

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

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

**A. Reporting Entity**

The City operates under a Home Rule/Commission/Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highway and streets, sanitation, social services, public improvements, planning and zoning, parks and recreation, and general administration services. Other services include water production and distribution and sewer disposal.

The reporting entity consists of the City of Breckenridge, Texas ("City") and its component units. Component units are legally separate entities for which the City is financially accountable or other organizations whose nature and significant relationship with the City are such that the exclusion would cause the City's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either the City's ability to impose its will on the organization or there is potential for the organization to provide a financial benefit to or impose a financial burden on the City.

The financial statements include one discretely presented component unit which has a September 30 year-end. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

*Discretely Presented Component Unit*

The Breckenridge Economic Development Corporation (the "BEDC") was incorporated under the Development Corporation Act of 1979 (the "Act"), with the approval of the City. The purpose of the BEDC is to promote the economic development of the City of Breckenridge through the use of a ½% 4B sales tax approved by the voters of the City. The BEDC receives its authority from the City of Breckenridge. While legally separate from the City, it is reported as part of the reporting entity under the discretely presented method because the City's elected officials are financially accountable for the BEDC. The City has the authority to appoint board members and approve budgets and contracts. The City is the sole beneficiary of the BEDC and will receive the remaining assets and assume the remaining liabilities upon termination. The equity interest in the BEDC is reported as an asset on the Government-wide Statement of Net Position. Readers can find separately issued financial statements for the Breckenridge Economic Development Corporation at the Chamber of Commerce, 100 East Elm Street, Breckenridge, Texas 76424.

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

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual funds and individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Basis of 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. Under the modified accrual basis of accounting, revenues are recognized as soon as they are 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. The City considers all revenues available if they are collected within 60 days after year-end. Expenditures generally are recorded when the related fund liability is incurred, however, debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, charges for service, 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. All other revenue items are considered to be measurable and available only when the government receives payment.

The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The City 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 *general debt service fund* was established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated.

The City reports the following major proprietary funds:

The *water fund* is used to account for the operation of the water utility.

The *wastewater fund* is used to account for the operation of the wastewater utility.

The *sanitation fund* is used to account for the operation of residential trash.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Additionally, the government reports the following fund types:

The *Cemetery Trust Fund* is a private-purpose trust fund used to account for resources legally held in trust. A portion of the purchase price of cemetery lots is invested in perpetuity. The earnings on the invested resources are used by the City for the perpetual care of the cemetery properties.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges and transfers between the governmental activities and the business-type activities, which cannot be eliminated.

Amounts reported as program revenues include 1) charges for customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. 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 water fund and wastewater fund are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**D. Financial Statement Amounts**

**1. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments that are highly liquid with maturity within three months or less when purchased.

**2. Receivables and Payables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance for the general fund of \$87,601 and the general debt service fund of \$24,247 is equal to 50% of outstanding delinquent property taxes at September 30, 2013.

**3. Property Tax**

Ad valorem property taxes are levied each October 1 from valuations assessed as of the prior January 1 for all real and business personal property. Taxes are due on receipt of the tax bill and are delinquent if not paid before the following February 1. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**4. Inventory**

The City's water fund inventory is recorded under the purchase method. Under the purchase method the inventory is first recorded as an expense when purchased and then adjusted at the end of the year to reflect the value of inventory at that date. Inventories held by the water fund are priced at the lower of cost or market on the first-in, first-out method.

**5. Capital Assets**

Capital assets, which include property, plant and equipment, and infrastructure assets, are reported in the applicable governmental activities or business-type activities columns in the government-wide financial statements and in the proprietary funds financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays allowance for capital assets and improvements are capitalized in the proprietary funds as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities and proprietary funds is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the water and wastewater funds during the current fiscal year was \$103,098. Of this amount \$0 was included as part of the cost of capital assets under construction in connection with water and sewer construction projects.

Property, plant and equipment of the primary government and proprietary funds are depreciated using the straight-line method over the following estimated useful lives.

Infrastructure	30 - 50 years
Building	50 years
Building improvements	20 years
Vehicles	2 - 15 years
Office equipment	3 - 15 years
Computer equipment	3 - 5 years

The City has reported infrastructure capital assets acquired prior to the implementation of GASB Statement No. 34 at estimated historical cost.

**6. Compensated Absences**

It is the City's policy not to allow the accumulation of vacation time to be paid upon the employee's separation from service. All vacations are required to be taken during the year offered; therefore, no long-term liability has been accrued. The City does allow for the accumulation of sick leave, however, the sick leave is not paid upon an employee's separation from services therefore a long-term liability has not been accrued.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**7. 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 statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are expensed when they are incurred and are no longer amortized over the term of the related debt. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**8. Use of Estimates**

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires the use of management's estimates.

**9. Fund Balances – Governmental Funds**

In accordance with GASB No. 54, the City classified fund balances in the governmental funds as follows:

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

Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to formal action by City Commission, the City's highest level of decision making authority. Commitments may be modified or rescinded only through formal action of City Commission.

Assigned – includes amounts that the City intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Under the City's adopted policy, amounts may be assigned by the City Manager and the City Secretary.

Unassigned – All amounts not included in other spendable classifications.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

	General Fund	General Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Restricted:				
Debt service	\$ -	\$ 250,427	\$ -	\$ 250,427
Capital improvements			370,686	370,686
Public Safety			15,762	15,762
Parks			20,698	20,698
Community services			13,963	13,963
Tourism			86,465	86,465
Assigned				
Deficit subsequent year budget	377,500			377,500
Unassigned	535,859			535,859
	<u>\$ 913,359</u>	<u>\$ 250,427</u>	<u>\$ 507,574</u>	<u>\$ 1,671,360</u>

When expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been first spent out of committed funds, the assigned, and finally unassigned as needed.

**10. Use of Restricted/Unrestricted Net Position**

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the City's policy is to apply restricted net position first.

**11. Accounting Changes**

Change in Accounting Principle – As a result of implementing GASB Statement Nos. 63 and 65, the City has restated the beginning net position in the government-wide Statement of Net Position and the Proprietary Funds Statement of Net Position, effectively decreasing net position as of September 30, 2013 by \$54,906. The decrease results from no longer deferring and amortizing bond issuance costs.

**NOTE 2: DEPOSITS AND INVESTMENTS**

The City of Breckenridge investment policies and types of investments are governed by the State Public Funds Investment Act (the "Act"). The Act authorizes the City to invest, with certain restrictions, in obligations of the U.S. Treasury or the State of Texas, certain U.S. agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchase agreements, banker's acceptances, mutual funds and investment pools. The City's management believes that it complied with the requirements of the Act and the City's investment policies.

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned

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**NOTE 2: DEPOSITS AND INVESTMENTS (continued)**

to it. The City's funds are required to be deposited and invested under the terms of a depository contract. The City's deposits are required to be collateralized with securities held by the pledging institution's trust department or agent in the City's name. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") Insurance. The BEDC's deposits are secured by a separate pledge of securities and FDIC Insurance. At September 30, 2013, \$866,319 of the City's deposits was exposed to custodial risk and was uninsured and not collateralized. The Breckenridge Economic Development Corporation was covered by FDIC Insurance or collateralized with securities.

Credit Risk— Investments

The City controls credit risk by limiting its investments to those instruments allowed by the State Public Funds Investment Act described above.

Interest Rate Risk – Investments

The City manages interest rate risk by purchasing high quality, short to medium term securities that complement each other in a laddered or barbell portfolio structure. A dollar weighted average maturity of 365 days or less will be calculated using the stated maturity date for each security. Purchased securities will have a stated final maturity of three years or less.

The City's fiduciary funds (Cemetery Perpetual Care Trust Fund) are invested in accordance with the provision of the trust agreement between the Breckenridge Cemetery and Bank of America (formerly Fort Worth National Bank) dated May 11, 1954. These funds are invested by the trustee according to Section 113.056 of the Texas Trust Code. Trust investments as of September 30, 2013 consist of the following:

Investment	Credit Rating	Average Maturities	Percentage of Total Investments	Cost	Fair Value
B of A Treasury Reserves	AAA	N/A	3.36%	16,895	16,895
Dividend Income Common Trust Fund	N/A	N/A	5.67%	28,473	31,953
Strategic Growth Common Trust	N/A	N/A	6.09%	30,580	33,347
Mid Cap Growth Common Trust Fund	N/A	N/A	1.56%	7,848	9,329
Mid Cap Value Common Trust Fund	N/A	N/A	1.48%	7,417	8,681
Small Cap Growth Leaders Common Trust Fund	N/A	N/A	1.20%	6,052	8,098
Small Cap Value Common Trust Fund	N/A	N/A	1.27%	6,389	7,609
International Focused Equity Common Trust Fund	N/A	N/A	3.69%	18,526	21,877
Emerging Markets Stock Common Trust Fund	N/A	N/A	4.55%	22,875	24,349
Aggregate Bond Common Trust Fund	BBB	16.13 yrs.	49.80%	250,173	244,590
Templeton Global Bond Fund	BBB	2.42 yrs.	3.83%	19,247	34,698
PIMCO High Yield Fund	Not Rated	5.01 yrs.	6.76%	33,958	19,413
Ivy Asset Strategy Fund	B	6.61 yrs.	1.01%	5,089	5,569
PIMCO All Asset All Authority Fund	Not Rated	8.89 yrs.	1.94%	9,722	9,442
Permanent Portfolio	N/A	N/A	1.01%	5,060	4,952
REIT Common Trust Fund	N/A	N/A	2.85%	14,293	13,625
Powershares DB Commodity Index Tracking Fund	N/A	N/A	3.94%	19,779	19,139
				<u>\$ 502,376</u>	<u>\$ 513,566</u>

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
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**NOTE 2: DEPOSITS AND INVESTMENTS (continued)**

In compliance with GASB Statement No. 31, the City's investments are stated at fair value, except for money market and other highly liquid short-term investments which are stated at amortized cost. The term "short-term" refers to investments that have a remaining term of one year or less at time of purchase.

**NOTE 3: RESTRICTED ASSETS**

The following cash and investments in the government-wide statement of net position are restricted for the following purposes:

	Cash
Business-type Activities	
Customer water deposits	\$ 185,244
Construction - water fund	2,264,193
Construction - wastewater fund	1,103,743
	\$ 3,553,180

**NOTE 4: DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies in this category. It is the deferred charge on refunding bonds reported in the government-wide statement of net position and proprietary funds statement of net position. A deferred charge on refunding results from the difference in the carrying value of the refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resource (revenue) until that time. The City has two types of items in this category. Unavailable revenues for governmental funds and unearned grant revenue in the propriety funds are reported as deferred inflows of resources. At the end of the fiscal year, the various components of deferred outflows and inflows were as follows:



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**NOTE 4: DEFERRED OUTFLOWS/INFLOWS OF RESOURCES (continued)**

<b>Deferred outflows of resources</b>		
Deferred amount on refunding		\$ 71,525
Total deferred outflows of resources for enterprise funds		<u>\$ 71,525</u>
 <b>Deferred inflows of resources</b>		
Deferred property taxes receivable (general fund)		\$ 93,029
Deferred property taxes receivable (general debt service fund)		24,247
Deferred franchise taxes receivable (general fund)		61,787
Deferred court costs (general fund)		14,498
Total deferred inflows for governmental funds		<u>\$ 193,561</u>
 Unearned grant revenue		 \$ 881,755
Total deferred inflows for enterprise funds		<u>\$ 881,755</u>

**NOTE 5: INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS**

The composition of interfund transfers for the City's individual major funds and nonmajor funds at September 30, 2013, is as follows:

Transfer In	Transfer Out	Amount
General Fund	Water Fund	\$ 600,000
General Debt Service Fund	Water Fund	242,393
Total Governmental Funds Transfers In		<u>\$ 842,393</u>
 Sanitation Fund	General Fund	 \$ 53,266
Sanitation Fund	Water Fund	20,000
Wastewater Fund	General Debt Service Fund	153,851
Water Fund	General Debt Service Fund	265,509
Total Enterprise Funds Transfers In		<u>\$ 492,626</u>

Each year the water fund transfers unrestricted revenues collected in the water fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. A new general debt service fund was created during the year to pay part of the water and wastewater debt. The amounts paid were treated as transfers. The City also moved the sanitation department to a new enterprise fund. The general fund and water fund transferred cash for the sanitation fund.

The composition of interfund balances for the City's individual major funds and nonmajor funds at September 30, 2013, is as follows:

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**NOTE 5: INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS (continued)**

Receivable Fund	Payable Fund	Amount
Wastewater fund	Water fund	\$ 5,338
Total enterprise funds		\$ 5,338

The balance is the difference between transfers for debt service and actual debt service payments.

**NOTE 6: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2013 was as follows:

Governmental activities:

	Primary Government				Ending Balance
	Beginning Balance	Increases	Decreases	Transfers	
<b>Non - Depreciable Assets:</b>					
Land	\$ 220,035	\$ 240	\$ -	\$ (39,000)	\$ 181,275
Total non-depreciable assets	220,035	240	-	(39,000)	181,275
<b>Depreciable Assets:</b>					
Buildings and improvements	1,449,977	-	-	-	1,449,977
Infrastructure	2,285,504	148,434	-	-	2,433,938
Vehicles and Equipment	1,986,082	80,900	(4,800)	(30,518)	2,031,664
Total capital assets being depreciated	5,721,563	229,334	(4,800)	(30,518)	5,915,579
<b>Accumulated Depreciation:</b>					
Buildings and improvements	(671,575)	(35,079)	-	-	(706,654)
Infrastructure	(1,152,048)	(48,917)	-	-	(1,200,965)
Vehicles and Equipment	(1,271,060)	(148,705)	4,720	40,278	(1,374,767)
Total accumulated depreciation	(3,094,683)	(232,701)	4,720	40,278	(3,282,386)
Governmental activities capital assets, net	\$ 2,846,915	\$ (3,127)	\$ (80)	\$ (29,240)	\$ 2,814,468

Depreciation expenses for the City as of September 30, 2013 was \$232,701.

**CITY OF BRECKENRIDGE, TEXAS**  
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**NOTE 6: CAPITAL ASSETS - (Continued)**

Business-type activities:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>Non - Depreciable Assets:</b>					
Land	\$ 144,146	\$ -	\$ -	\$ 39,000	\$ 183,146
Construction in Progress	-	130,735	-	-	130,735
<b>Total non-depreciable assets</b>	<b>144,146</b>	<b>130,735</b>	<b>-</b>	<b>39,000</b>	<b>313,881</b>
<b>Depreciable Assets:</b>					
Land improvements	23,396				23,396
Buildings and improvements	1,039,341				1,039,341
Water and sewer systems	13,511,212	27,396			13,538,608
Vehicles and equipment	772,680	-	-	30,518	803,198
<b>Total capital assets being depreciated</b>	<b>15,346,629</b>	<b>27,396</b>	<b>-</b>	<b>30,518</b>	<b>15,404,543</b>
<b>Accumulated Depreciation:</b>					
Land improvements	(12,010)	(759)			(12,769)
Buildings and improvements	(703,790)	(20,830)			(724,620)
Water and sewer systems	(6,508,034)	(297,448)			(6,805,482)
Vehicles and equipment	(418,970)	(40,089)	-	(40,278)	(499,337)
<b>Total accumulated depreciation</b>	<b>(7,642,804)</b>	<b>(359,126)</b>	<b>-</b>	<b>(40,278)</b>	<b>(8,042,208)</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 7,847,971</b>	<b>\$ (200,995)</b>	<b>\$ -</b>	<b>\$ 29,240</b>	<b>\$ 7,676,216</b>

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

<b>Governmental activities:</b>	
General government	10,356
Public Safety	78,982
Public Works	101,982
Cemetery	2,093
Parks	36,700
Community development	2,588
<b>Total depreciation expense - governmental activities</b>	<b>\$ 232,701</b>
<b>Business-type activities:</b>	
Water	\$ 215,713
Wastewater	141,613
Sanitation	1,800
<b>Total depreciation expense - business-type activities</b>	<b>\$ 359,126</b>

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**NOTE 6: CAPITAL ASSETS - (Continued)**

Discretely Presented Component Unit

Activity for the Breckenridge Economic Development Corporation for the year ended September 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Non - Depreciable Assets:</b>				
Land	\$ 47,880	\$ -	\$ -	\$ 47,880
Total non-depreciable assets	47,880	-	-	47,880
<b>Depreciable Assets:</b>				
Buildings and improvements	224,645	-	-	224,645
Office furniture and equipment	7,640	-	-	7,640
Total capital assets being depreciated	232,285	-	-	232,285
<b>Accumulated Depreciation:</b>				
Buildings and improvements	(19,768)	(6,157)	-	(25,925)
Office furniture and Equipment	(7,009)	(378)	-	(7,387)
Total accumulated depreciation	(26,777)	(6,535)	-	(33,312)
Governmental activities capital assets, net	\$ 253,388	\$ (6,535)	\$ -	\$ 246,853

Land Held for Economic Development

BEDC may purchase land in furtherance of its goals which is the promotion and development of industrial and manufacturing enterprises and to promote and encourage employment in the City of Breckenridge. In 2013, BEDC conveyed a 25 acre property to a company in furtherance of its goals and vision for the City. At September 30, 2013, land held for economic development at cost was \$452,697.

**NOTE 7: CAPITAL LEASES**

The City has entered into various lease agreements as lessee to finance the acquisition of equipment for the general and proprietary funds. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of inception. Interest rates range from 2.97% to 4.5%. Future minimum lease /purchase commitments are as follows:

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**NOTE 7: CAPITAL LEASES – (continued)**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2014	9,542	66,086
2015	9,542	60,798
2016	9,542	55,588
2017	<u>9,542</u>	<u>53,831</u>
Total debt service requirements	28,626	236,303
Less: Interest Portion	<u>1,626</u>	<u>19,539</u>
Debt Principal	<u>\$ 27,000</u>	<u>\$ 216,764</u>

Assets under lease and related accumulated depreciation are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Vehicles and equipment	\$ 43,727	\$ 217,311
Less: Accumulated depreciation	<u>(1,822)</u>	<u>(43,557)</u>
Net	<u>\$ 41,905</u>	<u>\$ 173,754</u>

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**NOTE 8: LONG-TERM DEBT**

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2013.

Primary Government	<u>9/30/2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>9/30/2013</u>	<u>Due Within One Year</u>
<b>Governmental Activities.:</b>					
Capital Leases Payable	\$ 64,889	\$ 27,000	\$ 64,889	\$ 27,000	\$ 8,501
Net pension obligation	<u>113,524</u>	<u>160,501</u>	<u>155,220</u>	<u>118,805</u>	<u>-</u>
<b>Total Governmental Activities</b>	<u>178,413</u>	<u>187,501</u>	<u>220,109</u>	<u>145,805</u>	<u>8,501</u>
<b>Business-type Activities:</b>					
Capital leases payable	271,700	-	54,936	216,764	57,470
Certificates of Obligation	405,000	2,520,000	60,000	2,865,000	60,000
General Obligation Refunding Bonds	1,750,000	-	540,000	1,210,000	555,000
Premium on GO Refunding Bonds	63,098	-	11,473	51,625	-
Net pension obligation	<u>36,580</u>	<u>47,316</u>	<u>45,759</u>	<u>38,137</u>	<u>-</u>
<b>Total Business-type Activities</b>	<u>2,526,378</u>	<u>2,567,316</u>	<u>712,168</u>	<u>4,381,526</u>	<u>672,470</u>
<b>Total Long-Term Debt</b>	<u>\$ 2,704,791</u>	<u>\$ 2,754,817</u>	<u>\$ 932,277</u>	<u>\$ 4,527,331</u>	<u>\$ 680,971</u>
Component Unit	<u>9/30/2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>9/30/2013</u>	<u>Due Within One Year</u>
<b>Governmental Activities.:</b>					
Sales Tax Revenue Note	\$ 459,191	\$ -	\$ 49,144	\$ 410,047	\$ 44,723
<b>Total Component Unit</b>	<u>\$ 459,191</u>	<u>\$ -</u>	<u>\$ 49,144</u>	<u>\$ 410,047</u>	<u>\$ 44,723</u>

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 8: LONG-TERM DEBT – (continued)**

At September 30, 2013, business-type activities bonds payable consisted of the following issues:

	<u>Business-Type Activities</u>
\$800,000 Combination Tax and Revenue Certificates of Obligation, Series 2003 dated July 1, 2003, due in annual installments through September 30, 2018, bearing interest at 5.50%.	\$ 345,000
\$2,945,000 General Obligation Refunding Bonds, Series 2010 dated December 18, 2009, due in annual installments through March 15, 2018, bearing interest at 3.00%.	1,210,000
\$1,680,000 Combination Tax and Surplus Revenue Certificates of Obligation Series 2012, due in annual installments through September 15, 2044, bearing interest at 0% - 2.27%.	1,680,000
\$840,000 Combination Tax and Surplus Revenue Certificates of Obligation Series 2013, due in annual installments through September 15, 2044, bearing interest at 0% - 2.27%.	840,000
Premium on General Obligation Refunding Bonds, Series 2010	51,625
Total	\$ 4,126,625

At September 30, 2013, component unit bonds payable consisted of the following issues:

	<u>Component Unit</u>
\$500,000 sales tax revenue notes dated August 30, 2011, due in annual installments through September 1, 2021, bearing interest at 4.5%.	\$ 410,047
Total	\$ 410,047

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 8: LONG-TERM DEBT (Continued)**

The annual requirements to amortize business-type activities bonds outstanding as of September 30, 2013 are as follows:

Primary Government	Business-type Activities				
	Certificates of Obligation		General Obligation Bonds		Total
	Principal	Interest	Principal	Interest	
2014	60,000	58,018	555,000	30,013	703,031
2015	135,000	54,581	175,000	19,063	383,644
2016	140,000	50,868	155,000	14,112	359,980
2017	145,000	46,881	160,000	8,987	360,868
2018	145,000	42,713	165,000	3,094	355,807
2019 - 2023	365,000	196,646			561,646
2024 - 2028	380,000	172,816			552,816
2029 - 2033	415,000	139,146			554,146
2034 - 2038	460,000	95,194			555,194
2039 - 2043	510,000	41,887			551,887
2044 - 2048	110,000	1,248			111,248
Total debt service requirements	\$ 2,865,000	\$ 899,998	\$ 1,210,000	\$ 75,269	\$ 5,050,267

Tax and revenue bonds are payable from property taxes pledges and surplus revenues of the water and wastewater system. The debt ordinances provide for tax pledges to be budgeted annually to the extent budgeted net operating water and wastewater system revenues fall short of annual retirements of principal and interest. A tax rate of \$.2543 per \$100 of assessed valuation was levied for this purpose during the current year. The debt ordinances also provide for the establishment of sinking funds for the retirement of debt principal and interest. The balances in the interest and sinking funds was \$250,427 for the general debt service and \$102,420 for the revenue debt service at year-end.

The annual requirements to amortize the component unit governmental activity bonds as of September 30, 2013 are as follows:

Component Unit	Sales tax Revenue Note		
	Principal	Interest	Total
2014	44,723	17,537	62,260
2015	46,778	15,482	62,260
2016	48,927	13,333	62,260
2017	51,174	11,086	62,260
2018	53,525	8,735	62,260
2019 - 2021	164,920	11,000	175,920
Total debt service requirements	\$ 410,047	\$ 77,173	\$ 487,220



**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 8: LONG-TERM DEBT (Continued)**

Management of the City believes that it is in compliance with all significant financial requirements required by debt covenants as of September 30, 2013.

**NOTE 9: RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance to cover these risks. There have been no significant reductions in coverage and the amount of settlements during the past three years has not exceeded the insurance coverage.

**NOTE 10: TEXAS WATER DEVELOPMENT BOARD GRANT**

In December 2012, the City received two grants from the Texas Water Development Board's Economically Distressed Areas Program. The City received \$704,848 of grant money for water improvements, of which \$111,999 has been expended to date. The City also received \$353,461 for wastewater improvements, of which \$64,585 has been expended to date.

**NOTE 10: RETIREMENT PLAN**

Plan Description

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at [www.TMRS.com](http://www.TMRS.com). The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2012	Plan Year 2013
Employee deposit rate	5%	5%
Matching ratio (city to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 10: RETIREMENT PLAN (Continued)**

the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

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

Fiscal Year	2013	2012	2011
Annual required contribution (ARC)	\$ 206,541	\$ 202,312	\$ 241,877
Interest on Net Pension Obligation	10,507	9,986	6,472
Adjustment to the ARC	(9,231)	(8,012)	(5,364)
Total annual pension cost (APC)	207,817	204,286	242,985
Contributions Made	200,979	187,331	196,124
Increase (decrease) in Net Pension Obligation	6,838	16,955	46,861
Net Pension Obligation/(Asset), beginning of year	150,104	133,149	86,288
Net Pension Obligation/(Asset), end of year	\$ 156,942	\$ 150,104	\$ 133,149
Contributions as a percentage of APC	97%	92%	81%

**Actuarial Assumptions**

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Valuation Date	12/31/2010	12/31/2011	12/31/2012
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	27 Years; closed period	26 Years; closed period	25 Years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year smoothed market	10-year smoothed market	10-year smoothed market
Investment Rate of Return	7.0%	7.0%	7.0%
Projected Salary Increases	varies by age and service	varies by age and service	varies by age and service
Includes Inflation At	3.0%	3.0%	3.0%
Cost of Living Adjustments	2.10%	2.10%	2.10%

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 10: RETIREMENT PLAN (Continued)**

The funded status as of December 31, 2012, under the separate actuarial valuation, is presented as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
				(UAAL)		UAAL as a Percentage of Covered Payroll (4)/(5)
Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Percentage Funded (1)/(2)	Unfunded Actuarial Accrued Liability (2)-(1)	Annual Covered Payroll	
12/31/12	6,032,143	7,167,672	84.16%	1,135,529	2,001,591	56.73%

Actuarial valuations involve estimated of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimated are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

**NOTE 11: OTHER POST EMPLOYMENT BENEFITS**

The city also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The city elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate the coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an 'other postemployment benefit,' or OPEB.

<u>City of Breckenridge</u>	<u>Plan Year 2012</u>	<u>Plan Year 2013</u>
Active Employees	Yes	Yes
Retired Employees	Yes	Yes

The City contributes to the TMRS SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 11: OTHER POST EMPLOYMENT BENEFITS (continued)**

SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The city's contributions to the TMRS SDBF for the years ended 2013, 2012 and 2011 were \$4,240, \$4,402, and \$5,820, respectively, which equaled the required contributions each year.

**NOTE 12: CONTINGENT LIABILITIES**

**A. Federal and State Programs**

Federal and state funding received related to various grant programs are based upon periodic reports detailing reimbursable expenditures made, in compliance with program guidelines, to the grantor agency.

These programs are governed by various statutory rules and regulations of the grantors. Amounts received and receivable under these various funding programs are subject to periodic audit and adjustment by the funding agencies. To the extent, if any, the City has not complied with all the rules and regulations with respect to performance, financial or otherwise, adjustment to or return of fund monies may be required.

As it pertains to other matters of compliance, in the opinion of the City's administration, there are no significant contingent liabilities relating to matters of compliance and accordingly, no provision has been made in the accompanying financial statements for such contingencies.

**B. USDA Loan Program**

The Breckenridge Economic Development Corporation (BEDC) has in the past received funds from the USDA for a loan program to allow BEDC to assist new businesses with low interest loans. There are no reporting requirements on the use of the funds; however, the funds are required to be maintained intact with interest earned for the loan program. To the extent, if any, the BEDC has not complied with all the rules and regulations return of fund money may be required.

As it pertains to other matters of compliance, in the opinion of the BEDC's administration, there are no contingent liabilities relating to matters of compliance and accordingly, no provision has been made in the accompanying financial statements for such contingencies.

**NOTE 13: CONTRACTS AND COMMITMENTS**

**A. Hubbard Creek Lake**

Hubbard Creek Lake's water level is approximately at 30%. If the lake continues to decline in water level, the City will have to look for other water sources to serve the needs of the residents.

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 14: SUBSEQUENT EVENTS**

On January 6, 2014, the City Council authorized the issuance of the \$2,380,000 City of Breckenridge, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Series 2014. The purpose of the bonds is for water distribution line replacement, developing a floating pump station to pick up surface water from Lake Daniel, and Hydraulic water model for distribution system.

Subsequent events were evaluated through January 27, 2014, which is the date the financial statements were available to be issued.

**NOTE 15: NEW ACCOUNTING PRONOUNCEMENTS**

The City of Breckenridge and its component units implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* during the year. GASB Statement No. 63 changed the name of Exhibits A-1 and D-1 to the Statement of Net Position and net assets were changed to net position. GASB Statement No. 65 changed the classification of deferred revenues in Exhibit C-1 from liabilities to deferred inflows of resources and changed the accounting for bond issuance costs in the government-wide and proprietary fund financial statements. As a result, the beginning net position of the proprietary funds Statement of Net Position and the government-wide Statement of Net Position was restated, effectively decreasing net position as of September 20, 2013 by \$54,906. The decrease results from no longer deferring and amortizing bond issuance costs.

The City and its component units have also implemented GASB Statement No. 61, *Financial Reporting Entity – Omnibus – an amendment to GASB Statements No. 14 and No. 34*. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. AS a result the BEDC component unit changed from being reported as a blended component unit to a discretely presented component unit. Upon implementation of GASB Statement No. 61, the primary government (City) must also recognize as an asset, its equity interest in the net position of discretely presented component units. The governmental activities have reported \$2,813,184 asset in the statement of net position to reflect its equity interest in the BEDC component unit.

**NOTE 16: FUTURE ACCOUNTING PRONOUNCEMENTS**

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. This Statement is to improve the accounting and financial reporting by state and local governments for pensions. This Statement will require government-wide and proprietary fund statements to recognize a liability equal to the net pension liability and that changes in the net pension liability be included in pension expense in the period of the change. This Statement is effective for fiscal years beginning after June 15, 2014. The City has not yet determined the effect this Statement will have on its financial statements.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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## EXHIBIT F-1

CITY OF BRECKENRIDGE, TEXAS  
General FundSchedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
For the year ended September 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
<b>Taxes:</b>				
Property taxes	\$ 1,398,016	\$ 1,398,016	\$ 1,512,505	114,489
Sales and use tax	925,000	925,000	998,390	73,390
Franchise	417,000	417,000	407,134	(9,866)
Hotel motel taxes	42,000	42,000	40,616	(1,384)
Charges for service	205,100	205,100	193,849	(11,251)
Grants and contributions	107,000	107,000	103,697	(3,303)
Interest income	1,000	1,000	2,605	1,605
Other revenue	47,000	46,700	86,446	39,746
<b>Total revenues</b>	<b>3,142,116</b>	<b>3,141,816</b>	<b>3,345,242</b>	<b>203,426</b>
<b>Expenditures:</b>				
<b>Current</b>				
General government	812,130	815,730	743,496	72,234
Public Safety	1,943,690	1,928,080	1,811,839	116,241
Public Works	523,170	582,580	514,205	68,375
Cemetery	127,590	128,890	131,450	(2,560)
Parks	296,740	276,640	251,334	25,306
Community services	180,320	180,320	179,638	682
Tourism	42,000	42,000	29,793	12,207
<b>Debt service:</b>				
Principal	63,400	63,400	63,194	206
Interest and fiscal charges	1,300	1,300	1,195	105
<b>Total expenditures</b>	<b>3,990,340</b>	<b>4,018,940</b>	<b>3,726,144</b>	<b>292,796</b>
<b>Excess (deficiency) of revenue over (under) expenditures</b>	<b>\$ (848,224)</b>	<b>\$ (877,124)</b>	<b>\$ (380,902)</b>	<b>496,222</b>
<b>Other financing sources (uses):</b>				
Proceeds from capital lease	-	27,000	27,000	-
Transfers in	600,000	600,000	600,000	-
Transfers out	-	-	(53,266)	(53,266)
<b>Net change in fund balances</b>	<b>(248,224)</b>	<b>(250,124)</b>	<b>192,832</b>	<b>442,956</b>
<b>Fund balance, October 1, 2012</b>	<b>720,527</b>	<b>720,527</b>	<b>720,527</b>	<b>-</b>
<b>Fund balance, September 30, 2013</b>	<b>\$ 472,303</b>	<b>\$ 470,403</b>	<b>\$ 913,359</b>	<b>442,956</b>

The accompanying notes to required supplementary information are an integral part of this schedule.

**CITY OF BRECKENRIDGE**  
**Required Supplementary Information**  
**Texas Municipal Retirement System Pension**  
**Schedule of Actuarial Liabilities and Funding Progress**  
**(Unaudited)**

	(1)	(2)	(3)	(4)	(5)	(6)		
Fiscal Year	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Percentage Funded (1)/(2)	(UAAL) Unfunded Actuarial Accrued Liability (2)-(1)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (4)/(5)	Actual Annual Contributions
2011	12/31/10	5,449,111	6,722,261	81.06%	1,273,150	2,115,900	60.17%	196,124
2012	12/31/11	5,861,466	7,163,675	81.82%	1,302,209	2,116,123	61.54%	187,331
2013	12/31/12	6,032,143	7,167,672	84.16%	1,135,529	2,001,591	56.73%	200,979

CITY OF BRECKENRIDGE  
Notes to the Required Supplementary Information  
For the Year Ended September 30, 2013

Budget

Annual operating budget is adopted on a basis consistent with generally accepted accounting principles for all general fund, special revenue, capital projects and proprietary funds. All annual appropriations lapse at fiscal year end.

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

- a. The City Commission prior to October 1 formally adopts the City's budget at a duly advertised public meeting and before expenditure of funds for the budget year. The budget is legally enacted by the adoption of an ordinance.
- b. The budget may be amended with the approval of a voting majority of the members of the City Commission. The budget was amended twice during the year.
- c. Budgetary control is maintained at the fund level, subject to adjustments permitted as described above.

Excess of Expenditures over Appropriations of more than \$5,000

There were no expenditures in excess of appropriations of more than \$5,000 for the City.

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**COMBINING FINANCIAL STATEMENTS**  
**NONMAJOR GOVERNMENTAL FUNDS**

CITY OF BRECKENRIDGE, TEXAS  
 Nonmajor Funds  
 Combining Balance Sheet  
 September 30, 2013

	Special Revenue Funds				
	Fire Department	Hotel/ Motel	Park	Public, Educate, & Govern Access Channel Fees	Total Special Revenue Funds
<b>Assets:</b>					
Cash	\$ 16,362	\$ 86,465	\$ 20,698	\$ 13,963	\$ 137,488
Receivables (Net of allowances for uncollectibles)					
Other taxes receivable	-	-	-	-	-
<b>Total assets</b>	<b>\$ 16,362</b>	<b>\$ 86,465</b>	<b>\$ 20,698</b>	<b>\$ 13,963</b>	<b>\$ 137,488</b>
<b>Liabilities and fund balance:</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 600	\$ -	\$ -	\$ -	\$ 600
<b>Total liabilities</b>	<b>600</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>600</b>
<b>Fund Balances:</b>					
Restricted fund balance	15,762	86,465	20,698	13,963	136,888
<b>Total fund balance</b>	<b>15,762</b>	<b>86,465</b>	<b>20,698</b>	<b>13,963</b>	<b>136,888</b>
<b>Total liabilities and fund balances</b>	<b>\$ 16,362</b>	<b>\$ 86,465</b>	<b>\$ 20,698</b>	<b>\$ 13,963</b>	<b>\$ 137,488</b>

EXHIBIT G-1

<u>Capital Project Funds</u>		
<u>Street Maintenance Sales Tax</u>	<u>Total Capital Projects Funds</u>	<u>Total Nonmajor Funds</u>
\$ 331,773	\$ 331,773	\$ 469,261
<u>39,454</u>	<u>39,454</u>	<u>39,454</u>
\$ <u><u>371,227</u></u>	\$ <u><u>371,227</u></u>	\$ <u><u>508,715</u></u>
\$ <u>541</u>	\$ <u>541</u>	\$ <u>1,141</u>
<u>541</u>	<u>541</u>	<u>1,141</u>
<u>370,686</u>	<u>370,686</u>	<u>507,574</u>
<u>370,686</u>	<u>370,686</u>	<u>507,574</u>
\$ <u><u>371,227</u></u>	\$ <u><u>371,227</u></u>	\$ <u><u>508,715</u></u>

CITY OF BRECKENRIDGE, TEXAS  
 Nonmajor Funds  
 Combining Statement of Revenues, Expenditures and Changes in Fund Balance  
 For the year ended September 30, 2013

	Special Revenue Funds				
	Fire Department	Hotel/ Motel	Park	Public, Educate, & Govern Access Channel Fees	Total Special Revenue Funds
Revenues:					
Sales and use tax	\$ -	\$ -	\$ -	\$ -	\$ -
Grants and contributions	17,946	-	219	-	18,165
Interest	24	221	56	35	336
Total revenue	<u>17,970</u>	<u>221</u>	<u>275</u>	<u>35</u>	<u>18,501</u>
Expenditures:					
Current:					
Public Safety	15,104	-	-	-	15,104
Public Works	-	-	-	-	-
Parks	-	-	3,485	-	3,485
Tourism	-	5,000	-	-	5,000
Total expenditures	<u>15,104</u>	<u>5,000</u>	<u>3,485</u>	<u>-</u>	<u>23,589</u>
Net change in fund balances	2,866	(4,779)	(3,210)	35	(5,088)
Fund Balance, October 1, 2012	<u>12,896</u>	<u>91,244</u>	<u>23,908</u>	<u>13,928</u>	<u>141,976</u>
Fund Balance, September 30, 2013	<u>\$ 15,762</u>	<u>\$ 86,465</u>	<u>\$ 20,698</u>	<u>\$ 13,963</u>	<u>\$ 136,888</u>



**EXHIBIT G-2**

<u>Capital Project Funds</u>		
<u>Street Maintenance Sales Tax</u>	<u>Total Capital Projects Funds</u>	<u>Total Nonmajor Funds</u>
\$ 248,905	\$ 248,905	\$ 248,905
-	-	18,165
<u>745</u>	<u>745</u>	<u>1,081</u>
<u>249,650</u>	<u>249,650</u>	<u>268,151</u>
-	-	15,104
246,327	246,327	246,327
-	-	3,485
<u>-</u>	<u>-</u>	<u>5,000</u>
<u>246,327</u>	<u>246,327</u>	<u>269,916</u>
3,323	3,323	(1,765)
<u>367,363</u>	<u>367,363</u>	<u>509,339</u>
<u>\$ 370,686</u>	<u>\$ 370,686</u>	<u>\$ 507,574</u>

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**OTHER SUPPLEMENTARY INFORMATION**  
**(Unaudited)**

**CITY OF BRECKENRIDGE, TEXAS**  
**Schedule of Delinquent Property Taxes Receivable**  
**For the fiscal year ended September 30, 2013**

Last Ten Years Ended Sept 30	Tax Rate		Assessed Value	Beginning Balance October 1	Current Year's Total Levy
	Maintenance	Debt Service			
2004 and prior	0.8184	0.2816	110,551,445	46,424	
2005	0.8004	0.2675	115,938,571	7,728	
2006	0.8113	0.2566	122,138,402	9,965	
2007	0.7769	0.2331	135,736,170	12,063	
2008	0.7598	0.2202	142,206,990	13,507	
2009	0.7570	0.2029	154,800,440	18,300	
2010	0.7663	0.1898	164,281,038	34,526	
2011	0.7556	0.1744	176,676,216	50,799	
2012	0.8367	0.2106	188,634,444	103,934	
2013 (Year under audit)	0.7557	0.2543	204,984,229		1,893,680
<b>TOTALS</b>				<b>\$ 297,246</b>	<b>\$ 1,893,680</b>

EXHIBIT G-3

<u>Maintenance Collections</u>	<u>Debt Service Collections</u>	<u>Entire Year's Adjustments</u>	<u>Ending Balance September 30</u>
(3,434)	(1,182)	(17,440)	24,368
(923)	(309)	(1,170)	5,326
(1,734)	(548)	(1,207)	6,476
(2,215)	(674)	(1,192)	7,952
(2,651)	(768)	1,496	11,584
(5,498)	(1,474)	(1,766)	9,562
(13,023)	(3,226)	(1,961)	16,316
(20,844)	(4,811)	(2,180)	22,964
(47,636)	(10,995)	(1,675)	43,628
<u>(1,341,918)</u>	<u>(451,568)</u>	<u>(24,675)</u>	<u>75,519</u>
<u>\$ (1,439,907)</u>	<u>\$ (475,554)</u>	<u>\$ (51,770)</u>	<u>\$ 223,695</u>

EXHIBIT G-4

City of Breckenridge, Texas  
 Statistics - Water and Wastewater Fund  
 For the year ended September 30, 2013  
 (Unaudited)

Number of water connections at end of year	2,599
Number of wastewater connections at end of year	2,062
Gallons of water billed through the system during the fiscal year	304,892,400

	<u>2013</u>	<u>2012</u>
<u>Outstanding Bonds and Certificates:</u>		
Combination Tax and Revenue Certificates of Obligation, Series 2003	\$ 345,000	\$ 405,000
General Obligation Refunding Bonds, Series 2010	1,210,000	1,750,000
Combination Tax and Revenue Certificates of Obligation, Series 2012	1,680,000	-
Combination Tax and Revenue Certificates of Obligation, Series 2013	840,000	-
Premium on bond	51,625	63,098
	<u>\$ 4,126,625</u>	<u>\$ 2,218,098</u>

<u>Water and Wastewater Operating Income Available for Debt Retirement:</u>		
Net Operating Income	\$ 862,573	\$ 930,145
Net Nonoperating Interest Income	6,504	2,170
Add Depreciation Expense	357,326	361,816
	<u>\$ 1,226,403</u>	<u>\$ 1,294,131</u>
Water and Sewer Operating Income Available for Debt Retirement	<u>\$ 1,226,403</u>	<u>\$ 1,294,131</u>

<u>Annual Debt Service Requirements and Coverage:</u>		
Combination Tax and Revenue Certificates of Obligation, Series 2003	\$ 80,625	\$ 78,788
General Obligation Refunding Bonds, Series 2010	586,438	577,263
Combination Tax and Revenue Certificates of Obligation, Series 2012	21,458	-
Combination Tax and Revenue Certificates of Obligation, Series 2013	5,606	-
	<u>694,127</u>	<u>656,051</u>
Total Debt Service Requirements	694,127	656,051
Less Current Year Property Taxes	<u>(446,930)</u>	<u>(359,613)</u>
Net System Fund Requirements	<u>\$ 247,197</u>	<u>\$ 296,438</u>
Coverage of Total System Fund Debt Service	<u>4.96</u>	<u>4.37</u>

<u>Cash Available in Bond Sinking Funds</u>		
General Debt Service	\$ 250,427	\$ -
Revenue Debt Service	102,420	-
Combination Tax and Revenue Certificates of Obligation, Series 2003	-	38,476
General Obligation Refunding Bonds, Series 2010	-	202,901
	<u>\$ 352,847</u>	<u>\$ 241,377</u>

EXHIBIT G-5

CITY OF BRECKENRIDGE, TEXAS

Insurance in Force  
September 30, 2013  
(Unaudited)

	<u>Coverage</u>	<u>Premium</u>
Fire and Extended Coverage Buildings and Contents	\$ 5,656,735	\$ 4,084
Flood Insurance		
Buildings	320,200	3,327
Contents	196,900	
Public Officials Liability		
Each Wrongful Act	500,000	5,420
Aggregate	1,000,000	
Employee Practices Liability		
Each Wrongful Act	500,000	5,420
Aggregate	1,000,000	
Back Wages Limit	50,000	
Commercial General Liability		
Per Occurrence	1,000,000	6,757
Aggregate	1,000,000	
Law Enforcement Personal Liability		
Each Wrongful Act	500,000	8,090
Annual Aggregate	1,000,000	
Fidelity Bonds		
City Secretary	10,000	590
Assistant City Secretary	10,000	
Other Public Employees not Excluded	10,000	
City Vehicles		
Liability/Uninsured Motorist	1,000,000	22,289
Combined Single Limit	25,000	
Heavy Equipment		
Physical Damage	688,269	2,824

This statement is prepared from the insurance policies. It is intended as a descriptive summary only and no expression of opinion as to the adequacy of the coverage is given. As the actual coverage per policy varies depending on the nature of the event and other factors, these dollar limitations reflect the approximate upper limitation of losses recoverable under the policies.

List of Insurance Carriers

<u>Company</u>	<u>Insurance Type</u>	<u>Expiration</u>
Texas Municipal League	Fire - Buildings and Contents	10/1/2013
Texas Municipal League	Commercial Auto	10/1/2013
Texas Municipal League	Flood	10/1/2013
Texas Municipal League	Public Officials Liability	10/1/2013
Texas Municipal League	Law Enforcement Liability	10/1/2013
CNA Surety Corporation	Fidelity Bond - City Secretary	2/24/2013
CNA Surety Corporation	Fidelity Bond - Assistant City Secretary	10/1/2013
Texas Municipal League	Heavy Equipment	10/1/2013

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**OVERALL COMPLIANCE AND INTERNAL CONTROL  
SECTION**

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**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***

Members of the City Commission  
City of Breckenridge, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Breckenridge, Texas (the "City") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 27, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we 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 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 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.

Our 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 our audit we did not identify any deficiencies in internal control that we 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, we 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 our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our 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.



Weatherford, Texas  
January 27, 2014