

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2012

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 blended component unit. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are combined with data of the primary government. The City has one blended component unit, which has a September 30 year-end.

Blended 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. The City has the authority to appoint board members and approve budgets and contracts. The BEDC has been presented as a blended component unit because the City can significantly influence the programs, projects and activities of the BEDC and the BEDC provides services that almost exclusively benefit the City. The BEDC has been included in the governmental fund financial statements and governmental activities in the government-wide financial statements.

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 assets and the statement of changes in net assets) 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.

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2012

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 Breckenridge Economic Development Corporation is a blended component unit reported as a special revenue fund. This fund accounts for the use of the ½% sales tax.

The City reports the following major proprietary fund:

The *water works and sewer system fund* is used to account for the operation of the water and sewer utility.

Additionally, the government reports the following fund types:

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The government applies all GASB pronouncements as well as FASB Statements and Interpretations issued on or before November 30, 1989, in accounting and reporting for its government-wide and proprietary fund financial statements, unless those FASB Statements and Interpretations conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent FASB Statements and Interpretations for their business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent FASB Statements and Interpretations.

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 and sewer 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.

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

D. Assets, Liabilities and Net Assets or Equity

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."

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All trade and property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance for the general fund of \$119,111 and the waterworks and sewer system fund of \$29,513 is equal to 50% of outstanding delinquent property taxes at September 30, 2012.

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.

4. Inventory

The City's water works and sewer system 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 works and sewer system 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 sewer fund during the current fiscal year was \$113,138. 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 |

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 an long-term liability has not been accrued.

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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, 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. Issuances cost, 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.

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

| | <u>General Fund</u> | <u>Breckenridge Economic Development Corporation</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|-------------------------------------|---------------------|--|---|---|
| Nonspendable: | | | | |
| Note receivable - long-term portion | \$ - | \$ 37,682 | \$ - | \$ 37,682 |
| Restricted: | | | | |
| USDA loan program | | 359,914 | | 359,914 |
| Capital improvements | | | 367,363 | 367,363 |
| Public Safety | | | 12,896 | 12,896 |
| Parks | | | 23,908 | 23,908 |
| Community services | | | 13,928 | 13,928 |
| Tourism | | | 91,244 | 91,244 |
| Economic development | | 638,061 | | 638,061 |
| Assigned | | | | |
| Deficit subsequent year budget | 248,224 | | | 248,224 |
| Unassigned | 472,303 | | | 472,303 |
| | <u>\$ 720,527</u> | <u>\$ 1,035,657</u> | <u>\$ 509,339</u> | <u>\$ 2,265,523</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 Assets

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

11. Net Assets

The following is a reconciliation of restricted fund balance reported in the governmental fund financial statements to restricted net assets of the governmental activities reported in the government-wide financial statements.

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

| | |
|--|--------------|
| Restricted Fund Balance (Exhibit C-1) | \$ 1,507,314 |
| Adjustments | |
| Note receivable BEDC - long-term portion | 37,682 |
| Total adjustments | 37,682 |
| Restricted Net Assets (Exhibit A-1) | \$ 1,544,996 |

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 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, 2012, the City's deposits and those of the Breckenridge Economic Development Corporation were 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, 2012 consist of the following:

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2012

NOTE 2: DEPOSITS AND INVESTMENTS (continued)

| <u>Investment</u> | <u>Credit Rating</u> | <u>Average Maturities</u> | <u>Percentage of Total Investments</u> | <u>Cost</u> | <u>Fair Value</u> |
|--|----------------------|---------------------------|--|-------------------|-------------------|
| B of A Treasury Reserves | AAA | N/A | 5.29% | 25,884 | 25,884 |
| Dividend Income Common Trust Fund | N/A | N/A | 4.43% | 21,700 | 22,487 |
| iShares Russell 1000 Growth Index Fund | N/A | N/A | 4.55% | 22,266 | 22,611 |
| Mid Cap Growth Common Trust Fund | N/A | N/A | 0.99% | 4,862 | 5,031 |
| Mid Cap Value Common Trust Fund | N/A | N/A | 1.03% | 5,022 | 5,134 |
| Small Cap Growth Leaders Common Trust Fund | N/A | N/A | 0.98% | 4,802 | 5,163 |
| Small Cap Value Common Trust Fund | N/A | N/A | 1.00% | 4,885 | 5,016 |
| International Focused Equity Common Trust Fund | N/A | N/A | 1.96% | 9,607 | 10,131 |
| Emerging Markets Stock Common Trust Fund | N/A | N/A | 2.91% | 14,234 | 15,587 |
| Aggregate Bond Common Trust Fund | AAA | 5.9 yrs. | 54.94% | 268,921 | 270,710 |
| Templeton Global Bond Fund | A | 2.5 yrs. | 3.93% | 19,247 | 20,059 |
| PIMCO High Yield Fund | Not Rated | 4.6 yrs. | 8.89% | 43,490 | 44,639 |
| PIMCO All Asset All Authority Fund | Not Rated | 6.7 yrs. | 5.04% | 24,677 | 25,983 |
| REIT Common Trust Fund | N/A | N/A | 2.00% | 9,810 | 9,625 |
| Powershares DB Commodity Index Tracking Fund | N/A | N/A | 2.05% | 10,031 | 11,185 |
| | | | | <u>\$ 489,438</u> | <u>\$ 499,245</u> |

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 Breckenridge Economic Development Corporation has in the past received funds from the USDA for a loan program to allow BEDC to assist new businesses with low interest loans. The funds are required to be maintained intact with interest earned for the loan program.

Certain resources set aside for the repayment of the water works and sewer system bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond ordinances and other legal restrictions.

Restricted assets are held for the following purposes in accordance with bond ordinances or other legal restrictions:

| | |
|---|-------------------|
| Governmental Activities | |
| Cash - Restricted for USDA loan program | \$ <u>359,914</u> |
| Business-type Activities | |
| Cash - Customer water deposits | \$ 179,174 |
| Cash - Sinking funds | <u>241,377</u> |
| | <u>\$ 420,551</u> |

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2012

NOTE 4: DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the fiscal year, the various components of deferred revenue were as follows:

| | |
|--|-------------------|
| Deferred property taxes receivable (general fund) | \$ 119,111 |
| Deferred franchise taxes receivable (general fund) | 79,127 |
| Deferred court costs (general fund) | <u>26,290</u> |
| Total deferred revenue for governmental funds | <u>\$ 224,528</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, 2012, is as follows:

| Transfer In | Transfer Out | Amount |
|---------------------------------------|------------------------------|-------------------|
| General Fund | Water Works and Sewer System | \$ <u>830,260</u> |
| Total Governmental Funds Transfers In | | \$ <u>830,260</u> |

Each year the water works and sewer system fund transfers unrestricted revenues collected in the water works and sewer system fund to financial various programs accounted for in other funds in accordance with budgetary authorizations.

The composition of interfund balances for the City's individual major funds and nonmajor funds at September 30, 2012, is as follows:

| Receivable Fund | Payable Fund | Amount |
|--------------------------|------------------------------|-----------------|
| General | Water Works and Sewer System | \$ <u>6,011</u> |
| Total governmental funds | | \$ <u>6,011</u> |

The balance is a result of trash billings collected after year end for the period under audit that is due to the general fund.

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2012

NOTE 6: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012 was as follows:

Governmental activities:

| | Beginning Balance | Increases | Decreases | Ending Balance | BEDC | Primary Government |
|---|----------------------|--------------|------------|-------------------|--------------|-----------------------|
| Non - Depreciable Assets: | | | | | | |
| Land | \$ 220,035 | \$ - | \$ - | \$ 220,035 | \$ 505,353 | \$ 725,388 |
| Total non-depreciable assets | 220,035 | - | - | 220,035 | 505,353 | 725,388 |
| Depreciable Assets: | | | | | | |
| Buildings and improvements | 1,449,977 | - | - | 1,449,977 | 1,096,109 | 2,546,086 |
| Infrastructure | 2,285,504 | - | - | 2,285,504 | - | 2,285,504 |
| Vehicles and Equipment | 1,954,859 | 93,136 | (61,913) | 1,986,082 | 7,641 | 1,993,723 |
| Total capital assets being depreciated | 5,690,340 | 93,136 | (61,913) | 5,721,563 | 1,103,750 | 6,825,313 |
| Accumulated Depreciation: | | | | | | |
| Buildings and improvements | (636,348) | (35,227) | - | (671,575) | (21,457) | (693,032) |
| Infrastructure | (1,104,460) | (47,588) | - | (1,152,048) | - | (1,152,048) |
| Vehicles and Equipment | (1,218,698) | (113,062) | 60,700 | (1,271,060) | (7,007) | (1,278,067) |
| Total accumulated depreciation | (2,959,506) | (195,877) | 60,700 | (3,094,683) | (28,464) | (3,123,147) |
| Governmental activities capital assets, net | \$ 2,950,869 | \$ (102,741) | \$ (1,213) | \$ 2,846,915 | \$ 1,580,639 | \$ 4,427,554 |

The column for the Breckenridge Economic Development Corporation (BEDC) includes current year depreciation expense of \$7,006.

| | |
|---|------------------|
| City of Breckenridge | \$195,877 |
| Breckenridge Economic Development Corporation | <u>7,006</u> |
| Total depreciation expense | <u>\$202,883</u> |

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2012

NOTE 6: CAPITAL ASSETS - (Continued)

Business-type activities:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|---------------------|-------------|---------------------|
| Non - Depreciable Assets: | | | | |
| Land | \$ 144,146 | \$ - | \$ - | \$ 144,146 |
| Total non-depreciable assets | <u>144,146</u> | <u>-</u> | <u>-</u> | <u>144,146</u> |
| Depreciable Assets: | | | | |
| Land improvements | 23,396 | | | 23,396 |
| Buildings and improvements | 1,039,341 | | | 1,039,341 |
| Water and sewer systems | 13,511,212 | - | | 13,511,212 |
| Vehicles and equipment | 743,271 | 29,409 | - | 772,680 |
| Total capital assets being depreciated | <u>15,317,220</u> | <u>29,409</u> | <u>-</u> | <u>15,346,629</u> |
| Accumulated Depreciation: | | | | |
| Land improvements | (11,251) | (759) | | (12,010) |
| Buildings and improvements | (682,365) | (21,425) | | (703,790) |
| Water and sewer systems | (6,210,799) | (297,235) | | (6,508,034) |
| Vehicles and equipment | (376,573) | (42,397) | - | (418,970) |
| Total accumulated depreciation | <u>(7,280,988)</u> | <u>(361,816)</u> | <u>-</u> | <u>(7,642,804)</u> |
| Business-type activities capital assets, net | <u>\$ 8,180,378</u> | <u>\$ (332,407)</u> | <u>\$ -</u> | <u>\$ 7,847,971</u> |

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

Governmental activities:

| | |
|--|-------------------|
| General government | 9,331 |
| Public Safety | 51,536 |
| Public Works | 88,771 |
| Health and sanitation | 2,857 |
| Cemetery | 3,291 |
| Parks | 36,329 |
| Community development | 3,762 |
| Economic development | 7,006 |
| Total depreciation expense - governmental activities | <u>\$ 202,883</u> |

Business-type activities:

| | |
|---|-------------------|
| Water and Sewer | \$ 361,816 |
| Total depreciation expense - business-type activities | <u>\$ 361,816</u> |

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2012

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 4.5% to 10.50%. Future minimum lease /purchase commitments are as follows:

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> |
|---------------------------------|------------------------------------|-------------------------------------|
| 2013 | 66,078 | 66,086 |
| 2014 | | 66,086 |
| 2015 | | 60,798 |
| 2016 | | 55,588 |
| 2017 | | 53,831 |
| | | |
| Total debt service requirements | 66,078 | 302,389 |
| Less: Interest Portion | <u>1,189</u> | <u>30,689</u> |
| Debt Principal | <u>\$ 64,889</u> | <u>\$ 271,700</u> |

Assets under lease and related accumulated depreciation are as follows:

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> |
|--------------------------------|------------------------------------|-------------------------------------|
| Vehicles and equipment | \$ 550,415 | \$ 217,311 |
| Less: Accumulated depreciation | <u>(111,784)</u> | <u>(21,826)</u> |
| Net | <u>\$ 438,631</u> | <u>\$ 195,485</u> |

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2012

NOTE 8: LONG-TERM DEBT

At September 30, 2012, governmental activities bonds payable consisted of the following issues:

| | |
|--|--------------------------|
| \$500,000 sales tax revenue notes dated August 30, 2011, due in annual installments through September 1, 2021, bearing interest at 4.5%. | <u>\$ 459,191</u> |
| Total | <u><u>\$ 459,191</u></u> |

The annual requirements to amortize governmental activities bonds outstanding as of September 30, 2012 are as follows:

| | Governmental Activities | | |
|---------------------------------|-------------------------|------------------|-------------------|
| | Principal | Interest | Total |
| 2013 | 42,477 | 19,783 | 62,260 |
| 2014 | 44,428 | 17,832 | 62,260 |
| 2015 | 46,470 | 15,791 | 62,261 |
| 2016 | 48,566 | 13,695 | 62,261 |
| 2017 | 50,835 | 11,425 | 62,260 |
| 2018 - 2021 | 226,415 | 21,261 | 247,676 |
| Total debt service requirements | <u>\$ 459,191</u> | <u>\$ 99,787</u> | <u>\$ 558,978</u> |

At September 30, 2012, business-type activities bonds payable consisted of the following issues:

| | |
|---|----------------------------|
| \$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%. | <u>\$ 405,000</u> |
| \$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%. | 1,750,000 |
| Premium on General Obligation Refunding Bonds, Series 2010 | 63,098 |
| Deferred Refunding Costs | <u>(87,419)</u> |
| Total | <u><u>\$ 2,130,679</u></u> |

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2012

NOTE 8: LONG-TERM DEBT (Continued)

The annual requirements to amortize business-type activities bonds outstanding as of September 30, 2012 are as follows:

| | Business-type Activities | | |
|---------------------------------|--------------------------|------------|--------------|
| | Principal | Interest | Total |
| 2013 | 600,000 | 67,063 | 667,063 |
| 2014 | 615,000 | 47,338 | 662,338 |
| 2015 | 240,000 | 32,950 | 272,950 |
| 2016 | 225,000 | 24,288 | 249,288 |
| 2017 | 235,000 | 15,175 | 250,175 |
| 2018 - 2019 | 240,000 | 5,156 | 245,156 |
| Total debt service requirements | \$ 2,155,000 | \$ 191,970 | \$ 2,346,970 |

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2012.

| | 9/30/2011 | Additions | Retirements | 9/30/2012 | Due Within One Year |
|---------------------------------------|---------------------|-------------------|-------------------|---------------------|------------------------|
| Governmental Activities.: | | | | | |
| Capital Leases Payable | 154,447 | - | 89,558 | 64,889 | 64,889 |
| BEDC Sales tax revenue note | 498,084 | - | 38,893 | 459,191 | 42,477 |
| Net pension obligation | 100,712 | 154,376 | 141,564 | 113,524 | - |
| Total Governmental Activities | 753,243 | 154,376 | 270,015 | 637,604 | 107,366 |
| Business-type Activities: | | | | | |
| Capital leases payable | 290,664 | 29,409 | 48,373 | 271,700 | 54,942 |
| Certificates of Obligation | 460,000 | - | 55,000 | 405,000 | 60,000 |
| Tax & Revenue Refunding Bonds | 2,265,000 | - | 515,000 | 1,750,000 | 540,000 |
| Premium on GO Refunding Bonds | 74,570 | - | 11,472 | 63,098 | - |
| Deferred Refunding Costs | (103,314) | - | (15,895) | (87,419) | - |
| Net pension obligation | 32,437 | 49,909 | 45,766 | 36,580 | - |
| Total Business-type Activities | 3,019,357 | 79,318 | 659,716 | 2,438,959 | 654,942 |
| Total Long-Term Debt | \$ 3,772,600 | \$ 233,694 | \$ 929,731 | \$ 3,076,563 | \$ 762,308 |

Tax and revenue bonds are payable from property tax pledges and surplus revenues of the water works and sewer system. The debt ordinances provide for tax pledges to be budgeted annually to the extent budgeted net operating water works and sewer system revenues fall short of annual retirements of principal and interest. A tax rate of \$.2106 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 were \$241,377 at year-end.

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2012

NOTE 8: LONG-TERM DEBT (Continued)

On August 30, 2011 Breckenridge Economic Development Corporation issued a sales tax revenue note for the acquisition of an industrial development property consisting of 31.07 acres of land and building owned by CHM Manufacturing in order to provide for expansion of industrial development and job creation in Stephens County.

Management of the City believes that it is in compliance with all significant financial requirements required by debt covenants as of September 30, 2012.

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: 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.

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 2011 | Plan Year 2012 |
|--|------------------------------|------------------------------|
| 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, 2012

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 | 2012 | 2011 | 2010 |
|---|------------|------------|------------|
| Annual required contribution (ARC) | \$ 202,312 | \$ 241,877 | \$ 233,439 |
| Interest on Net Pension Obligation | 9,986 | 6,472 | 2,608 |
| Adjustment to the ARC | (8,012) | (5,364) | (2,124) |
| Total annual pension cost (APC) | 204,286 | 242,985 | 233,923 |
| Contributions Made | 187,331 | 196,124 | 182,414 |
| Increase (decrease) in Net Pension Obligation | 16,955 | 46,861 | 51,509 |
| Net Pension Obligation/(Asset), beginning of year | 133,149 | 86,288 | 34,779 |
| Net Pension Obligation/(Asset), end of year | \$ 150,104 | \$ 133,149 | \$ 86,288 |
| Contributions as a percentage of APC | 92% | 81% | 78% |

Actuarial Assumptions

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

| <u>Valuation Date</u> | <u>12/31/2009</u> | <u>12/31/2010</u> | <u>12/31/2011</u> |
|---|------------------------------|------------------------------|------------------------------|
| 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 | 28 Years; closed period | 27 Years; closed period | 26 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 | 7.5% | 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 Cost of Living Adjustments | 3.0% | 3.0% | 3.0% |
| | 2.1%(3.0% CPI) | 2.1%(3.0% CPI) | 2.1%(3.0% CPI) |

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2012

NOTE 10: RETIREMENT PLAN (Continued)

The funded status as of December 31, 2011, 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 | |
| 12/31/11 | 5,861,466 | 7,163,675 | 81.82% | 1,302,209 | 2,116,123 | 61.54% |

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 2011</u> | <u>Plan Year 2012</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 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.

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2012

NOTE 11: OTHER POST EMPLOYMENT BENEFITS (continued)

The city's contributions to the TMRS SDBF for the years ended 2012, 2011 and 2010 were \$4,402, \$5,820, and \$5,548, 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.

C. Oncor Electric Delivery Company Settlement

During 2011, the City received a payment from Oncor Electric Company in the amount of \$22,170. The City is part of a steering committee that won a claim against Oncor with the Public Utilities Commission. The amount represents retroactive franchise fees. Oncor has appealed the decision and the City will have to repay the above sum if Oncor wins the appeal.

NOTE 13: CONTRACTS AND COMMITMENTS

A. Chamber of Commerce

On December 3, 2007, the City entered into a 2 year agreement effective January 1, 2008 for the administration of a community advertising and promotion program. The City will fund the program with a 4% hotel/motel occupancy tax. The funds received by the Chamber will be spent towards specific projects, in accordance with current state statutes.

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2012

NOTE 13: CONTRACTS AND COMMITMENTS (continued)

B. 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.

NOTE 14: HAIL DAMAGE

In October of 2011, a hail storm directly impacted the City causing significant damage to certain City-owned buildings. Insurance proceeds related to the hail damage totaled \$41,162 and is reported in other revenue. Cost to repair the damage totaled \$32,500 and was reported under the general government expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds.

NOTE 15: SUBSEQUENT EVENTS

On November 2, 2012, the City authorized the issuance of \$1,680,000 Combination Tax and Surplus Revenue Certificates of Obligation, Series 2012 bonds. The City will also receive a \$704,878 loan forgiveness grant from Texas Water Development Board in connection with the bonds. The purpose of the bonds is for improvement and rehabilitation of the City's potable water treatment plant and for paying legal, fiscal, engineering and architectural fees in connection with the project.

On January 7, 2013, the City adopted a resolution with the intent on issuing Combination Tax & Surplus Revenue Certificates of Obligation, Series 2013 in the amount of \$840,000. The bonds are intended to be issued in April 2013. The City also will receive a \$353,461 loan forgiveness grant from Texas Water Development Board in connection with the bonds. The purpose of the bonds and grant money is for wastewater system improvements and associated costs.

One of the City's major water customers, Stephen's County Special Utility District (SCSUD) has constructed its own water plant and will not purchase the City's water at some point in the subsequent year. For the year ending September 30, 2012, the water sales to SCSUD were \$526,399, which represents approximately 17% of all water and wastewater sales.

Subsequent events were evaluated through February 19, 2013, which is the date the financial statements were available to be issued.

NOTE 16: NEW PRONOUNCEMENTS

In November 2010, the GASB issued 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. The provisions of the Statement are effective for financial statement periods beginning after June 15, 2012. The City has not yet determined the effect this Statement will have on its financial statements.

In June 2011, the GASB issued Statement No. 63, Financial reporting of Deferred Outflows of Resources, Deferred Inflows of resources, and Net Position. This Statement provides guidance for deferred outflows of resources and deferred inflows of resources as introduced and defined in Concepts Statement No. 4, Elements of Financial Statements. Concepts No. 4 also identifies net position as the residual of all other elements presented

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2012

NOTE 16: NEW PRONOUNCEMENTS (continued)

in a statement of financial position. The provisions of this Statement are effective for financial statements for periods beginning after December 31, 2011. The City has not yet determined the effect this Statement will have on its financial statements.

In March 2012, the GASB issued Statement No. 65, *Items previously reported as Assets and Liabilities*. This statements established accounting and financial reporting standards that reclassify, as deferred outflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The City has not yet determined the effect this Statement will have on its financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. This State 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.

REQUIRED SUPPLEMENTARY INFORMATION

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EXHIBIT F-1

CITY OF BRECKENRIDGE, TEXAS
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the year ended September 30, 2012

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Taxes: | | | | |
| Property taxes | \$ 1,434,590 | \$ 1,434,590 | \$ 1,485,993 | 51,403 |
| Sales and use tax | 885,600 | 885,600 | 974,331 | 88,731 |
| Franchise | 425,500 | 425,500 | 400,235 | (25,265) |
| Hotel motel taxes | 21,200 | 21,200 | 29,679 | 8,479 |
| Charges for service | 658,600 | 679,600 | 620,363 | (59,237) |
| Grants and contributions | 216,400 | 220,200 | 144,979 | (75,221) |
| Interest income | 650 | 650 | 1,460 | 810 |
| Other revenue | 32,900 | 98,950 | 105,092 | 6,142 |
| Total revenues | 3,675,440 | 3,766,290 | 3,762,132 | (4,158) |
| Expenditures: | | | | |
| Current | | | | |
| General government | 786,660 | 838,460 | 742,613 | 95,847 |
| Public Safety | 1,976,340 | 1,950,191 | 1,866,827 | 83,364 |
| Public Works | 578,130 | 582,730 | 409,396 | 173,334 |
| Health and Sanitation | 440,380 | 468,100 | 470,594 | (2,494) |
| Cemetery | 123,650 | 131,050 | 125,552 | 5,498 |
| Parks | 296,660 | 314,560 | 259,294 | 55,266 |
| Community services | 190,630 | 191,230 | 187,057 | 4,173 |
| Tourism | 21,200 | 21,200 | 24,912 | (3,712) |
| Debt service: | | | | |
| Principal | 89,570 | 89,570 | 89,558 | 12 |
| Interest and fiscal charges | 5,060 | 5,060 | 5,056 | 4 |
| Total expenditures | 4,508,280 | 4,592,151 | 4,180,859 | 411,292 |
| Excess (deficiency) of revenue over (under) expenditures | \$ (832,840) | \$ (825,861) | \$ (418,727) | 407,134 |
| Other financing sources (uses): | | | | |
| Transfers in | 829,840 | 736,420 | 830,260 | 93,840 |
| Transfers out | (28,660) | (28,660) | - | 28,660 |
| Net change in fund balances | (31,660) | (118,101) | 411,533 | 529,634 |
| Fund balance, October 1, 2011 | 308,994 | 308,994 | 308,994 | - |
| Fund balance, September 30, 2012 | \$ 277,334 | \$ 190,893 | \$ 720,527 | 529,634 |

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

CITY OF BRECKENRIDGE
Breckenridge Economic Development Corporation
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the year ended September 30, 2012

| | Budgeted | | Amounts | | Variance with Final Budget Positive (Negative) |
|--|-------------------|-------------------|---------------------|-------------------|---|
| | Original | | Final | Actual | |
| REVENUES: | | | | | |
| Sales tax | \$ 407,200 | \$ 407,200 | \$ 476,910 | \$ 69,710 | |
| Investment income | 18,101 | 18,101 | 17,390 | (711) | |
| Total revenues | <u>425,301</u> | <u>425,301</u> | <u>494,300</u> | <u>68,999</u> | |
| EXPENDITURES: | | | | | |
| General administration | 116,810 | 116,810 | 107,859 | 8,951 | |
| Economic development | 162,054 | 162,054 | 115,078 | 46,976 | |
| Community development | 220,000 | 220,000 | 165,228 | 54,772 | |
| Capital outlay | 134,737 | 134,737 | 118,764 | 15,973 | |
| Debt service | | | | | |
| Principal | 40,893 | 40,893 | 38,893 | 2,000 | |
| Interest | 21,277 | 21,277 | 20,503 | 774 | |
| Total expenditures | <u>695,771</u> | <u>695,771</u> | <u>566,325</u> | <u>129,446</u> | |
| Excess (deficiency) of revenues over (under) expenditures | (270,470) | (270,470) | (72,025) | 198,445 | |
| Other financing sources (uses) | | | | | |
| Proceeds from sale of capital assets | - | - | 6,434 | 6,434 | |
| Net change in fund balance | (270,470) | (270,470) | (65,591) | 204,879 | |
| Fund balance October 1, 2010 | <u>1,101,248</u> | <u>1,101,248</u> | <u>1,101,248</u> | <u>-</u> | |
| Fund balance September 30, 2011 | <u>\$ 830,778</u> | <u>\$ 830,778</u> | <u>\$ 1,035,657</u> | <u>\$ 204,879</u> | |

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)

| Fiscal Year | Actuarial Valuation Date | (1) | (2) | (3) | (4) | (5) | (6) | Actual Annual Contributions |
|-------------|--------------------------|--------------------------------|-----------------------------|---------------------------|---|------------------------|---|-----------------------------|
| | | 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) | |
| 2010 | 12/31/09 | 3,794,543 | 5,540,731 | 68.48% | 1,746,188 | 2,083,752 | 83.80% | 182,414 |
| 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 |

CITY OF BRECKENRIDGE
Notes to the Required Supplementary Information
For the Year Ended September 30, 2012

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 or the Breckenridge Economic Development Corporation.

Factors Affecting TMRS Schedule of Funding Progress

In June 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. In addition, the actuarial assumptions were updated for the new fund structure based on an actuarial experience study that was adopted by the TMRS Board at their May 2011 meeting. For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2012 TMRS Comprehensive Annual Financial Report. These changes were used to perform the December 31, 2010 actuarial valuation.

COMBINING FINANCIAL STATEMENTS
NONMAJOR GOVERNMENTAL FUNDS

CITY OF BRECKENRIDGE, TEXAS
 Nonmajor Funds
 Combining Balance Sheet
 September 30, 2012

| | Special Revenue | | | | |
|--|--------------------|----------------------|------------------|---|-----------------------------------|
| | Fire Department | Hotel/ Motel (3%) | Park | Public, Educate, & Govern Access Channel Fees | Total Special Revenue Funds |
| Assets: | | | | | |
| Cash | \$ 12,896 | \$ 91,244 | \$ 23,908 | \$ 13,928 | \$ 141,976 |
| Receivables (Net of allowances for uncollectibles) | | | | | - |
| Other taxes receivable | - | - | - | - | - |
| Total assets | \$ 12,896 | \$ 91,244 | \$ 23,908 | \$ 13,928 | \$ 141,976 |
| Liabilities and fund balance: | | | | | |
| Liabilities | | | | | |
| Accounts payable | - | - | - | - | - |
| Total liabilities | - | - | - | - | - |
| Fund Balances: | | | | | |
| Restricted fund balance | 12,896 | 91,244 | 23,908 | 13,928 | 141,976 |
| Total fund balance | 12,896 | 91,244 | 23,908 | 13,928 | 141,976 |
| Total liabilities and fund balances | \$ 12,896 | \$ 91,244 | \$ 23,908 | \$ 13,928 | \$ 141,976 |

EXHIBIT G-1

| <u>Capital Projects</u> | | |
|---|---|-------------------------------------|
| <u>Street Maintenance Sales Tax</u> | <u>Total Capital Projects Funds</u> | <u>Total Nonmajor Funds</u> |
| \$ 333,859 | \$ 333,859 | \$ 475,835 |
| <u>42,504</u> | <u>42,504</u> | <u>42,504</u> |
| \$ <u>376,363</u> | \$ <u>376,363</u> | \$ <u>518,339</u> |
| | | |
| \$ <u>9,000</u> | \$ <u>9,000</u> | \$ <u>9,000</u> |
| <u>9,000</u> | <u>9,000</u> | <u>9,000</u> |
| | | |
| <u>367,363</u> | <u>367,363</u> | <u>509,339</u> |
| <u>367,363</u> | <u>367,363</u> | <u>509,339</u> |
| \$ <u>376,363</u> | \$ <u>376,363</u> | \$ <u>518,339</u> |

CITY OF BRECKENRIDGE, TEXAS
 Nonmajor Funds
 Combining Statement of Revenues, Expenditures and Changes in Fund Balance
 For the year ended September 30, 2012

| | Special Revenue | | | | |
|----------------------------------|--------------------|----------------------|------------------|---|-----------------------------------|
| | Fire Department | Hotel/ Motel (3%) | Park | Public, Educate, & Govern Access Channel Fees | Total Special Revenue Funds |
| Revenues: | | | | | |
| Sales and use tax | \$ - | \$ - | \$ - | \$ - | \$ - |
| Hotel motel taxes | - | 14,182 | - | - | 14,182 |
| Franchise taxes | - | - | - | 6,801 | 6,801 |
| Grants and contributions | 1,213 | - | 404 | - | 1,617 |
| Interest | 33 | 210 | 65 | 25 | 333 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total revenue | 1,246 | 14,392 | 469 | 6,826 | 22,933 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Public Safety | 2,411 | - | - | - | 2,411 |
| Public Works | - | - | - | - | - |
| Parks | - | - | 3,888 | - | 3,888 |
| Tourism | - | 2,700 | - | - | 2,700 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total expenditures | 2,411 | 2,700 | 3,888 | - | 8,999 |
| Net change in fund balances | (1,165) | 11,692 | (3,419) | 6,826 | 13,934 |
| Fund Balance, October 1, 2011 | 14,061 | 79,552 | 27,327 | 7,102 | 128,042 |
| Fund Balance, September 30, 2012 | <u>\$ 12,896</u> | <u>\$ 91,244</u> | <u>\$ 23,908</u> | <u>\$ 13,928</u> | <u>\$ 141,976</u> |

EXHIBIT G-2

| <u>Capital Projects</u> | | |
|---|---|-------------------------------------|
| <u>Street Maintenance Sales Tax</u> | <u>Total Capital Projects Funds</u> | <u>Total Nonmajor Funds</u> |
| \$ 238,455 | \$ 238,455 | \$ 238,455 |
| - | - | 14,182 |
| - | - | 6,801 |
| - | - | 1,617 |
| 606 | 606 | 939 |
| - | - | - |
| <u>239,061</u> | <u>239,061</u> | <u>261,994</u> |
| - | - | 2,411 |
| 57,000 | 57,000 | 57,000 |
| - | - | 3,888 |
| - | - | 2,700 |
| <u>57,000</u> | <u>57,000</u> | <u>65,999</u> |
| 182,061 | 182,061 | 195,995 |
| <u>185,302</u> | <u>185,302</u> | <u>313,344</u> |
| <u>\$ 367,363</u> | <u>\$ 367,363</u> | <u>\$ 509,339</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, 2012

| Last Ten Years Ended Sept 30 | Tax Rate | | Assessed Value | Beginning Balance October 1 | Current Year's Total Levy |
|---------------------------------|-------------|--------------|-------------------|-----------------------------------|---------------------------------|
| | Maintenance | Debt Service | | | |
| 2003 and prior | 0.8194 | 0.2306 | 117,717,990 | 43,605 | |
| 2004 | 0.8184 | 0.2816 | 110,551,445 | 7,393 | |
| 2005 | 0.8004 | 0.2675 | 115,938,571 | 9,901 | |
| 2006 | 0.8113 | 0.2566 | 122,138,402 | 13,670 | |
| 2007 | 0.7769 | 0.2331 | 135,736,170 | 16,395 | |
| 2008 | 0.7598 | 0.2202 | 142,206,990 | 20,941 | |
| 2009 | 0.7570 | 0.2029 | 154,800,440 | 29,795 | |
| 2010 | 0.7663 | 0.1898 | 164,281,038 | 59,803 | |
| 2011 | 0.7556 | 0.1744 | 176,676,216 | 102,745 | |
| 2012 (Year under audit) | 0.8367 | 0.2108 | 188,634,444 | | 1,814,697 |
| TOTALS | | | | \$ 304,248 | \$ 1,814,697 |

EXHIBIT G-3

| <u>Maintenance Collections</u> | <u>Debt Service Collections</u> | <u>Entire Year's Adjustments</u> | <u>Ending Balance September 30</u> |
|------------------------------------|---|--|--|
| (2,479) | (624) | (5,416) | 35,086 |
| (610) | (154) | (218) | 6,411 |
| (1,267) | (319) | (586) | 7,729 |
| (2,115) | (532) | (1,059) | 9,964 |
| (2,698) | (679) | (954) | 12,064 |
| (5,305) | (1,335) | (794) | 13,507 |
| (8,695) | (2,188) | (612) | 18,300 |
| (16,525) | (4,159) | (730) | 38,389 |
| (33,780) | (8,502) | (1,544) | 58,919 |
| <u>(1,358,258)</u> | <u>(341,878)</u> | <u>(17,684)</u> | <u>96,877</u> |
| <u>\$ (1,431,732)</u> | <u>\$ (360,370)</u> | <u>\$ (29,597)</u> | <u>\$ 297,246</u> |

EXHIBIT G-4

City of Breckenridge, Texas
 Statistics - Water Works and Sewer System Fund
 For the year ended September 30, 2012
 (Unaudited)

| | |
|---|-------------|
| Number of water connections at end of year | 2,605 |
| Number of sewer connections at end of year | 2,074 |
| Gallons of water billed through the system during the fiscal year | 380,742,300 |

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| <u>Outstanding Bonds and Certificates:</u> | | |
| Combination Tax and Revenue Certificates of Obligation, Series 2003 | \$ 405,000 | \$ 460,000 |
| General Obligation Refunding Bonds, Series 2010 | 1,750,000 | 2,265,000 |
| Premium on bond | 63,098 | 74,570 |
| Deferred refunding costs | (87,419) | (103,314) |
| | <u>\$ 2,130,679</u> | <u>\$ 2,696,256</u> |

| | | |
|---|---------------------|---------------------|
| <u>Water and Sewer Operating Income Available for Debt Retirement:</u> | | |
| Net Operating Income | \$ 930,145 | \$ 876,216 |
| Net Nonoperating Interest Income | 2,170 | 1,460 |
| Add Depreciation Expense | <u>361,816</u> | <u>348,182</u> |
| Water and Sewer Operating Income Available for Debt Retirement | <u>\$ 1,294,131</u> | <u>\$ 1,225,858</u> |

| | | |
|---|-------------------|-------------------|
| <u>Annual Debt Service Requirements and Coverage:</u> | | |
| Combination Tax and Revenue Certificates of Obligation, Series 2003 | \$ 78,788 | \$ 76,675 |
| General Obligation Refunding Bonds, Series 2010 | <u>577,263</u> | <u>582,563</u> |
| Total Debt Service Requirements | 656,051 | 659,238 |
| Less Current Year Property Taxes | <u>(359,613)</u> | <u>(306,127)</u> |
| Net System Fund Requirements | <u>\$ 296,438</u> | <u>\$ 353,111</u> |
| Coverage of Total System Fund Debt Service | <u>4.37</u> | <u>3.47</u> |

| | | |
|---|-------------------|-------------------|
| <u>Cash Available in Bond Sinking Funds</u> | | |
| Combination Tax and Revenue Certificates of Obligation, Series 2003 | \$ 38,476 | \$ 32,557 |
| General Obligation Refunding Bonds, Series 2010 | 202,901 | 180,131 |
| | <u>\$ 241,377</u> | <u>\$ 212,688</u> |

CITY OF BRECKENRIDGE, TEXAS
 Insurance in Force
 September 30, 2012
 (Unaudited)

| | <u>Coverage</u> | <u>Premium</u> |
|-------------------------------------|-----------------|----------------|
| Fire and Extended Coverage | | |
| Buildings and Contents | \$ 4,926,249 | \$ 10,684 |
| Flood Insurance | | |
| Buildings | 320,200 | 6,395 |
| Contents | 196,900 | |
| Public Officials Liability | | |
| Each Wrongful Act | 500,000 | 1,201 |
| Aggregate | 1,000,000 | |
| Employee Practices Liability | | |
| Each Wrongful Act | 500,000 | 3,603 |
| Aggregate | 500,000 | |
| Back Wages Limit | 50,000 | |
| Commercial General Liability | | |
| Per Occurrence | 600,000 | 5,792 |
| Aggregate | 1,000,000 | |
| Law Enforcement Personal Liability | | |
| Each Wrongful Act | 500,000 | 10,733 |
| 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 | 44,906 |
| Combined Single Limit | 60,000 | |
| Heavy Equipment | | |
| Physical Damage | 699,069 | 2,411 |

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> |
|-------------------------------------|--|-------------------|
| Trident Insurance Services, LLC | Fire - Buildings and Contents | 10/1/2012 |
| Trident Insurance Services, LLC | Commercial Auto | 10/1/2012 |
| Federal Emergency Management Agency | Flood | 6/16/2013 |
| Trident Insurance Services, LLC | Public Officials Liability | 10/1/2012 |
| Trident Insurance Services, LLC | Law Enforcement Liability | 10/1/2012 |
| CNA Surety Corporation | Fidelity Bond - City Secretary | 2/24/2012 |
| CNA Surety Corporation | Fidelity Bond - Assistant City Secretary | 10/1/2012 |
| Trident Insurance Services, LLC | Heavy Equipment | 10/1/2012 |

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**OVERALL COMPLIANCE AND INTERNAL CONTROL
SECTION**

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**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 the financial statements of the governmental activities, the business-type activities, 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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 8, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the City of Breckenridge, TX, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

We noted certain matters that we reported to management in a separate letter dated February 8, 2013.

This report is intended solely for the information and use of the management, others within the organization, and the City Commission and is not intended to be and should not be used by anyone other than these specified parties.



Weatherford, Texas
February 8, 2013