)		(3,710,808)		
(717,617)		(717,617)		
(2,565,577)		(2,565,577)		
(140,229)		(140,229)		
(565,143)		(565,143)		
(1,757,737)		(1,757,737)		
(574,415)		(574,415)		
(346,914)		(346,914)		
(537,758)		(537,758)		
(3,004)		(3,004)		
\$ (18,574,149)		\$ (18,574,149)		
	\$ 714,398	\$ 714,398		
	2,335,900	2,335,900		
	(1,443,631)	(1,443,631)		
	1,140,016	1,140,016		
	(534,314)	(534,314)		
	(502,625)	(502,625)		
	70,812	70,812		
	(606,141)	(606,141)		
	\$ 1,174,415	\$ 1,174,415		
\$ (18,574,149)	\$ 1,174,415	\$ (17,399,734)		
			\$	\$
				(969,165)
			\$	\$ (969,165)

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

STATEMENT OF ACTIVITIES (CONT.)

For the Year Ended September 30, 2017

	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)	\$ (18,574,149)	\$ 1,174,415	\$ (17,399,734)	\$ -	\$ (969,165)
General Revenues:					
Taxes:					
Ad valorem	\$ 6,357,280	\$ -	\$ 6,357,280	\$ -	\$ -
Sales	5,171,653	-	5,171,653	-	1,624,460
Other	3,791,241	-	3,791,241	-	-
Earnings on investments	43,616	21,237	64,853	-	68,828
Miscellaneous	351,944	177,436	529,380	-	70,019
Gain on disposal of capital assets	41,511	28,500	70,011	-	-
Transfers	2,255,315	(2,255,315)	-	-	-
Special item-Contribution of assets to City of Brownwood			-		(292,251)
Total Revenue	<u>\$ 18,012,560</u>	<u>\$ (2,028,142)</u>	<u>\$ 15,984,418</u>	<u>\$ -</u>	<u>\$ 1,471,056</u>
CHANGE IN NET POSITION	\$ (561,589)	\$ (853,727)	\$ (1,415,316)	\$ -	\$ 501,891
NET POSITION - BEGINNING OF YEAR AS RESTATED	<u>20,044,936</u>	<u>18,756,793</u>	<u>38,801,729</u>	<u>50,000</u>	<u>6,184,129</u>
NET POSITION - END OF YEAR	<u>\$ 19,483,347</u>	<u>\$ 17,903,066</u>	<u>\$ 37,386,413</u>	<u>\$ 50,000</u>	<u>\$ 6,686,020</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

BALANCE SHEETS
GOVERNMENTAL FUNDS

September 30, 2017

	<u>Major Fund</u>	<u>Nonmajor Fund</u>	<u>Total</u>
	<u>General</u>	<u>Other</u>	<u>Governmental</u>
<u>ASSETS</u>	<u>Fund</u>	<u>Governmental</u>	<u>Governmental</u>
		<u>Funds</u>	<u>Funds</u>
ASSETS:			
Pooled cash and cash equivalents	\$ 287,432	\$ 229,333	\$ 516,765
Non pooled cash and cash equivalents	1,340	25	1,365
Investments	3,419,959		3,419,959
Receivables, net	1,598,734	272,736	1,871,470
Inventory	26,130		26,130
Prepaid expense	1,557		1,557
Internal balances	14,385	(14,385)	-
Restricted assets	136,054	1,983,182	2,119,236
TOTAL ASSETS	\$ 5,485,591	\$ 2,470,891	\$ 7,956,482
 <u>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</u>			
LIABILITIES:			
Accounts payable	\$ 1,093,013	\$ 59,275	\$ 1,152,288
Accrued salaries	68,332	4,189	72,521
Compensated absences	977,878		977,878
TOTAL LIABILITIES	\$ 2,139,223	\$ 63,464	\$ 2,202,687
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenue	\$ 307,444	\$ 86,982	\$ 394,426
 FUND BALANCES:			
Nonspendable:			
Inventory	\$ 26,130	\$	\$ 26,130
Prepaid expense	1,557		1,557
Restricted for:			
Municipal Court	35,726		35,726
Tourism promotion	52,394		52,394
Vehicular child safety	22,591		22,591
Law enforcement	16,674		16,674
Drug awareness education	3,494		3,494
Lehnis Museum	2,688		2,688
Beautification	637		637
Debt service		27,540	27,540
Fabis Park		51,685	51,685
Construction		1,906,750	1,906,750
Committed to:			
Construction		245,110	245,110
Assigned to:			
Health and nutrition programs		47,620	47,620
Unassigned	2,877,033	41,740	2,918,773
TOTAL FUND BALANCES	\$ 3,038,924	\$ 2,320,445	\$ 5,359,369
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,485,591	\$ 2,470,891	\$ 7,956,482

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, 2017

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$	5,359,369
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 \$56,174,860.		39,241,487
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.		394,427
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 \$190,505.		171,525
Deferred inflows from bond refunding are not reported in the governmental funds balance sheet		(22,157)
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds balance sheet		<u>(25,661,304)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>19,483,347</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

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

For the Year Ended September 30, 2017

	<u>Major Fund</u>	<u>Nonmajor Fund</u>	Total
	General Fund	Other Governmental Funds	
REVENUES:			
Ad valorem taxes	\$ 5,007,012	\$ 1,310,705	\$ 6,317,717
Sales taxes	5,171,653		5,171,653
Other taxes	3,791,241		3,791,241
Fines	354,474		354,474
Licenses and fees	143,966		143,966
Charges for services	371,472		371,472
Intergovernmental	1,419,029		1,419,029
Interest	24,169	19,447	43,616
Grants and contributions	48,960	1,134,314	1,183,274
Miscellaneous	199,190	488,010	687,200
Total Revenue	<u>\$ 16,531,166</u>	<u>\$ 2,952,476</u>	<u>\$ 19,483,642</u>
EXPENDITURES:			
Current:			
City Council	\$ 52,938		\$ 52,938
Administration	225,415		225,415
City Secretary	94,791		94,791
Finance/accounting	355,511		355,511
Municipal Court	319,870		319,870
Police	4,772,818		4,772,818
Fire	3,693,826		3,693,826
Development services	859,249		859,249
Street	1,867,457		1,867,457
Health	282,541		282,541
Community services	606,195		606,195
Intergovernmental	226,250		226,250
Utility billing	277,152		277,152
Community facilities	483,930		483,930
Operations support	172,249		172,249
Purchasing/warehouse	170,702		170,702
Parks and recreation	1,484,431		1,484,431
Fleet services	560,209		560,209
City Attorney	193,506		193,506
Community development	270,000		270,000
Public works/engineering	544,203		544,203
Emergency management	25,118		25,118
Human resources	246,879		246,879
Fire Marshal	136,581		136,581
General fund contingency	189,093		189,093
Information technology	640,211		640,211
Transportation museum	184,983		184,983
Motel tax to CVB	346,914		346,914
Other	33,810		33,810
Special revenue funds		1,178,061	1,178,061
Capital outlay		1,337,901	1,337,901
Debt Service:			
Principal		927,540	927,540
Interest		546,355	546,355
Total Expenditures	<u>\$ 19,316,832</u>	<u>\$ 3,989,857</u>	<u>\$ 23,306,689</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (2,785,666)</u>	<u>\$ (1,037,381)</u>	<u>\$ (3,823,047)</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, 2017

	<u>Major Fund</u> General Fund	<u>Nonmajor Fund</u> Other Governmental Funds	Total Governmental Funds
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (2,785,666)	\$ (1,037,381)	\$ (3,823,047)
OTHER FINANCING SOURCES (USES):			
Transfers in	\$ 2,165,051	\$ 32,988	\$ 2,198,039
Transfers out		(218,140)	(218,140)
Capital lease proceeds	830,454		830,454
Proceeds from sale of capital assets	861	9,150	10,011
Net Other Financing Sources (Uses)	\$ 2,996,366	\$ (176,002)	\$ 2,820,364
NET CHANGE IN FUND BALANCES	\$ 210,700	\$ (1,213,383)	\$ (1,002,683)
FUND BALANCE - BEGINNING OF YEAR AS RESTATED	2,828,224	3,533,828	6,362,052
FUND BALANCE - END OF YEAR	\$ 3,038,924	\$ 2,320,445	\$ 5,359,369

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, 2017

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (1,002,683)

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	3,051,690
Depreciation and amortization	(2,427,929)

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	(830,454)
Principal payments on long-term debt	1,266,803
Additional accrual of compensated absences	(204,352)
Current amortization of bond premiums and deferred amount on refunding	8,597
Change in net pension liability and related deferred outflows and inflows	(489,349)

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.	39,564
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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.	26,524
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CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (561,589)

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

STATEMENTS OF NET POSITION
PROPRIETARY FUNDS

September 30, 2017

	Business-Type Activities - Enterprise Fund				Total
	Major Funds			Nonmajor Proprietary Fund	
	Utility Fund	Sanitation Fund	Airport Fund		
CURRENT ASSETS:					
Pooled cash and cash equivalents	\$ 11,412	\$ 52,180	\$ 3,603	\$ -	\$ 67,195
Pooled cash designated for special projects	60,865				60,865
Non pooled cash and cash equivalents	2,500	650	400		3,550
Investments	216,611	228,743			445,354
Investments designated for closure and postclosure		1,405,197			1,405,197
Accounts receivable, net	1,056,928	492,270	56,134		1,605,332
Inventory	706,593		76,288		782,881
Total Current Assets	\$ 2,054,909	\$ 2,179,040	\$ 136,425	\$ -	\$ 4,370,374
NONCURRENT ASSETS:					
Restricted assets	\$ 823,124	\$ 2,552	\$ 319	\$ -	\$ 825,995
Capital assets, net	26,827,854	8,132,264	3,841,209		38,801,327
Total Noncurrent Assets	\$ 27,650,978	\$ 8,134,816	\$ 3,841,528	\$ -	\$ 39,627,322
TOTAL ASSETS	\$ 29,705,887	\$ 10,313,856	\$ 3,977,953	\$ -	\$ 43,997,696
DEFERRED OUTFLOWS OF RESOURCES:					
Amounts related to pensions	\$ 391,914	\$ 321,447	\$ 62,767	\$ -	\$ 776,128
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 391,914	\$ 321,447	\$ 62,767	\$ -	\$ 776,128
CURRENT LIABILITIES:					
Accounts payable	\$ 315,457	\$ 94,162	\$ 12,040	\$ -	\$ 421,659
Accrued salaries	9,861	8,741	1,714		20,316
Capital leases payable	85,944	569,850	12,734		668,528
Tax note payable			60,840		60,840
Bonds payable	1,086,791	222,552			1,309,343
Compensated absences	62,540	59,151	16,994		138,685
Total Current Liabilities	\$ 1,560,593	\$ 954,456	\$ 104,322	\$ -	\$ 2,619,371
LIABILITIES PAYABLE FROM RESTRICTED ASSETS:					
Bonds payable	\$ 8,209	\$ 2,448	\$ -	\$ -	\$ 10,657
Total Liabilities Payable from Restricted Assets	\$ 8,209	\$ 2,448	\$ -	\$ -	\$ 10,657
NONCURRENT LIABILITIES:					
Compensated absences	\$ 34,697	\$ 37,857	\$ 9,486	\$ -	\$ 82,040
Net pension liability	1,103,256	904,888	176,694		2,184,838
Customer water meter deposits	814,916				814,916
Capital leases payable	157,408	1,609,301	16,760		1,783,469
Tax note payable			131,820		131,820
Bonds payable	11,841,010	2,185,000			14,026,010
Accrued landfill closure and postclosure care costs		4,957,759			4,957,759
Total Noncurrent Liabilities	\$ 13,951,287	\$ 9,694,805	\$ 334,760	\$ -	\$ 23,980,852
TOTAL LIABILITIES	\$ 15,520,089	\$ 10,651,709	\$ 439,082	\$ -	\$ 26,610,880
DEFERRED INFLOWS OF RESOURCES:					
Amounts related to pensions	\$ 131,228	\$ 107,633	\$ 21,017	\$ -	\$ 259,878
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 131,228	\$ 107,633	\$ 21,017	\$ -	\$ 259,878
NET POSITION:					
Invested in capital assets, net of related debt	\$ 13,648,492	\$ 3,543,217	\$ 3,619,055	\$ -	\$ 20,810,764
Unrestricted	797,992	(3,667,256)	(38,434)		(2,907,698)
TOTAL NET POSITION	\$ 14,446,484	\$ (124,039)	\$ 3,580,621	\$ -	\$ 17,903,066

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, 2017

	<u>Business-Type Activities - Enterprise Fund</u>				Total
	<u>Major Funds</u>			Nonmajor Proprietary Fund	
	Utility Fund	Sanitation Fund	Airport Fund		
OPERATING REVENUES:					
Charges for service	\$ 9,864,697	\$ 5,410,538	\$ 557,708	\$ 93,074	\$ 15,926,017
Miscellaneous	118,974	58,461	1		177,436
Total Operating Revenues	<u>\$ 9,983,671</u>	<u>\$ 5,468,999</u>	<u>\$ 557,709</u>	<u>\$ 93,074</u>	<u>\$ 16,103,453</u>
OPERATING EXPENSES:					
Personnel services	\$ 1,828,742	\$ 1,612,541	\$ 310,933	\$ 12,857	\$ 3,765,073
Supplies	246,998	303,248	286,331	2,195	838,772
Contractual	2,846,978	829,022	68,875	2,574	3,747,449
Maintenance	515,522	270,132	66,433	3,921	856,008
Sundry charges	702,872	343,200			1,046,072
Support services	698,400	430,800			1,129,200
Depreciation and amortization	1,418,519	1,015,891	433,774	715	2,868,899
Total Operating Expenses	<u>\$ 8,258,031</u>	<u>\$ 4,804,834</u>	<u>\$ 1,166,346</u>	<u>\$ 22,262</u>	<u>\$ 14,251,473</u>
OPERATING GAIN (LOSS)	<u>\$ 1,725,640</u>	<u>\$ 664,165</u>	<u>\$ (608,637)</u>	<u>\$ 70,812</u>	<u>\$ 1,851,980</u>
NON-OPERATING REVENUE AND EXPENSE:					
Sale of equipment	\$ 28,500				\$ 28,500
Grants and contributions			106,012		106,012
Interest income	7,909	13,123	205		21,237
Interest expense	(452,247)	(141,629)	(12,265)		(606,141)
Net Non-Operating Revenue (Expense)	<u>\$ (415,838)</u>	<u>\$ (128,506)</u>	<u>\$ 93,952</u>	<u>\$ -</u>	<u>\$ (450,392)</u>
GAIN (LOSS) BEFORE TRANSFERS	<u>\$ 1,309,802</u>	<u>\$ 535,659</u>	<u>\$ (514,685)</u>	<u>\$ 70,812</u>	<u>\$ 1,401,588</u>
TRANSFERS:					
Operating transfers in	\$ 2,203	\$ 40,838	\$ 272,370		\$ 315,411
Operating transfers out	(1,637,537)	(864,924)		(68,265)	(2,570,726)
Net Operating Transfers	<u>\$ (1,635,334)</u>	<u>\$ (824,086)</u>	<u>\$ 272,370</u>	<u>\$ (68,265)</u>	<u>\$ (2,255,315)</u>
CHANGES IN NET POSITION	<u>\$ (325,532)</u>	<u>\$ (288,427)</u>	<u>\$ (242,315)</u>	<u>\$ 2,547</u>	<u>\$ (853,727)</u>
NET POSITION - BEGINNING	<u>14,772,016</u>	<u>164,388</u>	<u>3,822,936</u>	<u>(2,547)</u>	<u>18,756,793</u>
NET POSITION - ENDING	<u>\$ 14,446,484</u>	<u>\$ (124,039)</u>	<u>\$ 3,580,621</u>	<u>\$ -</u>	<u>\$ 17,903,066</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended September 30, 2017

	<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	\$ 9,939,462	\$ 5,426,278	\$ 563,348	\$ 93,074	\$ 16,022,162
Cash payments to suppliers for goods and services	(5,369,417)	(1,589,701)	(454,263)	(8,690)	(7,422,071)
Cash payments to employees for services	(1,843,038)	(1,610,105)	(308,328)	(19,950)	(3,781,421)
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,727,007</u>	<u>\$ 2,226,472</u>	<u>\$ (199,243)</u>	<u>\$ 64,434</u>	<u>\$ 4,818,670</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Increase in customer meter deposits	\$ 28,199				\$ 28,199
Operating transfers in	2,203	40,838	272,370		315,411
Operating transfers out	(1,637,537)	(864,924)		(66,120)	(2,568,581)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>\$ (1,607,135)</u>	<u>\$ (824,086)</u>	<u>\$ 272,370</u>	<u>\$ (66,120)</u>	<u>\$ (2,224,971)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Principal payments on bonds	\$ (1,060,000)	\$ (220,000)			\$ (1,280,000)
Principal payments on tax note			(57,460)		(57,460)
Proceeds from notes and capital leases	174,451				174,451
Principal payments on notes and capital leases	(80,538)	(595,677)	(12,451)		(688,666)
Proceeds from sale of capital assets	28,500				28,500
Acquisition and construction of capital assets	(967,027)	(206,974)	(94,759)		(1,268,760)
Grant income			106,012		106,012
Interest expense	(463,964)	(141,629)	(12,265)		(617,858)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (2,368,578)</u>	<u>\$ (1,164,280)</u>	<u>\$ (70,923)</u>	<u>\$ -</u>	<u>\$ (3,603,781)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of investments	\$ (2,037,909)	\$ (1,959,424)			\$ (3,997,333)
Sale of investments	2,790,965	1,573,745			4,364,710
Interest income	7,909	13,123	205		21,237
Net Cash Provided (Used) by Investing Activities	<u>\$ 760,965</u>	<u>\$ (372,556)</u>	<u>\$ 205</u>	<u>\$ -</u>	<u>\$ 388,614</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>\$ (487,741)</u>	<u>\$ (134,450)</u>	<u>\$ 2,409</u>	<u>\$ (1,686)</u>	<u>\$ (621,468)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,377,594</u>	<u>187,319</u>	<u>1,913</u>	<u>1,686</u>	<u>1,568,512</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 889,853</u>	<u>\$ 52,869</u>	<u>\$ 4,322</u>	<u>\$ -</u>	<u>\$ 947,044</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, 2017

	<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 <u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>					
OPERATING GAIN (LOSS)	\$ 1,725,640	\$ 664,165	\$ (608,637)	\$ 70,812	\$ 1,851,980
ADJUSTMENTS TO RECONCILE OPERATING GAIN (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Depreciation and amortization	1,418,519	1,015,891	433,774	715	2,868,899
Closure and postclosure care costs		561,857			561,857
Changes in assets and liabilities:					
Receivables	(44,209)	(42,721)	5,639		(81,291)
Inventories	50,674		(27,281)		23,393
Prepaid expense	2,705				2,705
Accounts payable	(412,026)	24,844	(5,343)		(392,525)
Accrued salaries	(998)	1,234	(14)		222
Compensated absences	8,426	4,164	2,463		15,053
Pension assets and liabilities	(21,724)	(2,962)	156	(7,093)	(31,623)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 2,727,007</u>	<u>\$ 2,226,472</u>	<u>\$ (199,243)</u>	<u>\$ 64,434</u>	<u>\$ 4,818,670</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2017

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 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. It received its primary funding from a local sales tax approved by the voters and the affairs of the Corporation were managed by a Board of Directors. Because the directors of the Corporation were appointed by the City of Brownwood City Council, the Corporation is included in the City of Brownwood annual financial statements as a component unit of the City. The City of Brownwood called for a special election to terminate BEDC and authorized the creation of the 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.

BMDD 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 receives its primary funding from a local sales tax approved by the voters. 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 BMDD can be obtained directly as follows:

Brownwood Municipal Development District
501 Center Avenue
Brownwood, Texas 76801

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2017

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, 2017

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. This fund was closed at September 30, 2017.

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, 2017

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, 2017

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, 2017

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.

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2017

NOTE 3: DEPOSITS AND INVESTMENTS (CONT.)

Legal Investments

The City is authorized by statute to invest in (a) U.S. Treasury Bills and Notes, (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, (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, (f) no load Money Market Mutual Funds with dollar weighted average maturity of 90 days or less and maintenance of a stable net asset value of \$1 per share and no load Mutual Funds with an average weighted maturity of less than 2 years rated no less than AAA, (g) Commercial Paper with a maturity of less than 270 days and rates not less than A-1 or P-1, (h) Bankers Acceptances with an maturity of 270 days or less, (i) GNMA Securities with a stated final maturity of 10 years or less and (j) Direct Obligations of the State of Texas or its agencies.

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, 2017, \$3,560,030 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, 2017, TexPool's portfolio maintained a weighted average maturity of approximately 37 days. The other local government investment pool utilized by the City is TexStar which is managed by First Southwest and JP Investment Management, Inc. At September 30, 2017, TexStar's portfolio maintained a weighted average maturity of approximately 27 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, 2017, the City's investments in TexPool and TexStar were both rated AAAM by Standard and Poor's.

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2017

NOTE 3: DEPOSITS AND INVESTMENTS (CONT.)

Cash for Cash Flows Statement

Proprietary funds cash and cash equivalents at September 30, 2017 are as follows:

	Utility Fund	Sanitation Fund	Airport Fund
Pooled cash and cash equivalents	\$ 11,412	\$ 52,180	\$ 3,603
Pooled cash designated for special projects	60,865		
Non pooled cash and cash equivalents	2,500	650	400
Restricted cash	815,076	39	319
Total	<u>\$ 889,853</u>	<u>\$ 52,869</u>	<u>\$ 4,322</u>

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, 2017:

	Governmental Activities	Business-type Activities
Restricted for debt service payments	\$ 41,925	\$ 10,975
Restricted for drug awareness education	3,494	
Restricted for law enforcement	16,674	
Restricted for vehicular child safety	22,591	
Restricted for beautification	1,061	
Restricted for municipal court	36,112	
Restricted for tourism promotion	52,394	
Restricted for Lehnis Museum	3,728	
Restricted for Fabis Park	51,975	
Restricted for construction or purchase of fixed assets	1,889,282	104
Restricted for customer deposits		814,916
Total Restricted Assets	<u>\$ 2,119,236</u>	<u>\$ 825,995</u>

Restricted assets included \$1,234,917 in cash and \$1,710,314 in investments.

NOTE 5: RECEIVABLES

A summary of the net receivables at September 30, 2017 is as follows:

	Governmental Activities	Business-type Activities	Component Unit - BMDD
Ad valorem taxes	\$ 415,186	\$	\$
Sales taxes	890,602		281,956
Utility		2,906,366	
Warrants and citations	362,030		
Airport		14,935	
Grants receivable	131,355	44,199	
PILOT payments	113,225		
Other receivables	459,311	31,451	
Notes receivable			1,231,414
	<u>\$ 2,371,709</u>	<u>\$ 2,996,951</u>	<u>\$ 1,513,370</u>
Less allowance for uncollectable accounts	(328,714)	(1,391,619)	
Receivables, net	<u>\$ 2,042,995</u>	<u>\$ 1,605,332</u>	<u>\$ 1,513,370</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2017

NOTE 6: CAPITAL ASSETS

Capital asset activity in the City for the year ended September 30, 2017 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 2,837,185	\$	\$	\$ 2,837,185
Construction in progress	310,682	1,511,050	(850,245)	971,487
Total capital assets not being depreciated	<u>\$ 3,147,867</u>	<u>\$ 1,511,050</u>	<u>\$ (850,245)</u>	<u>\$ 3,808,672</u>
Capital assets being depreciated and amortized:				
Building and grounds	\$ 15,690,298	\$ 166,881	\$	\$ 15,857,179
Improvements	59,829,354	982,589		60,811,943
Machinery/equipment	12,484,408	1,242,845	(152,983)	13,574,270
Intangible assets	1,364,283			1,364,283
Total capital assets being depreciated and amortized	<u>\$ 89,368,343</u>	<u>\$ 2,392,315</u>	<u>\$ (152,983)</u>	<u>\$ 91,607,675</u>
Less accumulated depreciation and amortization:				
Buildings	\$ (5,410,160)	\$ (390,956)	\$	\$ (5,801,116)
Improvements	(37,018,271)	(1,347,192)		(38,365,463)
Machinery/equipment	(10,808,330)	(648,501)	152,983	(11,303,848)
Intangible assets	(661,723)	(42,710)		(704,433)
Total accumulated depreciation and amortization	<u>\$ (53,898,484)</u>	<u>\$ (2,429,359)</u>	<u>\$ 152,983</u>	<u>\$ (56,174,860)</u>
Total Capital Assets Being Depreciated and Amortized, Net	<u>\$ 35,469,859</u>	<u>\$ (37,044)</u>	<u>\$ -</u>	<u>\$ 35,432,815</u>
Governmental Activities Capital Assets, Net	<u>\$ 38,617,726</u>	<u>\$ 1,474,006</u>	<u>\$ (850,245)</u>	<u>\$ 39,241,487</u>
Business-type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 383,351	\$	\$	\$ 383,351
Construction in progress	7,089,068	825,871	(7,914,939)	-
Total capital assets not being depreciated	<u>\$ 7,472,419</u>	<u>\$ 825,871</u>	<u>\$ (7,914,939)</u>	<u>\$ 383,351</u>
Capital assets being depreciated and amortized:				
Building and grounds	\$ 3,321,484	\$ 136,213	\$	\$ 3,457,697
Improvements	77,120,914	7,702,542		84,823,456
Landfill cell development	12,836,858			12,836,858
Machinery/equipment	15,179,074	515,498	(105,698)	15,588,874
Intangible assets	493,054			493,054
Total capital assets being depreciated and amortized	<u>\$ 108,951,384</u>	<u>\$ 8,354,253</u>	<u>\$ (105,698)</u>	<u>\$ 117,199,939</u>
Less accumulated depreciation and amortization:				
Buildings	\$ (2,628,811)	\$ (114,449)	\$	\$ (2,743,260)
Improvements	(54,249,757)	(1,506,503)		(55,756,260)
Landfill cell development	(6,735,032)	(268,619)		(7,003,651)
Machinery/equipment	(12,292,982)	(922,523)	107,128	(13,108,377)
Intangible assets	(113,610)	(56,805)		(170,415)
Total accumulated depreciation and amortization	<u>\$ (76,020,192)</u>	<u>\$ (2,868,899)</u>	<u>\$ 107,128</u>	<u>\$ (78,781,963)</u>
Total Capital Assets Being Depreciated and Amortized, Net	<u>\$ 32,931,192</u>	<u>\$ 5,485,354</u>	<u>\$ 1,430</u>	<u>\$ 38,417,976</u>
Business-type Activities Capital Assets, Net	<u>\$ 40,403,611</u>	<u>\$ 6,311,225</u>	<u>\$ (7,913,509)</u>	<u>\$ 38,801,327</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2017

NOTE 6: CAPITAL ASSETS (CONT.)

Assets under capital leases totaled \$5,208,705 in governmental funds and \$8,318,886 in the business type funds. Accumulated amortization on those assets at September 30, 2017 amounted to \$3,338,811 and \$6,294,356, respectively. This equipment is being amortized over 3 to 20 years. The amount of the amortization for the year ended September 30, 2017 was \$456,952 and \$773,984 in the governmental and business-type activities respectively.

Depreciation and amortization expense was charged to the following functions:

Governmental Activities:	
General government	\$ 238,063
Police	109,486
Fire	319,766
Development services	11,262
Street	1,105,266
Health	3,761
Community facilities	191,079
Parks and recreation	405,096
Public works	44,150
	<u>\$ 2,427,929</u>
Business-type Activities:	
Water	\$ 890,048
Waste water	329,473
Waste water treatment	198,998
Sanitation	208,875
Landfill	807,016
Airport	433,774
Pecan Field Station	715
	<u>\$ 2,868,899</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2017

NOTE 7: LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended September 30, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds, Notes and Leases Payable:					
Certificates of obligation	\$ 13,025,000	\$	\$ (640,000)	\$ 12,385,000	\$ 690,000
General obligation bonds	1,955,000		(260,000)	1,695,000	260,000
Tax note payable	119,880		(27,540)	92,340	29,160
Capital leases payable	1,318,937	830,454	(339,263)	1,810,128	422,306
	<u>\$ 16,418,817</u>	<u>\$ 830,454</u>	<u>\$ (1,266,803)</u>	<u>\$ 15,982,468</u>	<u>\$ 1,401,466</u>
Bond premiums	95,842		(5,990)	89,852	
Total Bonds, Notes and Leases Payable	<u>\$ 16,514,659</u>	<u>\$ 830,454</u>	<u>\$ (1,272,793)</u>	<u>\$ 16,072,320</u>	<u>\$ 1,401,466</u>
Compensated absences	1,525,579	928,101	(796,546)	1,657,134	977,878
Total Governmental Activities	<u>\$ 18,040,238</u>	<u>\$ 1,758,555</u>	<u>\$ (2,069,339)</u>	<u>\$ 17,729,454</u>	<u>\$ 2,379,344</u>
Business-type Activities:					
Bonds, Notes and Leases Payable:					
Certificates of obligation	\$ 14,035,000	\$	\$ (805,000)	\$ 13,230,000	\$ 830,000
General obligation bonds	2,550,000		(475,000)	2,075,000	490,000
Tax note payable	250,120		(57,460)	192,660	60,840
Capital leases payable	2,966,212	174,451	(688,666)	2,451,997	668,528
	<u>\$ 19,801,332</u>	<u>\$ 174,451</u>	<u>\$ (2,026,126)</u>	<u>\$ 17,949,657</u>	<u>\$ 2,049,368</u>
Bond premiums	52,727		(11,717)	41,010	
Total Bonds, Notes and Leases Payable	<u>\$ 19,854,059</u>	<u>\$ 174,451</u>	<u>\$ (2,037,843)</u>	<u>\$ 17,990,667</u>	<u>\$ 2,049,368</u>
Compensated absences	205,672	204,695	(189,642)	220,725	138,685
Total Business-type Activities	<u>\$ 20,059,731</u>	<u>\$ 379,146</u>	<u>\$ (2,227,485)</u>	<u>\$ 18,211,392</u>	<u>\$ 2,188,053</u>
Total Primary Government	<u>\$ 38,099,969</u>	<u>\$ 2,137,701</u>	<u>\$ (4,296,824)</u>	<u>\$ 35,940,846</u>	<u>\$ 4,567,397</u>

Governmental Activities

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

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2017

NOTE 7: LONG-TERM OBLIGATIONS (CONT.)

Governmental Activities (cont.)

A summary of the bonds follows:

	Date of Issue	Original Amount	Interest Rate	Maturity Date	Amount Outstanding 9/30/2017
Combination tax and revenue certificates of obligation:					
Series 2003	7/15/2003	\$ 2,375,000	3.0 to 4.0%	3/15/2018	\$ 210,000
Series 2012	6/19/2012	10,750,000	2.0 to 4.125%	3/15/2032	9,125,000
Series 2016	7/1/2016	3,050,000	3.2 to 4.5%	3/15/2031	3,050,000
General obligation refunding bonds,					
Series 2015	10/15/2015	2,250,000	0.45 to 2.2%	3/15/2026	1,695,000
					<u>\$ 14,080,000</u>

The following represents the future maturities on these bonds:

Year Ending September 30,	Principal	Interest	Total
2018	\$ 950,000	\$ 491,091	\$ 1,441,091
2019	930,000	461,829	1,391,829
2020	960,000	432,399	1,392,399
2021	985,000	401,036	1,386,036
2022	860,000	372,036	1,232,036
2023-2027	4,660,000	1,387,254	6,047,254
2028-2032	4,735,000	478,316	5,213,316
Total	<u>\$ 14,080,000</u>	<u>\$ 4,023,961</u>	<u>\$ 18,103,961</u>

A summary of the tax note follows:

	Date of Issue	Original Amount	Interest Rate	Maturity Date	Amount Outstanding 9/30/2017
Tax Note, Taxable Series 2013					
Governmental portion	9/1/2013	\$ 194,400	4.4 to 4.7%	9/15/2020	\$ 92,340
Business-type portion	9/1/2013	405,600	4.4 to 4.7%	9/15/2020	192,660
		<u>\$ 600,000</u>			<u>\$ 285,000</u>

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

Year Ending September 30,	Principal	Interest	Total
2018	\$ 29,160	\$ 4,251	\$ 33,411
2019	30,780	2,939	33,719
2020	32,400	1,522	33,922
Total	<u>\$ 92,340</u>	<u>\$ 8,712</u>	<u>\$ 101,052</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2017

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	\$ 422,306	\$ 40,859	\$ 463,165
2018	404,487	30,606	435,093
2019	369,677	20,893	390,570
2020	329,809	11,860	341,669
2021	152,443	5,065	157,508
Thereafter	131,406	2,815	134,221
Total	<u>\$ 1,810,128</u>	<u>\$ 112,098</u>	<u>\$ 1,922,226</u>

Business-type activities

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

A summary of the bonds follows:

	<u>Date of Issue</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount Outstanding 9/30/2017</u>
Combination tax and revenue certificates of obligation:					
Series 2004	3/15/2004	\$ 6,335,000	.3 to 3.35%	3/15/2022	\$ 3,035,000
Series 2012A	12/1/2012	3,440,000	1.96 to 4.64%	3/15/2044	3,245,000
Series 2013	10/8/2013	3,870,000	3.18%	3/15/2029	2,410,000
Series 2015	10/15/2015	4,815,000	2.95%	9/30/2035	4,540,000
General obligation refunding bonds,					
Series 2010	3/15/2010	5,050,000	2.0 to 4.0%	3/15/2021	<u>2,075,000</u>
					<u>\$ 15,305,000</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>
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	950,000	323,019	1,273,019
2023-2027	4,090,000	1,237,998	5,327,998
2028-2032	1,855,000	857,497	2,712,497
2033-2037	1,610,000	427,615	2,037,615
2038-2042	840,000	191,154	1,031,154
2043-2044	390,000	18,328	408,328
Total	<u>\$ 15,305,000</u>	<u>\$ 4,793,072</u>	<u>\$ 20,098,072</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2017

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>
2018	\$ 60,840	\$ 8,869	\$ 69,709
2019	64,220	6,132	70,352
2020	67,600	3,177	70,777
Total	<u>\$ 192,660</u>	<u>\$ 18,178</u>	<u>\$ 210,838</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	\$ 668,528	\$ 53,225	\$ 721,753
2018	685,589	36,559	722,148
2019	588,030	22,142	610,172
2020	490,154	7,758	497,912
2021	19,696	181	19,877
Total	<u>\$ 2,451,997</u>	<u>\$ 119,865</u>	<u>\$ 2,571,862</u>

NOTE 8: LEASE COMMITMENTS

The City had telephone equipment under operating leases during the year. Rent expense amounted to \$11,977 for the year ended September 30, 2017. The minimum future lease payments under the remaining lease at September 30, 2017 are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
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 \$4,957,759 as of September 30, 2017 which is based on 26.62% usage (filled) of the overall landfill. It is estimated that an additional \$12,288,136 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, \$17,245,893, 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, 2017. 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 \$9,881,294 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, 2017

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 872 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, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	
Plan 10190 City	124
Plan 30190 Health Department	10
Inactive employees entitled to but not yet receiving benefits	
Plan 10190 City	72
Plan 30190 Health Department	2
Active employees	
Plan 10190 City	227
Plan 30190 Health Department	12

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2017

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONT.)

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	
	2016	2017
Plan 10190 City	14.01%	13.78%
Plan 30190 Health Department	9.35%	10.36%

The city's contributions to TMRS for the year ended September 30, 2017, for Plan 10190 City and Plan 30190 Health Department were \$1,337,744 and \$44,930, respectively, and were equal to or in excess of the required contributions.

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2016, 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, 2016 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, 2016, 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. 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, 2017

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). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 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%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
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, 2017

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 12/31/2015	\$ 45,993,998	\$ 37,771,112	\$ 8,222,886
Changes for the year:			
Service cost	\$ 1,469,768	\$	\$ 1,469,768
Interest	3,082,792		3,082,792
Difference between expected and actual experience	(282,788)		(282,788)
Contributions-employer		1,314,906	(1,314,906)
Contributions-employee		656,984	(656,984)
Net investment income		2,552,844	(2,552,844)
Benefit payments, including refunds of employee contributions	(2,115,766)	(2,115,766)	
Administrative expense		(28,829)	28,829
Other changes		(1,553)	1,553
Net changes	\$ 2,154,006	\$ 2,378,586	\$ (224,580)
Balance 12/31/2016	\$ 48,148,004	\$ 40,149,698	\$ 7,998,306
Plan 30190 Health Department			
Balance 12/31/2015	\$ 1,316,311	\$ 1,106,567	\$ 209,744
Changes for the year:			
Service cost	\$ 65,562	\$	\$ 65,562
Interest	88,546		88,546
Difference between expected and actual experience	(48,925)		(48,925)
Contributions-employer		40,122	(40,122)
Contributions-employee		30,035	(30,035)
Net investment income		74,773	(74,773)
Benefit payments, including refunds of employee contributions	(74,592)	(74,592)	
Administrative expense		(845)	845
Other changes		(46)	46
Net changes	\$ 30,591	\$ 69,447	\$ (38,856)
Balance 12/31/2016	\$ 1,346,902	\$ 1,176,014	\$ 170,888

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2017

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	\$14,875,481	\$7,998,306	\$2,388,489
Plan 30190 Health Department	\$341,667	\$170,888	\$28,719

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

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

For the year ended September 30, 2017, the City recognized pension expense of \$2,209,201. At September 30, 2017, 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	\$	\$ 951,368
Changes in actuarial assumptions	80,079	
Difference between projected and actual investment earnings	1,734,803	
Contributions subsequent to the measurement date	1,026,387	
Total	\$ 2,841,269	\$ 951,368
Plan 30190 Health Department		
Differences between expected and actual economic experience	\$	\$ 26,663
Changes in actuarial assumptions	14,629	
Difference between projected and actual investment earnings	52,585	
Contributions subsequent to the measurement date	35,365	
Total	\$ 102,579	\$ 26,663

\$1,061,752 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, 2018. 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 2017	\$ 158,019	\$ 19,922
2018	289,512	18,356
2019	433,277	6,938
2020	(17,294)	(4,665)
Total	\$ 863,514	\$ 40,551

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2017

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. The Fund issues a stand-alone report pursuant to GASB Statement No. 67, which may be obtained by writing the Brownwood Firefighter's Relief and Retirement Fund at P. O. Box 1389, Brownwood, Texas 76804. See that report for all information about the plan fiduciary net position.

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. The present 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.

Members Covered by the Fund

At the December 31, 2015 actuarial valuation, the following numbers of members were covered by the Fund:

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

Funding Policy

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, 2017

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONT.)

Funding Policy (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, 2016, the money-weighted rate of return on pension plan investments was 4.56%. 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, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 and rolled forward to December 31, 2016.

Total pension liability	\$	8,673,904
Plan fiduciary net position		<u>3,617,576</u>
City's net pension liability	\$	<u>5,056,328</u>
Plan fiduciary net position as a percentage of the total pension liability		41.7%

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	3.4%
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.

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2017

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONT.)

Net Pension Liability (cont.)

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%

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.

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 (6.4%)	Discount Rate (7.4%)	1% Increase in Discount Rate (8.4%)
City’s Net Pension Liability	\$6,141,156	\$5,056,328	\$4,148,721

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2017

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONT.)

Net Pension Liability (cont.)

Pension Plan Fiduciary Net Position. The plan fiduciary net position is the same as reported by the Fund. Detailed information about the plan fiduciary net position is available in the Fund's separately issued audited financial statements, which are reported using the economic resources management focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. 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.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Amounts as of September 30, 2016	\$ 8,242,106	\$ 3,397,474	\$ 4,844,632
Changes for the year:			
Service cost	\$ 229,505	\$	\$ 229,505
Interest	611,749		611,749
Difference between expected and actual experience			
Contributions-employer		355,382	(355,382)
Contributions-employee		142,143	(142,143)
Net investment income		156,321	(156,321)
Benefit payments	(409,456)	(409,456)	
Administrative expense		(24,288)	24,288
Assumption changes			
Other changes			
Net changes	\$ 431,798	\$ 220,102	\$ 211,696
Amounts as of September 30, 2017	\$ 8,673,904	\$ 3,617,576	\$ 5,056,328

Measurements for the fiscal year ended September 30, 2016 were taken as of December 31, 2015.

Measurements for the fiscal year ended September 30, 2017 were taken as of December 31, 2016.

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

For the year ended September 30, 2017, the City's GASB 68 pension expense of \$602,513. Amounts recognized in the fiscal year represent changes between the current and prior measurement dates.

Components of Pension Expense for the Fiscal Year Ended September 30, 2017:

Service cost	\$ 229,505
Interest	611,749
Firefighter's contributions	(142,143)
Projected earnings on pension plan investments	(253,773)
Amortization of differences between projected and actual earnings on plan investments	127,125
Amortization of changes of assumptions	11,209
Amortization of differences between expected and actual experience	(5,447)
Pension plan administrative expenses	24,288
Total pension expense	\$ 602,513

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2017

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONT.)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (cont.)

Deferred Outflows of Resources and Deferred Inflows of Resources to be Recognized in Pension Expense in Future Years:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings on pension plan investments	\$ 362,323	\$
Differences between expected and actual experience		31,648
Changes of assumptions	65,123	
Total	\$ 427,446	\$ 31,648

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

Year ended September 30	Net of Deferred Outflows Minus Deferred Inflows
2018	\$ 132,887
2019	132,885
2020	94,346
2021	25,253
2022	5,762
Thereafter	4,665
Total	\$ 395,798

Deferred Outflow of Resources to Be Recognized Next Year. The total of the contributions by the City to the Fund contributed subsequent to the measurement date of the net pension liability, December 31, 2016 through September 30, 2017 is a deferred outflow of resources that will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. This amount is \$285,590.

NOTE 11: INTERNAL BALANCES AND INTERFUND TRANSFERS

Internal balances are short-term loans to cover temporary cash deficits in various funds. At September 30, 2017, the Debt Service Fund owed the General Fund \$14,385.

Transfers to/from other funds during the year ended September 30, 2017 consist of the following:

From Utility Fund to the General Fund to supplement the functions of that fund	\$ 1,402,537
From Sanitation Fund to the General Fund to supplement the functions of that fund	\$ 858,000
From Pecan Field Station Fund to the General Fund to close the operation of the Pecan Field Station	\$ 68,265
From Capital Projects Fund to Utility Fund to move proprietary fund costs	\$ 2,203
From Capital Projects Fund to Sanitation Fund to move proprietary fund costs	\$ 40,838
From Capital Projects Fund to Utility Fund to move proprietary costs	\$ 30,446

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2017

NOTE 12: COMMITMENTS

Brownwood Municipal Development District (BMDD) 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, 2017 there is \$15,000 remaining to be paid on this incentive.
- BEDC approved a five year incentive up to \$300,000 to 3M Company to support a product line. At September 30, 2017 there is \$240,000 remaining to be paid on this incentive.
- BEDC approved a \$300,000 incentive to Leeco Energy & Investments for infrastructure improvements to be paid as construction is completed. At September 30, 2017 there is \$90,000 remaining to be paid on this incentive.

BMDD began a building improvement incentive program this year that provides matching funds of up to \$20,000 upon completion of an approved project. Five projects totaling \$61,734 were approved and not yet funded at September 30, 2017.

An economic development incentive agreement was executed September 6, 2017 between the City, BMDD and South Hampton LLC (subsequently assigned to BAM Developer LLC). BMDD committed to providing funding in the amount of \$150,000 to assist with the development of a residential housing project. This commitment was outstanding at September 30, 2017.

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, 2017 including City Hall improvements, Depot improvements, park improvements and street improvements. Total cost of these projects is approximately \$1,682,600 with remaining costs of approximately \$733,000 at September 30, 2017.

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, 2017 the unpaid balance was \$12,510,000. 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 \$23,282 of net position to cover any potential losses on the non-covered vehicles. The City employee health care is provided by commercial insurance with no risk retained by the City. The management of the City has not been notified and is not aware of any significant claims against the City not covered by insurance.

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2017

NOTE 15: UTILITY

The Utility Department was serving the following number of customers:

	9/30/17	9/30/16
Water Department	7,401	7,387
Sewer Department	6,903	6,890
Sanitation Department	7,090	7,073

NOTE 16: ELECTED OFFICIALS

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

NOTE 17: 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 18: 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	\$ 54,305,234
	Contents	4,742,225
Risk covered:	Fire, lightning, extended coverage including Replacement cost endorsement.	

NOTE 19: RESTATEMENT OF NET POSITION

The City did not properly record certain receivables and revenues in prior years. As a result, prior year receivables and revenues were overstated by \$118,748. Correction of this error resulted in a restatement of beginning net position in the government-wide financial statement and the government fund financial statement. The correction of this error was recorded and resulted in the adjustment below:

	Governmental Activities	General Fund
Net position September 30, 2016	\$ 20,163,684	\$ 2,946,972
Correction of prior year receivables and revenue	(118,748)	(118,748)
Net position September 30, 2016 restated	\$ 20,044,936	\$ 2,828,224

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 Three Plan Years

	2014	2015	2016
TOTAL PENSION LIABILITY:			
Service cost	\$ 1,271,262	\$ 1,371,151	\$ 1,469,768
Interest (on total pension liability)	2,978,273	3,072,001	3,082,792
Changes in benefit terms	-	-	-
Difference between expected and actual experience	(993,709)	(811,345)	(282,788)
Change of assumptions	-	155,985	-
Benefit payments, including refunds of employee contributions	<u>(1,945,700)</u>	<u>(1,987,889)</u>	<u>(2,115,766)</u>
Net Change in Total Pension Liability	\$ 1,310,126	\$ 1,799,903	\$ 2,154,006
Total Pension Liability - Beginning	<u>42,883,969</u>	<u>44,194,095</u>	<u>45,993,998</u>
Total Pension Liability - Ending (a)	<u>\$ 44,194,095</u>	<u>\$ 45,993,998</u>	<u>\$ 48,148,004</u>
PLAN FIDUCIARY NET POSITION:			
Contributions - employer	\$ 1,276,612	\$ 1,315,768	\$ 1,314,906
Contributions - employee	601,366	625,281	656,984
Net investment income	2,050,213	55,774	2,552,844
Benefit payments, including refunds of employee contributions	(1,945,700)	(1,987,889)	(2,115,766)
Administrative expense	(21,405)	(33,971)	(28,829)
Other	<u>(1,760)</u>	<u>(1,679)</u>	<u>(1,553)</u>
Net Change in Plan Fiduciary Net Position	\$ 1,959,326	\$ (26,716)	\$ 2,378,586
Plan Fiduciary Net Position - Beginning	<u>35,838,502</u>	<u>37,797,828</u>	<u>37,771,112</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 37,797,828</u>	<u>\$ 37,771,112</u>	<u>\$ 40,149,698</u>
NET PENSION LIABILITY - ENDING (a) - (b)	\$ 6,396,267	\$ 8,222,886	\$ 7,998,306
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	85.53%	82.12%	83.39%
COVERED EMPLOYEE PAYROLL	\$ 8,590,941	\$ 8,932,582	\$ 9,385,489
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	74.45%	92.05%	85.22%
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 Three Plan Years

	2014	2015	2016
TOTAL PENSION LIABILITY:			
Service cost	\$ 59,025	\$ 62,460	\$ 65,562
Interest (on total pension liability)	80,118	84,570	88,546
Changes in benefit terms	-	-	-
Difference between expected and actual experience	8,050	16,940	(48,925)
Change of assumptions	-	27,809	-
Benefit payments, including refunds of employee contributions	(65,871)	(104,759)	(74,592)
Net Change in Total Pension Liability	\$ 81,322	\$ 87,020	\$ 30,591
Total Pension Liability - Beginning	1,147,969	1,229,291	1,316,311
Total Pension Liability - Ending (a)	<u>\$ 1,229,291</u>	<u>\$ 1,316,311</u>	<u>\$ 1,346,902</u>
PLAN FIDUCIARY NET POSITION:			
Contributions - employer	\$ 31,483	\$ 36,407	\$ 40,122
Contributions - employee	27,582	29,462	30,035
Net investment income	62,351	1,689	74,773
Benefit payments, including refunds of employee contributions	(65,871)	(104,759)	(74,592)
Administrative expense	(651)	(1,029)	(845)
Other	(54)	(50)	(46)
Net Change in Plan Fiduciary Net Position	\$ 54,840	\$ (38,280)	\$ 69,447
Plan Fiduciary Net Position - Beginning	1,090,007	1,144,847	1,106,567
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,144,847</u>	<u>\$ 1,106,567</u>	<u>\$ 1,176,014</u>
NET PENSION LIABILITY - ENDING (a) - (b)	\$ 84,444	\$ 209,744	\$ 170,888
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	93.13%	84.07%	87.31%
COVERED EMPLOYEE PAYROLL	\$ 394,031	\$ 420,889	\$ 429,068
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	21.43%	49.83%	39.83%
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 Three Plan Years

	2014	2015	2016
TOTAL PENSION LIABILITY:			
Service cost	\$ 211,640	\$ 219,098	\$ 229,505
Interest (on total pension liability)	561,844	586,487	611,749
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)	(409,456)
Net Change in Total Pension Liability	\$ 287,159	\$ 432,173	\$ 431,798
Total Pension Liability - Beginning	7,522,774	7,809,933	8,242,106
Total Pension Liability - Ending (a)	<u>\$ 7,809,933</u>	<u>\$ 8,242,106</u>	<u>\$ 8,673,904</u>
PLAN FIDUCIARY NET POSITION:			
Contributions - employer	\$ 323,975	\$ 340,092	\$ 355,382
Contributions - employee	129,581	136,036	142,143
Net investment income	62,582	(85,706)	156,321
Benefit payments, including refunds of employee contributions	(486,325)	(418,411)	(409,456)
Administrative expense	(12,414)	(18,346)	(24,288)
Other	-	-	-
Net Change in Plan Fiduciary Net Position	\$ 17,399	\$ (46,335)	\$ 220,102
Plan Fiduciary Net Position - Beginning	3,426,410	3,443,809	3,397,474
Plan Fiduciary Net Position - Ending (b)	<u>\$ 3,443,809</u>	<u>\$ 3,397,474</u>	<u>\$ 3,617,576</u>
NET PENSION LIABILITY - ENDING (a) - (b)	\$ 4,366,124	\$ 4,844,632	\$ 5,056,328
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	44.10%	41.20%	41.70%
COVERED EMPLOYEE PAYROLL	\$ 1,619,763	\$ 1,700,450	\$ 1,776,788
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	269.60%	284.90%	284.60%

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 for 2016 and 2014 were determined from the beginning of the year total pension liability, using the roll forward procedure allowed by GASB 68.

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

TEXAS MUNICIPAL RETIREMENT SYSTEM PLAN 10190 CITY
SCHEDULE OF PENSION CONTRIBUTIONS

Last Three Fiscal Years

	2015	2016	2017
Actuarially determined contribution	\$ 1,299,125	\$ 1,369,431	\$ 1,337,744
Contributions in relation to the actuarially determined contribution	1,299,125	1,369,431	1,337,744
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employee payroll	8,798,850	9,647,016	9,670,777
Contributions as a percentage of covered employee payroll	14.76%	14.20%	13.83%

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, 29 years in 2017
Asset Valuation Method	10 year smoothed market; 15% soft corridor
Inflation	3% in 2015, 2.5% in 2016 and 2017
Salary Increases	3.5% to 12.0% including inflation in 2015, 3.5% to 10.5% including inflation in 2016 and 2017
Investment Rate of Return	7% in 2015, 6.75% in 2016 and 2017
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 Three Fiscal Years

	2015	2016	2017
Actuarially determined contribution	\$ 35,246	\$ 40,367	\$ 44,912
Contributions in relation to the actuarially determined contribution	<u>35,246</u>	<u>40,367</u>	<u>44,930</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (18)</u>
Covered employee payroll	415,734	440,225	443,482
Contributions as a percentage of covered employee payroll	8.48%	9.17%	10.13%

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, 27 years in 2017
 Asset Valuation Method 10 year smoothed market; 15% soft corridor
 Inflation 3% in 2015, 2.5% in 2016 and 2017
 Salary Increases 3.5% to 12.0% including inflation in 2015, 3.5% to 10.5% including inflation in 2016 and 2017
 Investment Rate of Return 7% in 2015, 6.75% in 2016 and 2017
 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

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

Last Three Fiscal Years

	2015	2016	2017
Required contributions	\$ 333,681	\$ 369,587	\$ 366,725
Contributions in relation to the actuarially determined contribution	333,681	369,587	366,725
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employee payroll	1,668,407	1,847,936	1,833,625
Contributions as a percentage of covered employee payroll	20.00%	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, 35 years in 2017

Inflation

3.5% in 2015, 3.4% in 2016 and 2017

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 and 2017

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 2016 and 2017

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, 2017

	Original Budget	Final Budget	Actual Budgetary Basis (See Note A)	Variance with Final Budget Positive (Negative)
RESOURCES (INFLOWS):				
Ad valorem taxes	\$ 4,973,102	\$ 4,973,102	\$ 5,007,012	\$ 33,910
Sales tax	5,522,300	5,522,300	5,161,895	(360,405)
Other taxes	3,320,200	3,320,200	3,444,327	124,127
Fines	213,000	213,000	354,474	141,474
License and fees	63,800	63,800	143,966	80,166
Charges for services	387,500	387,500	371,472	(16,028)
Intergovernmental	1,411,752	1,411,752	1,419,029	7,277
Miscellaneous	36,500	64,500	272,319	207,819
Total Resources (Inflows)	<u>\$ 15,928,154</u>	<u>\$ 15,956,154</u>	<u>\$ 16,174,494</u>	<u>\$ 218,340</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
City Council	\$ 76,799	\$ 76,799	\$ 52,938	\$ 23,861
Administration	251,607	251,607	229,967	21,640
City Secretary	108,981	108,981	95,887	13,094
Finance/Accounting	353,767	353,767	352,169	1,598
Municipal Court	310,029	310,029	321,757	(11,728)
Police	4,863,873	4,882,027	4,782,336	99,691
Fire	3,188,808	3,198,808	3,711,215	(512,407)
Development services	820,566	820,566	857,548	(36,982)
Street	1,841,075	1,841,075	1,870,871	(29,796)
Health	280,444	280,444	291,134	(10,690)
Community services	625,559	625,559	606,195	19,364
Intergovernmental	228,560	228,560	226,250	2,310
Utility billing	253,950	253,950	277,565	(23,615)
Community facilities	444,297	460,214	486,212	(25,998)
Operations support	156,119	156,119	173,882	(17,763)
Purchasing/warehouse	171,647	171,647	171,999	(352)
Parks and recreation	1,461,541	1,466,921	1,486,472	(19,551)
Fleet services	561,501	566,320	564,562	1,758
City Attorney	200,307	200,307	193,781	6,526
Community development			270,000	(270,000)
Public works/engineering	562,572	562,572	545,580	16,992
Emergency management	26,440	26,440	25,118	1,322
Human Resources	265,842	265,842	251,338	14,504
Fire Marshal	139,738	140,738	138,763	1,975
General fund contingency	(82,000)	(82,000)	186,628	(268,628)
Information technology	523,981	523,981	653,503	(129,522)
Transportation museum	162,973	162,973	185,036	(22,063)
Other			33,810	(33,810)
Total Charges to Appropriations (Outflows)	<u>\$ 17,798,976</u>	<u>\$ 17,854,246</u>	<u>\$ 19,042,516</u>	<u>\$ (1,188,270)</u>
EXCESS CHARGES TO APPROPRIATIONS	<u>\$ (1,870,822)</u>	<u>\$ (1,898,092)</u>	<u>\$ (2,868,022)</u>	<u>\$ (969,930)</u>
FUND BALANCE - BEGINNING	<u>(10,771,511)</u>	<u>(10,771,511)</u>	<u>(10,771,511)</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ (12,642,333)</u>	<u>\$ (12,669,603)</u>	<u>\$ (13,639,533)</u>	<u>\$ -</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO BUDGETARY COMPARISON SCHEDULE

For the Year Ended September 30, 2017

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.	\$ 16,174,494
The City budgets for sales tax based on the amount collected rather than on the modified accrual basis.	9,758
The City budgets Hotel Occupancy Tax net of the payments to other entities rather than gross	<u>346,914</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances governmental fund.	<u>\$ 16,531,166</u>

Uses/outflows of Resources:

Actual amount (budgetary basis) charges to appropriations from the budgetary comparison schedule.	\$ 19,042,516
The City budgets for salaries on the cash basis rather than on the modified accrual basis.	199
The City budgets for compensated absences on the cash basis rather than the modified accrual basis.	(72,797)
The City budgets Hotel Occupancy Tax net of the payments to other entities rather than gross	<u>346,914</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances governmental fund.	<u>\$ 19,316,832</u>

SUPPLEMENTARY INFORMATION

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

**OTHER GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS**

September 30, 2017

	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	\$	\$ 242,850	\$ (13,517)	\$ 229,333
Non pooled cash and cash equivalents			25	25
Receivables, net	86,982	47,382	138,372	272,736
Restricted assets	41,925	1,889,282	51,975	1,983,182
TOTAL ASSETS	\$ 128,907	\$ 2,179,514	\$ 176,855	\$ 2,485,276
<u>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</u>				
LIABILITIES:				
Accounts payable	\$	\$ 27,654	\$ 31,621	\$ 59,275
Accrued payroll			4,189	4,189
Internal balances	14,385			14,385
TOTAL LIABILITIES	\$ 14,385	\$ 27,654	\$ 35,810	\$ 77,849
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue	\$ 86,982	\$ -	\$ -	\$ 86,982
FUND BALANCES:				
Restricted for:				
Debt service	\$ 27,540			\$ 27,540
Construction		1,906,750		1,906,750
Fabis Park			51,685	51,685
Committed to:				
Construction		245,110		245,110
Assigned to:				
Health and nutrition programs			47,620	47,620
Unassigned			41,740	41,740
TOTAL FUND BALANCES	\$ 27,540	\$ 2,151,860	\$ 141,045	\$ 2,320,445
TOTAL LIABILITIES AND FUND BALANCES	\$ 128,907	\$ 2,179,514	\$ 176,855	\$ 2,485,276

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, 2017

	Total Debt Service Fund	Total Capital Projects Fund	Total Special Revenue Fund	Total Other Governmental Funds
REVENUES:				
Ad valorem taxes	\$ 1,310,705	\$	\$	\$ 1,310,705
Grants and contributions		294,501	839,813	1,134,314
Other revenue	84,967	67,787	335,256	488,010
Interest	2,246	16,768	433	19,447
Total Revenues	\$ 1,397,918	\$ 379,056	\$ 1,175,502	\$ 2,952,476
EXPENDITURES:				
Debt service:				
Principal	\$ 927,540	\$	\$	\$ 927,540
Interest	546,355			546,355
Capital outlay		1,337,901		1,337,901
Special revenue fund			1,178,061	1,178,061
Total Expenditures	\$ 1,473,895	\$ 1,337,901	\$ 1,178,061	\$ 3,989,857
EXCESS OF REVENUES OVER EXPENDITURES	\$ (75,977)	\$ (958,845)	\$ (2,559)	\$ (1,037,381)
OTHER FINANCING SOURCES:				
Transfers in	\$ 32,988	\$	\$	\$ 32,988
Transfers out		(200,796)	(17,344)	(218,140)
Proceeds from sale of capital assets		9,150		9,150
Total Other Financing Sources	\$ 32,988	\$ (191,646)	\$ (17,344)	\$ (176,002)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	\$ (42,989)	\$ (1,150,491)	\$ (19,903)	\$ (1,213,383)
FUND BALANCE - BEGINNING OF YEAR	70,529	3,302,351	160,948	3,533,828
FUND BALANCE - END OF YEAR	\$ 27,540	\$ 2,151,860	\$ 141,045	\$ 2,320,445

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

GENERAL FUND
COMPARATIVE BALANCE SHEETS

September 30, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
ASSETS:		
Pooled cash and cash equivalents	\$ 287,432	\$ (2,121,166)
Non pooled cash and cash equivalents	1,340	4,256
Investments	3,419,959	5,230,500
Receivables, net	1,598,734	1,907,494
Inventory	26,130	24,405
Prepaid expense	1,557	2,798
Internal balances	14,385	
Restricted assets	136,054	144,300
	<u>\$ 5,485,591</u>	<u>\$ 5,192,587</u>
TOTAL ASSETS		
 <u>LIABILITIES AND FUND BALANCES</u>		
LIABILITIES:		
Accounts payable	\$ 1,093,013	\$ 852,410
Accrued salaries	68,332	68,132
Compensated absences	977,878	1,050,675
	<u>\$ 2,139,223</u>	<u>\$ 1,971,217</u>
TOTAL LIABILITIES		
DEFERRED INFLOWS OF RESOURCES:		
Unavailable revenue	\$ 307,444	\$ 274,398
	<u>\$ 307,444</u>	<u>\$ 274,398</u>
FUND BALANCES:		
Nonspendable:		
Inventory	\$ 26,130	\$ 24,405
Prepaid expense	1,557	2,798
Restricted for:		
Municipal Court	35,726	43,565
Tourism promotion	52,394	51,213
Vehicular child safety	22,591	19,543
Law enforcement	16,674	16,794
Drug awareness education	3,494	3,494
Lehnis Museum	2,688	6,002
Beautification	637	637
Unassigned	2,877,033	2,778,521
	<u>\$ 3,038,924</u>	<u>\$ 2,946,972</u>
TOTAL FUND BALANCES		
TOTAL LIABILITIES AND FUND BALANCES		
	<u>\$ 5,485,591</u>	<u>\$ 5,192,587</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
REVENUES:		
Ad valorem taxes	\$ 5,007,012	\$ 4,973,561
Sales taxes	5,171,653	5,955,717
Other taxes	3,791,241	3,814,882
Fines	354,474	310,908
Licenses and fees	143,966	122,153
Charges for services	371,472	350,346
Intergovernmental	1,419,029	1,408,010
Interest	24,169	10,898
Grants and contributions	48,960	6,091,838
Miscellaneous	199,190	146,983
Total Revenues	<u>\$ 16,531,166</u>	<u>\$ 23,185,296</u>
EXPENDITURES:		
City Council	\$ 52,938	\$ 57,555
Administration	225,415	225,789
City Secretary	94,791	102,163
Finance/accounting	355,511	355,339
Municipal court	319,870	343,719
Police	4,772,818	4,726,637
Fire	3,693,826	3,077,508
Development services	859,249	711,985
Street	1,867,457	1,755,522
Health	282,541	296,163
Community services	606,195	603,008
Intergovernmental	226,250	220,668
Utility billing	277,152	243,129
Community facilities	483,930	583,203
Operations support	172,249	164,705
Purchasing/warehouse	170,702	185,293
Parks and recreation	1,484,431	1,381,370
Fleet services	560,209	508,891
City Attorney	193,506	192,117
Community development	270,000	-
Public works/engineering	544,203	668,469
Emergency management	25,118	11,482
Human resources	246,879	253,359
Fire Marshal	136,581	183,163
General fund contingency	189,093	134,740
Information technology	640,211	660,004
Transportation museum	184,983	149,187
Motel tax to CVB	346,914	319,708
Other	33,810	15,028
Total Expenditures	<u>\$ 19,316,832</u>	<u>\$ 18,129,904</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ (2,785,666)</u>	<u>\$ 5,055,392</u>
OTHER FINANCING SOURCES (USES):		
Transfers in	\$ 2,165,051	\$ 1,437,102
Transfers out	-	(45,916)
Capital lease proceeds	830,454	374,551
Proceeds from sale of capital assets	861	26,869
Net Other Financing Sources (Uses)	<u>\$ 2,996,366</u>	<u>\$ 1,792,606</u>
SPECIAL ITEMS;		
Contribution of asset to Brownwood Municipal Development District	<u>\$ -</u>	<u>\$ (6,575,178)</u>
Total Special Items	<u>\$ -</u>	<u>\$ (6,575,178)</u>
NET CHANGES IN FUND BALANCES	\$ 210,700	\$ 272,820
FUND BALANCE - BEGINNING OF YEAR AS RESTATED	<u>2,828,224</u>	<u>2,674,152</u>
FUND BALANCE - END OF YEAR	<u>\$ 3,038,924</u>	<u>\$ 2,946,972</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

PROPRIETARY FUNDS
COMPARATIVE STATEMENTS OF NET POSITION

September 30, 2017 and 2016

	2017	2016
CURRENT ASSETS:		
Pooled cash and cash equivalents	\$ 67,195	\$ 291,545
Pooled cash designated for special projects	60,865	201,820
Non pooled cash and cash equivalents	3,550	3,594
Investments	445,354	2,592
Investments designated for closure and postclosure	1,405,197	1,246,527
Accounts receivable, net	1,605,332	1,524,041
Inventory	782,881	806,274
Prepaid expenses	-	2,705
Total Current Assets	\$ 4,370,374	\$ 4,079,098
NONCURRENT ASSETS:		
Restricted assets	\$ 825,995	\$ 2,050,923
Capital assets, net	38,801,327	40,403,611
Total Noncurrent Assets	\$ 39,627,322	\$ 42,454,534
TOTAL ASSETS	\$ 43,997,696	\$ 46,533,632
DEFERRED OUTFLOWS OF RESOURCES:		
Amounts related to pensions	\$ 776,128	\$ 997,607
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 776,128	\$ 997,607
CURRENT LIABILITIES:		
Accounts payable	\$ 421,659	\$ 814,184
Accrued salaries	20,316	20,094
Capital leases payable	668,528	697,077
Tax note payable	60,840	57,460
Bonds payable	1,309,343	1,268,636
Compensated absences	138,685	151,989
Total Current Liabilities	\$ 2,619,371	\$ 3,009,440
LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Bonds payable	\$ 10,657	\$ 11,364
Total Liabilities Payable from Restricted Assets	\$ 10,657	\$ 11,364
NONCURRENT LIABILITIES:		
Compensated absences	\$ 82,040	\$ 53,683
Net pension liability	2,184,838	2,364,902
Customer water meter deposits	814,916	786,717
Capital leases payable	1,783,469	2,269,135
Tax note payable	131,820	192,660
Bonds payable	14,026,010	15,357,727
Accrued landfill closure and postclosure care costs	4,957,759	4,395,902
Total Noncurrent Liabilities	\$ 23,980,852	\$ 25,420,726
TOTAL LIABILITIES	\$ 26,610,880	\$ 28,441,530
DEFERRED INFLOWS OF RESOURCES:		
Amounts related to pensions	\$ 259,878	\$ 332,916
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 259,878	\$ 332,916
NET POSITION:		
Invested in capital assets, net of related debt	\$ 20,810,764	\$ 22,004,104
Unrestricted	(2,907,698)	(3,247,311)
TOTAL NET POSITION	\$ 17,903,066	\$ 18,756,793

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, 2017 and 2016

	2017	2016
OPERATING REVENUES:		
Charges for services	\$ 15,926,017	\$ 15,537,133
Miscellaneous	173,730	148,725
Total Operating Revenues	\$ 16,099,747	\$ 15,685,858
OPERATING EXPENSES:		
Personnel services	\$ 3,765,073	\$ 3,751,800
Supplies	838,772	775,341
Contractual	3,747,449	3,529,757
Maintenance	856,008	1,237,911
Sundry charges	1,046,072	1,051,048
Support services	1,129,200	1,129,200
Depreciation and amortization	2,868,899	2,521,703
Total Operating Expenses	\$ 14,251,473	\$ 13,996,760
OPERATING GAIN	\$ 1,848,274	\$ 1,689,098
NON-OPERATING REVENUE AND EXPENSE:		
Sale of equipment	\$ 32,206	\$ (4,599)
Grants and contributions	106,012	54,836
Interest income	21,237	19,645
Bond issuance costs	-	(42,477)
Interest expense	(606,141)	(529,298)
Net Non-Operating Revenue (Expense)	\$ (446,686)	\$ (501,893)
GAIN BEFORE TRANSFERS	\$ 1,401,588	\$ 1,187,205
TRANSFERS:		
Operating transfers in	\$ 315,411	\$ 302,752
Operating transfers out	(2,570,726)	(1,829,245)
Net Operating Transfers	\$ (2,255,315)	\$ (1,526,493)
CHANGES IN NET POSITION	\$ (853,727)	\$ (339,288)
NET POSITION - BEGINNING	18,756,793	19,096,081
NET POSITION - ENDING	\$ 17,903,066	\$ 18,756,793

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, 2017, and the related notes to the financial statements, which collectively comprise City of Brownwood, Texas basic financial statements, and have issued my report thereon dated February 2, 2018.

Internal Control Over Financial Reporting

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

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

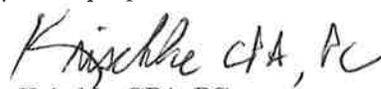
My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify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

Compliance and Other Matters

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

Purpose of this Report

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


Krischke CPA, PC
February 2, 2018



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 Program

I have audited City of Brownwood, Texas compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Brownwood, Texas major federal programs for the year ended September 30, 2017. City of Brownwood, Texas major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In my opinion, City of Brownwood, Texas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

Report on Internal Control Over Compliance

Management of City of Brownwood, Texas, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered City of Brownwood, Texas internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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



Krischke CPA, PC
February 2, 2018

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2017

	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	2017-048745-001	217,352	
Registered Dietician	10.557	2017-048745-001	16,503	
Peer Counselor	10.557	2017-048745-001	45,783	
Client Experience	10.557	2017-049825-001	1,203	
Lactation Grant	10.557	2017-049825-001	10,435	
			<u>291,276</u>	<u>-</u>
Total U.S. Department of Agriculture			\$ 291,276	\$ -
U.S. Department of Transportation:				
Highway Planning and Construction Cluster:				
Passed through Texas Parks and Wildlife Department:				
Recreational Trails Program	20.219	RT 14004	\$ 67,138	\$ -
General Services Administration:				
Non-monetary pass through from Texas Facilities Commission:				
Donation of Federal Surplus Personal Property	39.003	26171	\$ 61,813	\$ -
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	100237	\$ 151,353	\$ -
Total Aging Cluster			\$ 151,353	\$ -
Passed through Texas Health and Human Services Commission:				
Social Services Block Grant	93.667	000169900	49,218	
Passed through Texas Department of State Health Services:				
Public Health Emergency Preparedness:				
Bioterrorism (PHEP)	93.069	2016-001107-02	100,846	
Ebola Grant	93.069	2015-003648-01	5,222	
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements:				
Immunization Cooperative Agreements-Immunization	93.268	2016-001063-00	132,248	
Preventive Health and Health Services Block Grant	93.991	2016-000017-00	9,797	
			<u>448,684</u>	<u>-</u>
Total U.S. Department of Health and Human Services			\$ 448,684	\$ -
Total Federal Assistance			<u>\$ 868,911</u>	<u>\$ -</u>

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2017

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of City of Brownwood, Texas under programs of the federal government for the year ended September 30, 2017. 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). 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.

CITY OF BROWNWOOD, TEXAS
Brownwood, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year ended September 30, 2017

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 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>
10.557	Special Supplemental Nutrition Program for Women, Infants and Children

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 Award Findings and Questioned Costs

None noted

Section IV - Prior Year Audit Findings

No prior year findings