



**CITY OF BROWNSBORO  
TEXAS**

**FINANCIAL STATEMENTS  
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT  
JUNE 30, 2018**

**CITY OF BROWNSBORO, TEXAS  
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FOR THE YEAR ENDED JUNE 30, 2018**

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DAVID K. GODWIN  
CERTIFIED PUBLIC ACCOUNTANT

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of City Council  
City of Brownsboro, Texas

### Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Brownsboro, Texas as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Brownsboro, Texas, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows and respective budgetary comparison for the General Fund

thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 3 through 7, the budgetary comparison information, on pages 36 through 37, and the Texas Municipal Retirement System schedules, on pages 34 through 35, 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.

*Restatement of Net Position*

As part of my audit of the June 30, 2018 financial statements, I also audited the adjustments described in Note 9, on page 33 that were applied to restate the 2017 financial statements. In my opinion, such adjustments are appropriate and have been properly applied. I was not engaged to audit, review, or apply any procedures to the 2017 financial statements of the City other than with respect to the adjustment, and accordingly, I do not express an opinion or any other form of assurance on the 2017 financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, I have also issued my report dated November 16, 2020, on my consideration of the City of Brownsboro, Texas' internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Brownsboro, Texas' internal control over financial reporting and compliance.



David K. Godwin  
Certified Public Accountant

Tyler, Texas  
November 16, 2020

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## Management's Discussion and Analysis

As management of the City of Brownsboro, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the Fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

### Financial Highlights

- As of the end of the current fiscal year, the assets of the City exceed its liabilities by \$2,406,687 (net position). Of this amount \$519,325 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$3,010,568. Of this amount \$481,918 (16.01%) is available for spending at the government's discretion.
- The total net position of \$2,406,687 is made up of \$1,449,919 in capital assets net of related debt and \$956,768 in other net position.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The financial statements are prepared using Governmental Accounting Statement No. 34 *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*.

The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Brownsboro's finances, in a manner similar to a private sector business.

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, other nonfinancial factors must also be considered.

The *statement of activities* presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of the City of Brownsboro that are principally supported by taxes and other governmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety and streets and drainage. The business-type activities include water and sewer.

The fund financial statements are presented using fund designations. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other local governments, used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

*Governmental funds.* These funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, economic development fund, debt service fund, and capital projects fund which are considered to be major funds.

*Proprietary funds.* The City of Brownsboro maintains only one type of proprietary fund – an enterprise fund. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The City used enterprise funds to account for its water and sewer operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

*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.

#### **Adoption of GASB Statement No. 68**

During the current year, the City implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. See Note 8 for additional information.

GASB Statement No. 68 was effective for fiscal years beginning after June 15, 2014. The City did not adopt until fiscal year ending June 30, 2018 due to only starting participation in the TMRS pension plan in 2017. Thus, no restatement of beginning net position is considered necessary.

#### **Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. As of the end of the fiscal year, June 30, 2018, the City's assets exceeded liabilities by \$2,406,687. This represents an 11.18% decrease from the total net position balance of \$2,709,616 at June 30, 2017.

By far the largest portion of the City's net position of \$1,449,919 reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure), less any related debt used to acquire these assets that is still outstanding. This amount is \$59,876 less than the amount at June 30, 2017. 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 capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

### City of Brownsboro's Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 3,057,114	\$ 1,082,948	\$ 376,739	\$ 306,430	\$ 3,433,853	\$ 1,389,378
Capital assets	707,969	670,792	1,106,707	1,173,700	1,814,676	1,844,492
Total assets	3,765,083	1,753,740	1,483,446	1,480,130	5,248,529	3,233,870
Deferred outflows of resources	16,717	-	6,347	-	23,064	-
Current liabilities	185,756	87,228	73,659	72,268	259,415	159,496
Noncurrent liabilities	2,250,381	79,758	355,110	285,000	2,605,491	364,758
Total liabilities	2,436,137	166,986	428,769	357,268	2,864,906	524,254
Net investment in capital assets	628,212	656,095	821,707	853,700	1,449,919	1,509,795
Restricted	437,443	531,276	-	-	437,443	531,276
Unrestricted	280,008	399,383	239,317	269,162	519,325	668,545
Total net position	\$ 1,345,663	\$ 1,586,754	\$ 1,061,024	\$ 1,122,862	\$ 2,406,687	\$ 2,709,616

*Governmental activities.* Governmental activities decreased the net position by \$203,082. Net position invested in capital assets, net of related debt decreased by \$59,876 during the year. Restricted net position decreased by \$93,833 and unrestricted net position decreased by \$149,220. The overall decrease was mostly due to increases in pension expense in general government expenses associated with the TMRS pension.

*Business-type activities.* The City had a \$61,838 decrease in net position for its business-type activities during the year. This is an \$111,877 decrease from the previous year. The decrease is primarily due to an increase in pension expenses associated with the TMRS pension and a decrease in water sales due to increased rainfall and cooler temperatures.

### City of Brownsboro's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>Revenues:</b>						
Charges for services	\$ 456,643	\$ 535,714	\$ 345,039	\$ 350,068	\$ 801,682	\$ 885,782
Capital grants and contributions	3,900	7,500	-	-	3,900	7,500
Sale of capital assets	20,000	-	-	-	20,000	-
<b>General Revenue</b>						
Property taxes	231,610	227,778	-	-	231,610	227,778
Franchise taxes	47,643	48,234	-	-	47,643	48,234
Sales and use taxes	231,983	219,608	-	-	231,983	219,608
Interest income	999	995	195	128	1,194	1,123
Other	-	2,151	-	-	-	2,151
Total revenue	992,778	1,041,980	345,234	350,196	1,338,012	1,392,176
<b>Expenses:</b>						
General government	442,278	113,453	-	-	442,278	113,453
Public safety	558,905	585,926	-	-	558,905	585,926
Streets and drainage	105,128	123,298	-	-	105,128	123,298
Interest	3,810	5,010	9,028	9,986	12,838	14,996
Water and sewer operations	-	-	442,783	335,855	442,783	335,855
Debt issuance costs	41,000	-	-	-	41,000	-
Total expenses	1,151,121	827,687	451,811	345,841	1,602,932	1,173,528
Transfers	(44,739)	(45,684)	44,739	45,684	-	-

Change in net position	(203,082)	168,609	(61,838)	50,039	(264,920)	218,648
Net position beginning (as originally stated)	1,586,754	1,418,145	1,122,862	1,072,823	2,709,616	2,490,968
Prior period adjustment	(38,009)	-	-	-	(38,009)	-
Net position beginning (as restated)	1,548,745	1,418,145	1,122,862	1,072,823	2,671,607	2,490,968
Net position end of year	<u>\$ 1,345,663</u>	<u>\$ 1,586,754</u>	<u>\$ 1,061,024</u>	<u>\$ 1,122,862</u>	<u>\$ 2,406,687</u>	<u>\$ 2,709,616</u>

**Financial Analysis of the Government’s Funds**

As noted earlier, the City of Brownsboro 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 spendable resources. Such information is useful in assessing the City’s financing requirements. In particular, unreserved fund balances may serve as a useful measure of the City’s net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City’s governmental funds reported an ending fund balance of \$3,010,568 of which \$481,918 is unassigned and available for spending at the City’s discretion. The remainder has been either committed for future vehicle replacement or restricted 1) to pay debt service 2) to pay for future construction or 3) as prepaid expenses or police operations.

*Proprietary funds.* The City’s proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. Unrestricted net position of the proprietary fund amounted to \$239,317, which is \$29,845 less than the prior year.

**General Fund Budgetary Highlights**

Over the year, the City did not have any budget amendments for the General Fund. Revenues were \$161,346 over budget, and expenditures were over budget by \$83,170. After considering operating transfers, the City had a unfavorable variance of \$49,419 when comparing excess revenues over expenditures for the year.

**Capital Assets and Debt Administration**

*Capital Assets.* The City of Brownsboro’s investment in capital assets for the governmental and business-type activities as of June 30, 2017, amounted to \$1,352,266 net of accumulated depreciation and related debt. This investment in capital assets includes land, buildings, machinery and equipment, water and sewer systems, and infrastructure. The total decrease in the City’s investment in capital assets for the current year was \$157,529.

Additional information on the City’s capital assets can be found in the footnotes to this financial report.



### City of Brownboro's Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
	Land	\$ 36,690	\$ 36,690	\$ 15,817	\$ 15,817	\$ 52,507
Buildings and improvements	113,603	119,123	-	-	113,603	119,123
Infrastructure	409,611	324,740	-	-	409,611	324,740
Machinery and equipment	148,065	190,239	11,881	17,802	159,946	208,041
Water and sewer system	-	-	1,079,009	1,140,081	1,079,009	1,140,081
<b>Total</b>	<b>\$ 707,969</b>	<b>\$ 670,792</b>	<b>\$ 1,106,707</b>	<b>\$ 1,173,700</b>	<b>\$ 1,814,676</b>	<b>\$ 1,844,492</b>

Additional information on the City's capital assets can be found in the footnotes to this financial report.

*Long-term debt.* During the current year, the City issued a new certificate of obligation totaling \$2,041,000. The proceeds of the debt were used for road and drainage improvements as well as to pay contractual obligations for professional services. After principal payments of \$104,000 were made against debt during the year, the City had total debt and other long-term liabilities of \$2,787,698 at the end of the fiscal year.

### City of Brownsboro's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
	Certifications of obligation	\$ 2,041,000	\$ -	\$ 285,000	\$ 320,000	\$ 2,326,000
Tax Note	60,957	129,957	-	-	60,957	129,957
Net Pension Liability	276,830	-	105,110	-	381,940	-
Notes payable	18,801	27,760	-	-	18,801	27,760
<b>Total</b>	<b>\$ 2,397,588</b>	<b>\$ 157,717</b>	<b>\$ 390,110</b>	<b>\$ 320,000</b>	<b>\$ 2,787,698</b>	<b>\$ 477,717</b>

Additional information on the City's long-term debt can be found in the footnotes to this financial report.

### Economic Factors and Next Year's Budgets and Rates

Economic trends in the area mirror those of Tyler, Texas that is located in a U. S Census metropolitan economic region within commuting distance of most of the City's citizens. In the region, unemployment continues to be stable at about 4 percent. Economic growth is primarily achieved through the addition of new jobs in the Tyler/Smith County region.

The City strives to keep expenditures to a minimum. With controlled spending and use of reserves, the City should be able to absorb any unexpected inflationary price change such as fuel and power costs.

All of these factors were considered in preparing the City's budget for the 2019 fiscal year.

### Request for Information

This financial report is designed to provide a general overview of the City of Brownsboro's finances for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: City of Brownsboro, P. O. Box 303, Brownsboro, TX 75756 or call 903-852-2401.

**BASIC FINANCIAL STATEMENTS**

**CITY OF BROWNSBORO, TEXAS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS</b>			
Cash and cash equivalents	\$ 582,618	\$ 299,502	\$ 882,120
Investments	167,341	-	167,341
Receivables (net of allowance for doubtful accounts)	72,285	25,654	97,939
Internal balances	4,856	(4,856)	-
Prepaid items	702	291	993
Restricted Assets:			
Temporarily restricted			
Cash and cash equivalents	2,229,312	56,148	2,285,460
Capital Assets (net of accumulated depreciation):			
Land	36,690	15,817	52,507
Buildings and improvements	113,603	-	113,603
Machinery and equipment	148,065	11,881	159,946
Water system	-	1,012,911	1,012,911
Sewer system	-	66,098	66,098
Infrastructure	409,611	-	409,611
Total Assets	3,765,083	1,483,446	5,248,529
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on TMRS pension	16,717	6,347	23,064
Total Deferred Outflows of Resources	16,717	6,347	23,064
<b>LIABILITIES</b>			
Accounts payable	38,549	2,426	40,975
Accrued Interest	-	3,340	3,340
Deposits and other refundable balances	-	32,893	32,893
Non-current liabilities:			
Due within one year	147,207	35,000	182,207
Due in more than one year	2,250,381	355,110	2,605,491
Total Liabilities	2,436,137	428,769	2,864,906
<b>NET POSITION</b>			
Net investment in capital assets	628,212	821,707	1,449,919
Restricted for:			
Debt service	126,278	-	126,278
Police security and technology	8,384	-	8,384
Capital Improvements	302,781	-	302,781
Unrestricted	280,008	239,317	519,325
Total Net Position	\$ 1,345,663	\$ 1,061,024	\$ 2,406,687

The notes to the financial statements are an integral part of this statement

**CITY OF BROWNSBORO, TEXAS  
STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2018**

PROGRAM ACTIVITIES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION PRIMARY GOVERNMENT		
	EXPENSES	CHARGES FOR SERVICES	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>Primary Government:</b>						
Governmental activities:						
General government	\$ 442,278	\$ 6,661	\$ -	\$ (435,617)	\$ -	\$ (435,617)
Public safety	558,905	388,101	-	(170,804)	-	(170,804)
Streets and drainage	105,128	61,881	-	(43,247)	-	(43,247)
Interest	3,810	-	-	(3,810)	-	(3,810)
Total governmental activities	1,110,121	456,643	-	(653,478)	-	(653,478)
Business-type activities:						
Water and sewer	442,783	345,039	-	-	(97,744)	(97,744)
Interest	9,028	-	-	-	(9,028)	(9,028)
Total business-type activities	451,811	345,039	-	-	(106,772)	(106,772)
Total primary government	\$ 1,561,932	\$ 801,682	\$ -	(653,478)	(106,772)	(760,250)
General revenues:						
Property taxes				231,610	-	231,610
Franchise taxes				47,643	-	47,643
Sales and use taxes				231,983	-	231,983
Interest income				999	195	1,194
Grants and contributions not restricted to specific programs				3,900	-	3,900
Sale of capital assets				20,000	-	20,000
Debt issuance costs				(41,000)	-	(41,000)
Transfers				(44,739)	44,739	-
Total general revenues				450,396	44,934	495,330
Change in net position				(203,082)	(61,838)	(264,920)
Net position - beginning of year, as originally stated				1,586,754	1,122,862	2,709,616
Prior period adjustment				(38,009)	-	(38,009)
Net position - beginning of year, as restated				1,548,745	1,122,862	2,671,607
Net position - end of year				\$ 1,345,663	\$ 1,061,024	\$ 2,406,687

CITY OF BROWNSBORO, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2018

	General	Economic Development	Debt Service	Capital Projects	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 500,828	\$ 81,790	\$ -	\$ -	\$ 582,618
Restricted cash	8,384	-	126,278	2,094,650	2,229,312
Investments	-	167,341	-	-	167,341
Receivables:					
Taxes Receivable (net of allowance for estimated uncollectibles)	9,552	-	-	-	9,552
Fines	3,575	-	-	-	3,575
Sales Taxes	39,696	-	-	-	39,696
Returned Checks	322	-	-	-	322
Garbage Services	19,017	-	-	-	19,017
Other	1,678	-	-	-	1,678
Due From Other Funds	4,856	-	-	-	4,856
Prepaid Expenses	702	-	-	-	702
<b>Total Assets</b>	<b>\$ 588,610</b>	<b>\$ 249,131</b>	<b>\$ 126,278</b>	<b>\$ 2,094,650</b>	<b>\$ 3,058,669</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts Payable	\$ 38,312	\$ -	\$ -	\$ -	\$ 38,312
Accrued Payables	237	-	-	-	237
<b>Total Liabilities</b>	<b>38,549</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38,549</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue - Property Taxes	9,552	-	-	-	9,552
<b>Total Deferred Inflows of Resources</b>	<b>9,552</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,552</b>
Fund Balances:					
Nonspendable:					
Prepaid Expenses	702	-	-	-	702
Restricted:					
Debt Service	-	-	126,278	-	126,278
Capital Improvements	-	249,131	-	2,094,650	2,343,781
Police Security and Technology	8,384	-	-	-	8,384
Committed:					
Vehicle Replacement	49,505	-	-	-	49,505
Unassigned	481,918	-	-	-	481,918
<b>Total Fund Balances</b>	<b>540,509</b>	<b>249,131</b>	<b>126,278</b>	<b>2,094,650</b>	<b>3,010,568</b>
<b>Total Liabilities, Deferred Inflows and Fund Balances</b>	<b>\$ 588,610</b>	<b>\$ 249,131</b>	<b>\$ 126,278</b>	<b>\$ 2,094,650</b>	<b>\$ 3,058,669</b>

CITY OF BROWNSBORO, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2018

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets (Exhibit 1)

	Total Governmental Funds
	<hr/>
Total fund balances governmental funds (Exhibit 3 page 1)	\$ 3,010,568
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	707,969
Deferred outflows represent the consumption of net position that are applicable to a future reporting period.	16,717
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	7,997
Long term liabilities, including bonds and interest payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.	<u>(2,397,588)</u>
Net Position of governmental activities	<u>\$ 1,345,663</u>

**CITY OF BROWNSBORO, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2018**

	General	Economic Development	Debt Service	Capital Projects	Total Governmental Funds
<b>Revenues:</b>					
Fines and Forfeitures	\$ 388,101	\$ -	\$ -	\$ -	\$ 388,101
Interest	187	560	252	-	999
Miscellaneous	136	-	-	-	136
Services	61,881	-	-	-	61,881
Permits and Fees	6,525	-	-	-	6,525
Intergovernmental	3,900	-	-	-	3,900
Property Taxes	109,512	-	117,894	-	227,406
Sales Tax	176,166	55,817	-	-	231,983
Franchise Taxes	47,643	-	-	-	47,643
<b>Total Revenues</b>	<b>794,051</b>	<b>56,377</b>	<b>118,146</b>	<b>-</b>	<b>968,574</b>
<b>Expenditures:</b>					
General Government	98,991	65,841	-	-	164,832
Public Safety	534,497	-	-	-	534,497
Streets and Drainage	86,259	-	-	-	86,259
Debt Service - Principal	77,959	-	-	-	77,959
Interest	3,810	-	-	-	3,810
Capital Outlay	-	-	-	97,788	97,788
<b>Total Expenditures</b>	<b>801,516</b>	<b>65,841</b>	<b>-</b>	<b>97,788</b>	<b>965,145</b>
Revenues Over (Under) Expenditures	(7,465)	(9,464)	118,146	(97,788)	3,429
<b>Other Financing Sources (Uses)</b>					
Transfers In (Out)	22,489	-	(116,646)	49,418	(44,739)
Bond Issuance Costs	-	-	-	(41,000)	(41,000)
Bond Proceeds	-	-	-	2,041,000	2,041,000
Sale of Assets	20,000	-	-	-	20,000
<b>Total Other Financing Sources (Uses)</b>	<b>42,489</b>	<b>-</b>	<b>(116,646)</b>	<b>2,049,418</b>	<b>1,975,261</b>
Net change in fund balances	35,024	(9,464)	1,500	1,951,630	1,978,690
Fund Balance, July 1, 2017, as originally stated	543,494	258,595	124,778	143,020	1,069,887
Prior period adjustment	(38,009)	-	-	-	(38,009)
Fund Balance, July 1, 2017, as restated	505,485	258,595	124,778	143,020	1,031,878
Fund Balance, June 30, 2018	<u>\$ 540,509</u>	<u>\$ 249,131</u>	<u>\$ 126,278</u>	<u>\$ 2,094,650</u>	<u>\$ 3,010,568</u>

**CITY OF BROWNSBORO, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FISCAL YEAR ENDED JUNE 30, 2018**

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net change in fund balances - total governmental funds	\$ 1,978,690
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	37,178
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	4,204
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(1,963,041)
Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.	<u>(260,113)</u>
Change in net position of governmental activities	<u><u>\$ (203,082)</u></u>

The notes to the financial statements are an integral part of this statement



## EXHIBIT 6

**CITY OF BROWNSBORO, TEXAS  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2018**

	Operating Fund
<b>ASSETS</b>	
Current Assets:	
Cash and Investments	\$ 299,502
Accounts Receivable (Net)	25,654
Prepaid Expenses	291
Total Current Assets	325,447
Noncurrent Assets:	
Restricted Assets:	
Temporarily Restricted	
Cash for Customer Deposits	32,893
Cash for Capital Improvements	23,255
Total Restricted Assets	56,148
Capital Assets:	
Land	15,817
Water System	1,949,477
Sewer System	832,946
Machinery & Equipment	205,062
Less: Accumulated Depreciation	(1,896,595)
Total Capital Assets Net of Accumulated Depreciation	1,106,707
Total Assets	1,488,302
Deferred Outflows of Resources:	
Deferred Outflows on TMRS Pension	6,347
Total Deferred Outflows of Resources	6,347
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	2,426
Accrued Interest	3,340
Customer Deposits	32,893
Revenue Bonds Payable - Current Portion	35,000
Due to Other Funds	4,856
Total Current Liabilities	78,515
Noncurrent Liabilities:	
Revenue Bonds Payable	250,000
Pension Liability	105,110
Total Noncurrent Liabilities	355,110
Total Liabilities	433,625
Net Position:	
Net investment in capital assets	821,707
Unrestricted	239,317
Total Net Position	\$ 1,061,024

The notes to the financial statements are an integral part of this statement

EXHIBIT 7

**CITY OF BROWNSBORO, TEXAS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Operating Fund</u>
<b>OPERATING REVENUES</b>	
Water Sales and Sewer Service	\$ 322,240
Charges for Services	16,876
Miscellaneous	<u>5,923</u>
Total Operating Revenues	<u>345,039</u>
<b>OPERATING EXPENSES</b>	
Water and sewer operations	369,853
Depreciation	<u>72,930</u>
Total Operating Expenses	<u>442,783</u>
Operating Income (Loss)	<u>(97,744)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Transfers in	44,739
Interest expense	(9,028)
Interest income	<u>195</u>
Total Non-Operating Revenues (Expenses)	<u>35,906</u>
Change in Net Position	(61,838)
Net Position, July 1, 2017	<u>1,122,862</u>
Net Position, June 30, 2018	<u><u>\$ 1,061,024</u></u>

CITY OF BROWNSBORO, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FISCAL YEAR ENDED JUNE 30, 2018

	Operating Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from customers and users	\$ 341,981
Cash paid to suppliers for goods and services	(237,287)
Cash paid to employees for services	(33,829)
	<u>70,865</u>
Net cash provided by operating activities	<u>70,865</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Transfers in	<u>43,555</u>
Net cash provided by non-capital financing activities	<u>43,555</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Purchase of fixed assets	(5,936)
Bond Principal paid	(35,000)
Bond Interest paid	(9,389)
	<u>(50,325)</u>
Net cash used in capital and related financing activities	<u>(50,325)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest earned on investments	<u>195</u>
Net cash provided by investing activities	<u>195</u>
Net increase in cash	64,290
Cash, beginning of period	<u>291,360</u>
Cash, end of period	<u>\$ 355,650</u>
<b>Reconciliation to Cash per Exhibit 7:</b>	
Cash, current asset	\$ 299,502
Restricted cash, noncurrent asset	<u>56,148</u>
Total Cash - June 30, 2018	<u>\$ 355,650</u>

The notes to the financial statements are an integral part of this statement

**CITY OF BROWNSBORO, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2018**

**Increase (Decrease) in Cash and Cash Equivalents**

	<u>Operating Fund</u>
<b>Reconciliation of Operating Income (Loss) To Net Cash Provided By (Used In) Operating Activities:</b>	
Operating income (loss)	\$ (97,744)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:	
Depreciation expense	72,930
(Increase) decrease in accounts receivable	(413)
(Increase) decrease in prepaid expenses	(25)
(Increase) decrease in deferred outflows for pension	(6,348)
Increase (decrease) in net pension liability	105,110
Increase (decrease) in deposits and other refundable balances	<u>1,750</u>
Total adjustments	<u>173,004</u>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b><u>\$ 75,260</u></b>

The notes to the financial statements are an integral part of this statement

**CITY OF BROWNSBORO, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
FISCAL YEAR ENDED JUNE 30, 2018**

**NOTE 1: — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. General Statement**

The City of Brownsboro, Texas (the "City") operates under a mayor/council form of government with the mayor and (5) council members elected at large. The City provides the following services: general government, public safety, streets and drainage, and water and sewer service.

The accounting policies of the City of Brownsboro, Texas conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

**B. The Reporting Entity**

The financial statements of the City of Brownsboro, Texas include all funds and other organizations for which the City is financially accountable. Financial accountability is determined on the basis of appointment of a voting majority of the respective governing board, imposition of will, financial benefit or burden and financial accountability as a result of fiscal dependency.

The Brownsboro Economic Development Corporation, Inc. was formed in 2004, and is governed by a nine-member board of directors, which includes the City's council members. For financial reporting purposes, the Brownsboro Economic Development Corporation, Inc. has been presented as a blended component unit of the City and is reported as a Capital Projects Fund, because its purpose is to account for construction activities funded by the revenues generated by the one-half cent sales tax. The Brownsboro Economic Development Corporation, Inc. does not issue separate financial statements.

**C. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government.

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

**D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**CITY OF BROWNSBORO, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED JUNE 30, 2018**

**D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued**

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Economic Development Fund is used to account for the use of the one-half cent sales tax proceeds for capital improvement projects of the City.

The Debt Service Fund is used to account for the interest and sinking property taxes collected for the payment of the City's debt.

The Capital Projects Fund is used to account for various street improvements throughout the city streets of Brownsboro.

The government reports the following major proprietary funds:

The Water and Sewer Fund is used to account for sale of water and wastewater treatment by the City to businesses and residential customers.

Amounts reported as program revenues include charges to customers or applicants for goods, services, or privileges provided. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**E. Assets, Liabilities, and Net Position or Equity**

1. Cash and cash equivalents – the City considers all cash in demand deposit accounts and petty cash accounts to be cash and cash equivalents.
2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**CITY OF BROWNSBORO, TEXAS  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 FISCAL YEAR ENDED JUNE 30, 2018**

**E. Assets, Liabilities, and Net Position or Equity - Continued**

All receivables are shown net of an allowance for uncollectible.

The City provides an allowance for doubtful accounts based upon the anticipated collectability of each specific account, as determined by experience.

All delinquent property taxes receivable are assets of the General Fund.

Property taxes are levied October 1 on the assessed value of property at January 1 and are due by January 31 of the following year. Unpaid taxes attach as an enforceable lien on property as of January 31. Revenue from taxes assessed is recorded as deferred inflow of resources on October 1. The deferred inflow of resources from taxes is then recognized as revenue during the year as the taxes are actually received.

The assessed valuation (net of exemptions) was \$38,235,640 for 2017 (with taxes due January 1, 2018) levied at a rate of \$0.590365 per hundred-dollar valuation.

**3. Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid in both the government-wide and fund financial statements.

**4. Due from Other Funds**

Current portions of long-term interfund loans receivable (reported in "Due from" asset accounts) are considered "available spendable resources".

**5. Capital Assets – includes property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.**

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	40
Machinery and equipment	3-15
Infrastructure	30

**6. Construction in progress – Expenditures on incomplete capital projects have been capitalized as construction in progress. The assets resulting from these projects will be transferred from the construction in progress accounts to the appropriate asset account as the projects are completed.**

**7. Bond issue costs – The City reports bond issue costs under GASB Statement No. 65. Under GASB Statement No. 65, bond issue costs are expensed when incurred.**

**8. Long-term Obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.**

**CITY OF BROWNSBORO, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED JUNE 30, 2018**

**E. Assets, Liabilities, and Net Position or Equity – Continued**

9. Deferred Outflows / Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows/inflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then. The City only has one item that qualifies for reporting in this category; this is the deferred charged on the

TMRS pension. The TMRS pension expense and net pension liability are reported as of the date of the last actuarial study, which was December 31, 2017. The deferred outflows shows the difference in contributions to the TMRS retirement plan that occurred between December 31, 2017 and June 30, 2018.

10. Fund equity – Reserves of fund balance are used to indicate that a portion of fund equity is not available for expenditure or is legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

11. Fund Balance Classification – The City reports fund balances under GASB Statement No. 54, which defines how fund balances of governmental funds are presented in the financial statements. Fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of the City Charter, City Code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance or resolution. This includes any budgeted reserve account.

Assigned – Amounts that are designated by City Council for a specific purpose but are not spendable until a budget ordinance is passed.

Unassigned – All amounts not included in other spendable classifications.

The details of the fund balances for the governmental funds are included in the Governmental Funds Balance Sheet.

12. Net position – Net position represents the difference between assets and liabilities, and is divided into three components.

Net investment in capital assets - This component consists of the City's capital assets, net of accumulated depreciation, reduced by any outstanding debt used for the acquisition or construction of those assets and adjusted for any deferred outflows or inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt.

Restricted – This component consist of those amounts which have limitations imposed on their use either through legislation adopted by the City or through external restrictions imposed by creditors, grantors or other laws and regulations, reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – This component consist of the net amount of the assets, deferred outflows and inflows of resources, and liabilities not included in net investment in capital assets or restricted components of net position.

13. Tax Abatements – The City adopted GASB Statement No. 77, Tax Abatement Disclosures. The City has evaluated the total tax abatements issued for the year and has determined that the amount is not material to the financial statements.



**CITY OF BROWNSBORO, TEXAS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FISCAL YEAR ENDED JUNE 30, 2018**

**E. Assets, Liabilities, and Net Position or Equity - Continued**

14. 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.
15. Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS’s Fiduciary Net Position have been determined on the same basis as they are reported by TMRS.

For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refund are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**NOTE 2 — RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position**

One element of that reconciliation states that “Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.” The details of this \$707,969 difference are as follows:

Capital assets, July 1, 2017, net of accumulated depreciation	\$	670,791
Capital assets additions, net of retirements		68,312
Depreciation of capital assets, net of retirements		(31,134)
	\$	707,969

Another element states that “Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.” The details of this \$(2,397,588) difference are as follows:

Long-term liabilities, July 1, 2017	\$	(157,717)
Debt incurred during the current year		(2,041,000)
Principal paid on debt in the current year		77,959
Increase in net pension liability		(276,830)
	\$	(2,397,588)

**B. Explanation of certain differences between the governmental fund statement of revenue, expenditures, and changes in fund balance and the government-wide statement of activities**

An element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated their estimated useful lives and reported as depreciation expense. The detail of this \$37,178 difference are as follows:

Capital outlay, asset additions	\$	97,788
Depreciation expense		(60,610)
	\$	37,178

**CITY OF BROWNSBORO, TEXAS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FISCAL YEAR ENDED JUNE 30, 2018**

**B. Explanation of certain differences between the governmental fund statement of revenue, expenditures, and changes in fund balance and the government-wide statement of activities – Continued**

Another element states “The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.” The details of this \$(1,963,041) difference are as follows:

Principal payments on debt	\$	77,959
Debt incurred during the current year		(2,041,000)
		(1,963,041)
	\$	(1,963,041)

**NOTE 3 — STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

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

1. The budget for the General Fund and Water & Sewer Fund is adopted essentially on the cash basis. The budgetary comparisons for these funds are on this non-GAAP budgetary basis.
2. Appropriations lapse at year end.
3. Encumbrance accounting is not used.

**NOTE 4 — DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

Cash and investments as of June 30, 2018 consist of and are classified in the accompanying financial statements as follows:

Statement of net position:	
Primary Government	
Cash and cash equivalents	\$ 882,120
Restricted cash and cash equivalents	2,285,460
Investments	167,341
Total Cash and Investments	\$ 3,334,921
Cash on hand	\$ 300
Certificates of deposit	167,341
Savings and checking accounts	3,167,280
Total Cash and Investments	\$ 3,334,921

Custodial Credit Risk – Deposits – At June 30, 2018, the City held several bank accounts. The City’s account balances, less outstanding checks and deposits totaled \$3,167,580, and the bank balances totaled \$3,138,452. Typically, all bank balances not covered by federal depository insurance, are covered by collateral held in the pledging financial institutions’ trust department in the City’s name. At June 30, 2018, the City exceeded FDIC insurance coverage and collateral pledged by \$1,497,308. The Economic Development Corporation is not covered

**CITY OF BROWNSBORO, TEXAS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FISCAL YEAR ENDED JUNE 30, 2018**

**A. Deposits and Investments - Continued**

by the City's collateral agreement; however, the Economic Development Corporation did not have a balance that exceeded FDIC insurance coverage.

The amortized cost and estimated fair values of investments were as follows as of June 30, 2018:

	Cost	Fair Value
Economic Development Corporation:		
Certificates of Deposit	\$ 167,341	\$ 167,341

**Interest Risk Rate** – This is the risk that changes in market risk rates will adversely affect the fair value of an investment. Investments with interest rates that are fixed for longer periods of time are more likely to be subject to increased variability in their fair values due to changes in the market interest rates. The City's investment policy allows for investments to be made in order to achieve the highest return of interest on excess funds after consideration is given to safety and liquidity provisions of the policy.

**Credit Risk** – This is the risk that an issuer or other counterparty of a debt type investment will not fulfill its obligation to the holder of the investment. At year-end, the City was not exposed to credit risk.

**Custodial Credit Risk** – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment of collateral securities that are in the possession of an outside party. As noted previously, the Economic Development Corporation is fully covered by FDIC insurance coverage.

**Foreign Currency Risk** – This is the risk that exchange rates will adversely affect the fair value of an investment. At year-end, the City was not exposed to credit risk.

FASB ASC 820, Fair Value Measurement and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the government can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are valuations for which one or more significant inputs are observable and may include situations where there is minimal, if any, market activities for the asset.

If the fair value is measured using inputs from different levels in the fair value hierarchy, the measurement should be categorized based on the lowest priority input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

Certificates of deposit are valued at cost plus accumulated interest, which approximately fair value. It is valued as a level 1 measurement.

**CITY OF BROWNSBORO, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED JUNE 30, 2018**

**B. Receivables**

Receivables as of year-end for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Water & Sewer Fund	Total
Receivables:			
Taxes	\$ 23,899	\$ -	\$ 23,899
Sales Tax	39,696	-	39,696
Fines	452,075	-	452,075
Accounts (services)	19,017	95,320	114,337
Other	445	-	445
Gross receivables	<u>535,132</u>	<u>95,320</u>	<u>630,452</u>
Less: Allowance for Uncollectibles	<u>(462,847)</u>	<u>(69,666)</u>	<u>(532,513)</u>
Net Receivables	<u><u>\$ 72,285</u></u>	<u><u>\$ 25,654</u></u>	<u><u>\$ 97,939</u></u>

**C. Capital Assets**

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>PRIMARY GOVERNMENT</b>				
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 36,690	\$ -	\$ -	\$ 36,690
Total Capital Assets, Not Being Depreciated	<u>36,690</u>	<u>-</u>	<u>-</u>	<u>36,690</u>
Capital Assets, Being Depreciated:				
Building and Improvements	331,396	-	-	331,396
Infrastructure	379,341	97,788	-	477,129
Machinery and Equipment	633,888	-	(29,476)	604,412
Total Capital Assets, Being Depreciated	<u>1,344,625</u>	<u>97,788</u>	<u>(29,476)</u>	<u>1,412,937</u>
Less Accumulated Depreciation For:				
Building and Improvements	(212,273)	(5,520)	-	(217,793)
Infrastructure	(54,601)	(12,917)	-	(67,518)
Machinery and Equipment	(443,650)	(42,173)	29,476	(456,347)
Total Accumulated Depreciation	<u>(710,524)</u>	<u>(60,610)</u>	<u>29,476</u>	<u>(741,658)</u>
Net Total Assets Being Depreciated	<u>634,101</u>	<u>37,178</u>	<u>-</u>	<u>671,279</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 670,791</u></u>	<u><u>\$ 37,178</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 707,969</u></u>

**CITY OF BROWNSBORO, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED JUNE 30, 2018**

**C. Capital Assets - Continued**

<u>PRIMARY GOVERNMENT</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 15,817	\$ -	\$ -	\$ 15,817
Total Capital Assets, Not Being Depreciated	15,817	-	-	15,817
Capital Assets, Being Depreciated:				
Water System	1,949,477	-	-	1,949,477
Sewer System	827,010	5,936	-	832,946
Machinery and Equipment	205,062	-	-	205,062
Total Capital Assets, Being Depreciated	2,981,549	5,936	-	2,987,485
Less Accumulated Depreciation For:				
Water System	(878,312)	(58,254)	-	(936,566)
Sewer System	(758,093)	(8,755)	-	(766,848)
Machinery and Equipment	(187,260)	(5,921)	-	(193,181)
Total Accumulated Depreciation	(1,823,665)	(72,930)	-	(1,896,595)
Net Total Assets Being Depreciated	1,157,884	(66,994)	-	1,090,890
Business-Type Activities Capital Assets, Net	<u>\$ 1,173,701</u>	<u>\$ (66,994)</u>	<u>\$ -</u>	<u>\$ 1,106,707</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 17,333
Public Safety	24,408
Streets	18,869
Total depreciation expense, governmental activities	<u>\$ 60,610</u>
Business-Type Activities:	
Water and Sewer Operations	<u>\$ 72,930</u>

**D. Interfund receivables, payables, and transfers**

The composition of interfund balances as of June 30, 2018, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water and Sewer Fund	\$ 4,856

Interfund transfers are made in accordance with the City's adopted budget or through approvals to meet unexpected operating needs.

The composition of interfund transfers as of June 30, 2018, is as follows:

	<u>Transfers In</u>			<u>Total</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Water and Sewer Fund</u>	
<u>Transfers Out:</u>				
General Fund	\$ -	\$ 49,418	\$ -	\$ 49,418
Debt Service Fund	71,908	-	44,739	116,647
Total transfers out/in	<u>\$ 71,908</u>	<u>\$ 49,418</u>	<u>\$ 44,739</u>	<u>\$ 166,065</u>

**CITY OF BROWNSBORO, TEXAS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FISCAL YEAR ENDED JUNE 30, 2018**

**E. Long-term debt**

Outstanding debt at June 30, 2018 are comprised of the following issues:

Governmental Activities:

\$337,000 2014 Series Limited Tax Note; maturing annually in varying amounts through 2019. Interest at 2.25%.	\$ 60,957
\$36,435 2015 Note Payable; maturing annually in varying amounts through 2019. Interest at 3.25%.	18,801
\$2,041,000 Series 2018 Certificate of Obligation; maturing annually in varying amounts through 2038. Interest at 3.26% to 3.54%.	2,041,000
<b>Total Governmental Debt</b>	<b><u>\$ 2,120,758</u></b>

Business-Type Activities:

\$700,000 Series 2004 Certificates of Obligation; maturing annually in varying amounts through 2025. Interest at .30% to 3.35%.	\$ 285,000
<b>Total Business-Type Debt</b>	<b><u>\$ 285,000</u></b>

The funding requirements to amortize all bonds outstanding as of June 30, 2018, including interest, are as follows:

	GOVERNMENTAL		BUSINESS-TYPE		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2019	\$ 137,957	\$ 67,420	\$ 35,000	\$ 8,409	\$ 248,786
2020	77,000	65,802	40,000	7,320	190,122
2021	80,000	63,291	40,000	6,120	189,411
2022	82,000	60,683	40,000	4,880	187,563
2023	85,000	58,010	40,000	3,610	186,620
2024-2028	465,000	246,856	90,000	2,993	804,849
2029-2033	541,000	166,171	-	-	707,171
2034-2038	634,000	68,924	-	-	702,924
	<b><u>\$ 2,101,957</u></b>	<b><u>\$ 797,157</u></b>	<b><u>\$ 285,000</u></b>	<b><u>\$ 33,332</u></b>	<b><u>\$ 3,217,446</u></b>

The funding requirements to amortize all notes outstanding as of June 30, 2018, including interest, are as follows:

	GOVERNMENTAL	
	PRINCIPAL	INTEREST
2019	\$ 9,250	\$ 611
2020	9,551	310
	<b><u>\$ 18,801</u></b>	<b><u>\$ 921</u></b>

**CITY OF BROWNSBORO, TEXAS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FISCAL YEAR ENDED JUNE 30, 2018**

**E. Long-term debt - Continued**

**Changes in long-term liabilities**

Long term liability activity for the year ended June 30, 2018 was as follows:

	Beginning Balance 7/1/2017	Additions	Reductions	Ending Balance 6/30/2018	Due Within One Year
<b>Governmental Activities:</b>					
Tax Notes	\$ 129,957	\$ -	\$ (69,000)	\$ 60,957	\$ 60,957
Certificates of Obligation	-	2,041,000	-	2,041,000	77,000
Notes Payable	27,760	-	(8,959)	18,801	9,250
Net Pension Liability	-	276,830	-	276,830	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Governmental Activity Long-Term Liabilities</b>	<b><u>\$ 157,717</u></b>	<b><u>\$ 2,317,830</u></b>	<b><u>\$ (77,959)</u></b>	<b><u>\$ 2,397,588</u></b>	<b><u>\$ 147,207</u></b>
<b>Business-Type Activities:</b>					
Certificates of Obligation	\$ 320,000	\$ -	\$ (35,000)	\$ 285,000	\$ 35,000
Net Pension Liability	-	105,110	-	105,110	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Business-Type Activity Long-Term Liabilities</b>	<b><u>\$ 320,000</u></b>	<b><u>\$ 105,110</u></b>	<b><u>\$ (35,000)</u></b>	<b><u>\$ 390,110</u></b>	<b><u>\$ 35,000</u></b>

**NOTE 5 — GROUP CONCENTRATIONS OF CREDIT RISK**

The City provides water and sewer services and sanitation services to its residents. Residents use the City's water and sewer system and the City's sanitation service and are billed each month for usage in the prior month. The credit granted by the City for usage of these services is all with residents of the City. As of June 30, 2018, the City had \$21,258 in net receivables from its residents for the usage of these services.

**NOTE 6 — 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; and natural disasters for which the City carries commercial insurance and insurance with the Texas Municipal League (TML), a public entity risk pool for municipalities. The City pays premiums in monthly installments for this coverage. As of June 30, 2018, the City did not have any liability for unpaid claims or adjustments under policies carried with TML. During the year ended June 30, 2018, there was no reduction in insurance coverage from the prior year. There were no settlements in the prior three fiscal years which exceeded insurance coverage carried by the City.

**NOTE 7 — COMMITMENTS**

The City has the following outstanding commitments at June 30, 2018:

The City has a contract with Allied Waste Services for the collection of garbage for the City's residents. The contract, effective August 1, 2003, was renewed in 2014 for 5 additional years through August 1, 2019.

**NOTE 8 — DEFINED BENEFIT PENSION PLAN**

**CITY OF BROWNSBORO, TEXAS  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 FISCAL YEAR ENDED JUNE 30, 2018**

**Plan Description**

The City of Brownsboro participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tMrs.com](http://www.tMrs.com).

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

**Benefits Provided**

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 100% of the member's deposits and interest.

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 2017
Employee deposit rate	5.0%
Matching ratio (city to employee)	1 to 1
Year required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers

**Employees covered by benefit terms**

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

	<u>12/31/2017</u>
Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	2
Active employees	10
	12



**CITY OF BROWNSBORO, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED JUNE 30, 2018**

**Contributions**

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

Employees for the City of Brownsboro were required to contribute 5% of their annual gross earnings beginning March 1, 2017. The contribution rate for the City of Brownsboro is 12.58% during calendar year 2017. The City's contributions to TMRS for the year ended June 30, 2018, were \$46,267, and were equal to the required contributions.

**Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

**Actuarial assumptions**

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.00% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. For smaller cities, more conservative methods and assumptions are used; lower termination rates are used for smaller cities, with maximum multipliers of 115% for employers with less than 100 members. There is also a load on the life expectancy for employers with less than 15 active members. The life expectancy will be loaded by decreasing the mortality rates by 1% for every active member less than 15. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 13% with a 3-year set forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**CITY OF BROWNSBORO, TEXAS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FISCAL YEAR ENDED JUNE 30, 2018**

**Actuarial assumptions (continued)**

In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.90%
Real Return	10.00%	3.80%
Real Estate	10.00%	4.50%
Absolute Return	10.00%	3.75%
Private Equity	5.00%	7.50%
Total	<u>100.00%</u>	

**Discount Rate**

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

**CITY OF BROWNSBORO, TEXAS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FISCAL YEAR ENDED JUNE 30, 2018**

**Changes in the Net Pension Liability**

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 12/31/2016	\$ -	\$ -	\$ -
Changes for the year:			
Service cost	20,948	-	20,948
Interest	26,845	-	26,845
Change of benefit terms	387,238	-	387,238
Difference between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	37,800	(37,800)
Contributions - employee	-	15,291	(15,291)
Net investment income	-	-	-
Benefit payments, including refunds of employee contributions	-	-	-
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	435,031	53,091	381,940
Balance at 12/31/2017	\$ 435,031	\$ 53,091	\$ 381,940

**Sensitivity of the net pension liability to changes in the discount rate**

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

	1% Decrease in		1% Increase in	
	Discount Rate (5.75%)	Discount Rate (6.75%)	Discount Rate (6.75%)	Discount Rate (7.75%)
City's net pension liability	\$ 438,895	\$ 381,940	\$ 381,940	\$ 334,058

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the internet at [www.tmr.com](http://www.tmr.com).

**CITY OF BROWNSBORO, TEXAS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FISCAL YEAR ENDED JUNE 30, 2018**

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

For the year ended June 30, 2018, the City recognized pension expense of \$419,740.

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ -
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	-
Contributions subsequent to the measurement date	23,065	-
Total	\$ 23,065	\$ -

The City had \$23,065 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Year Ended December 31
2018	\$ -
2019	-
2020	-
2021	-
2022	-
Thereafter	-
	\$ -

**NOTE 9 – PRIOR PERIOD ADJUSTMENT**

During the current year, the City became aware that the liability for quarterly court fines was understated for the quarter ended June 30, 2017. The 2018 financial statements have provided a prior period adjustment of \$38,009 to reflect the additional liability for court fines due as of June 30, 2017 that also decreased the fund balance for the General Fund as well as the total net position.

**NOTE 10 – SUBSEQUENT EVENTS**

Subsequent events were evaluated through November 10, 2020, the date on which the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF BROWNSBORO, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
FISCAL YEAR ENDED JUNE 30, 2018

	Measurement Year 2017
<b>Total pension liability</b>	
Service Cost	\$ 20,948
Interest (on the Total Pension Liability)	26,845
Changes in benefit terms	387,238
Difference between expected and actual results	-
Change of assumptions	-
Benefit payments, including refunds of employee contributions	-
Net Change in Total Pension Liability	435,031
Total Pension Liability - Beginning	-
Total Pension Liability - Ending (a)	<u>\$ 435,031</u>
<b>Plan Fiduciary Net Position</b>	
Contributions - Employer	\$ 37,800
Contributions - Employee	15,291
Net Investment Income	-
Benefit payments, including refunds of employee contributions	-
Administrative Expense	-
Other	-
Net Change in Plan Fiduciary Net Position	53,091
Plan Fiduciary Net Position - Beginning	-
Plan Fiduciary Net Position - Ending (b)	<u>\$ 53,091</u>
Net Pension Liability - Ending (a)-(b)	381,940
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	12.20%
Covered Payroll	\$ 305,815
Net Pension Liability as a Percentage of Covered Payroll	124.89%

**CITY OF BROWNSBORO, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS  
FISCAL YEAR ENDED JUNE 30, 2018**

	2017	2018
Actuarially Determined Contribution	14,597	46,267
Contributions in relation to the actuarially determined contributions	14,597	46,267
Contribution deficiency (excess)	-	-
Covered payroll	118,099	374,323
Contributions as a percentage of covered payroll	12.36%	12.36%

**NOTES TO SCHEDULE OF CONTRIBUTIONS**

**Valuation Date:** Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	15 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

**Other Information:** There were no benefit changes during the year other than TMRS plan participation.

**ADDITIONAL SUPPLEMENTARY INFORMATION**



**CITY OF BROWNSBORO, TEXAS**  
**SCHEDULE OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGET BASIS) -**  
**GENERAL FUND**  
**FISCAL YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Fines and Forfeitures	\$ 278,000	\$ 278,000	\$ 384,526	\$ 106,526
Interest	-	-	187	187
Miscellaneous	1,000	1,000	136	(864)
Services	62,000	62,000	59,251	(2,749)
Permits and Fees	4,000	4,000	6,525	2,525
Sale of Assets	-	-	20,000	20,000
Grants	-	-	-	-
Intergovernmental	-	-	3,900	3,900
Property Taxes	100,000	100,000	109,512	9,512
Sales Tax	156,500	156,500	176,166	19,666
Franchise Taxes	45,000	45,000	47,643	2,643
<b>Total Revenues</b>	<b>646,500</b>	<b>646,500</b>	<b>807,846</b>	<b>161,346</b>
<b>Expenditures:</b>				
General Government	116,350	116,350	99,053	17,297
Public Safety	392,671	392,671	534,497	(141,826)
Streets and Drainage	89,000	89,000	86,259	2,741
Debt Service - Principal	77,959	77,959	77,959	-
Interest	3,810	3,810	3,810	-
Capital Outlay	38,618	38,618	-	38,618
<b>Total Expenditures</b>	<b>718,408</b>	<b>718,408</b>	<b>801,578</b>	<b>(83,170)</b>
Revenues Over (Under) Expenditures	(71,908)	(71,908)	6,268	78,176
<b>Other Financing Sources (Uses)</b>				
Transfers in	71,908	71,908	22,489	(49,419)
Transfers out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>71,908</b>	<b>71,908</b>	<b>22,489</b>	<b>(49,419)</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures - Budget Basis	-	-	28,757	28,757
Budget Basis to GAAP Basis Adjustments (Note A)	-	-	6,267	6,267
Excess (Deficiency) of Revenues Over (Under) Expenditures - GAAP Basis	-	-	35,024	35,024
Fund Balance, beginning of year, as originally stated	-	-	543,494	543,494
Prior period adjustment	-	-	(38,009)	(38,009)
Fund Balance, beginning of year, as restated	-	-	505,485	505,485
Fund Balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 540,509</u>	<u>\$ 540,509</u>

**CITY OF BROWNSBORO, TEXAS**  
**SCHEDULE OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGET BASIS) -**  
**GENERAL FUND**  
**FISCAL YEAR ENDED JUNE 30, 2018**

Note A - Explanation of Differences Between Budget Basis Presentation and GAAP

Basis Presentation:

Sources/Inflows of Resources:

Differences - Budget to GAAP

Increase in fines receivable

\$ 3,575

Increase in garbage fees receivable

2,630

Increase in prepaid insurance

62

Net Change in Budget Basis Presentation and GAAP Basis Presentation

\$ 6,267

**CITY OF BROWNSBORO, TEXAS**  
**DETAILED SCHEDULE OF REVENUES, EXPENSES AND**  
**CHANGES IN NET POSITION - BUDGET AND ACTUAL (NON-GAAP BUDGET BASIS)**  
**WATER & SEWER OPERATING FUND**  
**FISCAL YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance with final budget Positive (Negative)
<b>Operating Revenues</b>				
Water Sales and Sewer Service	\$ 340,000	\$ 340,000	\$ 317,845	\$ (22,155)
Charges for Services	-	-	16,876	16,876
Property Taxes	44,739	44,739	44,739	-
Interest Income	-	-	195	195
Miscellaneous	-	-	5,923	5,923
<b>Total Operating Revenues</b>	<b>384,739</b>	<b>384,739</b>	<b>385,578</b>	<b>839</b>
<b>Operating Expenditures</b>				
Salaries and labor	123,780	123,780	126,922	(3,142)
Payroll Taxes	6,020	6,020	5,669	351
Employee Retirement	13,531	13,531	14,690	(1,159)
Utilities	29,500	29,500	24,936	4,564
Telephone	2,000	2,000	1,964	36
Legal and Audit	9,000	9,000	9,300	(300)
Office Supplies	3,000	3,000	2,204	796
Insurance and Bonds	21,653	21,653	22,399	(746)
Dues and Education	10,000	10,000	7,045	2,955
Auto and Truck Expense	6,500	6,500	6,345	155
Repairs	14,000	14,000	11,661	2,339
Supplies and Chemicals	45,000	45,000	40,404	4,596
Miscellaneous	38,416	38,416	1,172	37,244
Debt Service	44,739	44,739	44,739	-
New Equipment	8,000	8,000	1,990	6,010
<b>Total Expenditures</b>	<b>375,139</b>	<b>375,139</b>	<b>321,440</b>	<b>53,699</b>
<b>Net Income (Loss) - Budget Basis</b>	<b>9,600</b>	<b>9,600</b>	<b>64,138</b>	<b>54,538</b>
<b>Financial Statement Adjustments:</b>				
Accrue Water Sales & Sewer Service	-	-	5,993	5,993
Record GASB 68 activity	-	-	(98,763)	(98,763)
Decrease in accrued expenses	-	-	(10,976)	(10,976)
Capitalize fixed assets purchased	-	-	5,936	5,936
Depreciation	-	-	(72,930)	(72,930)
Increase Prepaid Insurance	-	-	25	25
Transfer from Debt Service Fund	-	-	44,739	44,739
<b>Total Financial Statement Adjustments</b>	<b>-</b>	<b>-</b>	<b>(125,976)</b>	<b>(125,976)</b>
<b>Change in net position</b>	<b>9,600</b>	<b>9,600</b>	<b>(61,838)</b>	<b>(71,438)</b>
Net position, July 1, 2017	-	-	1,122,862	1,122,862
<b>Net position, June 30, 2018</b>	<b>\$ 9,600</b>	<b>\$ 9,600</b>	<b>\$ 1,061,024</b>	<b>\$ 1,051,424</b>

## **OTHER SCHEDULES**

**CITY OF BROWNSBORO, TEXAS**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
**SCHEDULE BY SOURCE**  
**FISCAL YEAR ENDED JUNE 30, 2018**

	<u>TOTAL</u>
<b>GOVERNMENTAL FUNDS CAPITAL ASSETS:</b>	
Land	\$ 36,690
Buildings and improvements	327,796
Infrastructure	477,129
Machinery and equipment	<u>608,013</u>
Total governmental funds capital assets	<u>\$ 1,449,627</u>
<b>INVESTMENT IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE:</b>	
General funds	<u>\$ 1,449,627</u>
Total governmental funds capital assets	<u>\$ 1,449,627</u>

**CITY OF BROWNSBORO, TEXAS  
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS  
SCHEDULE BY FUNCTION AND ACTIVITY  
FISCAL YEAR ENDED JUNE 30, 2018**

<u>FUNCTION AND ACTIVITY</u>	<u>LAND</u>	<u>BUILDINGS AND IMPROVEMENTS</u>	<u>INFRASTRUCTURE</u>	<u>MACHINERY AND EQUIPMENT</u>	<u>TOTAL</u>
General government:	\$ 36,690	\$ 277,669	\$ -	\$ 327,395	\$ 641,754
Street	-	-	477,129	85,733	562,862
Public safety:					
Police	-	32,805	-	194,885	227,690
Municipal Court	-	17,322	-	-	17,322
Total public safety	<u>-</u>	<u>50,127</u>	<u>-</u>	<u>194,885</u>	<u>245,012</u>
Total general capital assets	<u>\$ 36,690</u>	<u>\$ 327,796</u>	<u>\$ 477,129</u>	<u>\$ 608,013</u>	<u>\$ 1,449,627</u>

**CITY OF BROWNSBORO, TEXAS**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
**SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY**  
**FISCAL YEAR ENDED JUNE 30, 2018**

<u>FUNCTION AND ACTIVITY</u>	<u>GOVERNMENTAL FUNDS CAPITAL ASSETS JUNE 30, 2017</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>GOVERNMENTAL FUNDS CAPITAL ASSETS JUNE 30, 2018</u>
General government:	\$ 641,754	\$ -	\$ -	\$ 641,754
Total General government	<u>641,754</u>	<u>-</u>	<u>-</u>	<u>641,754</u>
Street	465,074	97,788	-	562,862
Public safety:				
Police	257,165	-	(29,476)	227,689
Municipal Court	17,322	-	-	17,322
Total public safety	<u>274,487</u>	<u>-</u>	<u>(29,476)</u>	<u>245,011</u>
Total general capital assets	<u>\$ 1,381,315</u>	<u>\$ 97,788</u>	<u>\$ (29,476)</u>	<u>\$ 1,449,627</u>

# Compliance and Internal Control







DAVID K. GODWIN  
CERTIFIED PUBLIC ACCOUNTANT

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and Members of City Council  
City of Brownsboro, Texas

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Brownsboro, Texas (City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated November 16, 2020.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2018-001.

### **Purpose of this Report**

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



David K. Godwin  
Certified Public Accountant

Tyler, Texas  
November 16, 2020

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**CITY OF BROWNSBORO, TEXAS  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2018**

**2018-001 Significant Deficiency**

**Condition:**

The City is not meeting State statutes for timely preparation of its annual financial statements.

**Criteria:**

Chapter 103.003 of the Texas Local Government Code requires the annual financial statements, including the auditor's opinion on the statements, to be filed in the office of the municipal secretary within 180 days after the last day of the municipality's fiscal year.

**Cause of Condition:**

The sudden loss of a key employee who was charged with the responsibility of maintaining the City financial records along with manual processes hindered the City's capability to timely prepare the annual financial statements and obtain the auditor's opinion.

**Potential Effect of Condition:**

Inability to provide timely financial statements could lead to fines and penalties under Texas Local Government Code in addition to the loss of funding opportunities by the City.

**Recommendation 2018-001.01**

Effective and efficient operations rely on timely financial reporting for internal and external decision making. Internal controls should be established to ensure compliance with Chapter 103.003 of the Texas Local Government Code.

**Management Response**  **Agree**  **Disagree**

**Corrective Action Plan**

Individual Responsible	Josh Fulgham, Mayor	Estimated Implementation Date	January 31, 2021
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To ensure longevity and integrity of the City's financial infrastructure the City is converting manual financial record keeping to an electronic accounting system to assist with timely preparation.

**Recommendation 2018-001.02**

In order to maintain integrity of the City's financial infrastructure, a succession plan should be developed to ensure essential processes and procedures for public services are performed by the City in the event key personnel become unavailable to perform regular duties.

General effective succession planning activities often include cross training key personnel and/or identifying essential responsibilities and establishing formal procedures.

**Management Response**  **Agree**  **Disagree**

**Corrective Action Plan**

Individual Responsible	Josh Fulgham, Mayor	Estimated Implementation Date	June 30, 2021
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To ensure public services functions are performed, the City will work to cross train appropriate personnel. In addition, the City will work with key personnel to develop formal procedures that outline their essential functions.