

CITY OF BROWNWOOD  
Brownwood, Texas

ANNUAL FINANCIAL STATEMENTS

September 30, 2018

CITY OF BROWNWOOD, TEXAS

Brownwood, Texas

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Brownwood, Texas

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

## INDEPENDENT AUDITOR'S REPORT

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

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

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of City of Brownwood, Texas as of and for the year ended September 30, 2018, 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, 2018, 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 11, 2019, 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 11, 2019

**City of Brownwood**  
**Management's Discussion and Analysis**  
**For Year Ended September 30, 2018**  
**(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, 2018. 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 \$37,191,772 (net position). Of this amount, \$834,261 is restricted for debt service, construction and other uses. The amount invested in fixed assets is \$44,176,799 leaving a negative \$(7,819,288) in unrestricted net position.
- The government's total net position decreased by \$194,641. There were increases and decreases in several areas including a net increase in current assets versus liabilities of \$462,264 and a net reduction in pension liability net of deferred outflows and inflows of \$202,823.
- As of the close of the current fiscal year, the City's governmental activities reported combined ending net position of \$20,542,092, an increase of \$1,058,745 in comparison with the prior year. This improvement was primarily due to a reduction in long-term liabilities of \$1,009,532 and a net decrease in pension liability net of deferred outflows and inflows of \$50,504.
- At the end of the current fiscal year, unrestricted net position for the governmental activities was a negative \$(4,145,111) as compared to a negative \$(5,805,999) in the prior year, an improvement of \$1,660,888. Net position invested in capital assets for governmental activities increased by \$683,775 due to continuing investment in capital assets from bond proceeds and the budget. Net position invested in restricted assets for governmental activities decreased by \$1,285,918 due to net bond proceeds being spent down during the year.
- The City's total liabilities decreased by \$4,313,151 during the current fiscal year primarily due to current and long-term liabilities being paid down by \$2,079,237 during the year and net pension liability (excluding deferrals) went down by \$3,136,692.
- Total revenue increased by \$1,182,341 over the prior year. General revenues such as property taxes, sales tax and other taxes increased by \$732,461 while operating revenues such as water sales, sewer fees and sanitation fees increased by \$449,880.
- Expenditures decreased by 38,334. The decreases were in two major areas: Public Safety costs decreased by \$270,282 while General Government and Administration costs decreased by \$220,837, primarily due to reductions in pension liabilities. Operating costs for enterprise activities such as Water, Sewer, Sanitation, Landfill and Airport increased by \$514,808, primarily due to increasing costs for maintenance of aging equipment.
- The year ended with a net deficit for the current year of \$194,641 compared with a deficit of \$1,415,316 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 pension 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 units. Although legally separate from the City, component units such as the Brownwood Economic Development Corporation and Brownwood Municipal Development District are important to the City because the City exercises control by appointing 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 combining financial statements and prior year comparisons.

### Government-Wide Financial Analysis

The City’s combined net position decreased from \$37,386,413 last year to \$37,191,772 this year, a decrease of \$194,641. 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	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 7,998,602	\$ 8,128,007	\$ 4,778,071	\$ 5,196,369	\$ 12,776,673	\$ 13,324,376
Capital Assets	39,032,385	39,241,487	37,078,824	38,801,327	76,111,209	78,042,814
Deferred Outflows	1,351,324	2,880,757	277,077	776,128	1,628,401	3,656,885
Total Assets	<u>\$ 48,382,311</u>	<u>\$ 50,250,251</u>	<u>\$ 42,133,972</u>	<u>\$ 44,773,824</u>	<u>\$ 90,516,283</u>	<u>\$ 95,024,075</u>
Current liabilities	\$ 3,269,541	\$ 3,604,150	\$ 2,769,586	\$ 3,444,944	\$ 6,039,127	\$ 7,049,094
Long-term liabilities	14,340,578	15,350,110	20,921,360	20,981,098	35,261,938	36,331,208
Net Pension Liability	8,772,830	11,040,685	1,316,001	2,184,838	10,088,831	13,225,523
Deferred Inflows	1,457,270	771,959	477,345	259,878	1,934,615	1,031,837
Total Liabilities	<u>\$ 27,840,219</u>	<u>\$ 30,766,904</u>	<u>\$ 25,484,292</u>	<u>\$ 26,870,738</u>	<u>\$ 53,324,511</u>	<u>\$ 57,637,662</u>
Net Position:						
Invested in capital assets net of related debt	\$ 23,852,942	\$ 23,169,167	\$ 20,323,857	\$ 20,810,764	\$ 44,176,799	\$ 43,979,931
Restricted	834,261	2,120,179	-	-	834,261	2,120,179
Unrestricted	(4,145,111)	(5,805,999)	(3,674,177)	(2,907,698)	(7,819,288)	(8,713,697)
Total Net Position	<u>\$ 20,542,092</u>	<u>\$ 19,483,347</u>	<u>\$ 16,649,680</u>	<u>\$ 17,903,066</u>	<u>\$ 37,191,772</u>	<u>\$ 37,386,413</u>

### 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 \$37,191,772 as of September 30, 2018. However, the largest portion of the City’s net position (119%) 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 (2.2%) 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 \$(7,819,288). This was an increase of \$894,409 or 10.3% over the prior year.

**Governmental activities:** Governmental activities increased the City’s net position by \$1,058,745 after booking transfers.

**Business-type activities:** Business-type activities decreased the City’s net position by \$1,253,386 after booking transfers.

The following table provides a summary of the City’s operations for year ended September 30, 2018.

**City of Brownwood Changes in Net Position**

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues:						
Fees, fines, and charges for services	\$ 2,494,950	\$ 2,650,721	\$ 16,874,394	\$ 15,926,017	\$ 19,369,344	\$ 18,576,738
Operating grants and contributions	901,906	1,183,274	-	-	901,906	1,183,274
Capital grants and contributions	23,900	-	20,754	106,012	44,654	106,012
General Revenues:						
Ad valorem taxes	6,825,321	6,357,280	-	-	6,825,321	6,357,280
Sales tax	5,411,453	5,171,653	-	-	5,411,453	5,171,653
Other revenues	4,232,935	4,228,312	247,170	227,173	4,480,105	4,455,485
Total Revenues	<u>\$ 19,890,465</u>	<u>\$ 19,591,240</u>	<u>\$ 17,142,318</u>	<u>\$ 16,259,202</u>	<u>\$ 37,032,783</u>	<u>\$ 35,850,442</u>
Expenses:						
General government and administration	\$ 6,025,022	\$ 6,245,859	\$ -	\$ -	\$ 6,025,022	\$ 6,245,859
Public Safety	9,087,842	9,358,124	-	-	9,087,842	9,358,124
Streets	2,619,835	2,565,577	-	-	2,619,835	2,565,577
Parks & Community Facilities	2,489,803	2,522,753	-	-	2,489,803	2,522,753
Special Rev Activities	1,211,872	1,178,073	-	-	1,211,872	1,178,073
Water & Sewer	-	-	8,336,150	8,258,030	8,336,150	8,258,030
Sanitation & Landfill	-	-	5,028,032	4,804,835	5,028,032	4,804,835
Airport	-	-	1,379,837	1,166,346	1,379,837	1,166,346
Pecan Field Station	-	-	-	22,262	-	22,262
Interest on long-term debt	486,744	537,758	562,287	606,141	1,049,031	1,143,899
Total Expenses	<u>\$ 21,921,118</u>	<u>\$ 22,408,144</u>	<u>\$ 15,306,306</u>	<u>\$ 14,857,614</u>	<u>\$ 37,227,424</u>	<u>\$ 37,265,758</u>
Change in net position before transfers	\$ (2,030,653)	\$ (2,816,904)	\$ 1,836,012	\$ 1,401,588	\$ (194,641)	\$ (1,415,316)
Transfers	<u>3,089,398</u>	<u>2,255,315</u>	<u>(3,089,398)</u>	<u>(2,255,315)</u>	<u>-</u>	<u>-</u>
Change in net position	\$ 1,058,745	\$ (561,589)	\$ (1,253,386)	\$ (853,727)	\$ (194,641)	\$ (1,415,316)
Net position October 1	19,483,347	20,163,684	17,903,066	18,756,793	37,386,413	38,920,477
Prior Period Adjustment	<u>-</u>	<u>(118,748)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(118,748)</u>
Net position September 30	<u>\$ 20,542,092</u>	<u>\$ 19,483,347</u>	<u>\$ 16,649,680</u>	<u>\$ 17,903,066</u>	<u>\$ 37,191,772</u>	<u>\$ 37,386,413</u>

## Financial Analysis of the City of Brownwood Funds

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

**Governmental Funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$4,527,162 as compared to \$2,877,033 in the prior year, an improvement of \$1,650,129. Total fund balance was \$4,690,890 this year compared to \$3,038,924 in the prior year, an improvement of \$1,651,966. These improvements were primarily due to an increase in the cash and investments balances in the General Fund of \$1,271,562.

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 23.6% and 24.5% respectively compared to 14.9% and 15.7% in the prior year.

At September 30, 2018, the governmental funds of the City reported a combined fund balance of \$5,585,919 compared to the prior year which was \$5,359,369, an increase of \$226,550.

**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) and Airport Funds at the end of the fiscal year amounted to a negative \$(3,674,971). This represented a decrease of \$767,273.

**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 \$622,227 or 3.9% while expenditures came in over budget by \$294,316 or 1.6%. This represented a net positive variance of \$327,911.

## 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, 2018, totals \$76,111,209 (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, 2018, the City had total bonded debt outstanding of \$27,228,155. 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 2018 was 3.74% which is lower than the state average (3.86%) and national average (3.90%).
- Increasing property values. Taxable assessed values for 2018 increased by 2.2% from \$845,462,662 in 2017 to \$864,054,487 in 2018.
- Sales tax collections fluctuated from \$1.76M in the prior year to \$1.88M in the current year for the economic development ½ cent tax, primarily due to improvements in our local economy.
- Residential certificates of occupancy were at a twelve year high with 62 issued in 2018.
- Building valuation for new construction was at \$10,024,129.

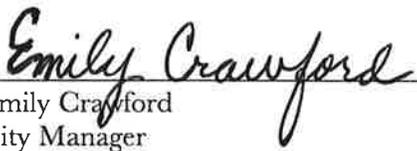
## Budget Highlights for the Fiscal Year Ending September 30, 2019

**Governmental Activities:** The property tax rate decreased from .7946 cents per hundred dollars valuation to .7869 cents, a reduction of .77%. Sales tax is projected to increase by 9.2% over the amount budgeted in the prior year. Budgeted expenditures in the General Fund are expected to increase by 4.6%. A 3% pay raise was granted to all city employees.

**Business – type Activities:** There were no increases in water, sewer or sanitation rates this year.

## 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](mailto:wmiddleton@brownwoodtexas.gov). Complete financial statements of the component unit can be obtained direct from Brownwood Economic Development Corporation as detailed in Note 1 to the Basic Financial Statements.

  
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, 2018

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	BEDC	BMDD
<b>ASSETS:</b>					
Pooled cash and cash equivalents	\$ (491,020)	\$ 7,697	\$ (483,323)	\$ 50,000	\$ 50,951
Pooled cash designated for special projects		57,725	57,725		
Non pooled cash and cash equivalents	37,387	3,550	40,937		
Investments	5,519,589	5,143	5,524,732		5,343,818
Investments designated for closure and postclosure		1,577,674	1,577,674		
Receivables, net	2,061,390	1,523,120	3,584,510		1,241,140
Inventory	26,277	763,924	790,201		
Prepaid expense	1,615	1,546	3,161		
Restricted assets	843,364	837,692	1,681,056		
Land held for development			-		1,051,185
Capital assets, net	39,032,385	37,078,824	76,111,209		
<b>Total Assets</b>	<b>\$ 47,030,987</b>	<b>\$ 41,856,895</b>	<b>\$ 88,887,882</b>	<b>\$ 50,000</b>	<b>\$ 7,687,094</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>					
Amounts related to pensions	\$ 1,351,324	\$ 277,077	\$ 1,628,401	\$ -	\$ -
<b>Total Deferred Outflows of Resources</b>	<b>\$ 1,351,324</b>	<b>\$ 277,077</b>	<b>\$ 1,628,401</b>	<b>\$ -</b>	<b>\$ -</b>
<b>LIABILITIES:</b>					
Accounts payable	\$ 664,525	\$ 318,182	\$ 982,707	\$ -	\$ 4,733
Accrued salaries	77,569	18,428	95,997		1,572
Liabilities payable from restricted assets:					
Tax note payable		794	794		
Bonds payable	28,003	13,575	41,578		
Noncurrent liabilities:					
Customer utility deposits		823,217	823,217		
Estimated liability for landfill closure and postclosure care costs		5,551,966	5,551,966		
Net pension liability	8,772,830	1,316,001	10,088,831		
Compensated absences:					
Portion due or payable within one year	1,052,173	139,270	1,191,443		3,817
Portion due or payable after one year	636,409	84,812	721,221		1,738
Capital leases payable:					
Portion due or payable within one year	514,494	869,486	1,383,980		
Portion due or payable after one year	1,387,907	1,739,472	3,127,379		
Tax note payable:					
Portion due or payable within one year	30,780	63,426	94,206		
Portion due or payable after one year	32,400	67,600	100,000		
Bonds payable:					
Portion due or payable within one year	901,997	1,346,425	2,248,422		
Portion due or payable after one year	12,283,862	12,654,293	24,938,155		
<b>Total Liabilities</b>	<b>\$ 26,382,949</b>	<b>\$ 25,006,947</b>	<b>\$ 51,389,896</b>	<b>\$ -</b>	<b>\$ 11,880</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>					
Amounts related to pensions	\$ 1,437,719	\$ 477,345	\$ 1,915,064	\$ -	\$ -
Amounts related to bond refunding	19,551		19,551		
<b>Total Deferred Inflows of Resources</b>	<b>\$ 1,457,270</b>	<b>\$ 477,345</b>	<b>\$ 1,934,615</b>	<b>\$ -</b>	<b>\$ -</b>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENT OF NET POSITION (CONT.)

September 30, 2018

	<u>Primary Government</u>			<u>Component Units</u>	
	<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	\$ 23,852,942	\$ 20,323,857	\$ 44,176,799	\$	\$
Restricted for:					
Municipal Court	36,329		36,329		
Tourism promotion	39,410		39,410		
Vehicular child safety	23,796		23,796		
Law enforcement	24,259		24,259		
Drug awareness education	3,494		3,494		
Lehnis Museum	7,901		7,901		
Beautification	647		647		
Debt service	28,003		28,003		
Fabis Park	48,808		48,808		
Construction	621,614		621,614		
Unrestricted	<u>(4,145,111)</u>	<u>(3,674,177)</u>	<u>(7,819,288)</u>	<u>50,000</u>	<u>7,675,214</u>
Total Net Position	<u>\$ 20,542,092</u>	<u>\$ 16,649,680</u>	<u>\$ 37,191,772</u>	<u>\$ 50,000</u>	<u>\$ 7,675,214</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

<u>Functions/programs</u>	<u>Program Revenue</u>			
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental Activities:</b>				
General government	\$ 4,281,875	\$ 1,242,380	\$ 8,822	\$ -
Municipal court	324,638			
Police	4,648,045	411,726	2,443	23,900
Fire	3,847,086	23,585	11,000	
Development services	791,251	107,055	2,347	
Street	2,619,835			
Health	268,073	160,706		
Community facilities	613,650	123,942		
Parks and recreation	1,876,153	90,707		
Public works/engineering	541,748			
Motel tax to CVB	410,148			
Interest on long-term debt	486,744			
Special revenue activities	1,211,872	334,849	877,294	
Total Governmental Activities	<u>\$ 21,921,118</u>	<u>\$ 2,494,950</u>	<u>\$ 901,906</u>	<u>\$ 23,900</u>
<b>Business-type Activities:</b>				
Water	\$ 5,236,767	\$ 6,155,624	\$ -	\$ -
Waste water collection	1,779,372	4,259,159		
Waste water treatment	1,320,011			
Sanitation	2,139,595	3,191,114		
Landfill	2,888,437	2,549,980		
Airport	1,379,837	718,517		20,754
Interest on long-term debt	562,287			
Total Business-type Activities	<u>\$ 15,306,306</u>	<u>\$ 16,874,394</u>	<u>\$ -</u>	<u>\$ 20,754</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 37,227,424</u>	<u>\$ 19,369,344</u>	<u>\$ 901,906</u>	<u>\$ 44,654</u>
<b>Component Units:</b>				
BEDC - Economic development	\$ -	\$ -	\$ -	\$ -
BMDD - Economic development	893,473			
<b>TOTAL COMPONENT UNITS</b>	<u>\$ 893,473</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to basic financial statement

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	BEDC	BMDD
\$ (3,030,673)		\$ (3,030,673)		
(324,638)		(324,638)		
(4,209,976)		(4,209,976)		
(3,812,501)		(3,812,501)		
(681,849)		(681,849)		
(2,619,835)		(2,619,835)		
(107,367)		(107,367)		
(489,708)		(489,708)		
(1,785,446)		(1,785,446)		
(541,748)		(541,748)		
(410,148)		(410,148)		
(486,744)		(486,744)		
271		271		
\$ (18,500,362)		\$ (18,500,362)		
	\$ 918,857	\$ 918,857		
	2,479,787	2,479,787		
	(1,320,011)	(1,320,011)		
	1,051,519	1,051,519		
	(338,457)	(338,457)		
	(640,566)	(640,566)		
	(562,287)	(562,287)		
	\$ 1,588,842	\$ 1,588,842		
\$ (18,500,362)	\$ 1,588,842	\$ (16,911,520)		

\$	\$	
		(893,473)
\$	-	\$ (893,473)

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENT OF ACTIVITIES (CONT.)

For the Year Ended September 30, 2018

	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)	\$ (18,500,362)	\$ 1,588,842	\$ (16,911,520)	\$ -	\$ (893,473)
General Revenues:					
Taxes:					
Ad valorem	\$ 6,825,321	\$ -	\$ 6,825,321	\$ -	\$ -
Sales	5,411,453	-	5,411,453	-	1,723,407
Other	3,924,067	-	3,924,067	-	-
Earnings on investments	77,815	58,593	136,408	-	107,760
Miscellaneous	193,737	126,969	320,706	-	51,500
Gain on disposal of capital assets	37,316	61,608	98,924	-	-
Transfers	3,089,398	(3,089,398)	-	-	-
Total Revenue	\$ 19,559,107	\$ (2,842,228)	\$ 16,716,879	\$ -	\$ 1,882,667
CHANGE IN NET POSITION	\$ 1,058,745	\$ (1,253,386)	\$ (194,641)	\$ -	\$ 989,194
NET POSITION - BEGINNING OF YEAR	19,483,347	17,903,066	37,386,413	50,000	6,686,020
NET POSITION - END OF YEAR	\$ 20,542,092	\$ 16,649,680	\$ 37,191,772	\$ 50,000	\$ 7,675,214

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

BALANCE SHEETS  
GOVERNMENTAL FUNDS

September 30, 2018

	<u>Major Fund</u>	<u>Nonmajor Fund</u>	Total
	General	Other	Governmental
	Fund	Governmental	Governmental
	Fund	Funds	Funds
<u>ASSETS</u>			
ASSETS:			
Pooled cash and cash equivalents	\$ (576,658)	\$ 85,638	\$ (491,020)
Non pooled cash and cash equivalents	37,362	25	37,387
Investments	5,519,589		5,519,589
Receivables, net	1,662,932	239,933	1,902,865
Inventory	26,277		26,277
Prepaid expense	1,615		1,615
Restricted assets	136,813	706,551	843,364
	<u>\$ 6,807,930</u>	<u>\$ 1,032,147</u>	<u>\$ 7,840,077</u>
<u>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</u>			
LIABILITIES:			
Accounts payable	\$ 631,268	\$ 33,257	\$ 664,525
Accrued salaries	73,158	4,411	77,569
Compensated absences	1,052,173		1,052,173
	<u>\$ 1,756,599</u>	<u>\$ 37,668</u>	<u>\$ 1,794,267</u>
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenue	\$ 360,441	\$ 99,450	\$ 459,891
FUND BALANCES:			
Nonspendable:			
Inventory	\$ 26,277	\$	\$ 26,277
Prepaid expense	1,615		1,615
Restricted for:			
Municipal Court	36,329		36,329
Tourism promotion	39,410		39,410
Vehicular child safety	23,796		23,796
Law enforcement	24,259		24,259
Drug awareness education	3,494		3,494
Lehnis Museum	7,901		7,901
Beautification	647		647
Debt service		28,003	28,003
Fabis Park		48,808	48,808
Construction		621,614	621,614
Committed to:			
Construction		137,617	137,617
Assigned to:			
Health and nutrition programs		46,099	46,099
Unassigned	4,527,162	12,888	4,540,050
	<u>\$ 4,690,890</u>	<u>\$ 895,029</u>	<u>\$ 5,585,919</u>
TOTAL FUND BALANCES	<u>\$ 4,690,890</u>	<u>\$ 895,029</u>	<u>\$ 5,585,919</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 6,807,930</u>	<u>\$ 1,032,147</u>	<u>\$ 7,840,077</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

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

September 30, 2018

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 5,585,919
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 \$58,618,236.	39,032,385
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.	459,891
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 \$188,005.	158,525
Deferred inflows from bond refunding are not reported in the governmental funds balance sheet	(19,551)
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds balance sheet	<u>(24,675,077)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 20,542,092</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

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

For the Year Ended September 30, 2018

	<u>Major Fund</u>		<u>Nonmajor Fund</u>		Total
	General		Other		
	Fund	Funds	Governmental	Governmental	
<b>REVENUES:</b>					
Ad valorem taxes	\$ 5,367,436		\$ 1,392,421		\$ 6,759,857
Sales taxes	5,411,453				5,411,453
Other taxes	3,924,067				3,924,067
Fines	238,375				238,375
Licenses and fees	132,347				132,347
Charges for services	386,082				386,082
Intergovernmental	1,416,297				1,416,297
Interest	61,071		16,744		77,815
Grants and contributions	46,069		879,737		925,806
Miscellaneous	164,661		363,925		528,586
Total Revenue	<u>\$ 17,147,858</u>		<u>\$ 2,652,827</u>		<u>\$ 19,800,685</u>
<b>EXPENDITURES:</b>					
Current:					
City Council	\$ 57,669				\$ 57,669
Administration	255,828				255,828
City Secretary	103,572				103,572
Finance/accounting	354,436				354,436
Municipal Court	312,614				312,614
Police	4,754,023		2,180		4,756,203
Fire	3,427,889		2,178		3,430,067
Development services	803,893		71		803,964
Street	2,086,417		4,534		2,090,951
Health	270,748				270,748
Community services	620,246				620,246
Intergovernmental	240,796				240,796
Utility billing	295,039				295,039
Community facilities	430,898				430,898
Operations support	142,605				142,605
Purchasing/warehouse	172,987				172,987
Parks and recreation	1,521,927		500		1,522,427
Fleet services	546,499		70		546,569
City Attorney	192,501				192,501
Community development	95,263				95,263
Public works/engineering	560,148				560,148
Emergency management	10,280				10,280
Human resources	260,505				260,505
Fire Marshal	139,511				139,511
General fund contingency	157,439				157,439
Information technology	742,709				742,709
Transportation museum	167,139				167,139
Motel tax to CVB	410,148				410,148
Other	21,170				21,170
Special revenue funds			1,222,238		1,222,238
Capital outlay			1,325,760		1,325,760
Debt Service:					
Principal			979,160		979,160
Interest			495,341		495,341
Total Expenditures	<u>\$ 19,154,899</u>		<u>\$ 4,032,032</u>		<u>\$ 23,186,931</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ (2,007,041)</u>		<u>\$ (1,379,205)</u>		<u>\$ (3,386,246)</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, 2018

	<u>Major Fund</u>	<u>Nonmajor Fund</u>	<u>Total</u>
	<u>General</u>	<u>Other</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (2,007,041)	\$ (1,379,205)	\$ (3,386,246)
OTHER FINANCING SOURCES (USES):			
Transfers in	\$ 3,111,714	\$ 48,286	\$ 3,160,000
Transfers out		(94,497)	(94,497)
Capital lease proceeds	507,832		507,832
Proceeds from sale of capital assets	39,461		39,461
Net Other Financing Sources (Uses)	\$ 3,659,007	\$ (46,211)	\$ 3,612,796
NET CHANGE IN FUND BALANCES	\$ 1,651,966	\$ (1,425,416)	\$ 226,550
FUND BALANCE - BEGINNING OF YEAR	3,038,924	2,320,445	5,359,369
FUND BALANCE - END OF YEAR	\$ 4,690,890	\$ 895,029	\$ 5,585,919

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, 2018

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	226,550
The change in net position reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlays as expenditures while governmental activities report cost of these assets allocated over their estimated lives as depreciation and amortization expense.		
Capital assets purchased		2,479,888
Depreciation and amortization		(2,688,991)
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		(507,832)
Principal payments on long-term debt		1,394,718
Additional accrual of compensated absences		42,847
Current amortization of bond premiums and deferred amount on refunding		8,597
Change in net pension liability and related deferred outflows and inflows		50,504
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.		
		65,464
Revenues on warrants and citations will not be collected for several months after the City's fiscal year end and are not considered available revenue and are not included in the governmental fund. Revenues accrued from warrants and citations decreased by this amount this year.		
		<u>(13,000)</u>
CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>1,058,745</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENTS OF NET POSITION  
PROPRIETARY FUNDS

September 30, 2018

	<u>Business-Type Activities - Enterprise Fund</u>			
	<u>Major Funds</u>			Total
	<u>Utility Fund</u>	<u>Sanitation Fund</u>	<u>Airport Fund</u>	
<b>CURRENT ASSETS:</b>				
Pooled cash and cash equivalents	\$ 2,576	\$ 3,517	\$ 1,604	\$ 7,697
Pooled cash designated for special projects	57,725			57,725
Non pooled cash and cash equivalents	2,500	650	400	3,550
Investments	2,517	2,626		5,143
Investments designated for closure and postclosure		1,577,674		1,577,674
Accounts receivable, net	1,038,121	451,844	33,155	1,523,120
Inventory	707,899		56,025	763,924
Prepaid expenses	1,546			1,546
<b>Total Current Assets</b>	<b>\$ 1,812,884</b>	<b>\$ 2,036,311</b>	<b>\$ 91,184</b>	<b>\$ 3,940,379</b>
<b>NONCURRENT ASSETS:</b>				
Restricted assets	\$ 836,605	\$ 293	\$ 794	\$ 837,692
Capital assets, net	25,936,070	7,709,066	3,433,688	37,078,824
<b>Total Noncurrent Assets</b>	<b>\$ 26,772,675</b>	<b>\$ 7,709,359</b>	<b>\$ 3,434,482</b>	<b>\$ 37,916,516</b>
<b>TOTAL ASSETS</b>	<b>\$ 28,585,559</b>	<b>\$ 9,745,670</b>	<b>\$ 3,525,666</b>	<b>\$ 41,856,895</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Amounts related to pensions	\$ 136,267	\$ 117,863	\$ 22,947	\$ 277,077
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 136,267</b>	<b>\$ 117,863</b>	<b>\$ 22,947</b>	<b>\$ 277,077</b>
<b>CURRENT LIABILITIES:</b>				
Accounts payable	\$ 233,988	\$ 56,226	\$ 27,968	\$ 318,182
Accrued salaries	7,867	8,728	1,833	18,428
Capital leases payable	126,566	729,490	13,430	869,486
Tax note payable			63,426	63,426
Bonds payable	1,116,613	229,812		1,346,425
Compensated absences	50,720	63,799	24,751	139,270
<b>Total Current Liabilities</b>	<b>\$ 1,535,754</b>	<b>\$ 1,088,055</b>	<b>\$ 131,408</b>	<b>\$ 2,755,217</b>
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS:</b>				
Tax note payable	\$	\$	\$ 794	\$ 794
Bonds payable	13,387	188		13,575
<b>Total Liabilities Payable from Restricted Assets</b>	<b>\$ 13,387</b>	<b>\$ 188</b>	<b>\$ 794</b>	<b>\$ 14,369</b>
<b>NONCURRENT LIABILITIES:</b>				
Compensated absences	\$ 29,728	\$ 39,670	\$ 15,414	\$ 84,812
Net pension liability	647,210	559,802	108,989	1,316,001
Customer water meter deposits	823,217			823,217
Capital leases payable	341,406	1,394,640	3,426	1,739,472
Tax note payable			67,600	67,600
Bonds payable	10,699,293	1,955,000		12,654,293
Accrued landfill closure and postclosure care costs		5,551,966		5,551,966
<b>Total Noncurrent Liabilities</b>	<b>\$ 12,540,854</b>	<b>\$ 9,501,078</b>	<b>\$ 195,429</b>	<b>\$ 22,237,361</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 14,089,995</b>	<b>\$ 10,589,321</b>	<b>\$ 327,631</b>	<b>\$ 25,006,947</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Amounts related to pensions	\$ 234,759	\$ 203,054	\$ 39,532	\$ 477,345
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 234,759</b>	<b>\$ 203,054</b>	<b>\$ 39,532</b>	<b>\$ 477,345</b>
<b>NET POSITION:</b>				
Invested in capital assets, net of related debt	<b>\$ 13,638,805</b>	\$ 3,400,040	\$ 3,285,806	\$ 20,324,651
Unrestricted	758,267	(4,328,882)	(104,356)	(3,674,971)
<b>TOTAL NET POSITION</b>	<b>\$ 14,397,072</b>	<b>\$ (928,842)</b>	<b>\$ 3,181,450</b>	<b>\$ 16,649,680</b>

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, 2018

	Business-Type Activities - Enterprise Fund			
	Major Funds			Total
	Utility Fund	Sanitation Fund	Airport Fund	
<b>OPERATING REVENUES:</b>				
Charges for service	\$ 10,414,783	\$ 5,741,094	\$ 718,517	\$ 16,874,394
Miscellaneous	67,881	59,086	2	126,969
Total Operating Revenues	<u>\$ 10,482,664</u>	<u>\$ 5,800,180</u>	<u>\$ 718,519</u>	<u>\$ 17,001,363</u>
<b>OPERATING EXPENSES:</b>				
Personnel services	\$ 1,625,011	\$ 1,592,634	\$ 324,820	\$ 3,542,465
Supplies	261,356	381,406	481,726	1,124,488
Contractual	2,940,800	878,396	69,360	3,888,556
Maintenance	628,280	374,042	68,804	1,071,126
Sundry charges	704,572	343,200		1,047,772
Support services	698,400	430,800		1,129,200
Depreciation and amortization	1,477,732	1,027,553	435,127	2,940,412
Total Operating Expenses	<u>\$ 8,336,151</u>	<u>\$ 5,028,031</u>	<u>\$ 1,379,837</u>	<u>\$ 14,744,019</u>
<b>OPERATING GAIN (LOSS)</b>	<u>\$ 2,146,513</u>	<u>\$ 772,149</u>	<u>\$ (661,318)</u>	<u>\$ 2,257,344</u>
<b>NON-OPERATING REVENUE AND EXPENSE:</b>				
Sale of equipment	\$ 48,957	\$ 12,188	\$ 463	\$ 61,608
Grants and contributions			20,754	20,754
Interest income	17,118	40,999	476	58,593
Interest expense	(422,922)	(129,786)	(9,579)	(562,287)
Net Non-Operating Revenue (Expense)	<u>\$ (356,847)</u>	<u>\$ (76,599)</u>	<u>\$ 12,114</u>	<u>\$ (421,332)</u>
<b>GAIN (LOSS) BEFORE TRANSFERS</b>	<u>\$ 1,789,666</u>	<u>\$ 695,550</u>	<u>\$ (649,204)</u>	<u>\$ 1,836,012</u>
<b>TRANSFERS:</b>				
Operating transfers in	\$ 922	\$ 16,655	\$ 250,033	\$ 267,610
Operating transfers out	(1,840,000)	(1,517,008)		(3,357,008)
Net Operating Transfers	<u>\$ (1,839,078)</u>	<u>\$ (1,500,353)</u>	<u>\$ 250,033</u>	<u>\$ (3,089,398)</u>
<b>CHANGES IN NET POSITION</b>	<u>\$ (49,412)</u>	<u>\$ (804,803)</u>	<u>\$ (399,171)</u>	<u>\$ (1,253,386)</u>
<b>NET POSITION - BEGINNING</b>	<u>14,446,484</u>	<u>(124,039)</u>	<u>3,580,621</u>	<u>17,903,066</u>
<b>NET POSITION - ENDING</b>	<u>\$ 14,397,072</u>	<u>\$ (928,842)</u>	<u>\$ 3,181,450</u>	<u>\$ 16,649,680</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, 2018

	<u>Business-Type Activities - Enterprise Fund</u>			
	<u>Major Funds</u>			<u>Total</u>
	<u>Utility Fund</u>	<u>Sanitation Fund</u>	<u>Airport Fund</u>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 10,501,471	\$ 5,840,606	\$ 741,498	\$ 17,083,575
Cash payments to suppliers for goods and services	(5,317,729)	(1,851,573)	(583,699)	(7,753,001)
Cash payments to employees for services	(1,740,662)	(1,632,267)	(320,386)	(3,693,315)
Net Cash Provided (Used) by Operating Activities	<u>\$ 3,443,080</u>	<u>\$ 2,356,766</u>	<u>\$ (162,587)</u>	<u>\$ 5,637,259</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Increase in customer meter deposits	\$ 8,301			\$ 8,301
Operating transfers in	922	16,655	250,033	267,610
Operating transfers out	(1,840,000)	(1,517,008)		(3,357,008)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>\$ (1,830,777)</u>	<u>\$ (1,500,353)</u>	<u>\$ 250,033</u>	<u>\$ (3,081,097)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Principal payments on bonds	\$ (1,095,000)	\$ (225,000)		\$ (1,320,000)
Principal payments on tax note			(60,840)	(60,840)
Proceeds from notes and capital leases	309,729	498,988		808,717
Principal payments on notes and capital leases	(85,109)	(554,009)	(12,638)	(651,756)
Proceeds from sale of capital assets	48,957	12,188	463	61,608
Acquisition and construction of capital assets	(585,948)	(604,355)	(27,606)	(1,217,909)
Grant income			20,754	20,754
Interest expense	(434,639)	(129,786)	(9,579)	(574,004)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (1,842,010)</u>	<u>\$ (1,001,974)</u>	<u>\$ (89,446)</u>	<u>\$ (2,933,430)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of investments	\$ (2,768,018)	\$ (2,159,998)	\$ (54,379)	\$ (4,982,395)
Sale of investments	2,976,900	2,215,900	53,600	5,246,400
Interest income	17,118	40,999	476	58,593
Net Cash Provided (Used) by Investing Activities	<u>\$ 226,000</u>	<u>\$ 96,901</u>	<u>\$ (303)</u>	<u>\$ 322,598</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>\$ (3,707)</u>	<u>\$ (48,660)</u>	<u>\$ (2,303)</u>	<u>\$ (54,670)</u>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>889,853</u>	<u>52,869</u>	<u>4,322</u>	<u>947,044</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 886,146</u>	<u>\$ 4,209</u>	<u>\$ 2,019</u>	<u>\$ 892,374</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, 2018

	Business-Type Activities - Enterprise Fund			
	Major Funds			Total
	Utility Fund	Sanitation Fund	Airport Fund	
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>				
OPERATING GAIN (LOSS)	\$ 2,146,513	\$ 772,149	\$ (661,318)	\$ 2,257,344
<u>ADJUSTMENTS TO RECONCILE OPERATING GAIN (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>				
Depreciation and amortization	1,477,732	1,027,553	435,127	2,940,412
Closure and postclosure care costs		594,207		594,207
Changes in assets and liabilities:				
Receivables	18,807	40,426	22,979	82,212
Inventories	(1,306)		20,263	18,957
Prepaid expense	(1,546)			(1,546)
Accounts payable	(81,469)	(37,936)	15,928	(103,477)
Accrued salaries	(1,994)	(13)	119	(1,888)
Compensated absences	(16,789)	6,461	13,685	3,357
Pension assets and liabilities	(96,868)	(46,081)	(9,370)	(152,319)
<u>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>	<u>\$ 3,443,080</u>	<u>\$ 2,356,766</u>	<u>\$ (162,587)</u>	<u>\$ 5,637,259</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

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, 2018

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.

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2018

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

Basis of Presentation (Cont.)

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

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

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, 2018

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2018

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

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

Compensated Absences

The City Council has adopted a policy whereby employees are paid lump sum payments for vacation, sick leave and holiday leave if they leave City employment. Upon termination, up to twenty-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 for police and up to forty-five days of accumulated vacation for firefighters, 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)

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2018

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

Deferred Inflows/Outflows of Resources (Cont.)

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.

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, 2018

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, 2018, \$2,299,091, 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, 2018, TexPool's portfolio maintained a weighted average maturity of approximately 28 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, 2018, TexStar's portfolio maintained a weighted average maturity of approximately 43 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, 2018, 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, 2018

NOTE 3: DEPOSITS AND INVESTMENTS (CONT.)

Cash for Cash Flows Statement

Proprietary funds cash and cash equivalents at September 30, 2018 are as follows:

	Utility Fund	Sanitation Fund	Airport Fund
Pooled cash and cash equivalents	\$ 2,576	\$ 3,517	\$ 1,604
Pooled cash designated for special projects	57,725		
Non pooled cash and cash equivalents	2,500	650	400
Restricted cash	823,345	42	15
<b>Total</b>	<b>\$ 886,146</b>	<b>\$ 4,209</b>	<b>\$ 2,019</b>

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, 2018:

	Governmental Activities	Business-type Activities
Restricted for debt service payments	\$ 28,003	\$ 14,369
Restricted for drug awareness education	3,494	
Restricted for law enforcement	24,259	
Restricted for vehicular child safety	23,796	
Restricted for beautification	1,063	
Restricted for municipal court	36,470	
Restricted for tourism promotion	39,410	
Restricted for Lehnis Museum	8,321	
Restricted for Fabis Park	48,840	
Restricted for construction or purchase of fixed assets	629,708	106
Restricted for customer deposits		823,217
<b>Total Restricted Assets</b>	<b>\$ 843,364</b>	<b>\$ 837,692</b>

Restricted assets included \$964,672 in cash and \$716,384 in investments.

NOTE 5: RECEIVABLES

A summary of the net receivables at September 30, 2018 is as follows:

	Governmental Activities	Business-type Activities	Component Unit - BMDD
Ad valorem taxes	\$ 484,096		\$ -
Sales taxes	904,843		285,723
Utility		2,907,933	
Warrants and citations	346,530		
Airport		29,994	
Grants receivable	130,292	12,657	
PILOT payments	72,230		
Other receivables	456,039	24,795	
Notes receivable			955,417
	<b>\$ 2,394,030</b>	<b>\$ 2,975,379</b>	<b>\$ 1,241,140</b>
Less allowance for uncollectable accounts	(332,640)	(1,452,259)	
<b>Receivables, net</b>	<b>\$ 2,061,390</b>	<b>\$ 1,523,120</b>	<b>\$ 1,241,140</b>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2018

NOTE 6: CAPITAL ASSETS

Capital asset activity in the City for the year ended September 30, 2018 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	971,487	814,188	(1,312,255)	473,420
Total capital assets not being depreciated	<u>\$ 3,808,672</u>	<u>\$ 814,188</u>	<u>\$ (1,312,255)</u>	<u>\$ 3,310,605</u>
Capital assets being depreciated and amortized:				
Building and grounds	\$ 15,857,179	\$ 3,681	\$	\$ 15,860,860
Improvements	60,811,943	2,151,585		62,963,528
Machinery/equipment	13,574,270	834,834	(247,760)	14,161,344
Intangible assets	1,364,284		(10,000)	1,354,284
Total capital assets being depreciated and amortized	<u>\$ 91,607,676</u>	<u>\$ 2,990,100</u>	<u>\$ (257,760)</u>	<u>\$ 94,340,016</u>
Less accumulated depreciation and amortization:				
Buildings	\$ (5,801,116)	\$ (388,440)	\$	\$ (6,189,556)
Improvements	(38,365,463)	(1,536,529)		(39,901,992)
Machinery/equipment	(11,303,848)	(721,312)	245,615	(11,779,545)
Intangible assets	(704,433)	(42,710)		(747,143)
Total accumulated depreciation and amortization	<u>\$ (36,174,860)</u>	<u>\$ (2,688,991)</u>	<u>\$ 245,615</u>	<u>\$ (58,618,236)</u>
Total Capital Assets Being Depreciated and Amortized, Net	<u>\$ 35,432,816</u>	<u>\$ 301,109</u>	<u>\$ (12,145)</u>	<u>\$ 35,721,780</u>
Governmental Activities Capital Assets, Net	<u>\$ 39,241,488</u>	<u>\$ 1,115,297</u>	<u>\$ (1,324,400)</u>	<u>\$ 39,032,385</u>
Business-type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 383,351	\$	\$	\$ 383,351
Construction in progress		7,000		7,000
Total capital assets not being depreciated	<u>\$ 383,351</u>	<u>\$ 7,000</u>	<u>\$ -</u>	<u>\$ 390,351</u>
Capital assets being depreciated and amortized:				
Building and grounds	\$ 3,457,697	\$	\$	\$ 3,457,697
Improvements	84,823,456	41,634	(80,000)	84,785,090
Landfill cell development	12,836,858			12,836,858
Machinery/equipment	15,588,874	1,169,275	(252,437)	16,505,712
Intangible assets	493,054			493,054
Total capital assets being depreciated and amortized	<u>\$ 117,199,939</u>	<u>\$ 1,210,909</u>	<u>\$ (332,437)</u>	<u>\$ 118,078,411</u>
Less accumulated depreciation and amortization:				
Buildings	\$ (2,743,260)	\$ (114,598)	\$	\$ (2,857,858)
Improvements	(55,756,260)	(1,510,517)	80,000	(57,186,777)
Landfill cell development	(7,003,651)	(196,782)		(7,200,433)
Machinery/equipment	(13,108,377)	(1,061,710)	252,437	(13,917,650)
Intangible assets	(170,415)	(56,805)		(227,220)
Total accumulated depreciation and amortization	<u>\$ (78,781,963)</u>	<u>\$ (2,940,412)</u>	<u>\$ 332,437</u>	<u>\$ (81,389,938)</u>
Total Capital Assets Being Depreciated and Amortized, Net	<u>\$ 38,417,976</u>	<u>\$ (1,729,503)</u>	<u>\$ -</u>	<u>\$ 36,688,473</u>
Business-type Activities Capital Assets, Net	<u>\$ 38,801,327</u>	<u>\$ (1,722,503)</u>	<u>\$ -</u>	<u>\$ 37,078,824</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2018

NOTE 6: CAPITAL ASSETS (CONT.)

Assets under capital leases totaled \$5,787,176 in governmental funds and \$9,242,277 in the business type funds. Accumulated amortization on those assets at September 30, 2018 amounted to \$3,858,050 and \$7,187,188, respectively. This equipment is being amortized over 3 to 20 years. The amount of the amortization for the year ended September 30, 2018 was \$419,240 and \$892,833 in the governmental and business-type activities respectively.

Depreciation and amortization expense was charged to the following functions:

Governmental Activities:	
General government	\$ 274,941
Police	121,081
Fire	314,230
Development services	13,031
Street	1,296,673
Health	2,664
Community facilities	179,470
Parks and recreation	437,974
Public works	48,927
	<u>\$ 2,688,991</u>
Business-type Activities:	
Water	\$ 892,772
Waste water	378,568
Waste water treatment	206,392
Sanitation	277,165
Landfill	750,388
Airport	435,127
	<u>\$ 2,940,412</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2018

NOTE 7: LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended September 30, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds, Notes and Leases Payable:					
Certificates of obligation	\$ 12,385,000	\$	\$ (690,000)	\$ 11,695,000	\$ 665,000
General obligation bonds	1,695,000		(260,000)	1,435,000	265,000
Tax note payable	92,340		(29,160)	63,180	30,780
Capital leases payable	1,810,128	507,832	(415,559)	1,902,401	514,494
	<u>\$ 15,982,468</u>	<u>\$ 507,832</u>	<u>\$ (1,394,719)</u>	<u>\$ 15,095,581</u>	<u>\$ 1,475,274</u>
Bond premiums	89,852		(5,990)	83,862	
Total Bonds, Notes and Leases Payable	<u>\$ 16,072,320</u>	<u>\$ 507,832</u>	<u>\$ (1,400,709)</u>	<u>\$ 15,179,443</u>	<u>\$ 1,475,274</u>
Compensated absences	<u>1,657,134</u>	943,606	(912,158)	1,688,582	1,052,173
Total Governmental Activities	<u>\$ 17,729,454</u>	<u>\$ 1,451,438</u>	<u>\$ (2,312,867)</u>	<u>\$ 16,868,025</u>	<u>\$ 2,527,447</u>
Business-type Activities:					
Bonds, Notes and Leases Payable:					
Certificates of obligation	\$ 13,230,000	\$	\$ (830,000)	\$ 12,400,000	\$ 855,000
General obligation bonds	2,075,000		(490,000)	1,585,000	505,000
Tax note payable	192,660		(60,840)	131,820	64,220
Capital leases payable	2,451,997	808,717	(651,756)	2,608,958	869,486
	<u>\$ 17,949,657</u>	<u>\$ 808,717</u>	<u>\$ (2,032,596)</u>	<u>\$ 16,725,778</u>	<u>\$ 2,293,706</u>
Bond premiums	41,010		(11,717)	29,293	
Total Bonds, Notes and Leases Payable	<u>\$ 17,990,667</u>	<u>\$ 808,717</u>	<u>\$ (2,044,313)</u>	<u>\$ 16,755,071</u>	<u>\$ 2,293,706</u>
Compensated absences	<u>220,725</u>	169,053	(165,696)	224,082	139,270
Total Business-type Activities	<u>\$ 18,211,392</u>	<u>\$ 977,770</u>	<u>\$ (2,210,009)</u>	<u>\$ 16,979,153</u>	<u>\$ 2,432,976</u>
Total Primary Government	<u>\$ 35,940,846</u>	<u>\$ 2,429,208</u>	<u>\$ (4,522,876)</u>	<u>\$ 33,847,178</u>	<u>\$ 4,960,423</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, 2018

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 9/30/2018
Combination tax and revenue certificates of obligation:					
Series 2012	6/19/2012	\$ 10,750,000	2.0 to 4.125%	3/15/2032	\$ 8,665,000
Series 2016	7/1/2016	3,050,000	3.2 to 4.5%	3/15/2031	3,030,000
General obligation refunding bonds,					
Series 2015	10/15/2015	2,250,000	0.45 to 2.2%	3/15/2026	1,435,000
					<u>\$ 13,130,000</u>

The following represents the future maturities on these bonds:

Year Ending September 30,	Principal	Interest	Total
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	890,000	342,976	1,232,976
2024-2028	4,700,000	1,218,886	5,918,886
2029-2032	3,805,000	303,707	4,108,707
Total	<u>\$ 13,130,000</u>	<u>\$ 3,532,869</u>	<u>\$ 16,662,869</u>

A summary of the tax note follows:

	Date of Issue	Original Amount	Interest Rate	Maturity Date	Amount Outstanding 9/30/2018
Tax Note, Taxable Series 2013					
Governmental portion	9/1/2013	\$ 194,400	4.4 to 4.7%	9/15/2020	\$ 63,180
Business-type portion	9/1/2013	405,600	4.4 to 4.7%	9/15/2020	131,820
		<u>\$ 600,000</u>			<u>\$ 195,000</u>

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

Year Ending September 30,	Principal	Interest	Total
2019	\$ 30,780	\$ 2,939	\$ 33,719
2020	32,400	1,522	33,922
Total	<u>\$ 63,180</u>	<u>\$ 4,461</u>	<u>\$ 67,641</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2018

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>
2018	\$ 514,494	\$ 55,588	\$ 570,082
2019	484,457	39,212	523,669
2020	447,056	23,575	470,631
2021	259,761	11,097	270,858
2022	150,395	4,081	154,476
Thereafter	46,238	556	46,794
Total	<u>\$ 1,902,401</u>	<u>\$ 134,109</u>	<u>\$ 2,036,510</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 9/30/2018</u>
Combination tax and revenue certificates of obligation:					
Series 2004	3/15/2004	\$ 6,335,000	.3 to 3.35%	3/15/2022	\$ 2,705,000
Series 2012A	12/1/2012	3,440,000	1.96 to 4.64%	3/15/2044	3,175,000
Series 2013	10/8/2013	3,870,000	3.18%	3/15/2029	2,185,000
Series 2015	10/15/2015	4,815,000	2.95%	9/30/2035	4,335,000
General obligation refunding bonds,					
Series 2010	3/15/2010	5,050,000	2.0 to 4.0%	3/15/2021	1,585,000
					<u>\$ 13,985,000</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>
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	985,000	292,183	1,277,183
2024-2028	3,445,000	1,149,262	4,594,262
2029-2033	1,935,000	773,818	2,708,818
2034-2038	1,345,000	361,194	1,706,194
2039-2043	875,000	151,495	1,026,495
2044	200,000	4,640	204,640
Total	<u>\$ 13,985,000</u>	<u>\$ 4,291,316</u>	<u>\$ 18,276,316</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2018

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>
2019	\$ 64,220	\$ 6,132	\$ 70,352
2020	67,600	3,177	70,777
Total	<u>\$ 131,820</u>	<u>\$ 9,309</u>	<u>\$ 141,129</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>
2019	\$ 869,486	\$ 73,974	\$ 943,460
2020	773,158	48,761	821,919
2021	673,419	23,396	696,815
2022	211,410	6,800	218,210
2023	81,485	923	82,408
Total	<u>\$ 2,608,958</u>	<u>\$ 153,854</u>	<u>\$ 2,762,812</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, 2018. The minimum future lease payments under the remaining lease at September 30, 2018 are as follows:

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

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 \$5,551,966 as of September 30, 2018 which is based on 27.53% usage (filled) of the overall landfill. It is estimated that an additional \$11,654,767 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, \$17,206,731, 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, 2018. 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 \$10,059,157 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, 2018

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 883 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](http://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, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	
Plan 10190 City	128
Plan 30190 Health Department	11
Inactive employees entitled to but not yet receiving benefits	
Plan 10190 City	84
Plan 30190 Health Department	3
Active employees	
Plan 10190 City	230
Plan 30190 Health Department	12

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2018

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	
	2017	2018
Plan 10190 City	13.78%	13.51%
Plan 30190 Health Department	10.36%	10.67%

The city's contributions to TMRS for the year ended September 30, 2018, for Plan 10190 City and Plan 30190 Health Department were \$1,307,905 and \$46,374, 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, 2017, 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, 2017 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.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. 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  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2018

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 2018 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%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
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, 2018

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)
<b>Plan 10190 City</b>			
Balance 12/31/2016	\$ 48,148,004	\$ 40,149,698	\$ 7,998,306
Changes for the year:			
Service cost	\$ 1,508,507	\$	\$ 1,508,507
Interest	3,224,688		3,224,688
Difference between expected and actual experience	(232,661)		(232,661)
Contributions-employer		1,333,369	(1,333,369)
Contributions-employee		677,329	(677,329)
Net investment income		5,564,415	(5,564,415)
Benefit payments, including refunds of employee contributions	(2,258,196)	(2,258,196)	
Administrative expense		(28,838)	28,838
Other changes		(1,462)	1,462
Net changes	\$ 2,242,338	\$ 5,286,617	\$ (3,044,279)
Balance 12/31/2017	\$ 50,390,342	\$ 45,436,315	\$ 4,954,027
<b>Plan 30190 Health Department</b>			
Balance 12/31/2016	\$ 1,346,902	\$ 1,176,014	\$ 170,888
Changes for the year:			
Service cost	\$ 68,378	\$	\$ 68,378
Interest	90,878		90,878
Difference between expected and actual experience	(48,929)		(48,929)
Contributions-employer		46,376	(46,376)
Contributions-employee		31,325	(31,325)
Net investment income		162,122	(162,122)
Benefit payments, including refunds of employee contributions	(69,495)	(69,495)	
Administrative expense		(845)	845
Other changes		(43)	43
Net changes	\$ 40,832	\$ 169,440	\$ (128,608)
Balance 12/31/2017	\$ 1,387,734	\$ 1,345,454	\$ 42,280

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2018

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	\$12,123,004	\$4,954,027	\$(897,098)
Plan 30190 Health Department	\$218,021	\$42,280	\$(102,221)

*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](http://www.tmrs.com).

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

For the year ended September 30, 2018, the City recognized pension expense of \$949,621. At September 30, 2018, 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	\$	\$ 639,249
Changes in actuarial assumptions	42,126	
Difference between projected and actual investment earnings		1,157,698
Contributions subsequent to the measurement date	<u>1,000,923</u>	
Total	<u>\$ 1,043,049</u>	<u>\$ 1,796,947</u>
Plan 30190 Health Department		
Differences between expected and actual economic experience	\$	\$ 59,846
Changes in actuarial assumptions	8,039	
Difference between projected and actual investment earnings		32,072
Contributions subsequent to the measurement date	<u>35,362</u>	
Total	<u>\$ 43,401</u>	<u>\$ 91,918</u>

\$1,036,285 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, 2019. 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 2018	\$ (337,144)	\$ (8,806)
2019	(193,379)	(20,224)
2020	(643,950)	(31,827)
2021	<u>(580,348)</u>	<u>(23,022)</u>
Total	<u>\$ (1,754,821)</u>	<u>\$ (83,879)</u>

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

September 30, 2018

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, 2017 actuarial valuation, the following numbers of members were covered by the Fund:

Retirees and beneficiaries currently receiving benefits	26
Inactive employees entitled to but not yet receiving benefits	0
Active employees	33

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, 2017 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  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2018

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, 2017, the money-weighted rate of return on pension plan investments was 15.29%. 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, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017.

Total pension liability	\$ 9,250,614
Plan fiduciary net position	4,158,090
City's net pension liability	<u>\$ 5,092,524</u>

Plan fiduciary net position as a percentage of the total pension liability 44.9%

*Actuarial assumptions.* The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	3.25%, plus promotion, step and longevity increases that vary by service
Investment rate of return	7.25%, 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  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2018

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 3.98%) and by adding expected inflation (3.25%). In addition, the final 7.25% assumption was selected by rounding up. 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		3.98%

*Discount Rate.* The discount rate used to measure the total pension liability was 7.25%. No projection of cash flows was used to determine the discount rate because the December 31, 2017 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 38 years. Because of the 38-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 7.25% 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 7.25%, 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 (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease in Discount Rate (6.25%)	Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
City's Net Pension Liability	\$6,262,022	\$5,092,524	\$4,114,573

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

September 30, 2018

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, 2017	\$ 8,673,904	\$ 3,617,576	\$ 5,056,328
Changes for the year:			
Service cost	\$ 237,308	\$	\$ 237,308
Interest	640,267		640,267
Difference between expected and actual experience	70,132		70,132
Contributions-employer		369,559	(369,559)
Contributions-employee		147,813	(147,813)
Net investment income		552,099	(552,099)
Benefit payments	(517,907)	(517,907)	-
Administrative expense		(11,050)	11,050
Assumption changes	146,910		146,910
Other changes			-
Net changes	\$ 576,710	\$ 540,514	\$ 36,196
Amounts as of September 30, 2018	\$ 9,250,614	\$ 4,158,090	\$ 5,092,524

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

Measurements for the fiscal year ended September 30, 2018 were taken as of December 31, 2017.

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

For the year ended September 30, 2018, the City's GASB 68 pension expense of \$578,439. 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, 2018:

Service cost	\$ 237,308
Interest	640,267
Firefighter's contributions	(147,813)
Projected earnings on pension plan investments	(267,272)
Amortization of differences between projected and actual earnings on plan investments	70,160
Amortization of changes of assumptions	30,823
Amortization of differences between expected and actual experience	3,916
Pension plan administrative expenses	11,050
Total pension expense	\$ 578,439

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

September 30, 2018

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	\$ 7,336	\$
Differences between expected and actual experience	60,769	26,201
Changes of assumptions	181,210	
Contributions subsequent to the measurement date	292,637	
Total	\$ 541,952	\$ 26,201

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
2019	\$ 104,897
2020	66,358
2021	(2,736)
2022	(22,227)
2023	33,642
Thereafter	43,180
Total	\$ 223,114

*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, 2017 through September 30, 2018 is a deferred outflow of resources that will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. This amount is \$292,637.

NOTE 11: INTERFUND TRANSFERS

Transfers to/from other funds during the year ended September 30, 2018 consist of the following:

From Utility Fund to the General Fund to supplement the functions of that fund	\$ 1,600,000
From Sanitation Fund to the General Fund to supplement the functions of that fund	\$ 1,510,000
From Capital Projects Fund to Utility Fund to move proprietary fund costs	\$ 922
From Capital Projects Fund to Sanitation Fund to move proprietary fund costs	\$ 16,655
From Capital Projects Fund to Airport Fund to move proprietary fund costs	\$ 3,025

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2018

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 five year incentive up to \$300,000 to 3M Company to support a product line. At September 30, 2018 there is \$264,438 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, 2018 there is \$90,000 remaining to be paid on this incentive.

BMDD has a building improvement incentive program that provides matching funds of up to \$20,000 upon completion of an approved project. Six projects totaling \$64,824 were approved and not yet funded at September 30, 2018.

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. At September 30, 2018 there is \$50,000 remaining to be paid on this agreement.

In 2017, the BMDD committed to funding the Small Business Development Center at \$40,000 per year for two years. One year of this commitment remains at September 30, 2018.

During the year, BMDD approved several financial incentives that were not yet funded at September 30, 2018:

- Hendricks Health System for construction of a medical office building in the amount of \$350,000 payable over five years.
- Nelson Wholesale in the amount of \$100,000
- Starr Sales of up to \$10,775 to fund one-half the cost of water line relocation
- Steve Browder in the amount of \$36,950 for Duckhorn Town Ranch Phase II
- Little Dude Ranch in the amount of \$3,520 for sewer line installation
- Jeff Tucker in the amount of \$4,512 for utility relocation

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, 2018 including City Hall improvements, Depot improvements, airport improvements, street improvements and a drainage project. Total cost of these projects is approximately \$1,442,400 with remaining costs of approximately \$962,000 at September 30, 2018.

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, 2018 the unpaid balance was \$11,515,000. 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

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

September 30, 2018

NOTE 14: RISK MANAGEMENT (CONT.)

retained by the City. The management of the City has not been notified and is not aware of any significant claims against the City not covered by insurance.

NOTE 15: UTILITY

The Utility Department was serving the following number of customers:

	9/30/18	9/30/17
Water Department	7,427	7,401
Sewer Department	6,920	6,903
Sanitation Department	7,089	7,090

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	\$ 56,165,793
	Contents	4,905,441
Risk covered:	Fire, lightning, extended coverage including Replacement cost endorsement.	

NOTE 19: SUBSEQUENT EVENTS

Subsequent to year end, the City entered into a contract with Enterprise Fleet Management to acquire 33 vehicles through a capital lease program. These include 9 SUV's, 20 pickups and 4 sedans for the Police, Utility, Sanitation, Landfill, Airport, Information Technology, Fleet Services, Parks, Health, Street and Development Services departments. The total cost is \$222,204 with varying monthly payments that will amortize the total debt over five years.

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 Four Plan Years

	2014	2015	2016	2017
<b>TOTAL PENSION LIABILITY:</b>				
Service cost	\$ 1,271,262	\$ 1,371,151	\$ 1,469,768	\$ 1,508,507
Interest (on total pension liability)	2,978,273	3,072,001	3,082,792	3,224,688
Changes in benefit terms				
Difference between expected and actual experience	(993,709)	(811,345)	(282,788)	(232,661)
Change of assumptions		155,985		
Benefit payments, including refunds of employee contributions	(1,945,700)	(1,987,889)	(2,115,766)	(2,258,196)
Net Change in Total Pension Liability	\$ 1,310,126	\$ 1,799,903	\$ 2,154,006	\$ 2,242,338
Total Pension Liability - Beginning	42,883,969	44,194,095	45,993,998	48,148,004
Total Pension Liability - Ending (a)	\$ 44,194,095	\$ 45,993,998	\$ 48,148,004	\$ 50,390,342
<b>PLAN FIDUCIARY NET POSITION:</b>				
Contributions - employer	\$ 1,276,612	\$ 1,315,768	\$ 1,314,906	\$ 1,333,369
Contributions - employee	601,366	625,281	656,984	677,329
Net investment income	2,050,213	55,774	2,552,844	5,564,415
Benefit payments, including refunds of employee contributions	(1,945,700)	(1,987,889)	(2,115,766)	(2,258,196)
Administrative expense	(21,405)	(33,971)	(28,829)	(28,838)
Other	(1,760)	(1,679)	(1,553)	(1,462)
Net Change in Plan Fiduciary Net Position	\$ 1,959,326	\$ (26,716)	\$ 2,378,586	\$ 5,286,617
Plan Fiduciary Net Position - Beginning	35,838,502	37,797,828	37,771,112	40,149,698
Plan Fiduciary Net Position - Ending (b)	\$ 37,797,828	\$ 37,771,112	\$ 40,149,698	\$ 45,436,315
NET PENSION LIABILITY - ENDING (a) - (b)	\$ 6,396,267	\$ 8,222,886	\$ 7,998,306	\$ 4,954,027
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	85.53%	82.12%	83.39%	90.17%
COVERED EMPLOYEE PAYROLL	\$ 8,590,941	\$ 8,932,582	\$ 9,385,489	\$ 9,676,122
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	74.45%	92.05%	85.22%	51.20%
NOTES TO SCHEDULE: N/A				

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

Last Four Plan Years

	2014	2015	2016	2017
<b>TOTAL PENSION LIABILITY:</b>				
Service cost	\$ 59,025	\$ 62,460	\$ 65,562	\$ 68,378
Interest (on total pension liability)	80,118	84,570	88,546	90,878
Changes in benefit terms				
Difference between expected and actual experience	8,050	16,940	(48,925)	(48,929)
Change of assumptions		27,809		
Benefit payments, including refunds of employee contributions	(65,871)	(104,759)	(74,592)	(69,495)
Net Change in Total Pension Liability	\$ 81,322	\$ 87,020	\$ 30,591	\$ 40,832
Total Pension Liability - Beginning	1,147,969	1,229,291	1,316,311	1,346,902
Total Pension Liability - Ending (a)	\$ 1,229,291	\$ 1,316,311	\$ 1,346,902	\$ 1,387,734
<b>PLAN FIDUCIARY NET POSITION:</b>				
Contributions - employer	\$ 31,483	\$ 36,407	\$ 40,122	\$ 46,376
Contributions - employee	27,582	29,462	30,035	31,325
Net investment income	62,351	1,689	74,773	162,122
Benefit payments, including refunds of employee contributions	(65,871)	(104,759)	(74,592)	(69,495)
Administrative expense	(651)	(1,029)	(845)	(845)
Other	(54)	(50)	(46)	(43)
Net Change in Plan Fiduciary Net Position	\$ 54,840	\$ (38,280)	\$ 69,447	\$ 169,440
Plan Fiduciary Net Position - Beginning	1,090,007	1,144,847	1,106,567	1,176,014
Plan Fiduciary Net Position - Ending (b)	\$ 1,144,847	\$ 1,106,567	\$ 1,176,014	\$ 1,345,454
NET PENSION LIABILITY - ENDING (a) - (b)	\$ 84,444	\$ 209,744	\$ 170,888	\$ 42,280
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	93.13%	84.07%	87.31%	96.95%
COVERED EMPLOYEE PAYROLL	\$ 394,031	\$ 420,889	\$ 429,068	\$ 447,500
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	21.43%	49.83%	39.83%	9.45%

NOTES TO SCHEDULE:

N/A

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

Last Four Plan Years

	2014	2015	2016	2017
<b>TOTAL PENSION LIABILITY:</b>				
Service cost	\$ 211,640	\$ 219,098	\$ 229,505	\$ 237,308
Interest (on total pension liability)	561,844	586,487	611,749	640,267
Changes in benefit terms				
Difference between expected and actual experience		(42,542)		70,132
Change of assumptions		87,541		146,910
Benefit payments, including refunds of employee contributions	(486,325)	(418,411)	(409,456)	(517,907)
Net Change in Total Pension Liability	\$ 287,159	\$ 432,173	\$ 431,798	\$ 576,710
Total Pension Liability - Beginning	7,522,774	7,809,933	8,242,106	8,673,904
Total Pension Liability - Ending (a)	<u>\$ 7,809,933</u>	<u>\$ 8,242,106</u>	<u>\$ 8,673,904</u>	<u>\$ 9,250,614</u>
<b>PLAN FIDUCIARY NET POSITION:</b>				
Contributions - employer	\$ 323,975	\$ 340,092	\$ 355,382	\$ 369,559
Contributions - employee	129,581	136,036	142,143	147,813
Net investment income	62,582	(85,706)	156,321	552,099
Benefit payments, including refunds of employee contributions	(486,325)	(418,411)	(409,456)	(517,907)
Administrative expense	(12,414)	(18,346)	(24,288)	(11,050)
Other				
Net Change in Plan Fiduciary Net Position	\$ 17,399	\$ (46,335)	\$ 220,102	\$ 540,514
Plan Fiduciary Net Position - Beginning	3,426,410	3,443,809	3,397,474	3,617,576
Plan Fiduciary Net Position - Ending (b)	<u>\$ 3,443,809</u>	<u>\$ 3,397,474</u>	<u>\$ 3,617,576</u>	<u>\$ 4,158,090</u>
NET PENSION LIABILITY - ENDING (a) - (b)	\$ 4,366,124	\$ 4,844,632	\$ 5,056,328	\$ 5,092,524
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	44.10%	41.20%	41.70%	44.90%
COVERED EMPLOYEE PAYROLL	\$ 1,619,763	\$ 1,700,450	\$ 1,776,788	\$ 1,847,663
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	269.60%	284.90%	284.60%	275.60%

**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. Covered employee payroll is contributions by firefighters divided by their contribution ratio

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

TEXAS MUNICIPAL RETIREMENT SYSTEM PLAN 10190 CITY  
SCHEDULE OF PENSION CONTRIBUTIONS

Last Four Fiscal Years

	2015	2016	2017	2018
Actuarially determined contribution	\$ 1,299,125	\$ 1,369,431	\$ 1,337,744	\$ 1,307,905
Contributions in relation to the actuarially determined contribution	1,299,125	1,369,431	1,337,744	1,307,905
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	8,798,850	9,647,016	9,670,777	9,636,494
Contributions as a percentage of covered employee payroll	14.76%	14.20%	13.83%	13.57%

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 2015-24 years, 2016-30 years, 2017-29 years, 2018-28 years  
 Asset Valuation Method 10 year smoothed market; 15% soft corridor  
 Inflation 3% in 2015, 2.5% in 2016 through 2018  
 Salary Increases 3.5% to 12.0% including inflation in 2015, 3.5% to 10.5% including inflation in 2016 through 2018  
 Investment Rate of Return 7% in 2015, 6.75% in 2016 through 2018  
 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 Four Fiscal Years

	2015	2016	2017	2018
Actuarially determined contribution	\$ 35,246	\$ 40,367	\$ 44,912	\$ 46,374
Contributions in relation to the actuarially determined contribution	35,246	40,367	44,930	46,374
Contribution deficiency (excess)	\$ -	\$ -	\$ (18)	\$ -
Covered employee payroll	415,734	440,225	443,482	437,705
Contributions as a percentage of covered employee payroll	8.48%	9.17%	10.13%	10.59%

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	2015-29 years, 2016-28 years, 2017-27 years, 2018-26 years
Asset Valuation Method	10 year smoothed market; 15% soft corridor
Inflation	3% in 2015, 2.5% in 2016 through 2018
Salary Increases	3.5% to 12.0% including inflation in 2015, 3.5% to 10.5% including inflation in 2016 through 2018
Investment Rate of Return	7% in 2015, 6.75% in 2016 through 2018
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 Four Fiscal Years

	2015	2016	2017	2018
Required contributions	\$ 323,975	\$ 340,092	\$ 355,382	\$ 369,559
Contributions in relation to the actuarially determined contribution	323,975	340,092	355,382	369,559
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	1,619,763	1,700,450	1,776,788	1,847,663
Contributions as a percentage of covered employee payroll	20.00%	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, 38 years in 2018
Inflation	3.5% in 2015, 3.4% in 2016 and 2017, 3.25% in 2018
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 3.25% plus promotion, step and longevity increases that vary by service in 2018
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 7.25%, net of pension plan investment expense, including inflation in 2018
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, 2018

	Original Budget	Final Budget	Actual Budgetary Basis (See Note A)	Variance with Final Budget Positive (Negative)
<b>RESOURCES (INFLOWS):</b>				
Ad valorem taxes	\$ 5,445,935	\$ 5,445,935	\$ 5,367,436	\$ (78,499)
Sales tax	5,110,000	5,110,000	5,397,213	287,213
Other taxes	3,251,000	3,251,000	3,513,919	262,919
Fines	298,000	298,000	238,375	(59,625)
License and fees	73,200	73,200	132,347	59,147
Charges for services	409,000	409,000	386,082	(22,918)
Intergovernmental	1,412,605	1,412,605	1,416,297	3,692
Miscellaneous	55,000	101,503	271,801	170,298
Total Resources (Inflows)	<u>\$ 16,054,740</u>	<u>\$ 16,101,243</u>	<u>\$ 16,723,470</u>	<u>\$ 622,227</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
City Council	\$ 62,205	\$ 62,205	\$ 57,669	\$ 4,536
Administration	257,994	257,994	255,781	2,213
City Secretary	109,309	109,309	103,504	5,805
Finance/Accounting	357,205	357,205	354,743	2,462
Municipal Court	312,753	312,753	309,612	3,141
Police	5,009,815	5,031,865	4,715,944	315,921
Fire	3,358,689	3,394,350	3,394,784	(434)
Development services	873,779	873,779	796,718	77,061
Street	1,818,980	1,825,025	2,086,557	(261,532)
Health	285,614	285,614	267,473	18,141
Community services	619,596	619,596	620,246	(650)
Intergovernmental	232,444	232,444	240,796	(8,352)
Utility billing	281,419	281,419	293,706	(12,287)
Community facilities	421,881	421,881	429,233	(7,352)
Operations support	163,180	163,180	146,848	16,332
Purchasing/warehouse	174,968	174,968	172,946	2,022
Parks and recreation	1,546,185	1,546,185	1,531,322	14,863
Fleet services	569,068	569,068	544,669	24,399
City Attorney	196,057	196,057	192,135	3,922
Community development	-	-	95,263	(95,263)
Public works/engineering	579,661	579,661	559,228	20,433
Emergency management	18,425	18,425	10,280	8,145
Human Resources	267,690	267,690	259,775	7,915
Fire Marshal	146,519	148,519	137,446	11,073
General fund contingency	(79,300)	(79,300)	159,904	(239,204)
Information technology	538,550	538,550	741,491	(202,941)
Transportation museum	182,905	182,872	166,387	16,485
Other			21,170	(21,170)
Total Charges to Appropriations (Outflows)	<u>\$ 18,305,591</u>	<u>\$ 18,371,314</u>	<u>\$ 18,665,630</u>	<u>\$ (294,316)</u>
EXCESS CHARGES TO APPROPRIATIONS	\$ (2,250,851)	\$ (2,270,071)	\$ (1,942,160)	\$ 327,911
FUND BALANCE - BEGINNING	<u>3,038,924</u>	<u>3,038,924</u>	<u>3,038,924</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 788,073</u>	<u>\$ 768,853</u>	<u>\$ 1,096,764</u>	<u>\$ -</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BUDGETARY COMPARISON SCHEDULE

For the Year Ended September 30, 2018

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.	\$ 16,723,470
The City budgets for sales tax based on the amount collected rather than on the modified accrual basis.	14,240
The City budgets Hotel Occupancy Tax net of the payments to other entities rather than gross	<u>410,148</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances governmental fund.	<u><u>\$ 17,147,858</u></u>

Uses/outflows of Resources:

Actual amount (budgetary basis) charges to appropriations from the budgetary comparison schedule.	\$ 18,665,630
The City budgets for salaries on the cash basis rather than on the modified accrual basis.	4,826
The City budgets for compensated absences on the cash basis rather than the modified accrual basis.	74,295
The City budgets Hotel Occupancy Tax net of the payments to other entities rather than gross	<u>410,148</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances governmental fund.	<u><u>\$ 19,154,899</u></u>

SUPPLEMENTARY INFORMATION

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

OTHER GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS

September 30, 2018

	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	\$	\$ 134,434	\$ (48,796)	\$ 85,638
Non pooled cash and cash equivalents			25	25
Receivables, net	99,450	3,183	137,300	239,933
Restricted assets	28,003	629,708	48,840	706,551
TOTAL ASSETS	\$ 127,453	\$ 767,325	\$ 137,369	\$ 1,032,147
<u>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</u>				
LIABILITIES:				
Accounts payable	\$	\$ 8,094	\$ 25,163	\$ 33,257
Accrued payroll			4,411	4,411
TOTAL LIABILITIES	\$ -	\$ 8,094	\$ 29,574	\$ 37,668
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue	\$ 99,450	\$ -	\$ -	\$ 99,450
FUND BALANCES:				
Restricted for:				
Debt service	\$ 28,003	\$	\$	\$ 28,003
Construction		621,614		621,614
Fabis Park			48,808	48,808
Committed to:				
Construction		137,617		137,617
Assigned to:				
Health and nutrition programs			46,099	46,099
Unassigned			12,888	12,888
TOTAL FUND BALANCES	\$ 28,003	\$ 759,231	\$ 107,795	\$ 895,029
TOTAL LIABILITIES AND FUND BALANCES	\$ 127,453	\$ 767,325	\$ 137,369	\$ 1,032,147

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, 2018

	Total Debt Service Fund	Total Capital Projects Fund	Total Special Revenue Fund	Total Other Governmental Funds
<b>REVENUES:</b>				
Ad valorem taxes	\$ 1,392,421	\$	\$	\$ 1,392,421
Grants and contributions		2,443	877,294	879,737
Other revenue	29,076		334,849	363,925
Interest	5,181	10,823	740	16,744
Total Revenues	\$ 1,426,678	\$ 13,266	\$ 1,212,883	\$ 2,652,827
<b>EXPENDITURES:</b>				
Police	\$	\$ 2,180	\$	\$ 2,180
Fire		2,178		2,178
Development services		71		71
Street		4,534		4,534
Parks and recreation		500		500
Fleet services		70		70
Debt service:				
Principal	979,160			979,160
Interest	495,341			495,341
Capital outlay		1,325,760		1,325,760
Special revenue fund			1,222,238	1,222,238
Total Expenditures	\$ 1,474,501	\$ 1,335,293	\$ 1,222,238	\$ 4,032,032
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>\$ (47,823)</b>	<b>\$ (1,322,027)</b>	<b>\$ (9,355)</b>	<b>\$ (1,379,203)</b>
<b>OTHER FINANCING SOURCES:</b>				
Transfers in	\$ 48,286	\$	\$	\$ 48,286
Transfers out		(70,602)	(23,895)	(94,497)
Proceeds from sale of capital assets				-
Total Other Financing Sources	\$ 48,286	\$ (70,602)	\$ (23,895)	\$ (46,211)
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES</b>	<b>\$ 463</b>	<b>\$ (1,392,629)</b>	<b>\$ (33,250)</b>	<b>\$ (1,425,416)</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>27,540</b>	<b>2,151,860</b>	<b>141,045</b>	<b>2,320,445</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 28,003</b>	<b>\$ 759,231</b>	<b>\$ 107,795</b>	<b>\$ 895,029</b>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

GENERAL FUND  
COMPARATIVE BALANCE SHEETS

September 30, 2018 and 2017

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
<b>ASSETS:</b>		
Pooled cash and cash equivalents	\$ (576,658)	\$ 287,432
Non pooled cash and cash equivalents	37,362	1,340
Investments	5,519,589	3,419,959
Receivables, net	1,662,932	1,598,734
Inventory	26,277	26,130
Prepaid expense	1,615	1,557
Internal balances	-	14,385
Restricted assets	136,813	136,054
<b>TOTAL ASSETS</b>	<b>\$ 6,807,930</b>	<b>\$ 5,485,591</b>
 <u>LIABILITIES AND FUND BALANCES</u>  		
<b>LIABILITIES:</b>		
Accounts payable	\$ 631,268	\$ 1,093,013
Accrued salaries	73,158	68,332
Compensated absences	1,052,173	977,878
<b>TOTAL LIABILITIES</b>	<b>\$ 1,756,599</b>	<b>\$ 2,139,223</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Unavailable revenue	\$ 360,441	\$ 307,444
<b>FUND BALANCES:</b>		
Nonspendable:		
Inventory	\$ 26,277	\$ 26,130
Prepaid expense	1,615	1,557
Restricted for:		
Municipal Court	36,329	35,726
Tourism promotion	39,410	52,394
Vehicular child safety	23,796	22,591
Law enforcement	24,259	16,674
Drug awareness education	3,494	3,494
Lehnis Museum	7,901	2,688
Beautification	647	637
Unassigned	4,527,162	2,877,033
<b>TOTAL FUND BALANCES</b>	<b>\$ 4,690,890</b>	<b>\$ 3,038,924</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 6,807,930</b>	<b>\$ 5,485,591</b>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

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

For the Years Ended September 30, 2017 and 2018

	2018	2017
<b>REVENUES:</b>		
Ad valorem taxes	\$ 5,367,436	\$ 5,007,012
Sales taxes	5,411,453	5,171,653
Other taxes	3,924,067	3,791,241
Fines	238,375	354,474
Licenses and fees	132,347	143,966
Charges for services	386,082	371,472
Intergovernmental	1,416,297	1,419,029
Interest	61,071	24,169
Grants and contributions	46,069	48,960
Miscellaneous	164,661	199,190
Total Revenues	\$ 17,147,858	\$ 16,531,166
<b>EXPENDITURES:</b>		
City Council	\$ 57,669	\$ 52,938
Administration	255,828	225,415
City Secretary	103,572	94,791
Finance/accounting	354,436	355,511
Municipal court	312,614	319,870
Police	4,754,023	4,772,818
Fire	3,427,889	3,693,826
Development services	803,893	859,249
Street	2,086,417	1,867,457
Health	270,748	282,541
Community services	620,246	606,195
Intergovernmental	240,796	226,250
Utility billing	295,039	277,152
Community facilities	430,898	483,930
Operations support	142,605	172,249
Purchasing/warehouse	172,987	170,702
Parks and recreation	1,521,927	1,484,431
Fleet services	546,499	560,209
City Attorney	192,501	193,506
Community development	95,263	270,000
Public works/engineering	560,148	544,203
Emergency management	10,280	25,118
Human resources	260,505	246,879
Fire Marshal	139,511	136,581
General fund contingency	157,439	189,093
Information technology	742,709	640,211
Transportation museum	167,139	184,983
Motel tax to CVB	410,148	346,914
Other	21,170	33,810
Total Expenditures	\$ 19,154,899	\$ 19,316,832
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>\$ (2,007,041)</b>	<b>\$ (2,785,666)</b>
<b>OTHER FINANCING SOURCES (USES):</b>		
Transfers in	\$ 3,111,714	\$ 2,165,051
Capital lease proceeds	507,832	830,454
Proceeds from sale of capital assets	39,461	861
Net Other Financing Sources (Uses)	\$ 3,659,007	\$ 2,996,366
<b>NET CHANGES IN FUND BALANCES</b>	<b>\$ 1,651,966</b>	<b>\$ 210,700</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>3,038,924</b>	<b>2,828,224</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 4,690,890</b>	<b>\$ 3,038,924</b>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

**PROPRIETARY FUNDS**  
**COMPARATIVE STATEMENTS OF NET POSITION**

September 30, 2018 and 2017

	2018	2017
<b>CURRENT ASSETS:</b>		
Pooled cash and cash equivalents	\$ 7,697	\$ 67,195
Pooled cash designated for special projects	57,725	60,865
Non pooled cash and cash equivalents	3,550	3,550
Investments	5,143	445,354
Investments designated for closure and postclosure	1,577,674	1,405,197
Accounts receivable, net	1,523,120	1,605,332
Inventory	763,924	782,881
Prepaid expenses	1,546	-
Total Current Assets	\$ 3,940,379	\$ 4,370,374
<b>NONCURRENT ASSETS:</b>		
Restricted assets	\$ 837,692	\$ 825,995
Capital assets, net	37,078,824	38,801,327
Total Noncurrent Assets	\$ 37,916,516	\$ 39,627,322
<b>TOTAL ASSETS</b>	\$ 41,856,895	\$ 43,997,696
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Amounts related to pensions	\$ 277,077	\$ 776,128
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	\$ 277,077	\$ 776,128
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 318,182	\$ 421,659
Accrued salaries	18,428	20,316
Capital leases payable	869,486	668,528
Tax note payable	63,426	60,521
Bonds payable	1,346,425	1,309,343
Compensated absences	139,270	138,685
Total Current Liabilities	\$ 2,755,217	\$ 2,619,052
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS:</b>		
Tax note payable	\$ 794	\$ 319
Bonds payable	13,575	10,657
Total Liabilities Payable from Restricted Assets	\$ 14,369	\$ 10,976
<b>NONCURRENT LIABILITIES:</b>		
Compensated absences	\$ 84,812	\$ 82,040
Net pension liability	1,316,001	2,184,838
Customer water meter deposits	823,217	814,916
Capital leases payable	1,739,472	1,783,469
Tax note payable	67,600	131,820
Bonds payable	12,654,293	14,026,010
Accrued landfill closure and postclosure care costs	5,551,966	4,957,759
Total Noncurrent Liabilities	\$ 22,237,361	\$ 23,980,852
<b>TOTAL LIABILITIES</b>	\$ 25,006,947	\$ 26,610,880
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Amounts related to pensions	\$ 477,345	\$ 259,878
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	\$ 477,345	\$ 259,878
<b>NET POSITION:</b>		
Invested in capital assets, net of related debt	\$ 20,323,857	\$ 20,810,764
Unrestricted	(3,674,177)	(2,907,698)
<b>TOTAL NET POSITION</b>	\$ 16,649,680	\$ 17,903,066

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, 2018 and 2017

	2018	2017
OPERATING REVENUES:		
Charges for services	\$ 16,874,394	\$ 15,926,017
Miscellaneous	126,969	173,730
Total Operating Revenues	\$ 17,001,363	\$ 16,099,747
OPERATING EXPENSES:		
Personnel services	\$ 3,542,465	\$ 3,765,073
Supplies	1,124,488	838,772
Contractual	3,888,556	3,747,449
Maintenance	1,071,126	856,008
Sundry charges	1,047,772	1,046,072
Support services	1,129,200	1,129,200
Depreciation and amortization	2,940,412	2,868,899
Total Operating Expenses	\$ 14,744,019	\$ 14,251,473
OPERATING GAIN	\$ 2,257,344	\$ 1,848,274
NON-OPERATING REVENUE AND EXPENSE:		
Sale of equipment	\$ 61,608	\$ 32,206
Grants and contributions	20,754	106,012
Interest income	58,593	21,237
Interest expense	(562,287)	(606,141)
Net Non-Operating Revenue (Expense)	\$ (421,332)	\$ (446,686)
GAIN BEFORE TRANSFERS	\$ 1,836,012	\$ 1,401,588
TRANSFERS:		
Operating transfers in	\$ 267,610	\$ 315,411
Operating transfers out	(3,357,008)	(2,570,726)
Net Operating Transfers	\$ (3,089,398)	\$ (2,255,315)
CHANGES IN NET POSITION	\$ (1,253,386)	\$ (853,727)
NET POSITION - BEGINNING	17,903,066	18,756,793
NET POSITION - ENDING	\$ 16,649,680	\$ 17,903,066

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, 2018, 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 11, 2019.

**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.

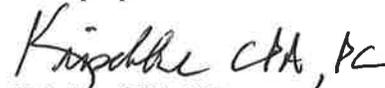
My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify 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 11, 2019



**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, 2018. 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, 2018.

### **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 11, 2019

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2018

	<u>Federal CFDA Number</u>	<u>Pass Through Entity ID Number</u>	<u>Amount Expended</u>	<u>Amount Expended to Sub-recipients</u>
<b>FEDERAL ASSISTANCE:</b>				
U.S. Department of Agriculture:				
Passed through Texas Department of State Health Services:				
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	2017-049825-001A	214,644	
Registered Dietician	10.557	2017-049825-001A	16,902	
Peer Counselor	10.557	2017-049825-001A	45,307	
Client Experience	10.557	2017-049825-001A	1,155	
Lactation Grant	10.557	2017-049825-001A	6,245	
Extra Funding - TXIN	10.557	2017-049825-001A	3,389	
Extra Funding - NTE	10.557	2017-049825-001A	5,939	
			<u>293,581</u>	<u>-</u>
Total U.S. Department of Agriculture				
U.S. Department of Justice:				
Passed through Office of the Texas Governor Criminal Justice Division:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	3386001	\$ 10,600	\$ -
General Services Administration:				
Non-monetary pass through from Texas Facilities Commission:				
Donation of Federal Surplus Personal Property	39.003	26171	\$ 10,444	\$ -
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	\$ 151,839	\$ -
Total Aging Cluster			\$ 151,839	\$ -
Passed through Texas Health and Human Services Commission:				
Social Services Block Grant	93.667	000169900	52,935	
Passed through Texas Department of State Health Services:				
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements				
	93.074	537-18-0123-00001	99,325	
Immunization Cooperative Agreements	93.268	537-18-0074-00001	134,564	
Preventive Health and Health Services Block Grant	93.991	537-18-0074-00001	9,761	
			<u>448,424</u>	<u>-</u>
Total U.S. Department of Health and Human Services				
Total Federal Assistance			<u>\$ 763,049</u>	<u>\$ -</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2018

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, 2018. 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, 2018

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	_____ yes <u>  X  </u> no
Significant deficiency(s) identified not considered to be material weaknesses?	_____ yes <u>  X  </u> none reported
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	_____ yes <u>  X  </u> no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>	
39.003	Donation of Federal Surplus Personal Property	
93.045	Special Programs for the Aging, Title III, Part C Nutrition Services	
Dollar threshold used to distinguish between Type A and Type B programs		\$ 750,000
Auditee qualified as low-risk auditee?		<u>  X  </u> yes _____ no

Section II - Financial Statement Findings

None noted

Section III – Federal Award Findings and Questioned Costs

None noted

Section IV - Prior Year Audit Findings

No prior year findings