

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2017**

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

Business-type activities:

	Primary Government				Ending Balance
	Beginning Balance	Increases	Decreases	Transfers	
Non - Depreciable Assets:					
Land	\$ 193,297	\$ -	\$ -	\$ -	\$ 193,297
Construction in Progress	2,071,569	878,586	-	(2,338,290)	611,865
Total non-depreciable assets	2,264,866	878,586	-	(2,338,290)	805,162
Depreciable Assets:					
Land improvements	31,627				31,627
Buildings and improvements	1,310,829				1,310,829
Water and sewer systems	16,512,804			2,335,814	18,848,618
Vehicles and equipment	886,767		(13,300)	2,476	875,943
Total capital assets being depreciated	18,742,027	-	(13,300)	2,338,290	21,067,017
Accumulated Depreciation:					
Land improvements	(15,320)	(923)			(16,243)
Buildings and improvements	(797,555)	(28,122)			(825,677)
Water and sewer systems	(7,794,572)	(417,881)		873	(8,211,580)
Vehicles and equipment	(603,426)	(49,926)	13,300	(873)	(640,925)
Total accumulated depreciation	(9,210,873)	(496,852)	13,300	-	(9,694,425)
Business-type activities capital assets, net	\$ 11,796,020	\$ 381,734	\$ -	\$ -	\$ 12,177,754

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

Governmental activities:

General government	12,716
Public Safety	81,250
Public Works	86,979
Cemetery	4,146
Parks	42,895
Community services	892
Total depreciation expense - governmental activities	<u>\$ 228,878</u>

Business-type activities:

Water	\$ 315,892
Wastewater	171,936
Sanitation	1,800
Trade Days	7,224
Total depreciation expense - business-type activities	<u>\$ 496,852</u>

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
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**NOTE 6: CAPITAL ASSETS - (Continued)**

Discretely Presented Component Unit

Activity for the Breckenridge Economic Development Corporation for the year ended September 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Non - Depreciable Assets:				
Land	\$ 56,546	\$ -	\$ -	\$ 56,546
Total non-depreciable assets	56,546	-	-	56,546
Depreciable Assets:				
Buildings and improvements	224,645	-	-	224,645
Office furniture and equipment	4,108	-	-	4,108
Total capital assets being depreciated	228,753	-	-	228,753
Accumulated Depreciation:				
Buildings and improvements	(44,393)	(5,796)	-	(50,189)
Office furniture and Equipment	(4,108)	-	-	(4,108)
Total accumulated depreciation	(48,501)	(5,796)	-	(54,297)
Governmental activities capital assets, net	\$ 236,798	\$ (5,796)	\$ -	\$ 231,002

Land Held for Economic Development

BEDC's goal is to promote and develop the industrial and manufacturing enterprises in order to encourage employment in the City of Breckenridge. Property and equipment are acquired with the intent of making these properties available to prospective companies at a reasonable price as an incentive to relocate their business in Breckenridge. These properties are not considered investments and are reported at cost. At September 30, 2017, properties held for economic development at cost was \$2,403,390.

**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 3.24% to 4.5%. Future minimum lease purchase commitments are as follows:

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

	Governmental Activities
2018	\$ 23,719
2019	23,719
2020	23,719
2021	23,719
2022	23,719
2023-2027	<u>71,158</u>
Total debt service requirements	189,753
Less: Interest Portion	<u>24,894</u>
 Debt Principal	 <u><u>\$ 164,859</u></u>

Assets under lease and related accumulated depreciation are as follows:

	Governmental Activities
Vehicles and equipment	\$ 269,298
Less: Accumulated depreciation	<u>(30,100)</u>
 Net	 <u><u>\$ 239,198</u></u>

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2017**

**NOTE 8:     LONG-TERM DEBT**

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2017.

Primary Government	<u>9/30/2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>9/30/2017</u>	<u>Due Within One Year</u>
Governmental Activities.:					
Capital Leases Payable	\$ 182,661	\$ -	\$ 17,802	\$ 164,859	\$ 18,379
Loans payable	100,000	-	100,000	-	-
Net pension liability	<u>1,061,157</u>	<u>31,781</u>	<u>-</u>	<u>1,092,938</u>	<u>-</u>
Total Governmental Activities	<u>1,343,818</u>	<u>31,781</u>	<u>117,802</u>	<u>1,257,797</u>	<u>18,379</u>
Business-type Activities:					
Capital leases payable	52,574	-	52,574	-	-
Certificates of Obligation	4,860,000	-	195,000	4,665,000	195,000
General Obligation Refunding Bonds	325,000	-	160,000	165,000	165,000
Premium on GO Refunding Bonds	10,719	-	7,974	2,745	-
Net pension liability	<u>315,001</u>	<u>-</u>	<u>26,572</u>	<u>288,429</u>	<u>-</u>
Total Business-type Activities	<u>5,563,294</u>	<u>-</u>	<u>442,120</u>	<u>5,121,174</u>	<u>360,000</u>
Total Long-Term Liabilities	<u>\$ 6,907,112</u>	<u>\$ 31,781</u>	<u>\$ 559,922</u>	<u>\$ 6,378,971</u>	<u>\$ 378,379</u>
Component Unit					
Governmental Activities.:	<u>9/30/2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>9/30/2017</u>	<u>Due Within One Year</u>
Tax leveraged fund note	<u>253,575</u>	<u>-</u>	<u>27,881</u>	<u>225,694</u>	<u>28,681</u>
Total Component Unit	<u>\$ 253,575</u>	<u>\$ -</u>	<u>\$ 27,881</u>	<u>\$ 225,694</u>	<u>\$ 28,681</u>

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2017**

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

At September 30, 2017, 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%.	\$ 75,000
\$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%.	165,000
\$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%.	1,545,000
\$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%.	765,000
\$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%	2,280,000
Premium on General Obligation Refunding Bonds, Series 2010	<u>2,745</u>
Total	<u><u>\$ 4,832,745</u></u>

At September 30, 2017, component unit bonds payable consisted of the following issues:

	<u>Component Unit</u>
\$310,000 Tax leverages loan dated June 30, 2014, due in annual installments through August 1, 2024, bearing interest at 3.25%.	<u>225,694</u>
Total	<u><u>\$ 225,694</u></u>

**CITY OF BRECKENRIDGE, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2017**

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

The annual requirements to amortize business-type activities bonds outstanding as of September 30, 2017 are as follows:

Primary Government	Business-type Activities				
	Certificates of Obligation		General Obligation Bonds		Total
	Principal	Interest	Principal	Interest	
2018	\$ 195,000	\$ 129,520	\$ 165,000	3,094	\$ 492,614
2019	120,000	126,558	-	-	246,558
2020	120,000	125,208	-	-	245,208
2021	130,000	123,356	-	-	253,356
2022	130,000	121,075	-	-	251,075
2023-2027	675,000	562,473	-	-	1,237,473
2028-2032	760,000	470,657	-	-	1,230,657
2033-2037	890,000	349,990	-	-	1,239,990
2038-2042	1,045,000	195,935	-	-	1,240,935
2043-2047	600,000	30,415	-	-	630,415
Total debt service requirements	\$ 4,665,000	\$ 2,235,187	\$ 165,000	\$ 3,094	\$ 7,068,281

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 \$.3812 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 \$917,569 for the general debt service and \$63,447 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, 2017.

The annual requirements to amortize the component unit governmental activity bonds as of September 30, 2017 are as follows:

Component Unit	Governmental Activities		
	Principal	Interest	Total
2018	28,681	9,038	37,719
2019	29,924	7,795	37,719
2020	31,221	6,498	37,719
2021	32,574	5,145	37,719
2022	33,985	3,733	37,718
2022 - 2024	69,309	2,984	72,293
Total debt service requirements	\$ 225,694	\$ 35,193	\$ 260,887

**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 \$1,680,000 loan and \$704,878 grant money for water improvements, of which \$2,384,878 has been expended to date for engineering and construction. The City also received a \$840,000 loan and \$353,461 for wastewater improvements, of which \$94,491 has been expended to date on engineering. A construction contract is expected to be awarded in the 2018 fiscal year for the wastewater improvements.

**NOTE 11:      DEFINED BENEFIT PENSION PLANS**

Plan Description

The City participates as one of 872 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, 2017**

**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 2016</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, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

**Employees covered by benefit terms**

Active Employees	65
Inactive employees or beneficiaries currently receiving benefits	49
Inactive employees entitled to but not yet receiving benefits	49
	<u>163</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 8.77% and 8.77% in calendar years 2016 and 2017, respectively. The city's contributions to TMRS for the year ended September 30, 2017, were \$187,357, and were equal to the required contributions.

**Net Pension Liability**

The city's Net Pension Liability (NPL) was measured as of December 31, 2016, 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, 2016, actuarial valuation was determined using the following actuarial assumptions:



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

Inflation	2.5% per year
Overall payroll growth	2.7% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disable annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. 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. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as 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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Asset Class	Target Allocation	Long-Term Expected Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

*Discount Rate*

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

*Changes in the Net Pension Liability*

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/15	\$ 7,978,506	\$ 6,602,345	\$ 1,376,161
Changes for the year:			
Service cost	210,034	-	210,034
Interest	528,297	-	528,297
Difference between expected and actual experience	7,317	-	7,317
Contributions-employer	-	190,642	(190,642)
Contributions-employee	-	108,714	(108,714)
Net investment income	-	446,397	(446,397)
Benefit payments, including refunds of employee contributions	(513,801)	(513,801)	-
Administrative expense	-	(5,039)	5,039
Other changes	-	(272)	272
Net changes	231,847	226,641	5,206
Balance at 12/31/16	\$ 8,210,353	\$ 6,828,986	\$ 1,381,367

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

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	\$ 2,441,532	\$ 1,381,367	\$ 511,399

*Pension Plan Fiduciary Net Position*

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

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

For the year ended September 30, 2017, the City recognized pension expense of \$287,135.

At September 30, 2017, 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	\$ 9,200	\$ 9,203
Changes in actuarial assumptions	8,150	-
Differences between projected and actual investment earnings	312,693	
Contributions subsequent to the measurement date	137,071	-
Total	<u>\$ 467,114</u>	<u>\$ 9,203</u>

\$137,071 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

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

Year ended December 31:	Net Deferred outflows (inflows) of resources
2017	\$ 111,724
2018	114,900
2019	94,364
2020	(148)
2021	-
Thereafter	-
	<u>\$ 320,840</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.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2017, 2016 and 2015 were \$4,914 \$5,179, and \$5,265, 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.

**CITY OF BRECKENRIDGE, TEXAS**  
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**NOTE 13: CONTINGENT LIABILITIES – (Continued)**

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**

On January 2, 2018, the City Commission approved issuing the \$846,000 Series 2017A and \$4,262,000 Series 2017B Combination Tax and Revenue Certificates of Obligation to acquire, construct install and equipment improvements, extensions and additions to the City's water and sewer system, including replacing and relocation of existing utilities and street and drainage improvements.

Subsequent events were evaluated through January 29, 2018, which is the date the financial statements were available to be issued.

**NOTE 15: 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.

## **REQUIRED SUPPLEMENTARY INFORMATION**

## 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, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Property taxes	\$ 1,242,200	\$ 1,242,200	\$ 1,236,437	(5,763)
Sales and use tax	1,123,800	1,123,800	1,040,449	(83,351)
Franchise	438,500	438,500	426,720	(11,780)
Hotel motel taxes	48,000	48,000	42,415	(5,585)
Charges for service	213,000	213,000	203,906	(9,094)
Grants and contributions	52,500	52,500	86,562	34,062
Interest income	800	800	743	(57)
Other revenue	18,000	72,500	66,728	(5,772)
Total revenues	<u>3,136,800</u>	<u>3,191,300</u>	<u>3,103,960</u>	<u>(87,340)</u>
Expenditures:				
Current				
General government	802,000	869,500	874,764	(5,264)
Public Safety	1,918,500	1,985,300	1,893,592	91,708
Public Works	506,900	506,900	446,093	60,807
Cemetery	92,300	92,300	89,554	2,746
Parks	246,400	246,400	236,745	9,655
Community services	152,220	152,220	125,370	26,850
Tourism	42,000	42,000	42,000	-
Debt service:				
Principal	17,800	17,800	117,802	(100,002)
Interest and fiscal charges	5,900	5,900	8,456	(2,556)
Total expenditures	<u>3,784,020</u>	<u>3,918,320</u>	<u>3,834,376</u>	<u>83,944</u>
Excess (deficiency) of revenue over (under) expenditures	\$ <u>(647,220)</u>	\$ <u>(727,020)</u>	\$ <u>(730,416)</u>	<u>(3,396)</u>
Other financing sources (uses):				
Transfers in	665,500	665,500	665,500	-
Transfers out	<u>-</u>	<u>-</u>	<u>(10,925)</u>	<u>(10,925)</u>
Net change in fund balances	18,280	(61,520)	(75,841)	(14,321)
Fund balance, October 1, 2016	<u>208,259</u>	<u>208,259</u>	<u>208,259</u>	<u>-</u>
Fund balance, September 30, 2017	\$ <u><u>226,539</u></u>	\$ <u><u>146,739</u></u>	\$ <u><u>132,418</u></u>	<u><u>(14,321)</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, 2017

**Total pension liability**

Plan Year	2014	2015	2016
Service Cost	\$ 180,948	\$ 202,264	\$ 210,034
Interest (on the Total Pension Liability)	523,394	529,436	528,297
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(78,389)	9,535	7,317
Change of assumptions	-	20,408	-
Benefit payments, including refunds of employee contributions	(609,804)	(490,767)	(513,801)
Net Change in Total Pension Liability	16,149	270,876	231,847
Total Pension Liability-Beginning	\$ 7,691,481	\$ 7,707,630	\$ 7,978,506
<b>Total Pension Liability-Ending (a)</b>	<b>\$ 7,707,630</b>	<b>\$ 7,978,506</b>	<b>\$ 8,210,353</b>

**Plan Fiduciary Net Position**

Contributions-Employer	\$ 192,605	194,097	190,642
Contributions-Employee	110,082	111,625	108,714
Net Investment Income	383,868	10,008	446,397
Benefit payments, including refunds of employee contributions	(609,804)	(490,767)	(513,801)
Administrative Expense	(4,008)	(6,097)	(5,039)
Other	(330)	(302)	(272)
Net Change in Plan Fiduciary Net Position	72,413	(181,436)	226,641
Plan Fiduciary Net Position-Beginning	6,711,368	6,783,781	6,602,345
<b>Plan Fiduciary Net Position-Ending (b)</b>	<b>\$ 6,783,781</b>	<b>\$ 6,602,345</b>	<b>\$ 6,828,986</b>
<b>Net Pension Liability-Ending (a) - (b)</b>	<b>\$ 923,849</b>	<b>\$ 1,376,161</b>	<b>\$ 1,381,367</b>

Plan Fiduciary Net Position as a Percentage of Total Pension Liability	88.01%	82.75%	83.18%
Covered Employee Payroll	\$ 2,201,639	\$ 2,232,491	\$ 2,174,270
Net Pension Liability as a Percentage of Covered Employee Payroll	41.96%	61.64%	63.53%

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



CITY OF BRECKENRIDGE  
Schedule of Contributions  
Last 4 Fiscal Years

	2014	2015	2016	2017
Actuarially Determined Contribution	\$ 189,895	\$ 193,572	\$ 196,535	\$ 187,357
Contributions in relation to the actuarially determined contribution	\$ 189,895	\$ 193,572	\$ 196,535	\$ 187,357
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 2,112,810	\$ 2,193,754	\$ 2,224,633	\$ 2,174,270
Contributions as a percentage of covered employee payroll	8.99%	8.82%	8.83%	8.62%

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, 2017

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

General government exceeded appropriations by \$5,264 due to expenditures accrued in the audit. Debt service exceeded appropriations by \$102,558 because the repayment of the amount borrowed on a line of credit was not budgeted with expenses. Total expenditures were \$83,944 less than budgeted.

CITY OF BRECKENRIDGE  
Notes to the Required Supplementary Information  
For the Year Ended September 30, 2017

**Schedule of Contributions**

**Notes to 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	27 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

**Other Information:**

Notes There were no benefit changes during the year.

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

CITY OF BRECKENRIDGE, TEXAS  
Nonmajor Funds  
Combining Balance Sheet  
September 30, 2017

	Special Revenue Funds				
	Fire Department	Hotel/ Motel	Park	Police Department	Total Special Revenue Funds
Assets:					
Cash	\$ 9,269	\$ -	\$ 46,989	\$ 843	\$ 57,101
Due from other funds	-	-	-	-	-
Due from other governments	-	-	37,500	-	37,500
Total assets	<u>\$ 9,269</u>	<u>\$ -</u>	<u>\$ 84,489</u>	<u>\$ 843</u>	<u>\$ 94,601</u>
Liabilities and fund balance:					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ 36,066	\$ -	\$ 36,066
Due to other funds	-	-	75,000	-	75,000
Total liabilities	<u>-</u>	<u>-</u>	<u>111,066</u>	<u>-</u>	<u>111,066</u>
Fund Balances:					
Restricted fund balance	\$ 9,269	\$ -	\$ -	\$ 843	\$ 10,112
Committed fund balance	-	-	-	-	-
Unassigned fund balance	-	-	(26,577)	-	(26,577)
Total fund balance	<u>9,269</u>	<u>-</u>	<u>(26,577)</u>	<u>843</u>	<u>(16,465)</u>
Total liabilities and fund balances	<u>\$ 9,269</u>	<u>\$ -</u>	<u>\$ 84,489</u>	<u>\$ 843</u>	<u>\$ 94,601</u>

EXHIBIT G-1

Capital Project Funds			
Equipment Replacement	General Capital Projects	Total Capital Projects Funds	Total Nonmajor Funds
\$ 5,306	\$ 20,946	\$ 26,252	\$ 83,353
132,600	-	132,600	132,600
-	-	-	37,500
<u>\$ 137,906</u>	<u>\$ 20,946</u>	<u>\$ 158,852</u>	<u>\$ 253,453</u>
\$ -	\$ 6,400	\$ 6,400	\$ 42,466
-	49,840	49,840	124,840
-	56,240	56,240	167,306
\$ -	\$ -	\$ -	\$ 10,112
137,906	-	137,906	137,906
-	(35,294)	(35,294)	(61,871)
137,906	(35,294)	102,612	86,147
<u>\$ 137,906</u>	<u>\$ 20,946</u>	<u>\$ 158,852</u>	<u>\$ 253,453</u>

## CITY OF BRECKENRIDGE, TEXAS

## Nonmajor Funds

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

For the year ended September 30, 2017

	Special Revenue Funds				
	Fire Department	Hotel/ Motel	Park	Police Department	Total Special Revenue Funds
Revenues:					
Other revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Grants and contributions	2,206	-	124,234	-	126,440
Interest	27	-	60	2	89
Total revenue	<u>2,233</u>	<u>-</u>	<u>124,294</u>	<u>2</u>	<u>126,529</u>
Expenditures:					
Current:					
Public Safety	3,956	-	-	-	3,956
Parks	-	-	175,147	-	175,147
Capital Outlay					
Total expenditures	<u>3,956</u>	<u>-</u>	<u>175,147</u>	<u>-</u>	<u>179,103</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(1,723)</u>	<u>-</u>	<u>(50,853)</u>	<u>2</u>	<u>(52,574)</u>
Other financing sources (uses):					
Gain on Sale of Assets	-	-	-	-	-
Transfers in	-	-	11,550	-	11,550
Transfers out	-	-	-	-	-
Net change in fund balances	(1,723)	-	(39,303)	2	(41,024)
Fund Balance, October 1, 2016	<u>10,992</u>	<u>-</u>	<u>12,726</u>	<u>841</u>	<u>24,559</u>
Fund Balance, September 30, 2017	<u>\$ 9,269</u>	<u>\$ -</u>	<u>\$ (26,577)</u>	<u>\$ 843</u>	<u>\$ (16,465)</u>

EXHIBIT G-2

Capital Project Funds			
Equipment Replacement	General Capital Projects	Total Capital Projects Funds	Total Nonmajor Funds
\$ -	\$ -	\$ -	\$ -
32,000	760	32,760	159,200
116	28	144	233
32,116	788	32,904	159,433
-	-	-	3,956
-	-	-	175,147
32,000	76,800	108,800	108,800
32,000	76,800	108,800	287,903
116	(76,012)	(75,896)	(128,470)
2,250	-	2,250	2,250
-	101,655	101,655	113,205
-	-	-	-
2,366	25,643	28,009	(13,015)
135,540	(60,937)	74,603	99,162
\$ 137,906	\$ (35,294)	\$ 102,612	\$ 86,147



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

**CITY OF BRECKENRIDGE, TEXAS**

## Schedule of Delinquent Property Taxes Receivable

For the fiscal year ended September 30, 2017

Last Ten Years Ended Sept 30	Tax Rate		Assessed Value	Beginning Balance October 1
	Maintenance	Debt Service		
2008 and prior	0.7598	0.2202	142,206,990	19,305
2009	0.7570	0.2029	154,800,440	6,166
2010	0.7663	0.1898	164,281,038	7,202
2011	0.7556	0.1744	176,676,216	7,206
2012	0.8367	0.2106	188,634,444	9,759
2013	0.7557	0.2543	204,984,229	17,663
2014	0.6282	0.2618	192,875,823	27,453
2015	0.5652	0.2966	201,105,727	59,897
2016	0.6148	0.3252	196,762,440	91,424
2017 (Year under audit)	0.6588	0.3812	184,686,029	
TOTALS				<u>\$ 246,075</u>

EXHIBIT G-3

Current Year's Total Levy	Maintenance Collections	Debt Service Collections	Entire Year's Adjustments	Ending Balance September 30
	(344)	(100)	(119)	18,742
	(106)	(29)	(52)	5,979
	(204)	(50)	(74)	6,874
	(392)	(90)	(128)	6,596
	(596)	(150)	(214)	8,799
	(2,887)	(971)	(240)	13,565
	(3,852)	(1,606)	342	22,337
	(20,324)	(10,665)	267	29,175
-	(28,428)	(12,796)	(34)	50,166
1,930,301	(1,136,909)	(658,768)	(9,568)	125,056
<u>\$ 1,930,301</u>	<u>\$ (1,194,042)</u>	<u>\$ (685,225)</u>	<u>\$ (9,820)</u>	<u>\$ 287,289</u>

**EXHIBIT G-4**

City of Breckenridge, Texas  
 Statistics - Water and Wastewater Fund  
 For the year ended September 30, 2017  
 (Unaudited)

Number of water connections at end of year	2,363
Number of wastewater connections at end of year	2,053
Gallons of water billed through the system during the fiscal year	199,106,463

	2017	2016
<u>Outstanding Bonds and Certificates:</u>		
Combination Tax and Revenue Certificates of Obligation, Series 2003	\$ 75,000	\$ 150,000
General Obligation Refunding Bonds, Series 2010	165,000	325,000
Combination Tax and Revenue Certificates of Obligation, Series 2012	1,545,000	1,590,000
Combination Tax and Revenue Certificates of Obligation, Series 2013	765,000	790,000
Combination Tax and Revenue Certificates of Obligation, Series 2014	2,280,000	2,330,000
Premium on bond	2,745	10,719
	<u>\$ 4,832,745</u>	<u>\$ 5,195,719</u>

<u>Water and Wastewater Operating Income Available for Debt Retirement:</u>		
Net Operating Income	\$ 371,168	\$ 396,976
Net Nonoperating Interest Income	4,618	9,467
Add Depreciation Expense	487,828	427,631
	<u>\$ 863,614</u>	<u>\$ 834,074</u>
Water and Sewer Operating Income Available for Debt Retirement		

<u>Annual Debt Service Requirements and Coverage:</u>		
Combination Tax and Revenue Certificates of Obligation, Series 2003	\$ 81,188	\$ 80,175
General Obligation Refunding Bonds, Series 2010	168,988	169,113
Combination Tax and Revenue Certificates of Obligation, Series 2012	72,589	72,589
Combination Tax and Revenue Certificates of Obligation, Series 2013	38,104	38,104
Combination Tax and Revenue Certificates of Obligation, Series 2014	137,278	137,545
	<u>498,147</u>	<u>497,526</u>
Total Debt Service Requirements		
Less Current Year Property Taxes	(686,300)	(630,343)
	<u>\$ (188,153)</u>	<u>\$ (132,817)</u>
Net System Fund Requirements		
Coverage of Total System Fund Debt Service	<u>not applicable</u>	<u>not applicable</u>

Cash Available in Bond Sinking Funds

General Debt Service	\$ 917,569	\$ 621,407
Revenue Debt Service	63,447	174,147
	<u>\$ 981,016</u>	<u>\$ 795,554</u>

## EXHIBIT G-5

## CITY OF BRECKENRIDGE, TEXAS

Insurance in Force

September 30, 2017

(Unaudited)

	Coverage	Premium
Flood, Fire and Extended Coverage Buildings and Contents	\$ 12,699,832	\$ 31,356
Errors & Omission Liability		
Each Wrongful Act	500,000	7,182
Aggregate	1,000,000	
Commercial General Liability		
Per Occurrence	1,000,000	4,615
Aggregate	2,000,000	
Law Enforcement Personal Liability		
Each Wrongful Act	500,000	7,784
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	25,316
Combined Single Limit	25,000	
Heavy Equipment		
Physical Damage	1,010,766	4,147
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	10/1/2017
Texas Municipal League	Commercial Auto	10/1/2017
Texas Municipal League	Flood	10/1/2017
Texas Municipal League	Public Officials Liability	10/1/2017
Texas Municipal League	Law Enforcement Liability	10/1/2017
CNA Surety Corporation	Fidelity Bond - City Secretary	9/6/2018
CNA Surety Corporation	Fidelity Bond - Assistant City Secretary	10/1/2018
CNA Surety Corporation	City Manager & Other Public Employees	1/23/2018
Texas Municipal League	Heavy Equipment	10/1/2017

**OVERALL COMPLIANCE AND INTERNAL CONTROL  
SECTION**

**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, 2017, 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 29, 2018.

**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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiency 2017-001.

## **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*.

## **City of Breckenridge, Texas's Response to Findings**

City of Breckenridge, Texas's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Breckenridge, Texas's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **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.

*George Morgan, Jr., P.C.*

Weatherford, Texas  
January 29, 2018



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
THE UNIFORM GUIDANCE**

Members of the City Commission  
City of Breckenridge, Texas

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

We have audited the City of Breckenridge, Texas (the "City") compliance with the types of compliance requirements described in the *OMB 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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 of Breckenridge, Texas, 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, 2017.

### **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 each 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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*George Morgan, Jr., P.C.*

Weatherford, Texas  
January 29, 2018

**CITY OF BRECKENRIDGE, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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

**1. Financial Statements**

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness identified?

\_\_\_\_\_ Yes X No

Significant deficiency identified that are  
not considered to be material weaknesses?

X Yes \_\_\_\_\_ 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:

Unmodified

Any audit findings disclosed that are required  
to be reported in accordance with the Uniform  
Guidance

\_\_\_\_\_ Yes X No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

66.468

Capitalization Grants for Drinking Water State  
Revolving Funds

Dollar threshold used to distinguish between  
type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

X Yes \_\_\_\_\_ No

## B. Financial Statement Findings

### 2017-001. Utility Payment Deposits

**Condition:** Each day a payment summary report is run from Incode and reconciled to the amount of cash and checks for deposit. The amount of cash and checks for deposit were less than the amount of payments on the Incode report 5 to 10 times per month throughout the year. In addition the deposits recorded in the City's books did not agree with the deposits that cleared the bank. 11 months the City had to make an adjustment to reconcile the bank account because the deposits on the books were more than cleared the bank. The total amount in the adjusted cash short account at year end was \$11,287 compared to \$120 in the previous year. These issues were not identified by management until the audit.

**Criteria:** All utility payments collected should be deposited into the City's bank accounts. The City should have internal control procedures to address when a deposit is short and when deposits per books do not agree with deposits in the bank.

**Cause:** The City uses 1 cash drawer but multiple employees have access to the drawer and take payments during the day. This makes it difficult to identify who is responsible for differences.

Only a summary report is run from Incode and not the detailed listing of payments. It did not appear that a detailed payment listing was checked against the deposit slips to identify the differences. Management did not review the deposits and was not made aware of the differences.

Incode was set up so that the amount the deposits were short was hitting an unused bank account on the books. The deposits that hit the City's bank account on its books were overstated by this short amount. The underlying problem was never addressed and the account was adjusted to make the bank account reconcile.

**Recommendations:** 1. The City should add a 2<sup>nd</sup> cash drawer and computer for the utility billing area so that each clerk is responsible for their own drawer. 2. A detailed list of payments should be printed and reconciled to the deposits. 3. The City Secretary should review deposits before they go to the bank to make sure there is no shortage.

#### **Management's Response:**

We are implementing the following to address the finding:

1. 2 cash drawers with only 1 person who can access the drawer: Water 1 and Water 2.
2. Cash Handling Internal Controls and Policies have been set and each person who may ever deal with any kind of cash for the City has received a copy and had to sign and acknowledgement form.
3. Any time one of the employees assigned to cash drawer's Water 1 or Water 2 calls in sick, etc. – I have developed a count down form to be able to assign that drawer to another person for that day, etc.
4. I am waiting on a quote from a company we met with who installs security systems (cameras, audio, etc.) – we will be installing a camera system at the front cash drawers, the vault, looking down hallways and at all entrances of the building.

5. Have developed new form that must be completed and turned in to me when or if they are ever over or short.
6. Incode training is set for AP & Fixed Assets for the week of February 19<sup>th</sup> and the Utility Billing training is set for the week of March 19<sup>th</sup>.

C. Federal Award Findings and Questioned Costs

NONE

**CITY OF BRECKENRIDGE, TEXAS**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**YEAR ENDED SEPTEMBER 30, 2017**

None.

**CITY OF BRECKENRIDGE, TEXAS**  
**CORRECTIVE ACTION PLAN**  
**YEAR ENDED SEPTEMBER 30, 2017**

Contact for Corrective Action Plan:

Andy McCuistion  
City Manager

Financial Statement Findings

We are implementing the following to address the finding:

1. 2 cash drawers with only 1 person who can access the drawer: Water 1 and Water 2.
2. Cash Handling Internal Controls and Policies have been set and each person who may ever deal with any kind of cash for the City has received a copy and had to sign and acknowledgement form.
3. Any time one of the employees assigned to cash drawer's Water 1 or Water 2 calls in sick, etc. – I have developed a count down form to be able to assign that drawer to another person for that day, etc.
4. I am waiting on a quote from a company we met with who installs security systems (cameras, audio, etc.) – we will be installing a camera system at the front cash drawers, the vault, looking down hallways and at all entrances of the building.
5. Have developed new form that must be completed and turned in to me when or if they are ever over or short.
6. Incode training is set for AP & Fixed Assets for the week of February 19<sup>th</sup> and the Utility Billing training is set for the week of March 19<sup>th</sup>.

Federal Award Findings

None.

**CITY OF BRECKENRIDGE, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through To Subrecipients	Federal Expenditures
<u>U.S. Department of Transportation</u>				
Texas Parks & Wildlife				
Recreational Trails Program*	20.219	RT 14001	\$ -	\$ 1,593
Texas Department of Transportation				
DOT Highway Planning and Construction*	20.205	0011-08-026	-	87,400
DOT Highway Planning and Construction*	20.205	0011-09-065	-	75,948
DOT Highway Planning and Construction*	20.205	0257-01-041	-	33,453
Total CFDA Number 20.205			-	196,801
Total U.S. Department of Transportation			-	198,394
<u>U.S. Environmental Protection Agency</u>				
Pass-through from Texas Water Development Board				
Capitalization Grants for Drinking Water State Revolving Funds	66.468	62519	-	487,722
Total U.S. Environmental Protection Agency			-	487,722
<u>U.S. Department of Justice</u>				
Pass-through from Texas Office of the Governor				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	DZ 3104501	-	32,000
Total U.S. Department of Justice			-	32,000
<u>U.S. Department of Homeland Security</u>				
Pass-through from Texas Department of Public Safety				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-04272-00056	-	1,504
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-04272-00056	-	705
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-04272-00056	-	3,007
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-04272-00105	-	21,561
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-04272-00547	-	13,219
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-04272-00085	-	2,629
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-04272-00216	-	8,274
Total U.S. Department of Homeland Security			-	50,899
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ -	\$ 769,015

\* Clustered Programs as required by June 2017 Compliance Supplement

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, 2017**

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 Breckenridge, Texas and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

Indirect Cost Rate

The City has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

Texas Water Development Board Loans

The City issued bonds that were purchased by the Texas Water Development Board with Clean Water State Revolving Funds and Drinking Water State Revolving Funds. The amounts of federal awards reported in the Schedule of Expenditures of Federal Awards are the amount of grant and bond funds spend during the period. The following is a summary of the bonds outstanding that were purchased with Clean Water State Revolving Funds and Drinking Water State Revolving Funds.

Combainiton Tax and Surplus Revenue Certificates of Obligation Series 2012	DWSRF	\$ 1,545,000
Combination Tax and Surplus Revenue Certificates of Obligation Series 2013	CWSRF	765,000
Combination Tax and Surplus Revenue Certificates of Obligation Series 2014	DWSRF	2,280,000
		<u>\$ 4,590,000</u>