

CITY OF BROWNWOOD  
Brownwood, Texas

ANNUAL FINANCIAL STATEMENTS

September 30, 2010

CITY OF BROWNWOOD, TEXAS

Brownwood, Texas

CONTENTS

September 30, 2010

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government - Wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheets	13
Reconciliation of the Governmental Funds Balance Sheets to the Statement of Net Assets	14
Statements of Revenues, Expenditures and Changes in Fund Balances	15
Reconciliation of the Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	17
Proprietary Funds:	
Statements of Net Assets	18
Statements of Revenues, Expenses and Changes in Fund Net Assets	19
Statements of Cash Flows	20
Notes to Basic Financial Statements	22
REQUIRED SUPPLEMENTARY INFORMATION:	
Pension Plan Funding Progress	46
Budgetary Comparison Schedule - General Fund	47
Notes to Budgetary Comparison Schedule	48

CITY OF BROWNWOOD  
Brownwood, Texas

CONTENTS (CONT.)

September 30, 2010

	<u>Page</u>
OTHER FINANCIAL INFORMATION:	
Other Governmental Funds Combining Balance Sheets	49
Other Governmental Funds Combining Statements of Revenues, Expenditures and Changes in Fund Balances	50
General Fund Comparative Balance Sheets	51
General Fund Comparative Statements of Revenues, Expenditures and Changes in Fund Balances	52
Proprietary Funds Comparative Statements of Net Assets	53
Proprietary Funds Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets	54
SINGLE AUDIT SECTION:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	55
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	56
Schedule of Expenditures of Federal Awards	58
Notes to the Schedule of Expenditures of Federal Awards	60
Schedule of Findings and Questioned Costs	61

D. A. "Tony" Krischke, CPA

## INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Brownwood, Texas as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Brownwood, Texas management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. I believe that my audit provides a reasonable basis for my 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Brownwood, Texas as of September 30, 2010, and the respective changes in financial position and where applicable cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 18, 2011 on my consideration of City of Brownwood, Texas internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension plan funding progress and budgetary comparison information on pages 3 through 8 and 46 through 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in



an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Brownwood, Texas, financial statements as a whole. The combining and comparative financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Krischke CPA, PC  
January 18, 2011

**City of Brownwood**  
**Management's Discussion and Analysis**  
**For Year Ended September 30, 2010**  
**(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, 2010. 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 \$48,002,043 (net assets). Of this amount, \$236,777 is restricted for debt service and construction. The amount invested in fixed assets is \$43,734,534 leaving \$4,030,732 in unrestricted net assets.
- The government's total net assets increased by \$6,532,578 primarily due to an increase of \$5,795,364 in amounts invested in capital assets net of depreciation.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$583,893, an increase of \$108,389 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$(912,833) as compared to \$(458,981) in the prior year.
- The City's total debt decreased by \$2,722,258 (9.9%) during the current fiscal year primarily due to decreases in capital leases (\$591,535) and bonds payable (\$1,552,537)
- Total revenue increased by \$5,958,678 over the prior year primarily because of an increase of \$5,872,950 in capital grants and contributions. Most of this amount was due to the funding received from the Brownwood Economic Development Corporation for the projects related to the Bert V. Massey II Sports Complex, Aquatic Center and Senior Citizens Center. Expenditures increased by \$140,869 due primarily to increases of \$370,432 in the Police and Fire Departments for pay raises awarded in a Meet & Confer agreement. There was a net surplus for the current year of \$6,532,578 compared with a surplus in the prior year of \$714,769.

**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: the governmental funds statements and 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 Supplemental Information** is provided to show details about the City's progress in funding its obligation to provide pension benefits to its employees. 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 assets and how they have changed. Net assets are the difference between the City's total assets and total liabilities. Measuring net assets is one way to gauge the City's financial condition.

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

The Government-wide Financial Statements are on pages 9-12 of this report.

### **Fund Financial Statements**

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

**Governmental Funds** – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the city's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year.

Governmental funds are reported using an accounting method called modified accrual accounting that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Governmental Fund Financial Statements are on pages 13-17 of this report.

**Proprietary Funds** – the City of Brownwood has three 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 Assets and the Statement of Activities.

The Proprietary Funds Financial Statements are on pages 18-21 of this report.

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

The Notes to the Financial Statements are on pages 22-45 of this report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information and other financial information.

**Government-Wide Financial Analysis**

The City's combined net assets increased from \$41,469,465 last year to \$48,002,043 this year, an increase of \$6,510,138. Although there were a variety of factors, the key change was the increase in capital assets net of depreciation.

City of Brownwood Net Assets

	Governmental Activities		Business Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Current and other assets	3,557,102	2,828,618	7,585,746	7,042,281	11,142,848	9,870,899
Capital Assets	31,431,322	26,572,540	35,417,931	37,365,926	66,849,253	64,938,466
<b>Total Assets</b>	<u>34,988,424</u>	<u>29,401,158</u>	<u>43,003,677</u>	<u>44,408,207</u>	<u>77,992,101</u>	<u>73,809,365</u>
Current liabilities	2,698,194	2,453,363	4,762,420	10,200,759	7,460,614	12,654,122
Long-term liabilities	7,539,251	8,283,865	14,990,193	11,401,913	22,529,444	19,685,778
<b>Total Liabilities</b>	<u>10,237,445</u>	<u>10,737,228</u>	<u>19,752,613</u>	<u>21,602,672</u>	<u>29,990,058</u>	<u>32,339,900</u>
<b>Net Assets:</b>						
Invested in capital assets						
net of related debt	23,848,488	17,729,299	19,886,046	20,134,015	43,734,534	37,863,314
Restricted	236,777	1,180,287	0	0	236,777	1,180,287
Unrestricted	665,714	(245,656)	3,365,018	2,671,520	4,030,732	2,425,864
<b>Total Net Assets</b>	<u>24,750,979</u>	<u>18,663,930</u>	<u>23,251,064</u>	<u>22,805,535</u>	<u>48,002,043</u>	<u>41,469,465</u>

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

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Brownwood exceeded liabilities by \$48,002,043 as of September 30, 2010. However, the largest portion of the City's net assets (91.1%) 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 assets (0.5%) represents resources that are subject to external restrictions on how they may be used. The remaining unrestricted balance is \$4,030,732 or 8.4% of total net assets.

**Governmental activities.** Governmental activities increased the City's net assets by \$6,087,049.

**Business-type activities:** Business-type activities decreased the City's net assets by \$445,529.

The following table provides a summary of the City's operations for year ended September 30, 2010.

<b>City of Brownwood Changes in Net Assets</b>						
	<b>Governmental Activities</b>		<b>Business Type Activities</b>		<b>Totals</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Fees, fines and charges for services	2,489,615	2,478,777	15,089,073	15,344,008	17,578,688	17,822,785
Operating grants and contributions	813,186	802,876	0	28,550	813,186	831,426
Capital grants and contributions	7,223,296	1,093,391	36,642	293,597	7,259,938	1,386,988
<b>General Revenues:</b>						
Ad valorem taxes	5,289,373	5,421,903	0	0	5,289,373	5,421,903
Sales tax	4,138,591	4,285,467	0	0	4,138,591	4,285,467
Other revenues	<u>3,204,956</u>	<u>3,067,502</u>	<u>550,445</u>	<u>58,046</u>	<u>3,755,401</u>	<u>3,125,548</u>
<b>Total Revenues</b>	<b><u>23,159,017</u></b>	<b><u>17,149,916</u></b>	<b><u>15,676,160</u></b>	<b><u>15,724,201</u></b>	<b><u>38,835,177</u></b>	<b><u>32,874,117</u></b>
<b>Expenses:</b>						
General government and administration	4,464,056	4,045,647			4,464,056	4,045,647
Public Safety	7,193,899	7,119,040			7,193,899	7,119,040
Streets	2,915,619	3,023,357			2,915,619	3,023,357
Parks & Community Facilities	1,525,132	1,391,840			1,525,132	1,391,840
Special Rev Activities	1,669,835	1,607,423			1,669,835	1,607,423
Water & Sewer			8,129,096	8,401,710	8,129,096	8,401,710
Sanitation & Landfill			4,276,655	4,390,107	4,276,655	4,390,107
Airport			1,312,458	1,409,638	1,312,458	1,409,638
Interest on long-term debt	<u>321,045</u>	<u>325,818</u>	<u>492,422</u>	<u>444,768</u>	<u>813,467</u>	<u>770,586</u>
<b>Total Expenses</b>	<b><u>18,089,586</u></b>	<b><u>17,513,125</u></b>	<b><u>14,210,631</u></b>	<b><u>14,646,223</u></b>	<b><u>32,300,217</u></b>	<b><u>32,159,348</u></b>
<b>Increase in net assets before transfers</b>	<b>5,069,431</b>	<b>( 363,209)</b>	<b>1,465,529</b>	<b>1,077,978</b>	<b>6,534,960</b>	<b>714,769</b>
<b>Transfers</b>	<b><u>1,017,618</u></b>	<b><u>1,489,868</u></b>	<b><u>(1,020,000)</u></b>	<b><u>( 1,489,868)</u></b>	<b><u>( 2,382)</u></b>	<b><u>0</u></b>
<b>Increase in net assets</b>	<b>6,087,049</b>	<b>1,126,659</b>	<b>445,529</b>	<b>( 411,890)</b>	<b>6,532,578</b>	<b>714,769</b>
<b>Net assets October 1</b>	<b>18,686,370</b>	<b>17,559,711</b>	<b>22,805,535</b>	<b>23,217,425</b>	<b>41,491,905</b>	<b>40,777,136</b>
<b>Prior Period Adjustment</b>	<b><u>( 22,440)</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>( 22,440)</u></b>	<b><u>0</u></b>
<b>Net assets September 30</b>	<b><u>24,750,979</u></b>	<b><u>18,686,370</u></b>	<b><u>23,251,064</u></b>	<b><u>22,805,535</u></b>	<b><u>48,002,043</u></b>	<b><u>41,491,905</u></b>

**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, unreserved fund balance of the General Fund was \$(912,833), while total fund balance was \$(810,547). These balances represent decreases from the prior year of \$453,852 and \$526,728 respectively.

As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. These percentages were (6.2)% and (5.5)% respectively.

At September 30, 2010, the governmental funds of the City reported a combined fund balance of \$583,893.

**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 assets 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 \$3,365,018. This represented an increase of \$693,498 from the prior year. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

**Budgetary Highlights:** During the fiscal year, the City revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

In the General Fund, revenues were under budgeted amounts by \$491,321 while expenditures came in under budget by \$443,167 on a budget basis. This represents a net negative variance of 0.3%.

### **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, 2010, totals \$66,849,253 (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, 2010, the City had total bonded debt outstanding of \$19,685,000. All of this debt is backed by the full faith and credit of the City. None of the debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds) since the last remaining revenue bond was refunded in September, 2005.

Additional information regarding the City's long-term debt can be found in Notes 7 - 9 of the Basic Financial Statements.

### **Economic Factors**

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

- Increasing property values. Taxable assessed values for 2010 increased by 1.0% over the prior year.
- Population growth. The City's population estimates since 2000 have increased by 1,325 indicating a continuing growth in the City's manufacturing, commercial and residential infrastructure.

During the last fiscal year, two major retail stores were opened in Brownwood, one of which was granted a sales tax rebate incentive of 65.5% of the regular 1% municipal sales tax rate.

The City opened a new Aquatic Center during this last fiscal year which increased revenue from fees by 277%. Annual revenue in prior years averaged \$23,000. Revenue during the last fiscal year was \$63,700.

The Bert V. Massey II Sports Complex will open during the next fiscal year.

**Budget Highlights for the Fiscal Year Ending September 30, 2011**

**Governmental Activities:** The property tax rate was unchanged in the current year from last year's rate of .7452 cents per hundred dollars valuation. Sales tax is projected to increase by 3% over the last fiscal year due to two new major retail stores and general improvement in the economy. Budgeted expenditures in the General Fund are expected to decrease by 0.06%. The largest decreases are due to projected savings in the cost of fuel and insurance. No pay raises were granted this year and the third installment of a three year implementation plan for Police and Fire raises of 6% per year was voluntarily deferred by the Police and Fire Associations.

**Business – type Activities:** The water rates in the City will increase by 0.93% to cover increased costs of treated water from the Brown County Water Improvement District (BCWID). The base water rate, sewer rate, sanitation rates and landfill rates remained unchanged.

**Requests for Information**

This report is designed to provide an overview of the City of Brownwood's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Walter Middleton CPA, Director of Finance, City of Brownwood, PO Box 1389, Brownwood, TX 76804, (325) 646-5775. Email address is [wmiddleton@ci.brownwood.tx.us](mailto:wmiddleton@ci.brownwood.tx.us).

  
Bobby Rountree  
City Manager

  
Walter Middleton, CPA, CGFO  
Director of Finance

BASIC FINANCIAL STATEMENTS

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENT OF NET ASSETS

September 30, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<u>ASSETS</u>				
Pooled cash and cash equivalents	\$ 322,247	\$ (352,134)	\$ (29,887)	\$ 60,917
Non pooled cash and cash equivalents	1,202	3,659	4,861	
Investments	68,783	3,611,331	3,680,114	293,678
Investments designated for closure and postclosure		973,045	973,045	
Receivables, net	2,807,272	1,584,558	4,391,830	3,546,105
Inventory	18,564	869,334	887,898	
Prepaid expense	1,539		1,539	86,719
Restricted assets	236,777	635,181	871,958	
Deferred charges	100,718	260,772	361,490	
Capital assets, net	31,431,322	35,417,931	66,849,253	509,502
<b>TOTAL ASSETS</b>	<b>\$ 34,988,424</b>	<b>\$ 43,003,677</b>	<b>\$ 77,992,101</b>	<b>\$ 4,496,921</b>
<u>LIABILITIES</u>				
Accounts payable	\$ 1,031,618	\$ 378,367	\$ 1,409,985	\$ 9,003
Accrued salaries	177,569	51,346	228,915	3,603
Capital leases payable	539,324	2,356,153	2,895,477	
Liabilities payable from restricted assets:				
Bonds payable	11,550	635,181	646,731	
Noncurrent liabilities:				
Customer utility deposits		611,777	611,777	
Estimated liability for landfill closure and postclosure care costs		2,927,162	2,927,162	
Deferred revenue		116,828	116,828	
Compensated absences				
Portion due or payable within one year	938,133	105,554	1,043,687	31,932
Portion due or payable after one year	495,741	29,694	525,435	17,986
Notes payable:				
Portion due or payable within one year		51,000	51,000	2,500,000
Portion due or payable after one year		372,329	372,329	
Tax notes payable:				
Portion due or payable within one year		685,000	685,000	
Portion due or payable after one year		700,000	700,000	
Bonds payable:				
Portion due or payable within one year	933,450	499,819	1,433,269	
Portion due or payable after one year	6,110,060	10,232,403	16,342,463	
<b>TOTAL LIABILITIES</b>	<b>\$ 10,237,445</b>	<b>\$ 19,752,613</b>	<b>\$ 29,990,058</b>	<b>\$ 2,562,524</b>
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	\$ 23,848,488	\$ 19,886,046	\$ 43,734,534	\$ 509,502
Restricted for:				
Debt service	11,550		11,550	
Construction	225,227		225,227	
Unrestricted	665,714	3,365,018	4,030,732	1,424,895
<b>TOTAL NET ASSETS</b>	<b>\$ 24,750,979</b>	<b>\$ 23,251,064</b>	<b>\$ 48,002,043</b>	<b>\$ 1,934,397</b>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2010

<u>Functions/programs</u>	Program Revenue			
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 3,589,653	\$ 1,049,910	\$	\$
Municipal court	270,731			
Police	3,889,657	464,902		43,936
Fire	2,800,076	50,374		
Development services	531,145	88,753		
Street	2,915,619			
Health	233,435	140,949		
Community facilities	488,955	108,057		944,386
Parks and recreation	1,036,177	64,303		6,234,974
Public works/engineering	343,258			
Interest on long-term debt	321,045			
Special revenue activities	1,669,835	522,367	813,186	
Total Governmental Activities	\$ 18,089,586	\$ 2,489,615	\$ 813,186	\$ 7,223,296
Business-type Activities:				
Water	\$ 5,130,988	\$ 6,014,804	\$	\$
Waste water collection	1,726,330	3,727,731		
Waste water treatment	1,271,778			
Sanitation	1,785,102	2,927,464		
Landfill	2,491,553	1,847,277		
Airport	1,312,458	571,797		36,642
Interest on long-term debt	492,422			
Total Business-type Activities	\$ 14,210,631	\$ 15,089,073	\$ -	\$ 36,642
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 32,300,217</b>	<b>\$ 17,578,688</b>	<b>\$ 813,186</b>	<b>\$ 7,259,938</b>
Component Unit:				
BEDC - Economic development	\$ 6,481,785	\$ -	\$	\$
BEDC - Property management	555,159	187,458		
<b>TOTAL COMPONENT UNIT</b>	<b>\$ 7,036,944</b>	<b>\$ 187,458</b>	<b>\$ -</b>	<b>\$ -</b>

See accompanying notes to basic financial statement

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (2,539,743)		\$ (2,539,743)	
(270,731)		(270,731)	
(3,380,819)		(3,380,819)	
(2,749,702)		(2,749,702)	
(442,392)		(442,392)	
(2,915,619)		(2,915,619)	
(92,486)		(92,486)	
563,488		563,488	
5,263,100		5,263,100	
(343,258)		(343,258)	
(321,045)		(321,045)	
(334,282)		(334,282)	
\$ (7,563,489)		\$ (7,563,489)	
	\$ 883,816	\$ 883,816	
	2,001,401	2,001,401	
	(1,271,778)	(1,271,778)	
	1,142,362	1,142,362	
	(644,276)	(644,276)	
	(704,019)	(704,019)	
	(492,422)	(492,422)	
	\$ 915,084	\$ 915,084	
\$ (7,563,489)	\$ 915,084	\$ (6,648,405)	

\$ (6,481,785)  
(367,701)

\$ (6,849,486)

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENT OF ACTIVITIES (CONT.)

For the Year Ended September 30, 2010

	Net (Expense) Revenue and Changes in Net Assets			
	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
CHANGE IN NET ASSETS:				
Net Income (Expense)	\$ (7,563,489)	\$ 915,084	\$ (6,648,405)	\$ (6,849,486)
General Revenues:				
Taxes:				
Ad valorem	\$ 5,289,373	\$	\$ 5,289,373	\$
Sales	4,138,591		4,138,591	1,379,761
Other	2,964,130		2,964,130	
Interest on investments	2,646	9,441	12,087	16,402
Miscellaneous	226,523	256,175	482,698	
Gain on sale of capital assets	11,657	284,829	296,486	(46,304)
Transfers	1,017,618	(1,020,000)	(2,382)	2,382
Total General Revenue	<u>\$ 13,650,538</u>	<u>\$ (469,555)</u>	<u>\$ 13,180,983</u>	<u>\$ 1,352,241</u>
CHANGE IN NET ASSETS	\$ 6,087,049	\$ 445,529	\$ 6,532,578	\$ (5,497,245)
NET ASSETS - BEGINNING OF YEAR AS RESTATED	<u>18,663,930</u>	<u>22,805,535</u>	<u>41,469,465</u>	<u>7,431,642</u>
NET ASSETS - END OF YEAR	<u>\$ 24,750,979</u>	<u>\$ 23,251,064</u>	<u>\$ 48,002,043</u>	<u>\$ 1,934,397</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

BALANCE SHEETS  
GOVERNMENTAL FUNDS

September 30, 2010

	<u>Major Fund</u> General Fund	<u>Nonmajor Fund</u> Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
ASSETS:			
Pooled cash and cash equivalents	\$ 154,211	\$ 168,036	\$ 322,247
Non pooled cash and cash equivalents	1,172	30	1,202
Investments	1,813	66,970	68,783
Receivables, net	1,245,750	1,398,328	2,644,078
Internal balances	27,800	(27,800)	-
Inventory	18,564		18,564
Prepaid expense	1,539		1,539
Restricted assets		236,777	236,777
<b>TOTAL ASSETS</b>	<b>\$ 1,450,849</b>	<b>\$ 1,842,341</b>	<b>\$ 3,293,190</b>
<u>LIABILITIES AND FUND BALANCES</u>			
LIABILITIES:			
Accounts payable	\$ 727,012	\$ 304,606	\$ 1,031,618
Accrued salaries	165,689	11,880	177,569
Deferred ad valorem taxes	430,562	131,415	561,977
Compensated absences	938,133		938,133
<b>TOTAL LIABILITIES</b>	<b>\$ 2,261,396</b>	<b>\$ 447,901</b>	<b>\$ 2,709,297</b>
FUND EQUITY:			
Reserved for:			
Self insurance	\$ 82,183		\$ 82,183
Inventory	18,564		18,564
Prepaid insurance	1,539		1,539
Debt service		11,550	11,550
Construction		1,129,436	1,129,436
Unreserved	(912,833)		(912,833)
Unreserved, reported in:			
Debt service funds		(27,800)	(27,800)
Special revenue funds		281,254	281,254
<b>TOTAL FUND BALANCES</b>	<b>\$ (810,547)</b>	<b>\$ 1,394,440</b>	<b>\$ 583,893</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,450,849</b>	<b>\$ 1,842,341</b>	<b>\$ 3,293,190</b>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

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

September 30, 2010

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$	583,893
Amounts reported for governmental activities in the statement of net assets 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 \$43,223,521.		31,431,322
Some of the City's taxes will be collected after year end, but are not available soon enough to pay for the current period's expenditures and are reported as deferred revenue in the governmental funds.		561,977
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 \$179,163.		163,194
Deferred bond issuance costs are not current financial resources and are not reported in the governmental funds balance sheet.		100,718
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds balance sheet		<u>(8,090,125)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>24,750,979</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

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

For the Year Ended September 30, 2010

	<u>Major Fund</u>	<u>Nonmajor Fund</u>	Total
	General Fund	Other Governmental Funds	Governmental Funds
<b>REVENUES:</b>			
Ad valorem taxes	\$ 4,123,821	\$ 1,140,589	\$ 5,264,410
Sales taxes	4,138,591		4,138,591
Other taxes	2,662,417	301,713	2,964,130
Fines	339,362		339,362
Licenses and fees	121,543		121,543
Charges for services	325,705		325,705
Intergovernmental	1,209,177		1,209,177
Interest	2,157	489	2,646
Grants and contributions	43,936	7,992,546	8,036,482
Miscellaneous	118,811	630,079	748,890
Total Revenue	<u>\$ 13,085,520</u>	<u>\$ 10,065,416</u>	<u>\$ 23,150,936</u>
<b>EXPENDITURES:</b>			
Current:			
City Council	\$ 107,226	\$	\$ 107,226
Administration	213,863		213,863
City Secretary	75,267		75,267
Finance/accounting	299,297		299,297
Municipal Court	270,731		270,731
Police	3,904,670		3,904,670
Fire	2,510,598		2,510,598
Development services	530,752		530,752
Street	1,920,602		1,920,602
Health	227,274		227,274
Community services	424,930		424,930
Intergovernmental	198,017		198,017
Utility billing	193,794		193,794
Community facilities	523,813		523,813
Operations support	149,199		149,199
Purchasing/warehouse	164,641		164,641
Parks and recreation	921,633		921,633
Fleet services	460,850		460,850
City Attorney	166,296		166,296
Public works/engineering	311,598		311,598
Emergency management	25,662		25,662
Human resources	201,351		201,351
Fire Marshal	113,740		113,740
General fund contingency	103,296		103,296
Information technology	439,028		439,028
Transportation museum	119,245		119,245
Other	61,525		61,525
Special revenue funds		1,700,056	1,700,056
Capital outlay		6,489,587	6,489,587
Debt Service:			
Principal		945,000	945,000
Interest		297,458	297,458
Fiscal agent fees		823	823
Total Expenditures	<u>\$ 14,638,898</u>	<u>\$ 9,432,924</u>	<u>\$ 24,071,822</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ (1,553,378)</u>	<u>\$ 632,492</u>	<u>\$ (920,886)</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, 2010

	<u>Major Fund</u> General Fund	<u>Nonmajor Fund</u> Other Governmental Funds	Total Governmental Funds
OTHER FINANCING SOURCES (USES):			
Transfers in	\$ 1,022,500	\$ 7,507	\$ 1,030,007
Transfers out	(7,507)	(4,882)	(12,389)
Proceeds from sale of capital assets	11,657		11,657
Net Other Financing Sources (Uses)	<u>\$ 1,026,650</u>	<u>\$ 2,625</u>	<u>\$ 1,029,275</u>
NET CHANGE IN FUND BALANCES	\$ (526,728)	\$ 635,117	\$ 108,389
FUND BALANCE - BEGINNING OF YEAR AS RESTATED	<u>(283,819)</u>	<u>759,323</u>	<u>475,504</u>
FUND BALANCE - END OF YEAR	<u><u>\$ (810,547)</u></u>	<u><u>\$ 1,394,440</u></u>	<u><u>\$ 583,893</u></u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

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

For the Year Ended September 30, 2010

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	108,389
The change in net assets 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		7,106,103
Depreciation and amortization		(2,247,321)
Governmental funds report bond issuance costs as expenditures while governmental activities report these costs over the estimated lives of the related bonds as an adjustment of interest expense.		
Current amortization of bond issuance costs		(29,451)
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 assets.		
Principal payments on long-term debt		1,303,917
Additional accrual of compensated absences		(156,876)
Changes in bond premiums		5,864
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.		24,963
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.		(28,539)
CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>6,087,049</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

STATEMENTS OF NET ASSETS  
PROPRIETARY FUNDS

September 30, 2010

	<u>Business-Type Activities - Enterprise Fund</u>			
	<u>Water and Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Airport Fund</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
Current Assets:				
Pooled cash and cash equivalents	\$ (408,415)	\$ 22,948	\$ 33,333	\$ (352,134)
Non pooled cash and cash equivalents	2,600	659	400	3,659
Investments	2,604,056	1,007,275		3,611,331
Investments designated for closure and postclosure		973,045		973,045
Accounts receivable, net	1,122,871	393,362	68,325	1,584,558
Inventory	767,651		101,683	869,334
Total Current Assets	<u>\$ 4,088,763</u>	<u>\$ 2,397,289</u>	<u>\$ 203,741</u>	<u>\$ 6,689,793</u>
Noncurrent Assets:				
Restricted assets	\$ 635,181			\$ 635,181
Deferred charges	249,286	11,486		260,772
Capital assets, net	24,098,711	7,951,321	3,367,899	35,417,931
Total Noncurrent Assets	<u>\$ 24,983,178</u>	<u>\$ 7,962,807</u>	<u>\$ 3,367,899</u>	<u>\$ 36,313,884</u>
<b>TOTAL ASSETS</b>	<u>\$ 29,071,941</u>	<u>\$ 10,360,096</u>	<u>\$ 3,571,640</u>	<u>\$ 43,003,677</u>
<b><u>LIABILITIES</u></b>				
Current Liabilities:				
Accounts payable	\$ 254,566	\$ 82,090	\$ 41,711	\$ 378,367
Accrued salaries	26,866	20,594	3,886	51,346
Capital leases payable	206,275	2,138,558	11,320	2,356,153
Notes payable			51,000	51,000
Bonds payable	499,819			499,819
Tax notes payable		685,000		685,000
Compensated absences	61,958	36,432	7,164	105,554
Total Current Liabilities	<u>\$ 1,049,484</u>	<u>\$ 2,962,674</u>	<u>\$ 115,081</u>	<u>\$ 4,127,239</u>
Liabilities Payable from Restricted Assets:				
Bonds payable	\$ 635,181			\$ 635,181
Total Liabilities Payable from Restricted Funds	<u>\$ 635,181</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 635,181</u>
Noncurrent Liabilities:				
Deferred revenue			\$ 116,828	\$ 116,828
Compensated absences	19,782	8,808	1,104	29,694
Customer water meter deposits	611,777			611,777
Notes payable			372,329	372,329
Bonds payable	10,232,403			10,232,403
Tax notes payable		700,000		700,000
Accrued landfill closure and postclosure care costs		2,927,162		2,927,162
Total Noncurrent Liabilities	<u>\$ 10,863,962</u>	<u>\$ 3,635,970</u>	<u>\$ 490,261</u>	<u>\$ 14,990,193</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 12,548,627</u>	<u>\$ 6,598,644</u>	<u>\$ 605,342</u>	<u>\$ 19,752,613</u>
<b><u>NET ASSETS</u></b>				
Invested in capital assets, net of related debt	\$ 12,525,033	\$ 4,427,763	\$ 2,933,250	\$ 19,886,046
Unrestricted	3,998,281	(666,311)	33,048	3,365,018
<b>TOTAL NET ASSETS</b>	<u>\$ 16,523,314</u>	<u>\$ 3,761,452</u>	<u>\$ 2,966,298</u>	<u>\$ 23,251,064</u>

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

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

For the Year Ended September 30, 2010

	<u>Business-Type Activities - Enterprise Fund</u>			Total
	Water and Sewer Fund	Sanitation Fund	Airport Fund	
<b>OPERATING REVENUES:</b>				
Charges for service	\$ 9,742,535	\$ 4,774,741	\$ 571,797	\$ 15,089,073
Miscellaneous	83,362	31,058	141,755	256,175
Total Operating Revenues	<u>\$ 9,825,897</u>	<u>\$ 4,805,799</u>	<u>\$ 713,552</u>	<u>\$ 15,345,248</u>
<b>OPERATING EXPENSES:</b>				
Personnel services	\$ 1,723,297	\$ 1,362,244	\$ 248,527	\$ 3,334,068
Supplies	273,957	398,831	497,970	1,170,758
Contractual	2,999,899	472,796	71,096	3,543,791
Maintenance	708,866	253,024	43,470	1,005,360
Sundry charges	383,651	177,600		561,251
Support services	606,000	373,800		979,800
Depreciation and amortization	1,433,426	1,238,360	451,395	3,123,181
Total Operating Expenses	<u>\$ 8,129,096</u>	<u>\$ 4,276,655</u>	<u>\$ 1,312,458</u>	<u>\$ 13,718,209</u>
<b>OPERATING GAIN (LOSS)</b>	<u>\$ 1,696,801</u>	<u>\$ 529,144</u>	<u>\$ (598,906)</u>	<u>\$ 1,627,039</u>
<b>NON-OPERATING REVENUE AND EXPENSE:</b>				
Sale of equipment	\$ 2,454	\$ 282,375		\$ 284,829
Grant income			36,642	36,642
Interest income	5,339	4,102		9,441
Interest expense	(443,952)	(48,173)	(297)	(492,422)
Total Non-Operating Revenue (Expense)	<u>\$ (436,159)</u>	<u>\$ 238,304</u>	<u>\$ 36,345</u>	<u>\$ (161,510)</u>
<b>GAIN (LOSS) BEFORE TRANSFERS</b>	<u>\$ 1,260,642</u>	<u>\$ 767,448</u>	<u>\$ (562,561)</u>	<u>\$ 1,465,529</u>
<b>OPERATING TRANSFERS:</b>				
Operating transfers in	\$	\$	\$ 256,000	\$ 256,000
Operating transfers out	(961,000)	(315,000)		(1,276,000)
Net Operating Transfers	<u>\$ (961,000)</u>	<u>\$ (315,000)</u>	<u>\$ 256,000</u>	<u>\$ (1,020,000)</u>
<b>CHANGES IN NET ASSETS</b>	<u>\$ 299,642</u>	<u>\$ 452,448</u>	<u>\$ (306,561)</u>	<u>\$ 445,529</u>
<b>NET ASSETS - BEGINNING</b>	<u>16,223,672</u>	<u>3,309,004</u>	<u>3,272,859</u>	<u>22,805,535</u>
<b>NET ASSETS - ENDING</b>	<u>\$ 16,523,314</u>	<u>\$ 3,761,452</u>	<u>\$ 2,966,298</u>	<u>\$ 23,251,064</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, 2010

	<u>Business-Type Activities - Enterprise Fund</u>			Total
	<u>Water and Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Airport Fund</u>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 9,689,807	\$ 4,809,985	\$ 707,508	\$ 15,207,300
Cash payments to suppliers for goods and services	(5,027,840)	(1,991,282)	(626,128)	(7,645,250)
Cash payments to employees for services	(1,705,901)	(1,358,327)	(245,431)	(3,309,659)
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,956,066</u>	<u>\$ 1,460,376</u>	<u>\$ (164,051)</u>	<u>\$ 4,252,391</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Increase in customer meter deposits	\$ 25,509			\$ 25,509
Operating transfers in			256,000	256,000
Operating transfers out	(961,000)	(315,000)		(1,276,000)
Grant income			36,642	36,642
Net Cash Provided (Used) by Noncapital Financing Activities	<u>\$ (935,491)</u>	<u>\$ (315,000)</u>	<u>\$ 292,642</u>	<u>\$ (957,849)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Principal payments on bonds	\$ (6,150,000)			\$ (6,150,000)
Proceeds from bonds	5,420,000			5,420,000
Principal payments on tax notes		(640,000)		(640,000)
Premium received on sale of bonds	128,888			128,888
Redemption premium paid on refunded bonds	(5,050)			(5,050)
Bond issuance costs	(165,679)			(165,679)
Payments on notes and capital leases	(142,983)	(84,132)	(56,666)	(283,781)
Acquisition and construction of capital assets	(211,158)	(923,933)	(40,095)	(1,175,186)
Interest expense	(386,712)	(66,532)	(297)	(453,541)
Sale of capital assets	2,454	282,375		284,829
Net Cash Used by Capital and Related Financing Activities	<u>\$ (1,510,240)</u>	<u>\$ (1,432,222)</u>	<u>\$ (97,058)</u>	<u>\$ (3,039,520)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of investments	\$ (3,189,839)	\$ (1,920,746)		\$ (5,110,585)
Sale of investments	2,799,926	\$ 1,986,413		4,786,339
Interest income	5,339	4,102		9,441
Net Cash Provided (Used) by Investing Activities	<u>\$ (384,574)</u>	<u>\$ 69,769</u>	<u>\$ -</u>	<u>\$ (314,805)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>\$ 125,761</b>	<b>\$ (217,077)</b>	<b>\$ 31,533</b>	<b>\$ (59,783)</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>(531,559)</b>	<b>240,684</b>	<b>2,200</b>	<b>(288,675)</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b><u>\$ (405,798)</u></b>	<b><u>\$ 23,607</u></b>	<b><u>\$ 33,733</u></b>	<b><u>\$ (348,458)</u></b>

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, 2010

	<u>Business-Type Activities - Enterprise Fund</u>			Total
	<u>Water and Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Airport Fund</u>	
<b>RECONCILIATION OF OPERATING INCOME TO <u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>				
OPERATING GAIN (LOSS)	\$ 1,696,801	\$ 529,144	\$ (598,906)	\$ 1,627,039
<b>ADJUSTMENTS TO RECONCILE OPERATING GAIN (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>				
Depreciation and amortization	1,433,426	1,238,360	451,395	3,123,181
Closure and postclosure care costs		101,613		101,613
Changes in assets and liabilities:				
Receivables	(136,090)	4,186	1,714	(130,190)
Inventories	(66,836)		(44,694)	(111,530)
Prepaid expense	3,408			3,408
Accounts payable	7,961	(416,844)	31,102	(377,781)
Accrued salaries	3,954	(220)	546	4,280
Compensated absences	13,442	4,137	2,550	20,129
Deferred revenue			(7,758)	(7,758)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 2,956,066</b>	<b>\$ 1,460,376</b>	<b>\$ (164,051)</b>	<b>\$ 4,252,391</b>
<b>NON CASH FINANCING ACTIVITIES:</b>				
Equipment purchased by capital lease		\$ 874,518		

See accompanying notes to basic financial statements

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2010

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 accounting and reporting policies of the City conform to U.S. generally accepted accounting principles (GAAP) applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), which includes all statements and interpretations of the National Council on Governmental Accounting unless modified by the GASB, and those principles prescribed by the American Institute of Certified Public Accountants in the publication *Audits of State and Local Governments*. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

Financial Reporting Entity

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

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

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

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

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2010

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

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

Brownwood Economic Development Corporation  
600 E. Depot St.  
Brownwood, Texas 76801

Basis of Presentation

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) 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 fund types:

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

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

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2010

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

Basis of Presentation (Cont.)

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).

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 Assets.

The City has presented the following major proprietary funds:

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

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

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

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

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2010

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

Measurement Focus/Basis of Accounting (Cont.)

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 both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets and Budgetary Accounting

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

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

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

Cash and Investments

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

Inventories

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

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2010

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

Interfund Receivables and Payables

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

Transactions Between Funds

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

Receivables

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

Capital Assets

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

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

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

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

Compensated Absences

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

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2010

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

Compensated Absences (cont.)

The City adopted a Catastrophic Leave Pool program allowing employees to donate their sick leave time for others to use in the event of a catastrophic illness. To become a member of the program an employee needs to donate a minimum of four hours of their sick leave time during open enrollment each year in September.

Members can donate as many hours as they like as long as their balance does not drop below 80 hours. When a member has a catastrophic illness, they may take up to 30 days per 12 month period from the catastrophic pool if approved by the Catastrophic Leave Pool Committee. No more than 90 days may be used from the pool during their employment. When a member leaves employment with the City all unused hours the employee has donated to the pool are removed from the pool.

Use of Estimates

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the city or through external restrictions imposed by creditors, grantors or laws or regulations of the governments.

Comparative Data/Reclassifications

Certain comparative data have been reclassified to present such amounts in a manner consistent with the current year's financial statements.

NOTE 2: PROPERTY TAX

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

NOTE 3: DEPOSITS AND INVESTMENTS

The City places its investable funds in investments authorized by Texas law in accordance with investment policies approved by the City Council. 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 which will preserve the principal of funds invested while meeting the daily cash flow demands of the entities involved and conforming to all governing statutes. The objectives of the City's investment policy are preservation of capital, liquidity and return on investment.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2010

NOTE 3: DEPOSITS AND INVESTMENTS (CONT.)

Legal Investments

The City is authorized by statute to invest in (a) U.S. Treasury Bills and Notes with a maximum remaining maturity at time of purchase of one year, (b) Repurchase Agreements with a maximum maturity at purchase of 90 days and an average maturity at any point in time not exceeding 30 days, (c) Certificates of Deposit with a maturity of one year or less insured by the Federal Deposit Insurance Corporation or collateralized by pledged securities, (d) Government/Private Sponsored Investment Funds and (e) Notes of the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Student Loan Marketing Association, Federal Farm Credit Bank and Federal Home Loan Bank with a maximum maturity of 2 years and average maturity not exceeding 1 year.

Custodial Credit Risk

The City's deposits were entirely secured at September 30, 2010 by FDIC insurance and by pledged collateral held by the City's agent in the City's name. Obligations that may be pledged as collateral must satisfy the requirements of the Texas Funds Collateral Act.

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, 2010, TexPool's portfolio maintained a weighted average maturity of approximately 34 days. The other local government investment pool utilized by the City is TexStar which is managed by First Southwest Asset Management, Inc. and JP Morgan Chase. At September 30, 2010, TexStar's portfolio maintained a weighted average maturity of approximately 46 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, 2010, The City's investments in TexPool and TexStar were both rated AAAM by Standard and Poor's.

Cash for Cash Flows Statement

Proprietary funds cash and cash equivalents at September 30, 2010 are as follows:

	Water and Sewer Fund	Sanitation Fund	Airport Fund
Pooled cash and cash equivalents	\$ (408,415)	\$ 22,948	\$ 33,333
Non pooled cash and cash equivalents	2,600	659	400
Restricted cash	17		
<b>Total</b>	<b>\$ (405,798)</b>	<b>\$ 23,607</b>	<b>\$ 33,733</b>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2010

NOTE 4: RESTRICTED ASSETS

Certain cash balances, certificates of deposit and investments are restricted by agreement or by City Council action. The following is a summary of restricted assets grouped by restriction at September 30, 2010:

	Governmental Activities	Business-type Activities
Restricted for debt service payments	\$ 11,550	\$ 635,181
Restricted for construction or purchase of fixed assets for which bonds were issued	225,227	
Total Restricted Assets	\$ 236,777	\$ 635,181

Restricted assets included \$225,363 in cash and \$646,695 in investments.

NOTE 5: RECEIVABLES

A summary of the net receivables at September 30, 2010 is as follows:

	Governmental Activities	Business-type Activities	Component Unit
Ad valorem taxes	\$ 591,555	\$ -	\$ -
Sales taxes	734,413		244,804
Utility		2,513,141	
Warrants and citations	342,957		
Airport		56,109	
Grants receivable	1,259,484	15,216	
Other receivables	185,211		
Notes receivable			3,301,301
	\$ 3,113,620	\$ 2,584,466	\$ 3,546,105
Less allowance for uncollectable accounts	(306,348)	(999,908)	
Receivables, net	\$ 2,807,272	\$ 1,584,558	\$ 3,546,105

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2010

NOTE 6: CAPITAL ASSETS

Capital asset activity in the City for the year ended September 30, 2010 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 2,452,447	\$	\$	\$ 2,452,447
Construction in progress	700,507	6,489,587	(3,625,056)	3,565,038
Total capital assets not being depreciated	<u>\$ 3,152,954</u>	<u>\$ 6,489,587</u>	<u>\$ (3,625,056)</u>	<u>\$ 6,017,485</u>
Capital assets being depreciated and amortized:				
Building and grounds	\$ 11,919,792	\$ 58,676	\$	\$ 11,978,468
Improvements	41,853,493	3,975,083		45,828,576
Machinery/equipment	9,934,914	203,488	(60,841)	10,077,561
Intangible assets	748,428	4,325		752,753
Total capital assets being depreciated and amortized	<u>\$ 64,456,627</u>	<u>\$ 4,241,572</u>	<u>\$ (60,841)</u>	<u>\$ 68,637,358</u>
Less accumulated depreciation and amortization:				
Buildings	\$ (3,414,445)	\$ (274,913)	\$	\$ (3,689,358)
Improvements	(28,613,650)	(1,435,037)		(30,048,687)
Machinery/equipment	(8,689,868)	(436,278)	60,841	(9,065,305)
Intangible assets	(319,078)	(101,093)		(420,171)
Total accumulated depreciation and amortization	<u>\$ (41,037,041)</u>	<u>\$ (2,247,321)</u>	<u>\$ 60,841</u>	<u>\$ (43,223,521)</u>
Total Capital Assets Being Depreciated and Amortized, Net	<u>\$ 23,419,586</u>	<u>\$ 1,994,251</u>	<u>\$ -</u>	<u>\$ 25,413,837</u>
Governmental Activities Capital Assets, Net	<u>\$ 26,572,540</u>	<u>\$ 8,483,838</u>	<u>\$ (3,625,056)</u>	<u>\$ 31,431,322</u>
<b>Business-type Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 383,351	\$	\$	\$ 383,351
Construction in progress	278,448	21,442	(299,890)	-
Total capital assets not being depreciated	<u>\$ 661,799</u>	<u>\$ 21,442</u>	<u>\$ (299,890)</u>	<u>\$ 383,351</u>
Capital assets being depreciated and amortized:				
Building and grounds	\$ 3,126,893	\$ 12,942	\$	\$ 3,139,835
Improvements	72,042,131	496,338		72,538,469
Landfill cell development	9,840,873			9,840,873
Machinery/equipment	14,100,270	944,352	(494,975)	14,549,647
Total capital assets being depreciated and amortized	<u>\$ 99,110,167</u>	<u>\$ 1,453,632</u>	<u>\$ (494,975)</u>	<u>\$ 100,068,824</u>
Less accumulated depreciation and amortization:				
Buildings	\$ (1,917,106)	\$ (99,751)	\$	\$ (2,016,857)
Improvements	(45,010,292)	(1,575,442)		(46,585,734)
Landfill cell development	(4,107,213)	(413,214)		(4,520,427)
Machinery/equipment	(11,371,429)	(1,034,772)	494,975	(11,911,226)
Total accumulated depreciation and amortization	<u>\$ (62,406,040)</u>	<u>\$ (3,123,179)</u>	<u>\$ 494,975</u>	<u>\$ (65,034,244)</u>
Total Capital Assets Being Depreciated and Amortized, Net	<u>\$ 36,704,127</u>	<u>\$ (1,669,547)</u>	<u>\$ -</u>	<u>\$ 35,034,580</u>
Business-type Activities Capital Assets, Net	<u>\$ 37,365,926</u>	<u>\$ (1,648,105)</u>	<u>\$ (299,890)</u>	<u>\$ 35,417,931</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2010

NOTE 6: CAPITAL ASSETS (CONT.)

Capital asset activity in Brownwood Economic Development Corporation for the year ended September 30, 2010 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 48,342	\$	\$ (48,342)	\$
Land held for development	251,077	138,976		390,053
Improvements		119,449		119,449
Total capital assets not being depreciated	<u>\$ 299,419</u>	<u>\$ 258,425</u>	<u>\$ (48,342)</u>	<u>\$ 509,502</u>
Capital Assets Being Depreciated:				
Furniture and equipment	\$ 44,636	\$	\$ (44,636)	\$
Improvements	123,876		(123,876)	
Buildings and grounds	3,392,753		(3,392,753)	
Total capital assets being depreciated	<u>\$ 3,561,265</u>	<u>\$</u>	<u>\$ (3,561,265)</u>	<u>\$</u>
Less accumulated depreciation	(741,726)	(82,553)	824,279	
Total Capital Assets Being Depreciated, Net	<u>\$ 2,819,539</u>	<u>\$ (82,553)</u>	<u>\$ (2,736,986)</u>	<u>\$ -</u>
Business-type Capital Assets, Net	<u>\$ 3,118,958</u>	<u>\$ 175,872</u>	<u>\$ (2,785,328)</u>	<u>\$ 509,502</u>

Assets under capital leases totaled \$2,574,968 in governmental funds and \$7,875,318 in the business type funds. This equipment is being amortized over 3 to 20 years. The amount of the amortization included above for the year ended September 30, 2010 was \$334,602 and \$893,355 in the governmental and business-type activities respectively.

Depreciation and amortization expense was charged to the following functions:

Governmental Activities:	
General government	\$ 211,476
Police	115,255
Fire	108,132
Code enforcement	393
Street	1,490,060
Health	6,161
Community facilities	150,588
Parks and recreation	114,544
Public works/engineering	31,660
Emergency management	8,020
Fleet services	684
Information technology	8,903
Special revenue activities	1,445
	<u>\$ 2,247,321</u>
Business-type Activities:	
Water	\$ 854,998
Waste water	387,914
Waste water treatment	190,512
Sanitation	345,252
Landfill	893,108
Airport	451,395
	<u>\$ 3,123,179</u>
Component Unit:	
BEDC - Property management	<u>\$ 82,553</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2010

NOTE 7: LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended September 30, 2010:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
<b>Bonds Payable:</b>					
Certificates of obligation	\$ 4,940,000	\$	\$ (320,000)	\$ 4,620,000	\$ 330,000
General obligation bonds	3,005,000		(625,000)	2,380,000	615,000
	<u>\$ 7,945,000</u>	<u>\$ -</u>	<u>\$ (945,000)</u>	<u>\$ 7,000,000</u>	<u>\$ 945,000</u>
Deferred amount for premium	60,924		(5,864)	55,060	
Total Bonds Payable	<u>\$ 8,005,924</u>	<u>\$ -</u>	<u>\$ (950,864)</u>	<u>\$ 7,055,060</u>	<u>\$ 945,000</u>
Compensated absences	1,276,998	1,053,003	(896,127)	1,433,874	938,133
Total Governmental Activities	<u>\$ 9,282,922</u>	<u>\$ 1,053,003</u>	<u>\$ (1,846,991)</u>	<u>\$ 8,488,934</u>	<u>\$ 1,883,133</u>
<b>Business-type Activities:</b>					
<b>Bonds and Notes Payable:</b>					
Certificates of obligation	\$ 10,110,000	\$ 370,000	\$ (5,590,000)	\$ 4,890,000	\$ 265,000
General obligation bonds	1,920,000	5,050,000	(560,000)	6,410,000	870,000
Tax notes payable	2,025,000		(640,000)	1,385,000	685,000
Notes payable	474,492		(51,163)	423,329	51,000
	<u>\$ 14,529,492</u>	<u>\$ 5,420,000</u>	<u>\$ (6,841,163)</u>	<u>\$ 13,108,329</u>	<u>\$ 1,871,000</u>
Deferred amount on refunding		(61,410)	2,791	(58,619)	
Deferred amount for premium	3,657	128,888	(6,523)	126,022	
	<u>\$ 14,533,149</u>	<u>\$ 5,487,478</u>	<u>\$ (6,844,895)</u>	<u>\$ 13,175,732</u>	<u>\$ 1,871,000</u>
Compensated absences	115,119	113,865	(93,736)	135,248	105,554
Total Business-type Activities	<u>\$ 14,648,268</u>	<u>\$ 5,601,343</u>	<u>\$ (6,938,631)</u>	<u>\$ 13,310,980</u>	<u>\$ 1,976,554</u>
Total Primary Government	<u>\$ 23,931,190</u>	<u>\$ 6,654,346</u>	<u>\$ (8,785,622)</u>	<u>\$ 21,799,914</u>	<u>\$ 3,859,687</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. A summary of the bonds follows:

	Date of Issue	Original Amount	Interest Rate	Maturity Date	Amount Outstanding 9/30/2010
<b>Combination tax and revenue certificates of obligation:</b>					
Series 2002	4/15/2002	\$ 2,000,000	4.45 to 5.25%	3/15/2021	\$ 1,435,000
Series 2003	7/15/2003	2,375,000	3.0 to 4.0%	3/15/2018	1,470,000
Series 2005	9/1/2005	1,995,000	4.0 to 4.5%	3/15/2026	1,715,000
<b>Combination tax and revenue refunding general obligation:</b>					
Series 2005	9/1/2005	4,970,000	3.5 to 3.625%	3/15/2015	2,380,000
					<u>\$ 7,000,000</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2010

NOTE 7: LONG-TERM OBLIGATIONS (CONT.)

The following represents the future maturities on these bonds:

Year Ending September 30,	Principal	Interest	Total
2011	\$ 945,000	\$ 262,783	\$ 1,207,783
2012	955,000	228,220	1,183,220
2013	965,000	193,475	1,158,475
2014	765,000	161,581	926,581
2015	575,000	135,980	710,980
2016-2020	1,840,000	405,605	2,245,605
2021-2025	810,000	111,800	921,800
2026	145,000	3,263	148,263
Total	<u>\$ 7,000,000</u>	<u>\$ 1,502,707</u>	<u>\$ 8,502,707</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. Tax notes were used to fund construction of a new cell at the municipal solid waste landfill. On March 15, 2010, the City of Brownwood issued \$5,050,000 in General Obligation Refunding Bonds, Series 2010. The bond sale was used to refund Series 2000 Combination Tax and Revenue Certificates of Obligation in order to lower the overall debt service requirements of the City. As a result of the refunding, the City reduced its debt service payments by \$312,780 and obtained an economic gain (difference between present value of the debt service payment of the old and new debt) of \$264,930. A summary of the bonds and tax notes follows:

	Date of Issuance	Original Amount	Interest Rate	Maturity Date	Amount Outstanding 9/30/2010
Combination tax and revenue certificates of obligation, Series 2004	3/15/2004	\$ 6,335,000	.3 to 3.35%	3/15/2022	\$ 4,890,000
Combination tax and revenue refunding general obligation:					
Series 2003	7/15/2003	3,815,000	2.0 to 3.125%	9/1/2012	935,000
Series 2005	9/1/2005	1,030,000	3.5 to 3.625%	3/15/2015	425,000
General obligation refunding bonds,					
Series 2010	3/15/2010	5,050,000	2.0 to 4.0%	3/15/2021	5,050,000
Tax Notes, Series 2009	3/1/2009	2,025,000	2.5%	3/15/2012	1,385,000
					<u>\$ 12,685,000</u>

The following represents the future maturities on these bonds and tax notes:

Year Ending September 30,	Principal	Interest	Total
2011	\$ 1,820,000	\$ 349,723	\$ 2,169,723
2012	1,980,000	301,647	2,281,647
2013	820,000	259,696	1,079,696
2014	830,000	240,723	1,070,723
2015	750,000	221,643	971,643
2016-2020	4,120,000	757,040	4,877,040
2021-2025	2,365,000	152,581	2,517,581
Total	<u>\$ 12,685,000</u>	<u>\$ 2,283,053</u>	<u>\$ 14,968,053</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2010

NOTE 7: LONG-TERM OBLIGATIONS (CONT.)

The Airport Fund borrowed \$160,000 from Brownwood Economic Development Corporation on October 1, 2003 to build a building at the airport to be leased by Federal Express. The note is a one year note due on September 30 with a principal payment of \$16,000 due on September 15. The expectation is that it will be refinanced each year on the same terms with interest at zero percent. The outstanding balance at September 30, 2010 is \$48,000.

The Airport Fund borrowed \$520,000 from Brownwood Economic Development Corporation on September 1, 2004 to build T hangers to be leased to customers of the Brownwood airport. Payments are monthly installments equal to the total gross monthly rents collected from rentals of the hangers for the prior month. The note bears interest at zero percent and is payable on the 15th of each month. The outstanding balance at September 30, 2010 is \$375,329.

The following represents the future maturities on these notes:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 51,000	\$	\$ 51,000
2012	51,000		51,000
2013	51,000		51,000
2014	35,000		35,000
2015	35,000		35,000
2016-2020	175,000		175,000
2021-2025	25,329		25,329
Total	<u>\$ 423,329</u>	<u>\$ -</u>	<u>\$ 423,329</u>

Changes in long-term obligations of Brownwood Economic Development Corporation for the year ended September 30, 2010 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Compensated absences	\$ 50,755	\$ 31,083	\$ (31,920)	\$ 49,918	\$ 31,932
Business-type Activities:					
Note payable	\$ 175,815	\$ -	\$ (175,815)	\$ -	\$ -
Total	<u>\$ 226,570</u>	<u>\$ 31,083</u>	<u>\$ (207,735)</u>	<u>\$ 49,918</u>	<u>\$ 31,932</u>

Interest expense on BEDC was \$1,454 for the year ended September 30, 2010.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2010

NOTE 8: CAPITAL LEASE OBLIGATIONS

The City is obligated under certain leases which contain cancellation provisions subject to annual appropriations by the City Council. These have been recorded as capital leases and are supported by notes payable with one year terms due on September 30. The notes are being repaid over a period that exceeds the one year term. All represent short term obligations expected to be refinanced. The capital leases have been included in current liabilities due to the short-term nature of each underlying note.

Changes in capital lease obligations are as follows:

	Beginning Balance	Advances	Payments	Ending Balance
Governmental Activities	\$ 898,241	\$	\$ 358,917	\$ 539,324
Business-type Activities	2,588,771	874,518	1,107,136	2,356,153
Total	\$ 3,487,012	\$ 874,518	\$ 1,466,053	\$ 2,895,477

The following is a schedule of maturities in accordance with the quarterly payment terms of the leases and notes:

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 281,487	\$ 8,753	\$ 1,111,467	\$ 41,390
2012	181,950	3,770	528,542	19,921
2013	63,204	860	257,445	12,236
2014	12,683	96	198,874	7,688
2015			259,825	3,236
Total	\$ 539,324	\$ 13,479	\$ 2,356,153	\$ 84,471

The above leases are secured by capital assets.

NOTE 9: NOTES PAYABLE - BEDC

BEDC has a note payable to Citizens National Bank of Brownwood dated September 30, 2010 with an original balance of \$2,500,000. The note bears interest at 65% of Wall Street Journal prime rate which was 2.015% at September 30, 2010 and is payable in eleven monthly payments of \$23,020 beginning October 31, 2010 with the balance due on the twelfth payment. The note is secured by the assignment of a promissory note from Superior Essex Communications LP to BEDC. Proceeds of the note were used to provide funding for the City's park project.

Changes in short-term notes payable are as follows:

	Balance 9/30/09	Advances	Payments	Balance 9/30/10
Citizens National Bank	\$ -	\$ 5,000,000	\$ 2,500,000	\$ 2,500,000

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2010

NOTE 10: 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 \$2,927,162 as of September 30, 2010 which is based on 20.58% usage (filled) of the overall landfill. It is estimated that an additional \$5,022,998 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, \$7,950,159, 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, 2010. 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 \$8,800,078 and is being met by the government financial test specified in 30 TAC Chapter 37.271.

NOTE 11: PENSION PLANS

Texas Municipal Retirement System:

Plan Description

The City provides pension benefits for all of its eligible employees except firefighters through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2009	Plan Year 2010
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5,0/20	60/5,0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees):		
Plan 10190 City	70% of CPI Repeating	70% of CPI Repeating
Plan 30190 Health Department	0% of CPI	0% of CPI

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2010

NOTE 11: PENSION PLANS (CONT.)

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a leviabale percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

	Plan 10190	Plan 30190
1. Annual Required Contribution (ARC)	1,104,392	34,741
2. Interest on Net Pension Obligation	0	0
3. Adjustment to the ARC	0	0
4. Annual Pension cost (APC)	1,104,392	34,741
5. Contributions Made	1,104,392	34,741
6. Increase (decrease in net pension obligation)	0	0
7. Net Pension Obligation/(Asset), beginning of year	0	0
8. Net Pension Obligation/(Asset), end of year	0	0

Plan 10190

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/(Asset)
2008	906,497	906,497	100%	0
2009	1,010,070	1,010,070	100%	0
2010	1,104,392	1,104,392	100%	0

Plan 30190

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/(Asset)
2008	35,573	35,573	100%	0
2009	36,192	36,192	100%	0
2010	34,741	34,741	100%	0

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2010

NOTE 11: PENSION PLANS (CONT.)

Contributions (Cont.)

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuation. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

Valuation Date	12/31/2007	12/31/2008	12/31/2009
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period:			
Plan 10190	30 years; closed period	29 years; closed period	28 years; closed period
Plan 30190	25 years; closed period	24 years; closed period	24 years; closed period
Amortization Period for New Gains/Losses:			
Plan 10190	30 years	30 years	30 years
Plan 30190	25 years	25 years	25 years
Asset Valuation Method	Amortized Cost	Amortized Cost	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return	7.0%	7.5%	7.5%
Projected Salary Increase	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation at Cost-of-Living Adjustments:	3.00%	3.00%	3.00%
Plan 10190	2.1%	2.1%	2.1%
Plan 30190	0.0%	0.0%	0.0%

The funded status as of December 31, 2009 the most recent actuarial valuation date is as follows:

	Actuarial Valuation Date	Actuarial value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
		(1)	(2)	(3)	(4)	(5)	(6)
				(1)/(2)	(2)-(1)		(4)/(5)
Plan 10190	12/31/2009	\$ 16,697,195	\$ 25,173,376	66.3%	\$ 8,476,181	\$ 8,410,388	100.8%
Plan 30190	12/31/2009	\$ 432,558	\$ 531,041	81.5%	\$ 98,483	\$ 364,781	27.0%

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Brownwood Firefighter's Relief and Retirement Fund:

Schedule of Employer Contributions

Plan Year Ended December 31	Actual Contribution	Percentage of Required Contribution Contributed
2006	159,781	100%
2007	187,010	100%
2008	223,094	100%
2009	273,058	100%
2010	298,275	100%

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2010

NOTE 11: PENSION PLANS (CONT.)

Notes to Required Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2007
Actuarial cost method	Entry Age
Amortization method	Level percentage of projected payroll, open
Amortization period	29 years
Asset valuation method	Market value with equities smoothed by a 5-year deferred recognition method with a 90%/100% corridor on market
Actuarial assumptions:	
Investment rate of return, net of expenses, compounded annually	7.5% per year
Inflation	4.0% per year
Projected salary increases including promotion and longevity	4.0% per year on average for a 30 year career
Payroll growth rate	4.0% per year
Postretirement cost-of-living adjustments	None

Actuarial Information

A. Plan Description

The Board of Trustees of the Brownwood Firefighter's Relief and Retirement Fund is the administrator of a single-employer defined benefit pension plan. Firefighters in the Brownwood Fire Department are covered by the Brownwood Firefighters Relief and Retirement Fund.

The table below summarizes the membership of the fund reflected in the actuarial valuation as of December 31, 2007

	<u>December 31, 2007</u>
1. Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	21
2. Current members	
a. Fully vested	5
b. Nonvested	<u>27</u>
3. Total	53

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2010

NOTE 11: PENSION PLANS (CONT.)

Actuarial Information (Cont.)

The Brownwood Firefighter's Relief and Retirement Fund provides service retirement, death, disability and withdrawal benefits. These benefits fully vest after 20 years of credited service. Firefighter's may retire at age 50 with 20 years of service. The Plan effective January 1, 2005 provides a monthly benefit for firefighters at retirement, payable in a joint and two-thirds to spouse form of annuity, equal to 50.00% of highest 60-month average salary plus \$54.50 per month for each year of service in excess of 20 years.

A firefighter has the option to participate in a Retroactive Deferred Option Plan (RETRO DROP) which will provide a lump sum benefit and a reduced annuity upon termination of employment. Firefighters must be at least age 52 with 20 years of service at the selected "RETRO DROP benefit calculation date" (which is prior to date of employment termination). Optional forms are also available to provide 100% to the surviving spouse instead of the standard two-thirds form and to coordinate with Social Security.

There is no provision for automatic postretirement benefit increases. The fund has the authority to provide, and has in the past provided for, ad hoc postretirement benefit increases. The benefit provisions of this plan are authorized by the Texas Local Fire Fighter's Retirement Act (TLFFRA). TLFFRA provides the authority and procedure to amend benefit provisions.

B. Contributions Required and Contributions Made

1. The contribution provisions of this plan are authorized by TLFFRA. TLFFRA provides the authority and procedure to change the amount of contributions determined as a percentage of pay by each firefighter and as a percentage of payroll by the city.
2. While the actual contribution rates are not actuarially determined, state law requires that each plan of benefits adopted by the fund must be approved by an eligible actuary. The actuary certifies that the contributions to be made by the firefighters and the city are expected to provide an adequate financing arrangement. Using the entry age actuarial cost method the plan's normal cost contribution rate is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost contribution rate is used to amortize the plan's unfunded actuarial accrued liability (UAAL), and the number of years needed to amortize the plan's UAAL is determined using a level percentage of payroll method.

The costs of administering the plan are financed from the trust.

3. The current funding policy of the Brownwood Firefighter's Relief and Retirement Fund requires contributions equal to 8.00% of pay by the firefighters and 20.00% of payroll by the City of Brownwood. The 29-year amortization period in the December 31, 2007 actuarial valuation is based on the assumption that these contribution rates will continue to be made into the future.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2010

NOTE 11: PENSION PLANS (CONT.)

Annual Pension Cost

For the fiscal year ending September 30, 2010, the City of Brownwood's Annual Pension Cost (APC) for the Brownwood Firefighter's Relief and Retirement Fund was equal to \$298,275 as described in item 4 of the Net Pension Obligation development below. Based on the results of the December 31, 2007 actuarial valuation of the Plan Effective January 1, 2005, the most recent actuarial valuation, the Board's actuary found that the fund has an adequate financing arrangement based on the current level of the firefighter contribution rate and the City of Brownwood contribution rate. The current funding policy of the Fund requires firefighters to contribute 8.00% of pay and the City to contribute 20.00% of payroll. The December 31, 2007 actuarial valuation assumes that these contribution rates will continue to be made in the future.

The Annual Required contributions (ARC) by the City for the fiscal year ending September 30, 2010 were based on the results of the actuarial valuation as of December 31, 2007 using the entry age actuarial cost method and were determined in compliance with the GASB Statement No. 27 parameters. The actuarial methods and assumptions used for the two most recent valuations are shown below:

Valuation date	12/31/2005	12/31/2007
Actuarial cost method	Entry age	Entry age
Amortization method	Level percent of payroll, open	Level percent of payroll, open
Amortization period for ARC	29 years	29 years
Asset valuation method	5-year adjusted market value	5-year adjusted market value
Actuarial assumptions		
• Investment return	7.5%	7.25%
• Projected salary increase	4.0% plus promotion and longevity	4.0% plus promotion and longevity
• Inflation	4.0%	4.0%
• Cost-of-living increases	0.0%	0.0%
• Payroll increases	4.0%	4.0%
ARC as percent of payroll	16.0%	20.0%

1. Annual Required Contributions (ARC for the fiscal year ending September 30, 2010	\$ 298,275
2. Interest on NPO	+ 0
3. Adjustment to ARC	+ 0
4. Annual Pension Cost (APC)(sum of 1,2, and 3)	\$ 298,275
5. Actual City Contributions made during the fiscal year	- 298,275
6. Increase (decrease) in NPO (subtract 5 from 4)	\$ 0
7. NPO at October 1, 2009	Not Available
8. NPO at September 30, 2010 (sum of 6 and 7)	Not Available

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2010

NOTE 12: TRANSFERS AND INTERFUND BALANCES

Transfers to/from other funds during the year ended September 30, 2010, consist of the following:

From Police Seizure Fund to the General Fund to reimburse expenditures	\$	2,500
From Utility Fund to the General Fund to supplement the functions of that fund		705,000
From Sanitation Fund to General Fund to supplement the functions of that fund		315,000
From General Fund to Special Projects Fund to supplement the functions of that fund		7,500
From General Fund to Parks Grant Fund to close out the fund		7
From Utility Fund to Airport Fund to supplement functions of that fund		256,000

Internal Balance:

Debt Service Fund owed General Fund for funds transferred to supplement debt service payments.		27,800
--	--	--------

NOTE 13: PRIOR PERIOD ADJUSTMENTS

Governmental activities beginning net assets were restated to reflect the correction of errors discovered in the current year. Fixed assets of \$108,501 were disposed of in prior years and not removed from the accounting records, fixed assets of \$40,806 less accumulated depreciation of \$8,161 acquired in prior years were not capitalized and there was a computational error of \$53,416 in compensated absences. The correction of these errors resulted in a net decrease of beginning net assets of \$22,440.

The Governmental Fund Balance Sheet at September 30, 2009 included bond issuance costs of \$130,168, construction in progress of \$700,507 and bond premiums of \$60,923 in error and failed to include compensated absences of \$884,717 in error. The assets and liabilities were corrected resulting in a decrease in General fund balance of \$884,717, a decrease in Debt Service fund balance of \$69,245 and a decrease in Capital Projects fund balance of \$700,507. Beginning fund balances on the Statements of Revenue, Expenditures and Changes in Fund Balance have been restated accordingly.

NOTE 14: COMMITMENTS

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

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2010

NOTE 14: COMMITMENTS (CONT.)

In September 2006, the BEDC board approved an incentive to 3M Company. At September 30, 2010 there is \$72,000 remaining on this incentive. In September 2007, the BEDC board approved a five year financial incentive for 3M Company of \$250,000. At September 30, 2010 there is \$104,500 remaining to be paid on this incentive. In November 2009, the BEDC board approved a five year incentive to 3M Company of \$400,000. At September 30, 2010 there is \$400,000 remaining to be paid on this incentive. In November 2008, the BEDC board approved a five year incentive to Biovance Technologies, Inc. of \$100,000. At September 30, 2010 there is \$66,000 remaining to be paid on this incentive. In June 2010, the BEDC board approved a four year incentive to Wall Moulding and Associates of \$43,750. At September 30, 2010 there is \$31,750 remaining to be paid on this incentive.

In May, 2008 voters approved using \$6,000,000 of economic sales tax for a multi-phase park project over the next several years. During the year BEDC spent \$5,743,963 on this project which completes their commitment.

During the current year a financial incentive to Performance Pipe not to exceed \$100,000 and a financial incentive to Superior Essex Communications LP of up to \$250,000 were approved by BEDC but were not finalized by September 30, 2010. The BEDC board approved the purchase of ten acres from Brownwood Industrial Foundation for \$25,000 for Mesquite Fuels but the purchase was not finalized by September 30, 2010.

The City of Brownwood has the primary liability for payment of principal and interest on Revenue Bonds issued by Brown County Water Improvement District #1 with an approved original balance of \$20,490,000. At September 30, 2010 the unpaid balance was \$14,215,000 with an additional \$4,635,000 to be drawn. Principal payments on the bonds began February 1, 2009 and the final payment is due February 1, 2028. Payments are made monthly as a debt service charge on the statement to the City for water purchases. The payments by the City may be reduced by charges added to the statements of other contracting parties for the purchase of treated water from Brown County Water Improvement District #1. The City has designated amounts of \$134,517 included in investments for use toward the payment of principal and interest.

The City and the Brownwood Police and Firefighters Associations had an agreement that established pay raises for police and fire employees for three years through September 30, 2011. The agreement established vacation and holiday pay upon termination and set standards for promotions. The Police and Firefighters agreed to extend the agreement for one year and defer the third year pay increases into the fourth year. The agreement will terminate if the City cannot meet its funding obligations.

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. At September 30, 2010, the total outstanding balance on the debt was \$6,385,000. 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.

Construction in progress at September 30, 2010, includes the Baseball Fields portion of the Park Project as well as several other small projects. Total estimated cost of the Baseball Fields is \$4,924,255 with construction in progress through September 30, 2010 of \$3,400,416. In connection with the Baseball Fields, a construction contract of \$4,083,800 has been entered into with construction through September 30, 2010 amounting to \$2,683,851.

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2010

NOTE 15: CONTINGENT LIABILITIES

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

In 2008, the City received a letter putting the City on notice of a potential lawsuit against the City and Brown County arising from the death of a jail inmate. A suit has been filed and is still pending at September 30, 2010. At this time the liability of the City is undetermined, but any loss should be covered by insurance.

NOTE 16: SUBSEQUENT TRANSACTIONS

After September 30, 2010 the BEDC board extended financial assistance to Ranger College in the amount of \$5,000 per month for twelve months to defray administrative expense for the Brown County campus beginning in September 2010.

Subsequent to year end the BEDC board approved a memorandum of understanding with West Central Texas Council of Governments to provide \$3,000 per month financial assistance for an SBA 504 Loan Program office in Brownwood and \$1,000 per month assistance for a Women's Business Center office in Brownwood.

NOTE 17: 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 \$82,183 of net assets to cover any potential losses on the non-covered vehicles. The City employee health care is provided by commercial insurance with no risk retained by the City. The management of the City has not been notified and is not aware of any significant claims against the City not covered by insurance.

NOTE 18: UTILITY

The Utility Department was serving the following number of customers:

	<u>9/30/10</u>	<u>9/30/09</u>
Water Department	7,354	7,372
Sewer Department	6,887	6,919
Sanitation Department	7,036	7,068

NOTE 19: ELECTED OFFICIALS

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

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

September 30, 2010

NOTE 20: APPOINTED OFFICIALS AND FIDELITY BONDS

Bobby Rountree	City Manager
William P. Chesser	City Attorney
Christi Wynn	City Secretary
Don Clements	Municipal Court Judge

The City Secretary is covered by a fidelity bond of \$47,500 and all other employees of the City are covered by a blanket fidelity bond in the amount of \$10,000.

NOTE 21: 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	\$ 38,647,170
	Contents	2,773,700
Risk covered:	Fire, lightning, extended coverage including Replacement cost endorsement.	

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

PENSION PLAN FUNDING PROGRESS

Last Three Years

Fiscal Year	(1) Actuarial Value of Assets **	(2) Actuarial Accrued Liability *	Percentage Funded (1)/(2)	Unfunded Actuarial Accrued Liability	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
Texas Municipal Retirement System:						
Plan 1:						
2008	\$ 14,293,576	\$ 21,517,785	66.4%	\$ 7,224,209	\$ 6,967,485	103.7%
2009	15,119,942	22,878,690	66.1	7,758,748	7,686,034	100.9
2010	16,697,195	25,173,376	66.3	8,476,181	8,410,388	100.8
Plan 3: (Health Department)						
2008	\$ 456,302	\$ 538,871	84.7%	\$ 82,569	\$ 279,934	29.5%
2009	452,405	516,695	87.6	64,290	319,906	20.1
2010	432,558	531,041	81.5	98,483	364,781	27.0
Brownwood Firefighter's Relief and Retirement Fund (an actuarial study done every 3 years)						
2002	\$ 2,021,632	\$ 4,667,741	43.3%	\$ 2,646,109	\$ 1,011,289	261.7%
2005	2,199,924	5,131,198	42.9	2,931,274	1,103,927	265.5
2007	2,368,793	5,766,332	41.1	3,397,539	1,286,160	264.0

\* As of December 31 of the preceding year, the date of the actuarial valuation.

\*\* Assets are stated cost as of December 31 of the preceding year.

CITY OF BROWNWOOD, TEXAS

Brownwood, Texas

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

For the Year Ended September 30, 2010

	Original Budget	Final Budget	Actual Budgetary Basis (See Note A)	Variance with Final Budget Positive (Negative)
<b>RESOURCES (INFLOWS):</b>				
Ad valorem taxes	\$ 4,087,862	\$ 4,087,862	\$ 4,123,821	\$ 35,959
Sales tax	4,493,395	4,493,395	4,116,796	(376,599)
Other taxes	2,796,300	2,796,300	2,662,417	(133,883)
Fines	390,000	390,000	339,362	(50,638)
License and fees	71,600	71,600	121,543	49,943
Charges for services	328,600	328,600	325,705	(2,895)
Intergovernmental	1,227,700	1,227,700	1,209,177	(18,523)
Miscellaneous	104,000	159,589	164,904	5,315
Total Resources (Inflows)	<u>\$ 13,499,457</u>	<u>\$ 13,555,046</u>	<u>\$ 13,063,725</u>	<u>\$ (491,321)</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
City Council	\$ 112,486	\$ 112,486	\$ 107,226	\$ 5,260
Administration	206,204	206,204	211,355	(5,151)
City Secretary	81,463	81,463	75,064	6,399
Finance/Accounting	298,958	298,958	298,605	353
Municipal Court	284,252	284,252	269,985	14,267
Police	4,069,030	4,115,858	3,905,271	210,587
Fire	2,466,064	2,466,064	2,429,714	36,350
Development services	606,737	606,737	540,728	66,009
Street	2,048,739	2,048,739	1,909,831	138,908
Health	243,630	243,630	230,804	12,826
Community services	570,503	570,503	575,518	(5,015)
Intergovernmental	199,453	199,453	198,017	1,436
Utility billing	178,563	178,563	192,900	(14,337)
Community facilities	381,525	402,813	373,146	29,667
Operations support	174,944	174,944	149,111	25,833
Purchasing/warehouse	166,159	166,159	164,019	2,140
Parks and recreation	915,886	913,486	920,734	(7,248)
Fleet services	501,471	501,471	460,484	40,987
City Attorney	167,018	167,018	165,828	1,190
Public works/engineering	344,370	344,370	324,033	20,337
Emergency management	20,840	20,840	25,662	(4,822)
Human Resources	208,772	208,772	194,536	14,236
Fire Marshall	115,769	115,769	113,453	2,316
General fund contingency	(52,420)	(52,420)	103,296	(155,716)
Information technology	496,550	496,550	438,130	58,420
Transportation museum	128,496	128,496	119,036	9,460
Other	-	-	61,525	(61,525)
Total Charges to Appropriations (Outflows)	<u>\$ 14,935,462</u>	<u>\$ 15,001,178</u>	<u>\$ 14,558,011</u>	<u>\$ 443,167</u>
EXCESS CHARGES TO APPROPRIATIONS	\$ (1,436,005)	\$ (1,446,132)	\$ (1,494,286)	\$ (48,154)
FUND BALANCE - BEGINNING	(1,692,518)	(1,692,518)	(1,692,518)	-
FUND BALANCE - ENDING	<u>\$ (3,128,523)</u>	<u>\$ (3,138,650)</u>	<u>\$ (3,186,804)</u>	<u>\$ -</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO BUDGETARY COMPARISON SCHEDULE

For the Year Ended September 30, 2010

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.	\$ 13,063,725
The City budgets for sales tax based on the amount collected rather than on the modified accrual basis.	<u>21,795</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances governmental fund.	<u>\$ 13,085,520</u>

Uses/outflows of Resources:

Actual amount (budgetary basis) charges to appropriations from the budgetary comparison schedule.	\$ 14,558,011
The City budgets for salaries on the cash basis rather than on the modified accrual basis.	27,471
The City budgets for compensated absences on the cash basis rather than the modified accrual basis.	<u>53,416</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances governmental fund.	<u>\$ 14,638,898</u>

OTHER FINANCIAL INFORMATION

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

OTHER GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS

September 30, 2010

	Total Debt Service Fund	Total Special Revenue Fund	Total Capital Projects Fund	Total Other Governmental Funds
<u>ASSETS</u>				
ASSETS:				
Pooled cash and cash equivalents	\$	\$ 126,013	\$ 42,023	\$ 168,036
Non pooled cash and cash equivalents		30		30
Investments		66,970		66,970
Receivables, net	131,415	144,337	1,122,576	1,398,328
Restricted assets	11,550		225,227	236,777
	\$ 142,965	\$ 337,350	\$ 1,389,826	\$ 1,870,141
TOTAL ASSETS				
<u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES:				
Accounts payable	\$	\$ 44,216	\$ 260,390	\$ 304,606
Accrued payroll		11,880		11,880
Deferred ad valorem taxes	131,415			131,415
Internal balances	27,800			27,800
	\$ 159,215	\$ 56,096	\$ 260,390	\$ 475,701
TOTAL LIABILITIES				
FUND BALANCES:				
Reserved for debt service	\$ 11,550			\$ 11,550
Reserved for authorized construction			1,129,436	1,129,436
Unreserved reported in:				
Debt service funds	(27,800)			(27,800)
Special revenue funds		281,254		281,254
	\$ (16,250)	\$ 281,254	\$ 1,129,436	\$ 1,394,440
TOTAL FUND BALANCES				
TOTAL LIABILITIES AND FUND BALANCES	\$ 142,965	\$ 337,350	\$ 1,389,826	\$ 1,870,141

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, 2010

	Total Debt Service Fund	Total Special Revenue Fund	Total Capital Projects Fund	Total Other Governmental Funds
<b>REVENUES:</b>				
Ad valorem taxes	\$ 1,140,589			\$ 1,140,589
Other tax revenue		301,713		301,713
Grant revenue		813,186	1,187,575	2,000,761
Contributions			319,000	319,000
BEDC funding			5,672,785	5,672,785
Other revenue	107,712	522,367		630,079
Interest	358	131		489
<b>Total Revenues</b>	<b>\$ 1,248,659</b>	<b>\$ 1,637,397</b>	<b>\$ 7,179,360</b>	<b>\$ 10,065,416</b>
<b>EXPENDITURES:</b>				
Debt service:				
Principal	\$ 945,000			\$ 945,000
Interest	297,458			297,458
Fiscal agent fees	823			823
Special revenue fund		1,700,056		1,700,056
Capital outlay			6,489,587	6,489,587
<b>Total Expenditures</b>	<b>\$ 1,243,281</b>	<b>\$ 1,700,056</b>	<b>\$ 6,489,587</b>	<b>\$ 9,432,924</b>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES</b>	<b>\$ 5,378</b>	<b>\$ (62,659)</b>	<b>\$ 689,773</b>	<b>\$ 632,492</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in		7	7,500	7,507
Transfers out		(4,882)		(4,882)
<b>Net Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ (4,875)</b>	<b>\$ 7,500</b>	<b>\$ 2,625</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>\$ 5,378</b>	<b>\$ (67,534)</b>	<b>\$ 697,273</b>	<b>\$ 635,117</b>
<b>FUND BALANCE - BEGINNING OF YEAR AS RESTATED</b>	<b>(21,628)</b>	<b>348,788</b>	<b>432,163</b>	<b>759,323</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ (16,250)</b>	<b>\$ 281,254</b>	<b>\$ 1,129,436</b>	<b>\$ 1,394,440</b>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

GENERAL FUND  
COMPARATIVE BALANCE SHEETS

September 30, 2010 and 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
<b>ASSETS:</b>		
Pooled cash and cash equivalents	\$ 154,211	\$ 207,528
Non pooled cash and cash equivalents	1,172	1,362
Investments	1,813	59,156
Receivables, net	1,245,750	1,204,618
Internal balances	27,800	37,485
Inventory	18,564	16,324
Prepaid expense	1,539	1,016
<b>TOTAL ASSETS</b>	<u>\$ 1,450,849</u>	<u>\$ 1,527,489</u>
 <u>LIABILITIES AND FUND BALANCES</u>  		
<b>LIABILITIES:</b>		
Accounts payable	\$ 727,012	\$ 377,895
Accrued payroll	165,689	138,218
Deferred ad valorem taxes	430,562	410,478
Compensated absences	938,133	884,717
<b>TOTAL LIABILITIES</b>	<u>\$ 2,261,396</u>	<u>\$ 1,811,308</u>
 <b>FUND BALANCES:</b>		
Reserved for:		
Self insurance	\$ 82,183	\$ 157,822
Inventory	18,564	16,324
Prepaid insurance	1,539	1,016
Unreserved	<u>(912,833)</u>	<u>(458,981)</u>
<b>TOTAL FUND BALANCES</b>	<u>\$ (810,547)</u>	<u>\$ (283,819)</u>
 <b>TOTAL LIABILITIES AND FUND BALANCES</b>	 <u>\$ 1,450,849</u>	 <u>\$ 1,527,489</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

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

For the Years Ended September 30, 2010 and 2009

	2010	2009
REVENUES:		
Ad valorem taxes	\$ 4,123,821	\$ 3,900,926
Sales taxes	4,138,591	4,285,467
Other taxes	2,662,417	2,848,616
Fines	339,362	349,072
Licenses and fees	121,543	119,419
Charges for services	325,705	276,464
Intergovernmental	1,209,177	1,196,477
Interest	2,157	5,587
Grants and contributions	43,936	783,077
Miscellaneous	118,811	190,383
Total Revenues	\$ 13,085,520	\$ 13,955,488
EXPENDITURES:		
City Council	\$ 107,226	\$ 85,563
Administration	213,863	190,975
City Secretary	75,267	114,456
Finance/accounting	299,297	297,066
Municipal court	270,731	255,890
Police	3,904,670	3,739,475
Fire	2,510,598	2,305,361
Development services	530,752	588,906
Street	1,920,602	2,374,846
Health	227,274	228,878
Community services	424,930	573,122
Intergovernmental	198,017	200,391
Utility billing	193,794	179,997
Community facilities	523,813	1,698,218
Operations support	149,199	262,596
Purchasing/warehouse	164,641	154,678
Parks and recreation	921,633	925,202
Fleet services	460,850	466,266
City Attorney	166,296	156,451
Public works/engineering	311,598	318,400
Emergency management	25,662	61,986
Human resources	201,351	194,179
Fire Marshal	113,740	106,903
General fund contingency	103,296	21,028
Information technology	439,028	448,347
Transportation museum	119,245	127,891
Other	61,525	20,916
Total Expenditures	\$ 14,638,898	\$ 16,097,987
EXCESS OF EXPENDITURES OVER REVENUES	\$ (1,553,378)	\$ (2,142,499)
OTHER FINANCING SOURCES (USES):		
Note proceeds	\$ -	\$ 109,992
Transfers in	1,022,500	2,326,066
Transfers out	(7,507)	(98,100)
Proceeds from sale of capital assets	11,657	11,121
Net Other Financing Sources (Uses)	\$ 1,026,650	\$ 2,349,079
NET CHANGES IN FUND BALANCES	\$ (526,728)	\$ 206,580
FUND BALANCE - BEGINNING OF YEAR AS RESTATED	(283,819)	(490,399)
FUND BALANCE - END OF YEAR	\$ (810,547)	\$ (283,819)

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

PROPRIETARY FUNDS  
COMPARATIVE STATEMENTS OF NET ASSETS

September 30, 2010 and 2009

	Total Proprietary Funds	
	2010	2009
<u>ASSETS</u>		
Current Assets:		
Pooled cash and cash equivalents	\$ (352,134)	\$ (878,493)
Non pooled cash and cash equivalents	3,659	589,718
Investments	3,611,331	3,396,548
Investments designated for closure and postclosure	973,045	870,759
Accounts receivable, net	1,584,558	1,454,368
Inventory	869,334	757,804
Prepaid expense	-	3,408
Total Current Assets	\$ 6,689,793	\$ 6,194,112
Noncurrent Assets:		
Restricted assets	\$ 635,181	\$ 628,087
Deferred charges	260,772	220,082
Capital assets, net	35,417,931	37,365,926
Total Noncurrent Assets	\$ 36,313,884	\$ 38,214,095
<b>TOTAL ASSETS</b>	<b>\$ 43,003,677</b>	<b>\$ 44,408,207</b>
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable	\$ 378,367	\$ 756,148
Accrued salaries	51,346	47,066
Accrued interest payable	-	26,016
Capital leases payable	2,356,153	2,588,771
Notes payable	51,000	48,000
Bonds payable	499,819	541,913
Tax notes payable	685,000	640,000
Compensated absences	105,554	91,491
Total Current Liabilities	\$ 4,127,239	\$ 4,739,405
Liabilities Payable from Restricted Assets:		
Certificates of obligation	\$ 635,181	\$ 628,087
Total Liabilities Payable from Restricted Funds	\$ 635,181	\$ 628,087
Noncurrent Liabilities:		
Deferred revenue	\$ 116,828	\$ 124,586
Compensated absences	29,694	23,628
Customer water meter deposits	611,777	586,268
Notes payable	372,329	426,492
Bonds payable	10,232,403	10,863,657
Tax notes payable	700,000	1,385,000
Accrued landfill closure and postclosure care costs	2,927,162	2,825,549
Total Noncurrent Liabilities	\$ 14,990,193	\$ 16,235,180
<b>TOTAL LIABILITIES</b>	<b>\$ 19,752,613</b>	<b>\$ 21,602,672</b>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	\$ 19,886,046	\$ 20,244,006
Unrestricted	3,365,018	2,561,529
<b>TOTAL NET ASSETS</b>	<b>\$ 23,251,064</b>	<b>\$ 22,805,535</b>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

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

For the Year Ended September 30, 2010 and 2009

	Total Proprietary Funds	
	2010	2009
OPERATING REVENUES:		
Charges for services	\$ 15,089,073	\$ 15,039,223
Miscellaneous	256,175	217,347
Total Operating Revenues	\$ 15,345,248	\$ 15,256,570
OPERATING EXPENSES:		
Personnel services	\$ 3,334,068	\$ 3,177,967
Supplies	1,170,758	1,187,752
Contractual	3,543,791	3,716,154
Maintenance	1,005,360	1,171,282
Sundry charges	561,251	560,020
Support services	979,800	979,800
Depreciation and amortization	3,123,181	3,252,214
Total Operating Expenses	\$ 13,718,209	\$ 14,045,189
OPERATING GAIN	\$ 1,627,039	\$ 1,211,381
NON-OPERATING REVENUE AND EXPENSE:		
Sale of equipment	\$ 284,829	\$ 7,801
Grant income	36,642	322,147
Interest income	9,441	50,245
Interest expense	(492,422)	(513,596)
Net Non-Operating Revenue and Expense	\$ (161,510)	\$ (133,403)
GAIN BEFORE TRANSFERS	\$ 1,465,529	\$ 1,077,978
OPERATING TRANSFERS:		
Operating transfers in	\$ 256,000	\$ 531,703
Operating transfers out	(1,276,000)	(2,021,571)
Net Operating Transfers	\$ (1,020,000)	\$ (1,489,868)
CHANGES IN NET ASSETS	\$ 445,529	\$ (411,890)
NET ASSETS - BEGINNING	22,805,535	23,217,425
NET ASSETS - ENDING	\$ 23,251,064	\$ 22,805,535

SINGLE AUDIT SECTION

D. A. "Tony" Krischke, CPA

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 the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Brownwood, Texas as of and for the year ended September 30, 2010, which collectively comprise the City of Brownwood, Texas basic financial statements and have issued my report thereon dated January 18, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered City of Brownwood, Texas internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Brownwood, Texas internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Brownwood, Texas internal control over financial reporting.

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.

My consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Brownwood, Texas financial statements are free of 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*.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Krischke CPA, PC*  
Krischke CPA PC  
January 18, 2011



America Counts on CPAs®

D. A. "Tony" Krischke, CPA

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable Mayor and City Council  
City of Brownwood, Texas

### Compliance

I have audited the compliance of City of Brownwood, Texas with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* and the compliance requirements in Texas state statutes that are applicable to each of its major federal and state programs for the year ended September 30, 2010. City of Brownwood, Texas major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs is the responsibility of City of Brownwood, Texas management. My responsibility is to express an opinion on City of Brownwood, Texas compliance based on my audit.

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, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State of Texas Single Audit Circular* as contained in the *Texas Uniform Grant Management Standard*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about City of Brownwood, Texas compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on City of Brownwood, Texas compliance with those requirements.

In my opinion, City of Brownwood, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the year ended September 30, 2010.

### Internal Control Over Compliance

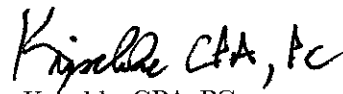
Management of City of Brownwood, Texas, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing my audit, I considered City of Brownwood, Texas internal control over compliance with requirements that could have a direct and material effect on a major federal or state program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over compliance.

Internal Control Over Compliance (Cont.)

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

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 deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the management, City Council, others within the entity, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
Krischke CPA, PC  
January 18, 2011

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended September 30, 2010

	Federal CFDA Number	Pass Through Entity ID Number	Amount Expended	Amount Expended to Sub-recipients
<b>FEDERAL ASSISTANCE:</b>				
U.S. Department of Agriculture:				
Passed through Texas Department of State Health Services:				
Special Supplemental Nutrition Program for Women, Infants and Children				
	10.557	2010-033562	\$ 271,522	\$ -
U.S. Department of Justice:				
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program				
	16.580		\$ 12,782	\$
ARRA - Violence Against Women Formula Grants				
	16.588		20,000	
ARRA - Recovery Act-Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Governments				
	16.804		383	
Total U.S. Department of Justice				
			\$ 33,165	\$ -
U.S. Department of Transportation:				
Passed through Texas Department of Transportation - Aviation Division				
Airport Improvement Program				
	20.106	0823BWOOD	\$ 21,442	\$ -
General Services Administration:				
Passed through Texas Facilities Commission				
Donation of Federal Surplus Personal Property				
	39.003	26171	\$ 3,493	\$ -
Environmental Protection Agency:				
Passed through Texas Water Development Board				
Capitalization Grants for Drinking Water State Revolving Funds				
	66.468	2004 DWSRF	\$ 196,449	\$ -
U.S. Department of Energy:				
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)				
	81.128		\$ 57,576	\$ -
U.S. Department of Health and Human Services:				
Passed through West Central Texas Council of Governments:				
Special Programs for the Aging_Title III, Part C_Nutrition Services				
	93.045		\$ 89,184	\$
Passed through Texas Department of State Health Services:				
Special Programs for the Aging_Title III, Part C_Nutrition Services				
	93.045		50,838	
Public Health Emergency Preparedness				
	93.069	2009-031921-001	75,694	
Centers for Disease Control and Prevention_Investigations and Technical Assistance				
	93.283	2009-031213-001	4,177	
Preventive Health and Health Services Block Grant				
	93.991	2010-032589-001	12,050	
Immunization grants:				
Immunization				
	93.268	2010-031592-001	114,613	
Tuberculosis				
	93.268	2010-031892-001	7,530	
H1N1 Grant				
	93.268	2010-033342-001	101,999	
SIC Grant				
	93.268	2010-034973-001	11,921	
Total U.S. Department of Health and Human Services				
			\$ 468,006	\$ -
Total Federal Assistance				
			\$ 1,051,653	\$ -

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (CONT.)

For the Year Ended September 30, 2010

	Federal CFDA Number	Pass Through Entity ID Number	Amount Expended	Amount Expended to Sub-recipients
STATE ASSISTANCE:				
Texas Department of Agriculture:				
Texans Feeding Texans: Home Delivered Meal Grant Program			\$ 4,136	\$ -
Bootstrap Bucks Reimbursement Grant Program			2,435	
Total Texas Department of Agriculture			<u>\$ 6,571</u>	<u>\$ -</u>
Texas Parks and Wildlife:				
Local Park Grant Program		Project 51-000064	\$ 500,000	\$ -
Local Park Grant Program		Project 51-000418	500,000	
Total Texas Parks and Wildlife			<u>\$ 1,000,000</u>	<u>\$ -</u>
Texas Department of Transportation-Division of Aviation:				
Ramp Grant		M023BWNWD	\$ 15,216	\$ -
Commission on State Emergency Communication:				
911 Work Stations Grant			\$ 43,836	\$ -
Total State Assistance			<u>\$ 1,065,623</u>	<u>\$ -</u>
Total Federal and State Assistance			<u>\$ 2,117,276</u>	<u>\$ -</u>

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2010

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards (the Schedule) includes the federal and state grant activity of City of Brownwood, Texas under programs of the federal and State of Texas government for the year ended September 30, 2010. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State of Texas Single Audit Circular* as contained in the *Texas Uniform Grant Management Standards*. Because the Schedule presents only a selected portion of the operations of the City of Brownwood, Texas, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Brownwood, Texas.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year ended September 30, 2010

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 and State Awards

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

Identification of major programs:

CFDA Numbers	Name of Federal or State Program or Cluster
66.468	Capitalization Grants for Drinking Water State Revolving Funds
93.069	Public Health Emergency Preparedness
State	Texas Parks and Wildlife-Local Park Grant Program Projects 51-000064 and 51-000418

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

CITY OF BROWNWOOD, TEXAS  
Brownwood, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT.)

For the Year Ended September 30, 2010

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