

**CITY OF BRECKENRIDGE, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2015**



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**CITY OF BRECKENRIDGE, TEXAS**  
Annual Financial Report  
For the year ended September 30, 2015

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Annual Financial Report

For the year ended September 30, 2015

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

Members of the City Commission  
City of Breckenridge, Texas

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of City of Breckenridge, Texas (the "City"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Breckenridge, Texas, as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 16, budgetary comparison – general fund, schedule of changes in net pension liability and related ratios, and schedule of contributions on pages 51 - 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

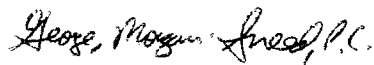
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The other supplementary information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



George, Morgan & Sneed, P.C.  
Weatherford, Texas  
January 27, 2016



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of The City of Breckenridge, Texas, we offer readers of The City of Breckenridge's financial statements this narrative overview and analysis of the financial activities of The City of Breckenridge for the fiscal year ended September 30, 2015.

### FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Breckenridge exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$12,034,269 (*net position*) compared to \$11,804,174 for the prior year. Of this amount, \$888,466 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$230,095. The City's operations increased the governmental activities and business-type activities net position by \$193,108 and \$718,640 respectively. Net position was decreased by a \$681,653 prior period adjustment as a result of implementing new accounting standards. See note 15 to the financial statements for a description of the new standards.
- As of the close of the current fiscal year, the City of Breckenridge's governmental funds reported combined ending fund balances of \$1,813,549. This compares to an ending fund balance of \$1,796,455 in the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$199,356, or 5% of total general fund expenditures. This compares to an unassigned fund balance of \$504,782 in the prior year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The City's annual financial report consists of three components 1) management's discussion and analysis, 2) the basic financial statements (government-wide financial statements, fund financial statements and notes to the financial statements) and 3) supplementary information.

#### **Government-wide financial statements.**

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Net position – the difference between the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources – is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net position is an indicator of whether its financial health is improving or deteriorating, respectively.

- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). All of the City's services are included here, such as general government, public works and safety, and community services in the governmental activities and water, wastewater, and sanitation distribution and collection in the business-type or proprietary activities.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate component unit: Breckenridge Economic Development Corporation ("BEDC") for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on Exhibits A-1 and B-1 of this report.

### **Fund financial statements.**

The fund financial statements provide more detailed information about the City's most significant funds—not the City as a whole. Funds are used by the City to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Commission establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental funds.** Most of the City's basic services are included in governmental funds, which focus on (1) short-term inflows and outflows of spendable resources and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide a reconciliation that explains the relationship (or differences) between them.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and debt service fund, which are considered major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for all funds. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on Exhibits C-1 through C-4 of this report.

**Proprietary funds.** Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. The City maintains one type of proprietary funds. The City uses enterprise funds to account for its water, wastewater, sanitation services, and trade day events.

The basic proprietary fund financial statements can be found on Exhibits D-1 through D-3 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on Exhibits E-1 and E-2 of this report.

**Notes to the financial statements** provide additional information that is necessary for a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-50 of this report.

**Supplementary information** further explains and supports the information in the financial statements.

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$12,034,269 as of September 30, 2015. Below is a summary of the City's Statement of Net Position.

#### Condensed Statement of Net Position

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 2,175,854	\$ 2,127,298	\$ 6,130,020	\$ 6,489,413	\$ 8,305,874	\$ 8,616,711
Capital assets	2,816,738	2,712,226	8,665,447	7,917,178	11,482,185	10,629,404
Total Assets	<u>4,992,592</u>	<u>4,839,524</u>	<u>14,795,467</u>	<u>14,406,591</u>	<u>19,788,059</u>	<u>19,246,115</u>
Deferred outflows of resources	161,932	-	79,957	55,631	241,889	55,631
Current liabilities	150,733	129,673	1,198,633	367,137	1,349,366	496,810
Long-term liabilities	729,436	137,304	5,861,550	6,077,582	6,590,986	6,214,886
Total liabilities	<u>880,169</u>	<u>266,977</u>	<u>7,060,183</u>	<u>6,444,719</u>	<u>7,940,352</u>	<u>6,711,696</u>
Deferred inflows of resources	43,121	-	12,206	785,875	55,327	785,875
Net Position:						
Invested in capital assets net of related debt	2,807,350	2,693,727	7,158,281	6,396,122	9,965,631	9,089,849
Restricted	1,180,172	973,108	-	-	1,180,172	973,108
Unrestricted	243,712	905,712	644,754	835,506	888,466	1,741,218
Total Net Position	<u>\$ 4,231,234</u>	<u>\$ 4,572,547</u>	<u>\$ 7,803,035</u>	<u>\$ 7,231,628</u>	<u>\$ 12,034,269</u>	<u>\$ 11,804,175</u>

The largest portion of the City's net position (83%) reflects its investment in capital assets (e.g. land, buildings and improvements, vehicles and equipment, infrastructure and water and wastewater systems); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (10%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$888,466 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities and its component unit.

Below is a summary of the City's Statement of Activities.

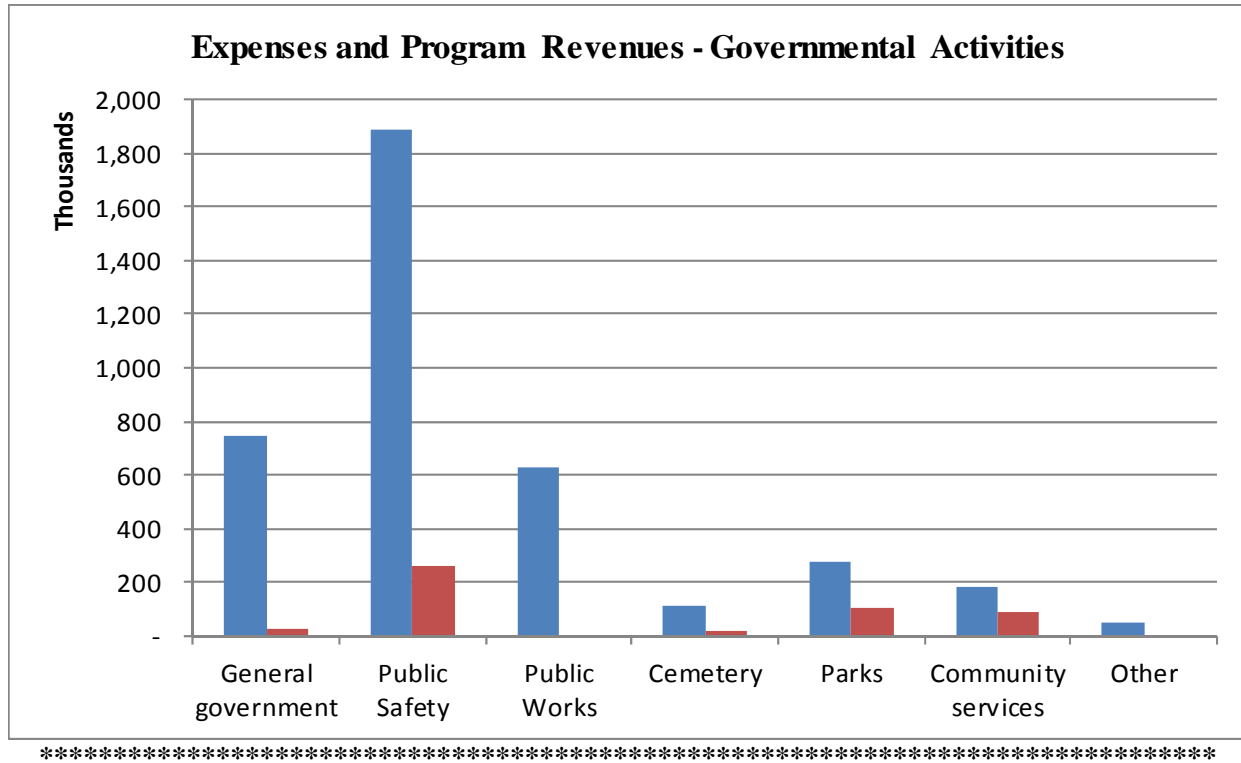
### Changes in Net Position

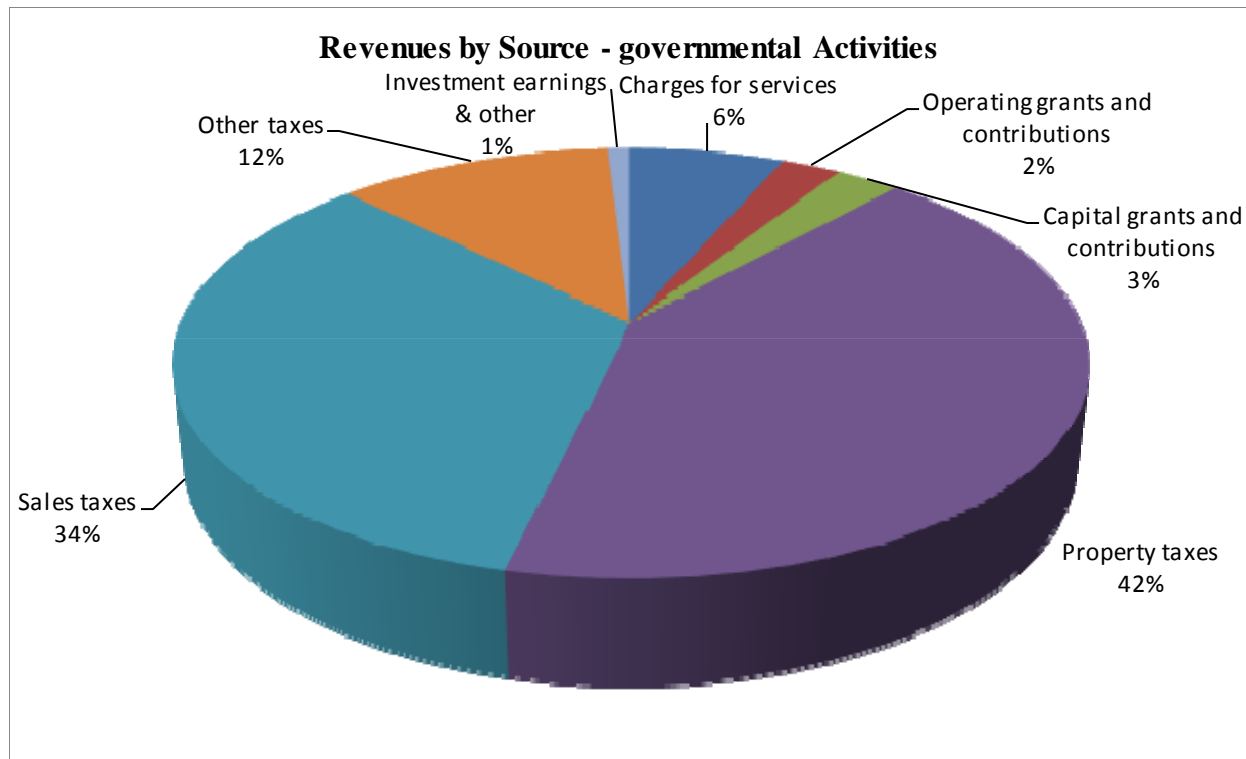
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues:						
Program revenues:						
Charges for services	\$ 275,489	\$ 255,371	\$ 3,231,267	\$ 3,152,316	\$ 3,506,756	\$ 3,407,687
Operating grants and contributions	104,975	109,228	-	-	104,975	109,228
Capital grants and contributions	114,295	-	442,129	148,370	556,424	148,370
General revenues:						
Property taxes	1,765,502	1,725,992	-	-	1,765,502	1,725,992
Sales and use taxes	1,422,258	1,447,394	-	-	1,422,258	1,447,394
Franchise taxes	440,387	444,155	-	-	440,387	444,155
Hotel motel taxes	49,838	45,810	-	-	49,838	45,810
Investment earnings	4,686	4,510	10,172	9,115	14,858	13,625
Other Revenue	34,846	49,164	-	-	34,846	49,164
Total revenues	<u>4,212,276</u>	<u>4,081,624</u>	<u>3,683,568</u>	<u>3,309,801</u>	<u>7,895,844</u>	<u>7,391,425</u>
Expenses						
General government	749,299	745,047			749,299	745,047
Public Safety	1,886,395	1,906,936			1,886,395	1,906,936
Public Works	630,206	661,070			630,206	661,070
Health and sanitation	-	-	509,690	537,756	509,690	537,756
Cemetery	115,771	121,676			115,771	121,676
Parks	278,652	297,631			278,652	297,631
Community services	179,515	190,433			179,515	190,433
Tourism	42,000	65,178			42,000	65,178
Interest on long-term debt	5,424	1,042			5,424	1,042
Water and wastewater			2,522,650	2,516,621	2,522,650	2,516,621
Trade Days			64,494	-	64,494	-
Total expenses	<u>3,887,262</u>	<u>3,989,013</u>	<u>3,096,834</u>	<u>3,054,377</u>	<u>6,984,096</u>	<u>7,043,390</u>
Increase (decrease) in net position before transfers	325,014	92,611	586,734	255,424	911,748	348,035
Transfers	(131,906)	(53,648)	131,906	53,648	-	-
Increase (decrease) in net position	193,108	38,963	718,640	309,072	911,748	348,035
Net Position October 1	4,572,546	4,533,583	7,231,628	6,922,556	11,804,174	11,456,139
Prior period adjustment	(534,420)	-	(147,233)	-	(681,653)	-
Net Position September 30	<u>\$ 4,231,234</u>	<u>\$ 4,572,546</u>	<u>\$ 7,803,035</u>	<u>\$ 7,231,628</u>	<u>\$ 12,034,269</u>	<u>\$ 11,804,174</u>

**Governmental Activities.** Governmental activities increased the City's net position by \$193,108 in the current year. Total governmental activities revenues increased \$130,652 (3%) to \$4,212,276. Total governmental activities expenses decreased \$101,751 (3%) to \$3,887,262 from the prior year. Key elements of these changes are as follows.

- Capital grants and contributions increased \$114,295 due grants and contributions towards the new fire bay and walking trail.
- Property tax revenue increased by \$39,510 due to an increase of approximately \$8.2 million (4%) in the appraised value of property in the City. The combined tax rates decreased by \$.02817.

Below are two graphs summarizing governmental revenue and expense:



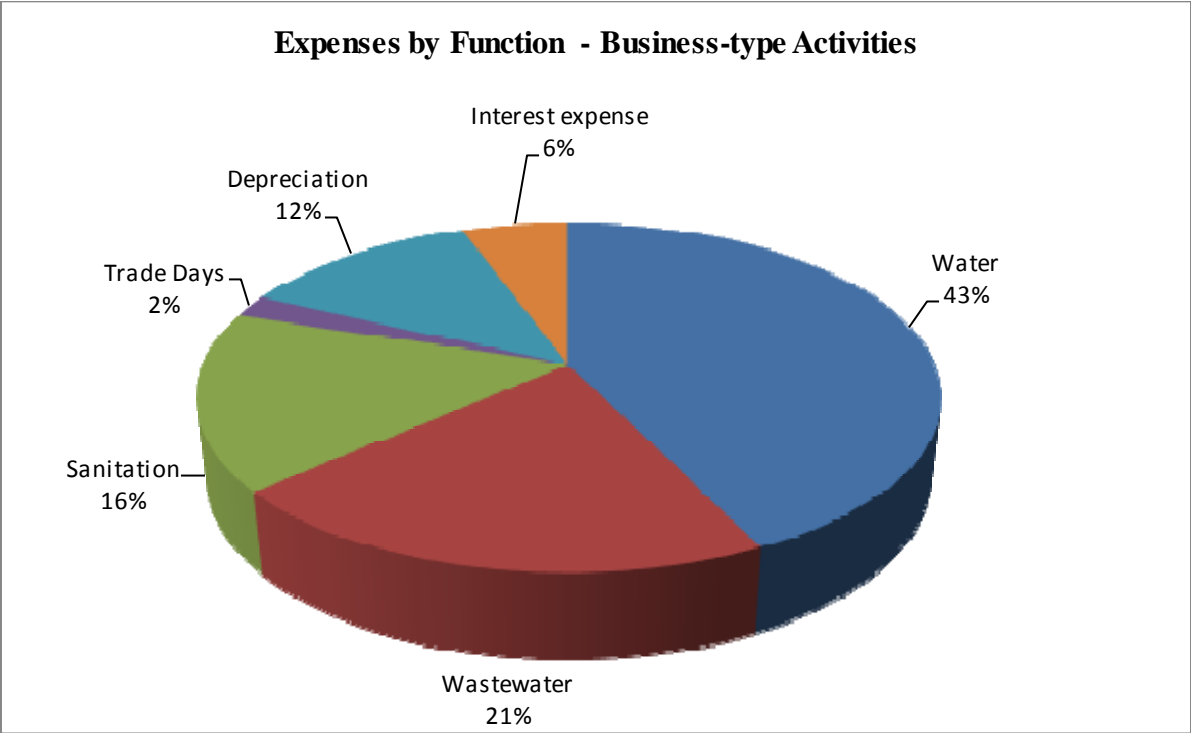
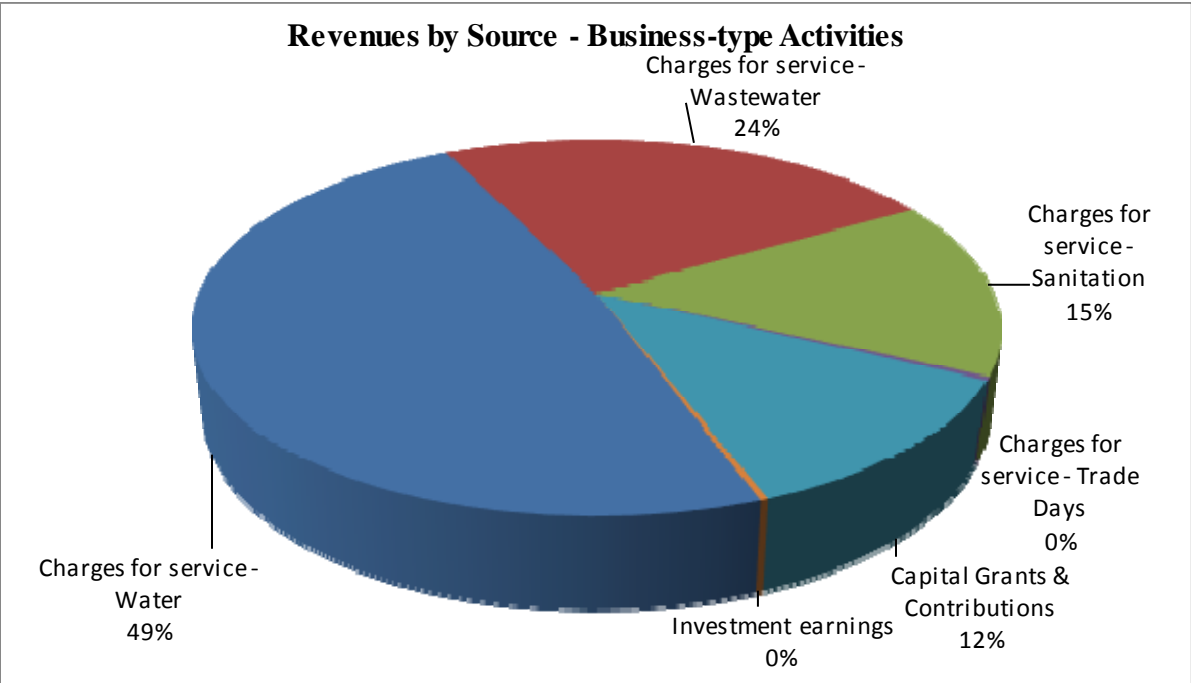


**Business-type activities.** Business-type activities increased the City's net position by \$718,640 in the current year compared to an increase in net position of \$309,072 in the prior year. The business-type activities total revenues increased \$373,767 (11%) to \$3,683,568 and total expenses increased \$42,457 (1%) and transfers in increased \$78,258. Key elements of these changes are as follows.

- Charges for services increased \$78,951 because the metered water sales and water sales to TDCCJ increased due to a rate increase.
- Capital grants and contributions increased \$293,759 primarily due to a CDBG grant for Panther Street water system project.
- In the current year the City began the Breck Trade Days and added facilities for the activities. Current year start-up and operating costs were \$64,494.



Below are two graphs summarizing business-type activities revenue and expense:



## Financial Analysis of the Government's Funds

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

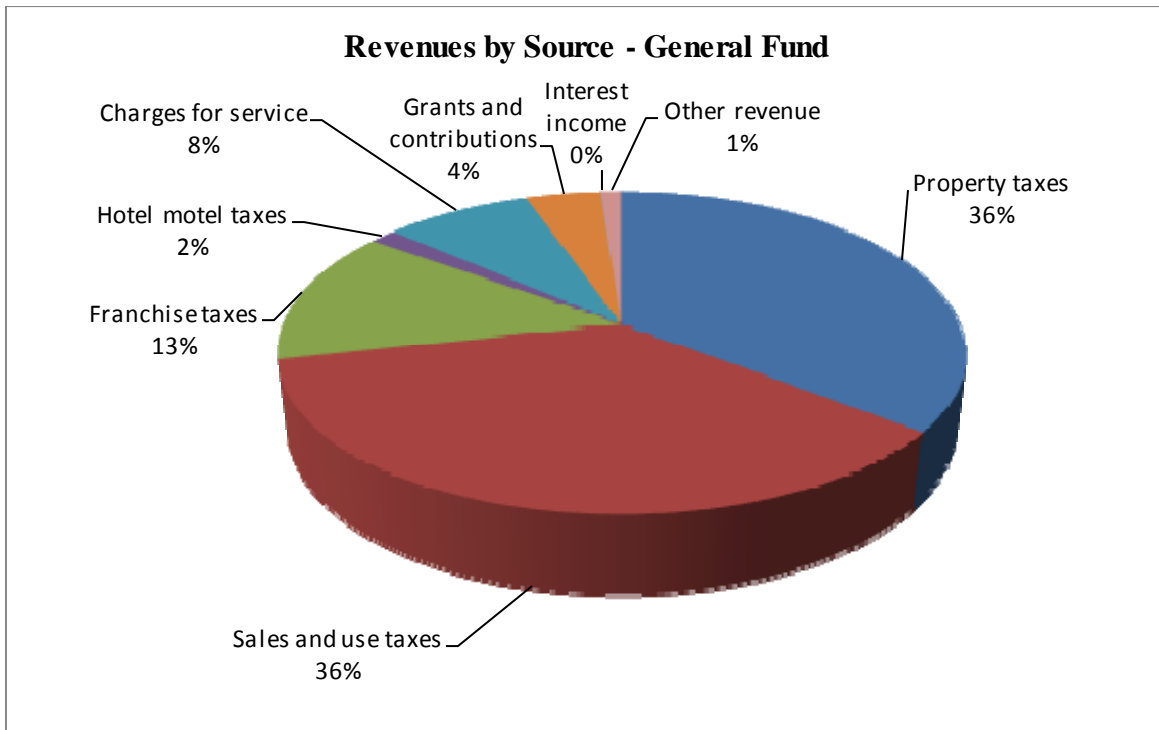
**Governmental funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At year end, the City's governmental funds reported combined ending fund balances of \$1,813,549. \$185,402 (10%) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is either restricted, committed or assigned.

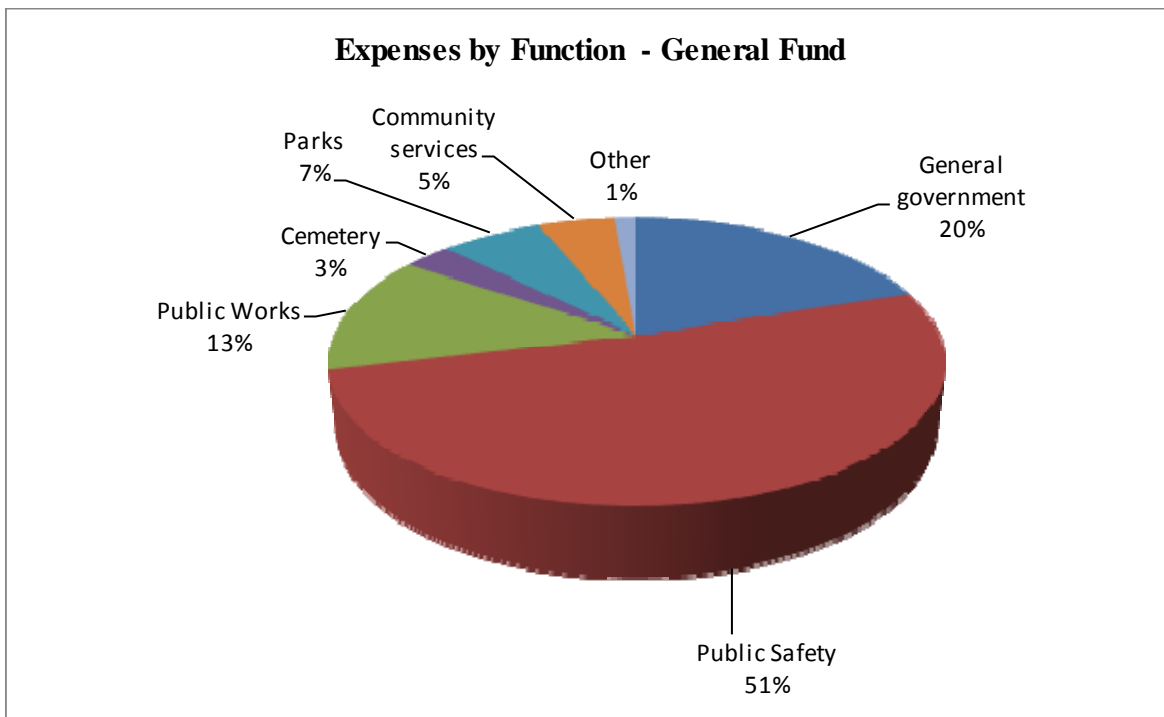
The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$199,356. Below is a comparison of the general fund's net change in fund balance for 2015 and 2014.

	2015	2014	Increase (Decrease)	Percent Increase (Decrease)
Revenues:				
Taxes:				
Property taxes	\$ 1,176,394	\$ 1,239,314	\$ (62,920)	-5.08%
Sales and use tax	1,186,792	1,198,112	(11,320)	-0.94%
Franchise	440,387	438,678	1,709	0.39%
Hotel motel taxes	49,838	45,810	4,028	8.79%
Charges for service	273,309	249,589	23,720	9.50%
Grants and contributions	141,430	100,356	41,074	40.93%
Interest income	1,590	2,234	(644)	-28.83%
Other revenue	34,301	51,206	(16,905)	-33.01%
Total revenues	<u>3,304,041</u>	<u>3,325,299</u>	<u>(21,258)</u>	<u>-0.64%</u>
Expenditures:				
Current				
General government	746,901	763,938	(17,037)	-2.23%
Public Safety	1,915,743	1,836,662	79,081	4.31%
Public Works	490,717	499,285	(8,568)	-1.72%
Cemetery	113,008	118,623	(5,615)	-4.73%
Parks	239,735	249,305	(9,570)	-3.84%
Community services	180,013	188,683	(8,670)	-4.60%
Tourism	42,000	51,307	(9,307)	-18.14%
Debt service:				
Principal	9,111	8,501	610	7.18%
Interest and fiscal charges	433	1,042	(609)	-58.45%
Total expenditures	<u>3,737,661</u>	<u>3,717,346</u>	<u>20,315</u>	<u>0.55%</u>
Other financing sources (uses):				
Transfers in	314,003	400,000	(85,997)	-21.50%
Transfers out	<u>(180,000)</u>	<u>(113,250)</u>	<u>(66,750)</u>	<u>0.00%</u>
Net change in fund balances	<u>\$ (299,617)</u>	<u>\$ (105,297)</u>	<u>\$ (194,320)</u>	<u>\$ 184.55%</u>

Below are two graphs summarizing general fund revenue and expenditures.



\*\*\*\*\*



**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water Fund, Wastewater Fund, Sanitation Fund, and Trade Days Fund at the end of the year amounted to \$644,754. The total change in net position was \$718,640. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

### General Fund Budgetary Highlights

During the year the City amended its budget twice. General fund budgeted expenditures were increased \$68,000. The largest change was an increase in public safety for the new fire bay. Actual expenditures of the general fund were \$270,739 less than budgeted.

### Capital Assets

The City's investment in capital assets for its governmental and business type activities as of September 30, 2015, amounts to \$11,482,185 (net of accumulated depreciation). Major capital asset events during the current fiscal year included the following:

#### Governmental Activities:

- Purchased 6 vehicles for \$144,536 and fire truck equipment for \$15,608.
- The fire department constructed a new fire bay for \$80,346.
- The City had additions to construction in progress for \$73,650 for a walking trail and park street.

#### Business-type activities:

- The City completed projects of \$90,000 for a SCADA system and \$276,750 for the Panther St. project.
- The City had additions to construction in progress for engineering and water line construction of \$490,856 that was funded with the emergency DWSRF.
- The City received land and a house valued at \$59,711 in a trade with the BEDC to be used for the Breck Trade Days. The City also constructed the Trade Days barn and made improvements to the house for \$153,492.

### The City of Breckenridge's Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 187,285	\$ 181,275	\$ 193,297	\$ 183,146	\$ 380,582	\$ 364,421
Construction in progress	73,650	-	964,557	439,990	1,038,207	439,990
Land Improvements	-	-	17,231	9,868	17,231	9,868
Buildings and improvements	757,003	710,160	478,293	307,469	1,235,296	1,017,629
Water and sewer systems	-	-	6,690,389	6,620,191	6,690,389	6,620,191
Infrastructure	1,134,495	1,183,521	-	-	1,134,495	1,183,521
Vehicles and equipment	664,305	637,270	321,680	356,514	985,985	993,784
Total	<u>\$ 2,816,738</u>	<u>\$ 2,712,226</u>	<u>\$ 8,665,447</u>	<u>\$ 7,917,178</u>	<u>\$ 11,482,185</u>	<u>\$ 10,629,404</u>

Additional information on the City's capital assets can be found in the notes to the financial statements.

### Long-Term Debt

### City of Breckenridge's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Capital leases payable	\$ 9,388	\$ 18,499	\$ 104,510	\$ 159,293	\$ 113,898	\$ 177,792
Certificates of Obligation	-	-	5,050,000	5,185,000	5,050,000	5,185,000
Tax & Revenue Ref. Bonds	-	-	480,000	655,000	480,000	655,000
Total	<u>\$ 9,388</u>	<u>\$ 18,499</u>	<u>\$ 5,634,510</u>	<u>\$ 5,999,293</u>	<u>\$ 5,643,898</u>	<u>\$ 6,017,792</u>

No direct funded debt limitation is imposed on the City under current state law or the City's Home Rule Charter. More detailed information about the City's debt is presented in the notes to the Financial Statements.

### Economic factors and the Next Year's Budgets and Rates

- Net Assessed Property values used for the 2015-16 Budget preparation are up \$909,037 or .45%. New improvements for 2016 are up \$4,764,360 or 2.34% due mainly to the new Wal-Mart property. Mineral properties decreased by \$10,849,050 or 55.3%. The tax rate increased to \$0.94/\$100 valuation.
- In 2014-15, Sales tax revenue is projected to come in \$300,000 less than budgeted, but increase by \$40,000 or 3.1% over 2014-15 budgeted and \$100,000 or 11.67% over 2014-15 actual collections. Sales tax reductions are believed to be due to declines in the oil and gas industries. Four new retail stores opened in the old Wal-Mart building in the fourth quarter.
- General Fund disbursements are budgeted to decrease \$7,400 from the 2014-15 Budget but increase \$51,000 or 1.3% over projected year end 2014-15. Items increasing the budget in 2015-16 are a new \$30,000 GIS system in Public Works and a new \$75,000 software accounting package in Accounting. Health insurance rates increased by 8%. Fund Balance is budgeted to decline by \$292,000 mainly due to sales tax decline.
- Due to severe drought and drought restrictions, water revenues dropped \$300,000 in 2014-15. Water revenues are budgeted for a \$200,000 decrease from the 2014-15 budgeted amount, but a \$100,000 increase over 2014-15 projected year end. No water rate increases are projected for the Water Fund in 2015-16. A \$230,000 decrease is reflected due to deferring Parks Street Project engineering reimbursement into 2015-16.
- Water Fund expenditures were down by \$322,600 in 2014-15 mainly due to reallocating \$117,000 in capital expenditures to the Capital Projects Fund and deferring the \$230,000 Parks Street Project engineering charges into 2015-16. For 2015-16, Water Fund will be splitting debt service costs and transfers to the General Fund. Seed funds for the Breck Trade Days Fund have decreased in 2015-16 to \$40,000.
- Wastewater revenue remains at the 2014-15 level. No wastewater rate increases are projected for 2015-16.
- Wastewater year-end expenditures for 2015-16 are projected at the same level budgeted. An increase is budgeted in 2015-16 due to splitting the transfers to the General Fund and increasing debt service payments. Seed funds for the Breck Trade Days Fund have decreased in 2015-16 to \$40,000.
- The Sanitation Fund remains stable, projecting a cash balance of \$44,494 for 2014-15. The city clean-up effort continues to be funded through the Sanitation Fund and has had forty-seven sub-standard houses deposited in the Monofill through 201-15. The goal for 2015-16 is to demolish fifty more.

- The Breck Trade Days Fund began the effort to build a vendor and customer base and add facilities in 2014-15. A new Trade Barn, Breck Trade Days Office, restroom facilities, and parking facilities were added in 2014-15. The fund is not yet self-sustaining and will require seed funds in 2015-16 from the Water and Wastewater Funds. Two more events will be added in 2015-16 for a total of six per year.
- The Capital Improvements Project Fund totals \$9,799,813. The bids were rejected on the \$1.2 million Wastewater Treatment Plant project, but the project will be re-bid in November 2015. The \$2.4 million Water Treatment Plant project was bid in October 2015. The \$2.38 million Lake Daniels/Water Line Replacement project is currently under construction. The \$5.4 million Park Street project has secured funding from USDA Rural Development and is in the engineering design stage with construction expected to begin in the last quarter of 2016.
- No new positions are to be added in 2015-16, and no salary increases except for a 3% raise for Fire Department personnel. Health insurance is planned for an 8% increase.
- Debt service requirements increased due to the additional debt for the Park Street project. Portions of the debt service requirements will be paid by General, Water, and Wastewater Funds in 2015-16. Reserve balances are projected to increase in General Debt Service Fund to \$487,502 and in Revenue Debt Service Fund to \$291,610.

### **Request for Information**

This financial report is designed to provide our citizens, taxpayers, customers and all investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, you may contact the City Offices at 105 North Rose Avenue or by telephone at 254-559-8287.

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.

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## **BASIC FINANCIAL STATEMENTS**



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## EXHIBIT A-1

CITY OF BRECKENRIDGE, TEXAS  
Statement of Net Position  
September 30, 2015

	Primary Government			Component Unit
	Governmental	Business-type	Total	Breckenridge Economic Development
	Activities	Activities		
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 1,524,907	\$ 627,576	\$ 2,152,483	\$ 938,399
Receivables (Net of allowances for uncollectibles)				
Property taxes	116,420	-	116,420	-
Other taxes	336,642	-	336,642	79,491
Accounts	14,485	296,340	310,825	-
Miscellaneous	21,996	55,282	77,278	-
Due from Other Governments	5,136	-	5,136	-
Internal Balances	156,268	(156,268)	-	-
Supplies inventory	-	163,501	163,501	-
Restricted assets:				
Cash and cash equivalents	-	5,143,589	5,143,589	-
Notes receivable	-	-	-	1,970,544
Capital assets (net of accumulated depreciation):				
Land	187,285	193,297	380,582	56,546
Construction in progress	73,650	964,557	1,038,207	-
Land Improvements	-	17,231	17,231	-
Buildings and improvements	757,003	478,293	1,235,296	186,408
Water and wastewater systems	-	6,690,389	6,690,389	-
Infrastructure	1,134,495	-	1,134,495	-
Vehicles and equipment	664,305	321,680	985,985	-
Land held for economic development, at cost				499,698
<b>Total Assets</b>	<u>4,992,592</u>	<u>14,795,467</u>	<u>19,788,059</u>	<u>3,731,086</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Deferred amount on refunding	-	32,198	32,198	-
Deferred Outflow Related to TMRS	161,932	47,759	209,691	-
<b>Total Deferred Outflows of Resources</b>	<u>161,932</u>	<u>79,957</u>	<u>241,889</u>	<u>-</u>
<b>LIABILITIES:</b>				
Accounts Payable	89,612	314,784	404,396	1,830
Accrued Payroll	47,539	13,073	60,612	-
Due to other governments	13,582	-	13,582	-
Unearned Revenue	-	662,164	662,164	-
Current Liabilities Payable from Restricted Assets:				
Interest payable	-	6,531	6,531	-
Customer deposits	-	202,081	202,081	-
Noncurrent liabilities:				
Due within one year	9,388	396,936	406,324	171,341
Due in more than one year	-	5,260,814	5,260,814	253,344
Net Pension Liability (District's Share)	720,048	203,800	923,848	-
<b>Total Liabilities</b>	<u>880,169</u>	<u>7,060,183</u>	<u>7,940,352</u>	<u>426,515</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Deferred Inflow Related to TMRS	43,121	12,206	55,327	-
<b>Total Deferred Inflows of Resources</b>	<u>43,121</u>	<u>12,206</u>	<u>55,327</u>	<u>-</u>
<b>NET POSITION:</b>				
Investments in Capital Assets, Net of Debt	2,807,350	7,158,281	9,965,631	242,954
Restricted Net Position (Expendable)				
Note receivable - BEDC	-	-	-	381,250
Debt service	380,950	-	380,950	-
Economic development	-	-	-	2,680,367
Construction	754,310	-	754,310	-
Parks	22,548	-	22,548	-
Other	22,364	-	22,364	-
Unrestricted Net Position	243,712	644,754	888,466	-
<b>Total Net Position</b>	<u>\$ 4,231,234</u>	<u>\$ 7,803,035</u>	<u>\$ 12,034,269</u>	<u>\$ 3,304,571</u>

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

CITY OF BRECKENRIDGE, TEXAS  
Statement of Activities  
For the Year Ended September 30, 2015

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities:				
General government	\$ 749,299	\$ 24,831	\$ -	\$ -
Public Safety	1,886,395	202,110	9,799	48,600
Public Works	630,206	-	-	-
Cemetery	115,771	16,545	1,350	-
Parks	278,652	32,003	7,746	65,695
Community services	179,515	-	86,080	-
Tourism	42,000	-	-	-
Interest on long-term debt	5,424	-	-	-
Total governmental activities	<u>3,887,262</u>	<u>275,489</u>	<u>104,975</u>	<u>114,295</u>
Business-type activities:				
Water and wastewater	2,522,650	2,664,412	-	382,418
Sanitation	509,690	556,168	-	-
Trade Days	64,494	10,687		59,711
Total business-type activities	<u>3,096,834</u>	<u>3,231,267</u>	<u>-</u>	<u>442,129</u>
Total primary government	\$ <u>6,984,096</u>	\$ <u>3,506,756</u>	\$ <u>104,975</u>	\$ <u>556,424</u>
<b>Component Unit</b>				
Governmental activities:				
Economic development	\$ 396,524	\$ -	\$ -	\$ 5,000
Total component unit	\$ <u>396,524</u>	\$ -	\$ -	\$ 5,000

General Revenues:

Taxes:

Property Taxes, levied for general purposes

Property Taxes, levied for debt service

Sales and Use Taxes

Franchise Taxes

Hotel Motel Taxes

Investment Earnings

Other Revenue

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position October 1, 2014

Prior Period Adjustment

Net Position September 30, 2015

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

EXHIBIT B-1

Net (Expense) Revenue and Changes in Net Position				
Governmental Activities	Primary Government		Component Unit	
	Business-type Activities	Total	Breckenridge Economic Development	
\$ (724,468)	\$ -	\$ (724,468)	\$ -	
(1,625,886)	-	(1,625,886)	-	
(630,206)	-	(630,206)	-	
(97,876)	-	(97,876)	-	
(173,208)	-	(173,208)	-	
(93,435)	-	(93,435)	-	
(42,000)	-	(42,000)	-	
(5,424)	-	(5,424)	-	
<u>(3,392,503)</u>	<u>-</u>	<u>(3,392,503)</u>	<u>-</u>	
-	524,180	524,180	-	
-	46,478	46,478	-	
	5,904	5,904		
<u>-</u>	<u>576,562</u>	<u>576,562</u>	<u>-</u>	
\$ <u>(3,392,503)</u>	\$ <u>576,562</u>	\$ <u>(2,815,941)</u>	\$ <u>-</u>	
\$ -	\$ -	\$ -	\$ (391,524)	
\$ -	\$ -	\$ -	\$ (391,524)	
\$ 1,184,615	\$ -	\$ 1,184,615	\$ -	
580,887	-	580,887	-	
1,422,258	-	1,422,258	472,340	
440,387	-	440,387	-	
49,838	-	49,838	-	
4,686	10,172	14,858	95,675	
34,846	-	34,846	8,458	
(131,906)	131,906	-	-	
<u>3,585,611</u>	<u>142,078</u>	<u>3,727,689</u>	<u>576,473</u>	
193,108	718,640	911,748	184,949	
4,572,546	7,231,628	11,804,174	3,119,622	
(534,420)	(147,233)	(681,653)	-	
\$ <u>4,231,234</u>	\$ <u>7,803,035</u>	\$ <u>12,034,269</u>	\$ <u>3,304,571</u>	

## CITY OF BRECKENRIDGE, TEXAS

Balance Sheet  
Governmental Funds  
September 30, 2015

	General Fund	General Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Assets:				
Cash and cash equivalents	\$ 206,018	\$ 380,951	\$ 937,938	\$ 1,524,907
Receivables (Net of allowances)				
Property taxes	83,441	32,979	-	116,420
Other taxes	291,180	-	45,462	336,642
Accounts	14,485	-	-	14,485
Miscellaneous	21,996	-	-	21,996
Due from other funds	198,440	-	-	198,440
Due from other governments	3,644	-	1,492	5,136
	<u>819,204</u>	<u>413,930</u>	<u>984,892</u>	<u>2,218,026</u>
Total assets	\$ 819,204	\$ 413,930	\$ 984,892	\$ 2,218,026
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 70,239	\$ -	\$ 19,373	\$ 89,612
Accrued payroll	47,539	-	-	47,539
Due to other funds	807	-	41,365	42,172
Due to other governments	13,582	-	-	13,582
	<u>132,167</u>	<u>-</u>	<u>60,738</u>	<u>192,905</u>
Total liabilities	132,167	-	60,738	192,905
Deferred inflows of resources:				
Deferred property tax	83,440	32,980	-	116,420
Other deferred revenue	95,152	-	-	95,152
	<u>178,592</u>	<u>32,980</u>	<u>-</u>	<u>211,572</u>
Total deferred inflows of resources	178,592	32,980	-	211,572
Fund Balances:				
Restricted fund balance	17,089	380,950	782,133	1,180,172
Committed fund balance	-	-	155,975	155,975
Assigned fund balance	292,000	-	-	292,000
Unassigned Fund Balance	199,356	-	(13,954)	185,402
	<u>508,445</u>	<u>380,950</u>	<u>924,154</u>	<u>1,813,549</u>
Total fund balances	508,445	380,950	924,154	1,813,549
Total liabilities, deferred inflows of resources, and fund balances	\$ 819,204	\$ 413,930	\$ 984,892	\$ 2,218,026

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

CITY OF BRECKENRIDGE, TEXAS  
 Reconciliation of the Governmental Funds Balance Sheet  
 To the Statement of Net Position  
 September 30, 2015

Total Fund Balances - Governmental Funds	1,813,549
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. The cost of these assets was \$6,299,867 and the accumulated depreciation was \$3,483,129.	2,816,738
Long-term liabilities, including \$9,388 capital leases payable, are not due and payable in the current period and, therefore are not reported as liabilities in the fund financial statements.	(9,388)
Property taxes, franchise taxes, and municipal court fines and fees are not available soon enough to pay for the current period's expenditures and therefore are deferred inflows of resources in the fund financial statements.	211,572
Included in the items related to noncurrent liabilities is the recognition of the City's net pension liability required by GASB 68 in the amount of \$720,048, a Deferred Resource Inflow related to TMRS in the amount of \$43,121, and a Deferred Resource Outflow related to TMRS in the amount of \$161,932. This amounted to a decrease in Net Position in the amount of \$601,237.	(601,237)
Net Position of Governmental Activities	<u><u>4,231,234</u></u>

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

CITY OF BRECKENRIDGE, TEXAS  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the year ended September 30, 2015

	General Fund	General Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
Property taxes	\$ 1,176,394	\$ 580,886	\$ -	1,757,280
Sales and use tax	1,186,792	-	235,466	1,422,258
Franchise	440,387	-	-	440,387
Hotel motel taxes	49,838	-	-	49,838
Charges for service	273,309	-	-	273,309
Grants and contributions	141,430	-	71,830	213,260
Interest income	1,590	1,130	1,966	4,686
Other revenue	34,301	-	545	34,846
Total revenues	<u>3,304,041</u>	<u>582,016</u>	<u>309,807</u>	<u>4,195,864</u>
Expenditures:				
Current				
General government	746,901	-	-	746,901
Public Safety	1,915,743	-	130,199	2,045,942
Public Works	490,717	-	79,491	570,208
Cemetery	113,008	-	20,872	133,880
Parks	239,735	-	-	239,735
Community services	180,013	-	-	180,013
Tourism	42,000	-	-	42,000
Capital Outlay			73,650	73,650
Debt service:				
Principal	9,111	-	-	9,111
Interest and fiscal charges	433	4,991	-	5,424
Total expenditures	<u>3,737,661</u>	<u>4,991</u>	<u>304,212</u>	<u>4,046,864</u>
Excess (deficiency) of revenue over (under) expenditures)	\$ <u>(433,620)</u>	\$ <u>577,025</u>	\$ <u>5,595</u>	<u>149,000</u>
Other financing sources (uses):				
Transfers in	314,003	-	292,300	606,303
Transfers out	<u>(180,000)</u>	<u>(471,276)</u>	<u>(86,933)</u>	<u>(738,209)</u>
Net change in fund balances	(299,617)	105,749	210,962	17,094
Fund balance, October 1, 2014	<u>808,062</u>	<u>275,201</u>	<u>713,192</u>	<u>1,796,455</u>
Fund balance, September 30, 2015	\$ <u><u>508,445</u></u>	\$ <u><u>380,950</u></u>	\$ <u><u>924,154</u></u>	<u><u>1,813,549</u></u>

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

CITY OF BRECKENRIDGE, TEXAS  
 Reconciliation of Statement of Revenues,  
 Expenditures and Changes in Fund Balances of  
 The Governmental Funds to the Statement of Activities  
 For the Year Ended September 30, 2015

Total Net Change in Fund Balances - Governmental Funds	17,094
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including \$325,619 of capital outlays and \$9,111 of debt principal payments is to increase net position.	334,730
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, disposals and transfers between activities) is to decrease net position.	(7,508)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(213,598)
Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.	10,402
GASB 68 required the City to recognize their net pension liability, deferred resource inflow related to TRS, and deferred resource outflow related to TRS. The changes in these balances increased net pension by \$51,988.	51,988
Change in Net Position of Governmental Activities	<hr/> 193,108 <hr/>

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



CITY OF BRECKENRIDGE, TEXAS  
Statement of Net Position  
Proprietary Funds  
September 30, 2015

	Enterprise Funds				
	Water Fund	Wastewater Fund	Sanitation Fund	Trade Days Fund	Totals
<b>ASSETS:</b>					
Current Assets:					
Cash and cash equivalents	\$ 388,092	\$ 96,537	\$ 85,219	\$ 57,728	\$ 627,576
Receivables (Net of allowances):					
Accounts	185,037	83,768	27,535	-	296,340
Miscellaneous	55,282	-	-	-	55,282
Due from other funds	807	5,338	-	-	6,145
Supplies inventory	163,501	-	-	-	163,501
Restricted Assets:					
Cash and cash equivalents	4,080,022	1,063,567	-	-	5,143,589
Total current assets	4,872,741	1,249,210	112,754	57,728	6,292,433
Noncurrent Assets:					
Capital assets, at cost:					
Land and land improvements	165,068	2,474	39,000	18,382	224,924
Construction in progress	872,631	91,926	-	-	964,557
Buildings and improvements	993,146	60,363	-	194,821	1,248,330
Water system	8,922,954	-	-	-	8,922,954
Wastewater system		5,201,796			5,201,796
Vehicles and equipment	350,909	458,706	78,107	-	887,722
Less: accumulated depreciation	(5,955,518)	(2,766,152)	(61,307)	(1,859)	(8,784,836)
Capital assets, net	5,349,190	3,049,113	55,800	211,344	8,665,447
Total noncurrent assets	5,349,190	3,049,113	55,800	211,344	8,665,447
Total assets	10,221,931	4,298,323	168,554	269,072	14,957,880
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>					
Deferred outflow related to TMRS	30,221	15,472	2,066		47,759
Deferred amount on refunding	20,929	11,269	-	-	32,198
Total Deferred Outflows of Resources	51,150	26,741	2,066	-	79,957
<b>LIABILITIES:</b>					
Current Liabilities:					
Accounts payable	287,160	24,000	499	3,125	314,784
Accrued payroll	8,336	4,110	627	-	13,073
Due to other funds	95,338	-	-	67,075	162,413
Unearned revenues	400,629	261,535			662,164
Current Liabilities Payable from Restricted Assets:					
Current portion of long-term debt	259,729	137,207	-	-	396,936
Interest payable	5,574	957	-	-	6,531
Customer deposits payable	202,081	-	-	-	202,081
Total current liabilities	1,258,847	427,809	1,126	70,200	1,757,982
Noncurrent Liabilities:					
Long-term portion of bonds payable	4,243,856	964,384	-	-	5,208,240
Long-term portion of capital leases payable	17,647	34,927	-	-	52,574
Net pension Liability	126,567	68,087	9,146		203,800
Total noncurrent liabilities	4,388,070	1,067,398	9,146	-	5,464,614
Total liabilities	5,646,917	1,495,207	10,272	70,200	7,222,596
<b>DEFERRED INFLOWS OF RESOURCES:</b>					
Deferred Inflows					
Deferred inflow related to TMRS	7,580	4,078	548	-	12,206
Total Deferred Inflows of Resources	7,580	4,078	548	-	12,206
<b>NET POSITION:</b>					
Investment in capital assets, net of debt	4,186,452	2,704,685	55,800	211,344	7,158,281
Unrestricted	432,132	121,094	104,000	(12,472)	644,754
Total net position	\$ 4,618,584	\$ 2,825,779	\$ 159,800	\$ 198,872	\$ 7,803,035

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

CITY OF BRECKENRIDGE, TEXAS  
Statement of Revenues, Expenses, and Changes in Fund Net Position  
Proprietary Funds  
For the Year Ended September 30, 2015

	Enterprise Funds				
	Water Fund	Wastewater Fund	Sanitation Fund	Trade Days Fund	Totals
Operating revenues:					
Charges for sales and services	\$ 1,751,544	\$ 884,719	\$ 539,214	10,687	\$ 3,186,164
Miscellaneous	28,149	-	16,954	-	45,103
Total operating revenue	<u>1,779,693</u>	<u>884,719</u>	<u>556,168</u>	<u>10,687</u>	<u>3,231,267</u>
Operating expenses:					
Water and sewer commercial	83,580	-	-	-	83,580
Water meters and readers	166,987	-	-	-	166,987
Lake Daniel	3,219	-	-	-	3,219
Water production	748,872	-	-	-	748,872
Water distribution	320,462	-	-	-	320,462
Sewer collection	-	252,658	-	-	252,658
Sewer treatment	-	394,391	-	-	394,391
Solid waste	-	-	507,890	-	507,890
Trade Days	-	-	-	62,636	62,636
Depreciation	228,219	153,132	1,800	1,858	385,009
Total operating expenses	<u>1,551,339</u>	<u>800,181</u>	<u>509,690</u>	<u>64,494</u>	<u>2,925,704</u>
Operating income (loss)	<u>228,354</u>	<u>84,538</u>	<u>46,478</u>	<u>(53,807)</u>	<u>305,563</u>
Nonoperating revenues (expenses):					
Interest revenue	7,372	2,601	161	38	10,172
Interest expense and fiscal charges	<u>(143,250)</u>	<u>(27,880)</u>	<u>-</u>	<u>-</u>	<u>(171,130)</u>
Total nonoperating revenues (expenses)	<u>(135,878)</u>	<u>(25,279)</u>	<u>161</u>	<u>38</u>	<u>(160,958)</u>
Income (loss) before contributions and transfers	<u>92,476</u>	<u>59,259</u>	<u>46,639</u>	<u>(53,769)</u>	<u>144,605</u>
Transfers (to) from other funds and contributions:					
Capital Grants & Contributions	369,491	12,927	-	59,711	442,129
Transfers in	389,389	133,637	-	192,930	715,956
Transfers out	<u>(455,850)</u>	<u>(123,000)</u>	<u>(5,200)</u>	<u>-</u>	<u>(584,050)</u>
Change in Net Position	395,506	82,823	41,439	198,872	718,640
Net Position, October 1, 2014	<u>4,300,783</u>	<u>2,804,364</u>	<u>126,481</u>	<u>-</u>	<u>7,231,628</u>
Prior Period Adjustment	<u>(77,705)</u>	<u>(61,408)</u>	<u>(8,120)</u>	<u>-</u>	<u>(147,233)</u>
Net Position, September 30, 2015	<u>\$ 4,618,584</u>	<u>\$ 2,825,779</u>	<u>\$ 159,800</u>	<u>198,872</u>	<u>\$ 7,803,035</u>

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

CITY OF BRECKENRIDGE, TEXAS  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended September 30, 2015

	Enterprise Funds				
	Water Fund	Wastewater Fund	Sanitation Fund	Trade Days Fund	Totals
Cash flows from operating activities:					
Cash received from customers	\$ 1,786,850	\$ 893,332	\$ 555,991	\$ 10,687	\$ 3,246,860
Cash paid to suppliers	(1,037,556)	(529,201)	(485,787)	(57,597)	(2,110,141)
Cash paid to employees	(321,025)	(160,106)	(22,040)	(1,914)	(505,085)
Net cash provided by operating activities	<u>428,269</u>	<u>204,025</u>	<u>48,164</u>	<u>(48,824)</u>	<u>631,634</u>
Cash flow from noncapital financing activities:					
Due to/from other funds	90,000	-	-	67,075	157,075
Transfers in	389,389	133,637	-	192,930	715,956
Transfers out	(455,850)	(123,000)	(5,200)	-	(584,050)
Net cash provided (used) by noncapital financing activities	<u>23,539</u>	<u>10,637</u>	<u>(5,200)</u>	<u>260,005</u>	<u>288,981</u>
Cash flow from capital and related financing activities:					
Capital expenditures	(685,551)	(29,934)	-	(153,491)	(868,976)
Capital grants received	195,918	34,770	-	-	230,688
Principal payments on long-term debt	(218,671)	(146,112)	-	-	(364,783)
Interest paid on bonds	(136,639)	(24,642)	-	-	(161,281)
Net cash (used) by capital and related financing activities	<u>(844,943)</u>	<u>(165,918)</u>	<u>-</u>	<u>(153,491)</u>	<u>(1,164,352)</u>
Cash flow from investing activities:					
Interest received	7,372	2,601	161	38	10,172
Net cash provided by investing activities	<u>7,372</u>	<u>2,601</u>	<u>161</u>	<u>38</u>	<u>10,172</u>
Net increase (decrease) in cash and cash equivalents	(385,763)	51,345	43,125	57,728	(233,565)
Cash and cash equivalents, October 1, 2014	<u>4,853,877</u>	<u>1,108,759</u>	<u>42,094</u>	<u>-</u>	<u>6,004,730</u>
Cash and cash equivalents, September 30, 2015	<u>\$ 4,468,114</u>	<u>\$ 1,160,104</u>	<u>\$ 85,219</u>	<u>\$ 57,728</u>	<u>\$ 5,771,165</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities					
Operating income	\$ 228,354	\$ 84,538	\$ 46,478	\$ (53,807)	\$ 305,563
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	228,219	153,132	1,800	1,858	385,009
(Increase) decrease in accounts receivable	130	8,613	(177)	-	8,566
(Increase) decrease in supplies inventory	(19,301)	-	-	-	(19,301)
Increase (decrease) in accounts payable	(6,059)	(37,579)	441	3,125	(40,072)
Increase (decrease) in accrued payroll	1,244	531	187	-	1,962
Increase (decrease) in customer meter deposits	7,027	-	-	-	7,027
Increase (decrease) in net pension balances	(11,345)	(5,210)	(565)	-	(17,120)
Total adjustments	<u>199,915</u>	<u>119,487</u>	<u>1,686</u>	<u>4,983</u>	<u>326,071</u>
Net cash provided by operating activities	<u>\$ 428,269</u>	<u>\$ 204,025</u>	<u>\$ 48,164</u>	<u>\$ (48,824)</u>	<u>\$ 631,634</u>
Noncash Investing, Capital and Financial Activities					
Interfund transfer of capital assets	\$ (3,261)	\$ (4,246)	\$ -	\$ -	\$ (7,507)
Property received in trade	<u>(3,261)</u>	<u>(4,246)</u>	<u>-</u>	<u>59,711</u>	<u>59,711</u>
	<u>\$ (3,261)</u>	<u>\$ (4,246)</u>	<u>\$ -</u>	<u>\$ 59,711</u>	<u>\$ 52,204</u>

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

**EXHIBIT E-1**

CITY OF BRECKENRIDGE, TEXAS  
Statement of Fiduciary Net Position  
Cemetery Trust Fund  
September 30, 2015

**ASSETS:**

Investments	\$ <u>541,394</u>
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Total assets	<u>541,394</u>
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**NET POSITION:**

Held in trust for cemetery care	<u>541,394</u>
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Total net position	\$ <u><u>541,394</u></u>
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The notes to the financial statements are an integral part of this statement.

**EXHIBIT E-2**

CITY OF BRECKENRIDGE, TEXAS  
Statement of Changes in Fiduciary Net Position  
Cemetery Trust Fund  
Year Ended September 30, 2015

Additions:		
Contributions		
Sale of lots	\$	4,571
Investment Income		<u>11,776</u>
Total additions		<u>16,347</u>
Deductions:		
Benefits to Breckenridge Cemetery		5,771
Trust Fees		<u>7,948</u>
Total deductions		<u>13,719</u>
Change in Net Position		2,628
Net Position, October 1, 2014		<u>538,766</u>
Net Position, September 30, 2015	\$	<u><u>541,394</u></u>

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

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2015**

**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 unit. Component unit 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. 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.

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2015**

**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.

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2015**

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

The *trade days fund* is used to account for the operation of a Breckenridge Trade Days event.

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 \$83,441 and the general debt service fund of \$32,979 is equal to 50% of outstanding delinquent property taxes at September 30, 2015. The court fines and fees receivable is reported net of an allowance of \$22,460 which is 50% of the outstanding receivable. Trade accounts receivable in the enterprise funds are reported net of an allowance of \$9,897 which is the accounts aged over 60 days.



**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2015**

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

**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 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 \$171,130. 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.

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2015**

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

**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.

**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.

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2015**

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

	General Fund	General Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Restricted:				
Debt service	\$ -	\$ 380,950	\$ -	\$ 380,950
Property tax reduction	17,089	-	-	17,089
Capital improvements	-	-	754,310	754,310
Public Safety	-	-	5,273	5,273
Parks	-	-	22,548	22,548
Tourism	-	-	2	2
Committed:				
Equipment replacement	-	-	155,975	155,975
Assigned				
Deficit subsequent year budget	292,000	-	-	292,000
Unassigned	199,356	-	(13,954)	185,402
	<u>\$ 508,445</u>	<u>\$ 380,950</u>	<u>\$ 924,154</u>	<u>\$ 1,813,549</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. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**NOTE 2: 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.

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2015**

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

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, 2015, the City's deposits were fully collateralized and insured. 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

As a means of limiting its exposure to interest rate risk, the City diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer. The City coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term to less than five years from the purchase date.

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. The City has the following types of investments:

Investment	Credit Rating	Average Maturities	Percentage of Total Investments	Cost	Fair Value
Cash and equivalents	N/A	N/A	6.11%	34,117	34,117
Short-term equities	N/A	N/A	22.64%	126,422	117,551
Fixed Income securities	AAA - Baa2	N/A	71.25%	397,934	389,726
				<u>\$ 558,473</u>	<u>\$ 541,394</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.

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 3:      RESTRICTED ASSETS**

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

	<u>Cash</u>
Business-type Activities	
Customer water deposits	\$     202,123
Construction - water fund	3,877,899
Construction - wastewater fund	<u>1,063,567</u>
	<u>\$   5,143,589</u>

**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 two items that qualify in this category. They are deferred charges on refunding bonds and deferred outflows related to pensions 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 deferred inflows related to pensions in the government-wide statement of net position and propriety funds statements are reported as deferred inflows of resources. At the end of the fiscal year the components of deferred inflows in the governmental funds were as follows:

**Deferred inflows of resources - governmental funds**

Deferred property taxes receivable (general fund)	\$     83,440
Deferred property taxes receivable (general debt service fund)	32,980
Deferred franchise taxes receivable (general fund)	72,692
Deferred court costs (general fund)	<u>22,460</u>
Total deferred inflows for governmental funds	<u>\$   211,572</u>

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2015**

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

The composition of interfund balances for the City's individual major funds and nonmajor funds at September 30, 2015, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Other governmental funds	\$ 41,365
	Water Fund	90,000
	Trade Days Fund	67,075
Total governmental funds		<u>\$ 198,440</u>
Water fund	General Fund	\$ 807
Wastewater fund	Water fund	5,338
Total proprietary funds		<u>\$ 6,145</u>

The receivables in the general fund are from funding the walking trail and scada projects before grants were received and providing start-up funds for the Breck Trade Days. The wastewater fund receivable is the difference between transfers for debt service and actual debt service payments.

The composition of interfund transfers for the City's individual major funds and nonmajor funds at September 30, 2015, is as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Water Fund	\$ 300,000
General Fund	Other governmental funds	14,003
Other governmental funds	Water Fund	44,100
Other governmental funds	Wastewater Fund	63,000
Other governmental funds	Sanitation Fund	5,200
Other governmental funds	General Fund	180,000
Total Governmental Funds Transfers In		<u>\$ 606,303</u>
Wastewater Fund	General Debt Service Fund	\$ 133,637
Trade Days Fund	Other governmental funds	72,930
Trade Days Fund	Water Fund	60,000
Trade Days Fund	Wastewater Fund	60,000
Water Fund	Water Fund	51,750
Water Fund	General Debt Service Fund	337,639
Total Enterprise Funds Transfers In		<u>\$ 715,956</u>

Each year the water fund transfers unrestricted revenues collected in the water fund to finance various programs accounted for in the general fund in accordance with budgetary authorizations. Amounts were transferred to fund the equipment replacement fund and Breck Trade Days. The general debt service fund was created to pay part of the water and wastewater debt and the amounts paid were treated as transfers.

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 6:      CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2015 was as follows:

Governmental activities:

	Primary Government				
	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Non - Depreciable Assets:					
Land	\$ 181,275	\$ 6,010	\$ -	\$ -	\$ 187,285
Construction in Progress	-	73,650			73,650
Total non-depreciable assets	181,275	79,660	-	-	260,935
Depreciable Assets:					
Buildings and improvements	1,449,979	80,348	-	-	1,530,327
Infrastructure	2,433,938	-	-	-	2,433,938
Vehicles and Equipment	1,946,031	165,610	(15,000)	(21,974)	2,074,667
Total capital assets being depreciated	5,829,948	245,958	(15,000)	(21,974)	6,038,932
Accumulated Depreciation:					
Buildings and improvements	(739,815)	(33,506)	-	-	(773,321)
Infrastructure	(1,250,418)	(49,025)	-	-	(1,299,443)
Vehicles and Equipment	(1,308,764)	(131,067)	15,000	14,466	(1,410,365)
Total accumulated depreciation	(3,298,997)	(213,598)	15,000	14,466	(3,483,129)
Governmental activities capital assets, net	\$ 2,712,226	\$ 112,020	\$ -	\$ (7,508)	\$ 2,816,738

Depreciation expenses for the City as of September 30, 2015 was \$213,598.

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2015**

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

Business-type activities:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Non - Depreciable Assets:					
Land	\$ 183,146	\$ 10,151	\$ -	\$ -	\$ 193,297
Construction in Progress	439,990	524,567	-	-	964,557
Total non-depreciable assets	<u>623,136</u>	<u>534,718</u>	<u>-</u>	<u>-</u>	<u>1,157,854</u>
Depreciable Assets:					
Land improvements	23,396	8,232			31,628
Buildings and improvements	1,053,509	194,820			1,248,329
Water and sewer systems	13,736,747	388,004			14,124,751
Vehicles and equipment	905,241	-	-	(17,519)	887,722
Total capital assets being depreciated	<u>15,718,893</u>	<u>591,056</u>	<u>-</u>	<u>(17,519)</u>	<u>16,292,430</u>
Accumulated Depreciation:					
Land improvements	(13,528)	(869)			(14,397)
Buildings and improvements	(746,040)	(23,996)			(770,036)
Water and sewer systems	(7,116,556)	(317,805)			(7,434,361)
Vehicles and equipment	(548,727)	(42,341)	-	25,026	(566,042)
Total accumulated depreciation	<u>(8,424,851)</u>	<u>(385,011)</u>	<u>-</u>	<u>25,026</u>	<u>(8,784,836)</u>
Business-type activities capital assets, net	<u>\$ 7,917,178</u>	<u>\$ 740,763</u>	<u>\$ -</u>	<u>\$ 7,507</u>	<u>\$ 8,665,448</u>

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

Governmental activities:

General government	9,821
Public Safety	66,110
Public Works	89,338
Cemetery	4,979
Parks	41,600
Community development	1,750
Total depreciation expense - governmental activities	<u>\$ 213,598</u>

Business-type activities:

Water	\$ 228,219
Wastewater	153,132
Sanitation	1,800
Trade Days	1,858
Total depreciation expense - business-type activities	<u>\$ 385,009</u>



**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2015**

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

Discretely Presented Component Unit

Activity for the Breckenridge Economic Development Corporation for the year ended September 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Non - Depreciable Assets:				
Land	\$ 47,880	\$ 8,666	\$ -	\$ 56,546
Total non-depreciable assets	47,880	8,666	-	56,546
Depreciable Assets:				
Buildings and improvements	224,645	-	-	224,645
Office furniture and equipment	7,640	-	-	7,640
Total capital assets being depreciated	232,285	-	-	232,285
Accumulated Depreciation:				
Buildings and improvements	(32,081)	(6,156)	-	(38,237)
Office furniture and Equipment	(7,640)	-	-	(7,640)
Total accumulated depreciation	(39,721)	(6,156)	-	(45,877)
Governmental activities capital assets, net	\$ 240,444	\$ 2,510	\$ -	\$ 242,954

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 2014, BEDC conveyed a 3.04 acre property to a company in furtherance of its goals and vision for the City. At September 30, 2015, land held for economic development at cost was \$499,698.

**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:

	Governmental Activities	Business-type Activities
2016	9,542	55,588
2017		53,831
Total debt service requirements	9,542	109,419
Less: Interest Portion	154	4,909
Debt Principal	\$ 9,388	\$ 104,510

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
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**NOTE 7: CAPITAL LEASES- (Continued)**

Assets under lease and related accumulated depreciation are as follows:

	Governmental Activities	Business-Type Activities
Vehicles and equipment	\$ 43,727	\$ 217,311
Less: Accumulated depreciation	<u>(10,567)</u>	<u>(87,019)</u>
Net	<u>\$ 33,160</u>	<u>\$ 130,292</u>

**NOTE 8: LONG-TERM DEBT**

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2015.

Primary Government	9/30/2014	Additions	Retirements	9/30/2015	Due Within One Year
Governmental Activities.:					
Capital Leases Payable	\$ 18,499	\$ -	\$ 9,111	\$ 9,388	\$ 9,388
Net pension obligation	118,805	-	118,805	-	-
Net pension liability	<u>-</u>	<u>720,048</u>	<u>-</u>	<u>720,048</u>	<u>-</u>
Total Governmental Activities	<u>137,304</u>	<u>720,048</u>	<u>127,916</u>	<u>729,436</u>	<u>9,388</u>
Business-type Activities:					
Capital leases payable	159,293	-	54,783	104,510	51,936
Certificates of Obligation	5,185,000	-	135,000	5,050,000	190,000
General Obligation Refunding Bonds	655,000	-	175,000	480,000	155,000
Premium on GO Refunding Bonds	40,153	-	16,913	23,240	-
Net pension obligation	38,137	-	38,137	-	-
Net pension liability	<u>-</u>	<u>203,800</u>	<u>-</u>	<u>203,800</u>	<u>-</u>
Total Business-type Activities	<u>6,077,583</u>	<u>203,800</u>	<u>419,833</u>	<u>5,861,550</u>	<u>396,936</u>
Total Long-Term Liabilities	<u>\$ 6,214,887</u>	<u>\$ 923,848</u>	<u>\$ 547,749</u>	<u>\$ 6,590,986</u>	<u>\$ 406,324</u>
Component Unit					
Governmental Activities.:					
Sales Tax Revenue Note	\$ 295,719	\$ -	\$ (151,991)	\$ 143,728	\$ 143,728
Tax leveraged fund note	<u>307,690</u>	<u>-</u>	<u>(26,733)</u>	<u>280,957</u>	<u>27,613</u>
Total Component Unit	<u>\$ 603,409</u>	<u>\$ -</u>	<u>\$ (178,724)</u>	<u>\$ 424,685</u>	<u>\$ 171,341</u>

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2015**

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

At September 30, 2015, 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%.	\$    220,000
\$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%.	480,000
\$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%.	1,635,000
\$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%.	815,000
\$2,380,000 Combination Tax and Surplus Revenue Certificates of Obligation Series 2014, due in annual installments through September 15, 2045, bearing interest at 0% - 4.30%	2,380,000
Premium on General Obligation Refunding Bonds, Series 2010	<u>23,240</u>
Total	<u><u>\$   5,553,240</u></u>

At September 30, 2015, 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%.	\$    143,728
\$310,000 Tax leverages loan dated June 30, 2014, due in annual installments through August 1, 2024, bearing interest at 3.25%.	<u>280,957</u>
Total	<u><u>\$    424,685</u></u>

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2015**

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

The annual requirements to amortize business-type activities bonds outstanding as of September 30, 2015 are as follows:

Primary Government	Business-type Activities				
	Certificates of Obligation		General Obligation Bonds		Total
	Principal	Interest	Principal	Interest	
2016	190,000	138,413	155,000	14,112	497,525
2017	195,000	134,159	160,000	8,987	498,146
2018	195,000	129,521	165,000	3,094	492,615
2019	120,000	126,559			246,559
2020	120,000	125,209			245,209
2021-2025	660,000	591,362			1,251,362
2026-2030	720,000	510,709			1,230,709
2031-2035	835,000	401,913			1,236,913
2036-2040	975,000	262,016			1,237,016
2041-2045	1,040,000	87,902			1,127,902
Total debt service requirements	\$ 5,050,000	\$ 2,507,763	\$ 480,000	\$ 26,193	\$ 8,063,956

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 \$.29661 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 \$380,950 for the general debt service and \$288,305 for the revenue debt service at year-end. Management of the City believes that it is in compliance with all significant financial requirements required by debt covenants as of September 30, 2015.

The annual requirements to amortize the component unit governmental activity bonds as of September 30, 2015 are as follows:

Component Unit	Governmental Activities		
	Principal	Interest	Total
2016	171,341	11,031	182,372
2017	28,526	7,811	36,337
2018	29,467	6,870	36,337
2019	30,439	5,898	36,337
2020	31,443	4,894	36,337
2021 - 2024	133,469	8,855	142,324
Total debt service requirements	\$ 424,685	\$ 45,359	\$ 470,044

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
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**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 PROJECTS**

In December 2012, the City received two loans and grants from the Texas Water Development Board's Economically Distressed Areas Program. The City received a \$1,635,000 loan and \$704,878 grant money for water improvements, of which \$304,249 has been expended to date on engineering. The City also received a \$840,000 loan and \$353,461 for wastewater improvements, of which \$91,926 has been expended to date on engineering. Construction contracts on these projects are expected to be awarded in the 2016 fiscal year.

In 2014 the City received a \$2,380,000 loan from the Texas Water Development Board's Economically Distressed Areas Program. In February 2015 a construction contract of \$1,429,064 was awarded for water distribution improvements. \$704,231 has been incurred for construction and engineering as of September 30, 2015

**NOTE 11:      DEFINED BENEFIT PENSION PLANS**

Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmrs.com](http://www.tmrs.com).

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 11: DEFINED BENEFIT PENSION PLANS – (Continued)**

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:

	<u>Plan Year 2015</u>
Employee deposit rate	5%
Matching ratio (city to employee)	1.5-1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated service credit	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Active Employees	71
Inactive employees or beneficiaries currently receiving benefits	47
Inactive employees entitled to but not yet receiving benefits	41
	<u>159</u>

Contributions

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

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 8.76% and 8.76% in calendar years 2014 and 2015, respectively. The city's contributions to TMRS for the year ended September 30, 2015, were \$193,572, and were equal to the required contributions.

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

*Actuarial Assumptions:*

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
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**NOTE 11: DEFINED BENEFIT PENSION PLANS – (Continued)**

Inflation	3% per year
Overall payroll growth	3% per year
Investment Rate of Return	7%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. For cities with fewer than twenty employees, more conservative methods and assumptions are used. These rates were projected on a fully generational basis by scale BB to account to future mortality improvements. For disable annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

Asset Class	Target Allocation	Long-Term Expected Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
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**NOTE 11: DEFINED BENEFIT PENSION PLANS – (Continued)**

*Discount Rate*

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

*Changes in the Net Pension Liability*

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/13	\$ 7,691,481	\$ 6,711,368	\$ 980,113
Changes for the year:			
Service cost	180,948		180,948
Interest	523,394		523,394
Changes in benefit terms	-		-
Difference between expected and actual experience	(78,389)		(78,389)
Changes of assumptions	-		-
Contributions-employer		192,605	(192,605)
Contributions-employee		110,082	(110,082)
Net investment income		383,868	(383,868)
Benefit payments, including refunds of employee contribution:	(609,804)	(609,804)	-
Administrative expense		(4,008)	4,008
Other changes		(330)	330
Net changes	16,149	72,413	(56,264)
Balance at 12/31/14	<u>\$ 7,707,630</u>	<u>\$ 6,783,781</u>	<u>\$ 923,849</u>

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's Net Pension Liability	\$ 1,920,957	\$ 923,849	\$ 106,866

*Pension Plan Fiduciary Net Position*

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



**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 11: DEFINED BENEFIT PENSION PLANS – (Continued)**

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

For the year ended September 30, 2015, the City recognized pension expense of \$122,926.

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 55,327
Changes in actuarial assumptions	-	-
Differences between projected and actual investment earnings	68,742	-
Contributions subsequent to the measurement date	140,949	-
Total	<u>\$ 209,691</u>	<u>\$ 55,327</u>

\$209,691 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:

2016	\$ (5,876)
2017	(5,876)
2018	7,983
2019	17,184
2020	-
Thereafter	-
	<u>\$ 13,415</u>

**NOTE 12: 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 coverage 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.

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 12: OTHER POST EMPLOYMENT BENEFITS – (Continued)**

The City contributes to the SDBF at 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.

The City's contributions to the TMRS SDBF for the years ended 2015, 2014 and 2013 were \$5,265, \$4,923 and \$4,240, respectively, which equaled the required contributions each year.

**NOTE 13: 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 14: SUBSEQUENT EVENTS**

Subsequent events were evaluated through January 27, 2016, which is the date the financial statements were available to be issued.

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 15: NEW ACCOUNTING PRONOUNCEMENTS**

The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. This Statement was issued to improve the accounting and financial reporting by state and local governments for pensions. This Statement requires government-wide and propriety fund statements to recognize a liability equal to the net pension liability and changes in the net pension liability be included in pension expense in the period of change.

The City implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. This Statement addresses issues related to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Beginning net position of the governmental activities and business-type activities was reduced by the following prior period adjustments:

	Governmental Activities	Business-type Activities	Total
Net Penion Liability (12/31/13 measurement date)	\$ (763,900)	\$ (216,215)	\$ (980,115)
Deferred outflows of resources	110,675	30,845	141,520
Net Pension Obligation at 9/30/14	118,805	38,137	156,942
 Prior Period Adjustment	 \$ (534,420)	 \$ (147,233)	 \$ (681,653)

**NOTE 16: FUTURE ACCOUNTING PRONOUNCEMENTS**

The Government Accounting Standards Board has issued several statements that will be effective in future years. The City has not yet determined the effect these statements will have on its financial reporting.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* replaces the requirements of Statements No. 45 and No. 57 for accounting and financial reporting of postemployment benefits other than pensions. This Statement is effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 77, *Tax Abatement Disclosures* will improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial users. This Statement is effective for fiscal years beginning after December 15, 2015.

## **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, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Property taxes	\$ 1,291,500	\$ 1,178,000	\$ 1,176,394	(1,606)
Sales and use tax	1,303,800	1,303,800	1,186,792	(117,008)
Franchise	415,000	442,000	440,387	(1,613)
Hotel motel taxes	42,000	52,000	49,838	(2,162)
Charges for service	240,000	262,500	273,309	10,809
Grants and contributions	101,000	95,100	141,430	46,330
Interest income	2,100	1,600	1,590	(10)
Other revenue	32,100	80,300	34,301	(45,999)
Total revenues	<u>3,427,500</u>	<u>3,415,300</u>	<u>3,304,041</u>	<u>(111,259)</u>
Expenditures:				
Current				
General government	733,800	728,700	746,901	(18,201)
Public Safety	1,977,400	2,046,600	1,915,743	130,857
Public Works	583,700	583,700	490,717	92,983
Cemetery	127,100	127,100	113,008	14,092
Parks	275,400	279,300	239,735	39,565
Community services	191,400	191,400	180,013	11,387
Tourism	42,000	42,000	42,000	-
Debt service:				
Principal	8,500	9,150	9,111	39
Interest and fiscal charges	1,100	450	433	17
Total expenditures	<u>3,940,400</u>	<u>4,008,400</u>	<u>3,737,661</u>	<u>270,739</u>
Excess (deficiency) of revenue over (under) expenditures	\$ <u>(512,900)</u>	\$ <u>(593,100)</u>	\$ <u>(433,620)</u>	<u>159,480</u>
Other financing sources (uses):				
Transfers in	314,063	314,063	314,003	(60)
Transfers out	<u>(100,000)</u>	<u>(180,000)</u>	<u>(180,000)</u>	<u>-</u>
Net change in fund balances	(298,837)	(459,037)	(299,617)	159,420
Fund balance, October 1, 2014	<u>808,062</u>	<u>808,062</u>	<u>808,062</u>	<u>-</u>
Fund balance, September 30, 2015	\$ <u><u>509,225</u></u>	\$ <u><u>349,025</u></u>	\$ <u><u>508,445</u></u>	<u><u>159,420</u></u>

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

**EXHIBIT F-2**

CITY OF BRECKENRIDGE  
Schedule of Changes in Net Pension Liability and Related Ratios  
September 30, 2015

**Total pension liability**

	2014
Service Cost	\$ 180,948
Interest (on the Total Pension Liability)	523,394
Changes of benefit terms	-
Differences between expected and actual experience	(78,389)
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(609,804)
Net Change in Total Pension Liability	16,149
Total Pension Liability-Beginning	\$ 7,691,481
<b>Total Pension Liability-Ending (a)</b>	<b>\$ 7,707,630</b>

**Plan Fiduciary Net Position**

Contributions-Employer	\$ 192,605
Contributions-Employee	110,082
Net Investment Income	383,868
Benefit payments, including refunds of employee contributions	(609,804)
Administrative Expense	(4,008)
Other	(330)
Net Change in Plan Fiduciary Net Position	72,413
Plan Fiduciary Net Position-Beginning	6,711,368
<b>Plan Fiduciary Net Position-Ending (b)</b>	<b>\$ 6,783,781</b>

<b>Net Pension Liability-Ending (a) - (b)</b>	<b>\$ 923,849</b>
---	-------------------

Plan Fiduciary Net Position as a Percentage of Total Pension Liability	88.01%
--	--------

Covered Employee Payroll	\$ 2,201,639
--------------------------	--------------

Net Pension Liability as a Percentage of Covered Employee Payroll	41.96%
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The accompanying notes to the required supplementary information are an integral part of this schedule.

**EXHIBIT F-3**

CITY OF BRECKENRIDGE  
Schedule of Contributions  
Last 2 Years

	<u>2014</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 189,895	\$ 193,572
Contributions in relation to the actuarially determined contribution	<u>\$ 189,895</u>	<u>\$ 193,572</u>
Contribution deficiency (excess)	\$ -	\$ -
 Covered employee payroll	 \$ 2,112,810	 \$ 2,193,754
Contributions as a percentage of covered employee payroll	8.99%	8.82%

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



CITY OF BRECKENRIDGE  
Notes to the Required Supplementary Information  
For the Year Ended September 30, 2015

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 once 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

General government expenditures exceeded appropriations by \$18,201. All other expenditures were under budget.

CITY OF BRECKENRIDGE  
Notes to the Required Supplementary Information  
For the Year Ended September 30, 2015

Schedule of Contributions

**Valuation Date:**

Notes

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

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

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.00%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

**Other Information:**

Notes

There were no benefit changes during the year other than TMRS plan participation.

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

CITY OF BRECKENRIDGE, TEXAS  
Nonmajor Funds  
Combining Balance Sheet  
September 30, 2015

	Special Revenue Funds					
	Fire Department	Hotel/ Motel	Park	Public, Educate, & Govern Access Channel Fees	Police Department	Total Special Revenue Funds
Assets:						
Cash	\$ 6,527	\$ 2	\$ 22,548	\$ -	\$ 839	\$ 29,916
Receivables (Net of allowances for uncollectibles)						
Other taxes receivable	-	-	-	-	-	-
Due from other governments						
Total assets	<u>\$ 6,527</u>	<u>\$ 2</u>	<u>\$ 22,548</u>	<u>\$ -</u>	<u>\$ 839</u>	<u>\$ 29,916</u>
Liabilities and fund balance:						
Liabilities:						
Accounts payable	\$ 2,093	\$ -	\$ -	\$ -	\$ -	\$ 2,093
Due to other funds						
Total liabilities	<u>2,093</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,093</u>
Fund Balances:						
Restricted fund balance	\$ 4,434	\$ 2	\$ 22,548	\$ -	\$ 839	\$ 27,823
Committed fund balance	-	-	-	-	-	-
Unassigned fund balance	-	-	-	-	-	-
Total fund balance	<u>4,434</u>	<u>2</u>	<u>22,548</u>	<u>-</u>	<u>839</u>	<u>27,823</u>
Total liabilities and fund balances	<u>\$ 6,527</u>	<u>\$ 2</u>	<u>\$ 22,548</u>	<u>\$ -</u>	<u>\$ 839</u>	<u>\$ 29,916</u>

**EXHIBIT G-1**

Capital Project Funds				
Equipment Replacement	Street Maintenance Sales Tax	General Capital Projects	Total Capital Projects Funds	Total Nonmajor Funds
\$ 155,975	\$ 708,848	\$ 43,199	\$ 908,022	\$ 937,938
-	45,462	-	45,462	45,462
	-	1,492	1,492	1,492
<u>\$ 155,975</u>	<u>\$ 754,310</u>	<u>\$ 44,691</u>	<u>\$ 954,976</u>	<u>\$ 984,892</u>
\$ -	\$ -	\$ 17,280	\$ 17,280	\$ 19,373
		41,365	41,365	41,365
-	-	58,645	58,645	60,738
\$ -	\$ 754,310	\$ -	\$ 754,310	\$ 782,133
155,975	-	-	155,975	155,975
-	-	(13,954)	(13,954)	(13,954)
<u>155,975</u>	<u>754,310</u>	<u>(13,954)</u>	<u>896,331</u>	<u>924,154</u>
<u>\$ 155,975</u>	<u>\$ 754,310</u>	<u>\$ 44,691</u>	<u>\$ 954,976</u>	<u>\$ 984,892</u>

## CITY OF BRECKENRIDGE, TEXAS

## Nonmajor Funds

## Combining Statement of Revenues, Expenditures and Changes in Fund Balance

For the year ended September 30, 2015

	Special Revenue Funds					
	Fire Department	Hotel/ Motel	Park	Public, Educate, & Govern Access Channel Fees	Police Department	Total Special Revenue Funds
Revenues:						
Sales and use tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other revenue	-	-	-	-	-	-
Grants and contributions	9,299	-	2,346	-	500	12,145
Interest	26	145	55	4	4	234
	<u>9,325</u>	<u>145</u>	<u>2,401</u>	<u>4</u>	<u>504</u>	<u>12,379</u>
Total revenue						
Expenditures:						
Current:						
Public Safety	18,353	-	-	-	2,500	20,853
Public Works	-	-	-	-	-	-
Cemetery	-	-	-	-	-	-
Capital Outlay						
	<u>18,353</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,500</u>	<u>20,853</u>
Total expenditures						
Excess (deficiency) of revenue over (under) expenditures)	<u>(9,028)</u>	<u>145</u>	<u>2,401</u>	<u>4</u>	<u>(1,996)</u>	<u>(8,474)</u>
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	-	(72,930)	-	(14,003)	-	(86,933)
Net change in fund balances	(9,028)	(72,785)	2,401	(13,999)	(1,996)	(95,407)
Fund Balance, October 1, 2014	<u>13,462</u>	<u>72,787</u>	<u>20,147</u>	<u>13,999</u>	<u>2,835</u>	<u>123,230</u>
Fund Balance, September 30, 2015	<u>\$ 4,434</u>	<u>\$ 2</u>	<u>\$ 22,548</u>	<u>\$ -</u>	<u>\$ 839</u>	<u>\$ 27,823</u>

**EXHIBIT G-2**

Capital Project Funds				
Equipment Replacement	Street Maintenance Sales Tax	General Capital Projects	Total Capital Projects Funds	Total Nonmajor Funds
\$ -	\$ 235,466	\$ -	\$ 235,466	\$ 235,466
545	-	-	545	545
-	-	59,685	59,685	71,830
193	1,528	11	1,732	1,966
738	236,994	59,696	297,428	309,807
109,346	-	-	109,346	130,199
31,473	48,018	-	79,491	79,491
20,872	-	-	20,872	20,872
		73,650	73,650	73,650
161,691	48,018	73,650	283,359	304,212
(160,953)	188,976	(13,954)	14,069	5,595
292,300	-	-	292,300	292,300
	-	-	-	(86,933)
131,347	188,976	(13,954)	306,369	210,962
24,628	565,334	-	589,962	713,192
\$ 155,975	\$ 754,310	\$ (13,954)	\$ 896,331	\$ 924,154



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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, 2015

Last Ten Years Ended Sept 30	Tax Rate		Assessed Value	Beginning Balance October 1
	Maintenance	Debt Service		
2006 and prior	0.8113	0.2566	122,138,402	21,204
2007	0.7769	0.2331	135,736,170	5,711
2008	0.7598	0.2202	142,206,990	9,364
2009	0.7570	0.2029	154,800,440	7,095
2010	0.7663	0.1898	164,281,038	11,012
2011	0.7556	0.1744	176,676,216	13,009
2012	0.8367	0.2106	188,634,444	21,058
2013	0.7557	0.2543	204,984,229	42,188
2014	0.6282	0.2618	192,875,823	85,754
2015 (Year under audit)	0.5652	0.2966	201,105,727	
TOTALS				<u>\$ 216,395</u>

**EXHIBIT G-3**

<u>Current Year's Total Levy</u>	<u>Maintenance Collections</u>	<u>Debt Service Collections</u>	<u>Entire Year's Adjustments</u>	<u>Ending Balance September 30</u>
	(1,522)	(490)	(6,883)	12,308
	(414)	(124)	(181)	4,992
	(501)	(145)	(3,208)	5,510
	(307)	(82)	(165)	6,540
	(909)	(225)	(85)	9,793
	(1,983)	(458)	(283)	10,286
	(4,621)	(1,163)	(821)	14,453
	(11,669)	(3,927)	(2,719)	23,874
	(30,615)	(12,759)	(2,442)	39,938
1,748,603	(1,071,489)	(561,713)	(10,255)	105,146
<u>\$ 1,748,603</u>	<u>\$ (1,124,031)</u>	<u>\$ (581,086)</u>	<u>\$ (27,041)</u>	<u>\$ 232,840</u>

**EXHIBIT G-4**

City of Breckenridge, Texas  
 Statistics - Water and Wastewater Fund  
 For the year ended September 30, 2015  
 (Unaudited)

Number of water connections at end of year	2,649
Number of wastewater connections at end of year	2,065
Gallons of water billed through the system during the fiscal year	180,083,500

	2015	2014
<u>Outstanding Bonds and Certificates:</u>		
Combination Tax and Revenue Certificates of Obligation, Series 2003	\$ 220,000	\$ 285,000
General Obligation Refunding Bonds, Series 2010	480,000	655,000
Combination Tax and Revenue Certificates of Obligation, Series 2012	1,635,000	1,680,000
Combination Tax and Revenue Certificates of Obligation, Series 2013	815,000	840,000
Combination Tax and Revenue Certificates of Obligation, Series 2014	2,380,000	2,380,000
Premium on bond	23,240	40,152
	<u>\$ 5,553,240</u>	<u>\$ 5,880,152</u>

<u>Water and Wastewater Operating Income Available for Debt Retirement:</u>		
Net Operating Income	\$ 312,892	\$ 340,498
Net Nonoperating Interest Income	9,973	9,010
Add Depreciation Expense	381,351	383,771
	<u>\$ 704,216</u>	<u>\$ 733,279</u>
Water and Sewer Operating Income Available for Debt Retirement		

Annual Debt Service Requirements and Coverage:

Combination Tax and Revenue Certificates of Obligation, Series 2003	\$ 78,888	\$ 77,325
General Obligation Refunding Bonds, Series 2010	194,063	585,013
Combination Tax and Revenue Certificates of Obligation, Series 2012	72,589	27,589
Combination Tax and Revenue Certificates of Obligation, Series 2013	38,104	13,104
Combination Tax and Revenue Certificates of Obligation, Series 2014	87,633	51,606
	<u>471,277</u>	<u>754,637</u>
Total Debt Service Requirements		
Less Current Year Property Taxes	<u>(580,886)</u>	<u>(490,328)</u>
Net System Fund Requirements	<u>\$ (109,609)</u>	<u>\$ 264,309</u>
Coverage of Total System Fund Debt Service	<u>not applicable</u>	<u>2.77</u>

Cash Available in Bond Sinking Funds

General Debt Service	\$ 380,950	\$ 275,201
Revenue Debt Service	294,643	292,910
	<u>\$ 675,593</u>	<u>\$ 568,111</u>

**EXHIBIT G-5**

**CITY OF BRECKENRIDGE, TEXAS**

Insurance in Force  
September 30, 2015  
(Unaudited)

	Coverage	Premium
Flood, Fire and Extended Coverage		
Buildings and Contents	\$ 10,655,276	\$ 20,285
Errors & Omission Liability		
Each Wrongful Act	500,000	9,099
Aggregate	1,000,000	
Errors & Omission Liability		
Each Wrongful Act	500,000	
Aggregate	1,000,000	
Commercial General Liability		
Per Occurrence	1,000,000	5,053
Aggregate	2,000,000	
Law Enforcement Personal Liability		
Each Wrongful Act	500,000	6,664
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 Manager	15,000	
City Vehicles		
Liability/Uninsured Motorist	1,000,000	20,950
Combined Single Limit	25,000	
Heavy Equipment		
Physical Damage	1,008,366	4,137
Crime		
Public Employee Dishonesty	5,000	235
Theft Disappearance & Destruction	5,000	100

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**

Company	Insurance Type	Expiration
Texas Municipal League	Fire - Buildings and Contents	10/1/2015
Texas Municipal League	Commercial Auto	10/1/2015
Texas Municipal League	Flood	10/1/2015
Texas Municipal League	Public Officials Liability	10/1/2015
Texas Municipal League	Law Enforcement Liability	10/1/2015
CNA Surety Corporation	Fidelity Bond - City Secretary	9/6/2016
CNA Surety Corporation	Fidelity Bond - Assistant City Secretary	10/1/2016
CNA Surety Corporation	City Manager & Other Public Employees	1/23/2016
Texas Municipal League	Heavy Equipment	10/1/2015

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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, 2015, 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, 2016.

**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.

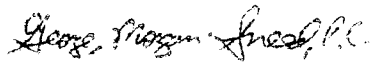
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or, significant deficiencies. Given these limitations, during our audit we did not 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, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
OMB CIRCULAR A-133**

Members of the City Commission  
City of Breckenridge, Texas

**Report on Compliance for Each Major Federal Program**

We have the City of Breckenridge, Texas (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

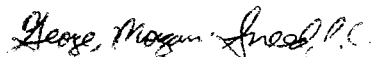
## Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Weatherford, Texas  
January 27, 2016

**CITY OF BRECKENRIDGE, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2015**

**A. Summary of Auditor's Results**

**1. Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified? \_\_\_\_\_ Yes   X   No

Significant deficiency identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None Reported

Noncompliance material to financial statements noted \_\_\_\_\_ Yes   X   No

**2. Federal Awards**

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ Yes   X   No

Significant deficiency(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? \_\_\_\_\_ Yes   X   No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes   X   No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

**CITY OF BRECKENRIDGE, TEXAS**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**YEAR ENDED SEPTEMBER 30, 2015**

None.



**CITY OF BRECKENRIDGE, TEXAS**  
**CORRECTIVE ACTION PLAN**  
**YEAR ENDED SEPTEMBER 30, 2015**

Federal Award Findings

None.

**CITY OF BRECKENRIDGE, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2015**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development:</u>			
Pass-through from Texas Department of Agriculture:			
Community Development Block Grant	14.228	7214049	\$ 251,200
Total U.S. Department of Housing and Urban Development			251,200
<u>U.S. Department of Transportation</u>			
Texas Parks & Wildlife			
Recreational Trails Program	20.219	RT 14001	41,765
Total U.S. Department of Transportation			41,765
<u>U.S. General Services Administration</u>			
Pass-through from Texas Facilities Commission/Federal Surplus Program			
Donation of Federal Surplus Personal Property	39.003	20590	213
Total U.S. General Services Administration			213
<u>U.S. Environmental Protection Agency</u>			
Pass-through from Texas Water Development Board			
Capitalization Grants for Clean Water State Revolving Funds	66.458	73647	8,681
Capitalization Grants for Drinking Water State Revolving Funds	66.468	62519	115,030
Capitalization Grants for Drinking Water State Revolving Funds	66.468	62603	490,856
Total U.S. Environmental Protection Agency			614,567
<u>U.S. Department of Health and Human Services</u>			
Pass-through from West Central Texas Council of Governments			
Special Programs for the Aging - Title III, Part C, Nutrition Services	93.045	Breck	38,218
Total U.S. Department of Health and Human Services			38,218
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 945,963

The accompanying notes are an integral part of this schedule.

**CITY OF BRECKENRIDGE, TEXAS**  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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.

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal program activity of the City of Mineral Wells, Texas and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.