

CITY OF BRECKENRIDGE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2018



GMS

CERTIFIED PUBLIC
ACCOUNTANTS

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CITY OF BRECKENRIDGE, TEXAS
Annual Financial Report
For the year ended September 30, 2018

TABLE OF CONTENTS

	<u>Exhibit Number</u>	<u>Page Number</u>
FINANCIAL SECTION		
Independent Auditor's Report		1 - 3
Management's Discussion and Analysis		4 - 15
Basic Financial Statements:		
Government-wide Financial Statements		
Statement of Net Position	A-1	16
Statement of Activities	B-1	17- 18
Fund Financial Statements		
Balance Sheet - Governmental Funds	C-1	19
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	C-2	20
Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Funds	C-3	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	C-4	22
Statement of Net Position - Proprietary Funds	D-1	23
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	D-2	24
Statement of Cash Flows - Proprietary Funds	D-3	25
Statement of Fiduciary Net Position	E-1	26
Statement of Changes in Fiduciary Net Position	E-2	27
Notes to the Financial Statements		28 - 53
Required Supplementary Information		
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	F-1	54
Schedule of Changes in Net Position Liability and Related Ratios	F-2	55
Schedule of Contributions	F-3	56
Schedule of Changes in Total OPEB Liability and Related Ratios	F-4	57
Notes to the Required Supplementary Information		58 - 59
Combining Fund Statements		
Nonmajor Governmental Funds		
Combining Balance Sheet	G-1	60 - 61
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	G-2	62 - 63
Other Supplementary Information		
Schedule of Delinquent Property Taxes Receivable	G-3	64 - 65
Statistics - Water and Wastewater Funds	G-4	66
Insurance in Force	G-5	67

CITY OF BRECKENRIDGE, TEXAS

Annual Financial Report

For the year ended September 30, 2018

TABLE OF CONTENTS

	<u>Exhibit Number</u>	<u>Page Number</u>
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 <i>Government Auditing Standards</i>		68-69
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance		70-71
Schedule of Findings and Questioned Costs		72-73
Summary Schedule of Prior Audit Findings		74
Corrective Action Plan		75
Schedule of Expenditures of Federal Awards		76
Notes to the Schedule of Expenditures of Federal Awards		77

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, the business-type activities, the aggregate discretely presented component unit, 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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, 2018, 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.

Change in Accounting Principal

As discussed in Notes 13 and 17 to financial statements, in 2018 the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

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 - 15, budgetary comparison – general fund, schedule of changes in net pension liability and related ratios, schedule of contributions, and schedule of changes in total OPEB liability and related ratios on pages 54 - 59 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

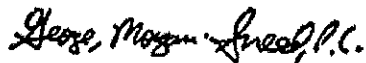
The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other

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 29, 2019 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 solely 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 effectiveness of the City's 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 29, 2019

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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, 2018.

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 \$13,493,151 (*net position*) compared to \$13,178,786 for the prior year. Unrestricted net position which may be used to meet the City's ongoing obligations to citizens and creditors was negative \$215,515 at year end.
- The City's total net position increased by \$481,438. The City's operations decreased the governmental activities net position by \$95,451 but increased the business-type activities net position by \$576,889.
- As of the close of the current fiscal year, the City of Breckenridge's governmental funds reported combined ending fund balances of \$1,914,518. This compares to an ending fund balance of \$1,360,307 in the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$117,595, or 3% of total general fund expenditures. This compares to an unassigned fund balance of \$115,227 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 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, debt service fund and general capital projects 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.

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 \$13,493,151 as of September 30, 2018. Below is a summary of the City's Statement of Net Position.

Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 2,517,219	\$ 1,776,502	\$ 2,006,496	\$ 1,931,599	\$ 4,523,715	\$ 3,708,101
Capital assets	4,588,705	3,980,533	12,885,352	12,177,754	17,474,057	16,158,287
Total Assets	<u>7,105,924</u>	<u>5,757,035</u>	<u>14,891,848</u>	<u>14,109,353</u>	<u>21,997,772</u>	<u>19,866,388</u>
Deferred outflows of resources	<u>128,472</u>	<u>370,541</u>	<u>32,475</u>	<u>100,376</u>	<u>160,947</u>	<u>470,917</u>
Current liabilities	358,355	182,010	678,155	588,335	1,036,510	770,345
Long-term liabilities	2,167,857	1,257,797	5,140,329	5,121,174	7,308,186	6,378,971
Total liabilities	<u>2,526,212</u>	<u>1,439,807</u>	<u>5,818,484</u>	<u>5,709,509</u>	<u>8,344,696</u>	<u>7,149,316</u>
Deferred inflows of resources	<u>256,922</u>	<u>7,281</u>	<u>63,950</u>	<u>1,922</u>	<u>320,872</u>	<u>9,203</u>
Net Position:						
Net investment in capital assets	3,294,225	3,815,674	8,717,410	8,183,374	12,011,635	11,999,048
Restricted	1,697,031	1,215,090	-	-	1,697,031	1,215,090
Unrestricted	(539,994)	(350,276)	324,479	314,924	(215,515)	(35,352)
Total Net Position	<u>\$ 4,451,262</u>	<u>\$ 4,680,488</u>	<u>\$ 9,041,889</u>	<u>\$ 8,498,298</u>	<u>\$ 13,493,151</u>	<u>\$ 13,178,786</u>

The largest portion of the City's net position (89%) 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 (13%) represents resources that are subject to external restrictions on how they may be used. Unrestricted net position that may be used to meet the government's ongoing obligations to citizens and creditors was negative \$215,515 at the end of the year.

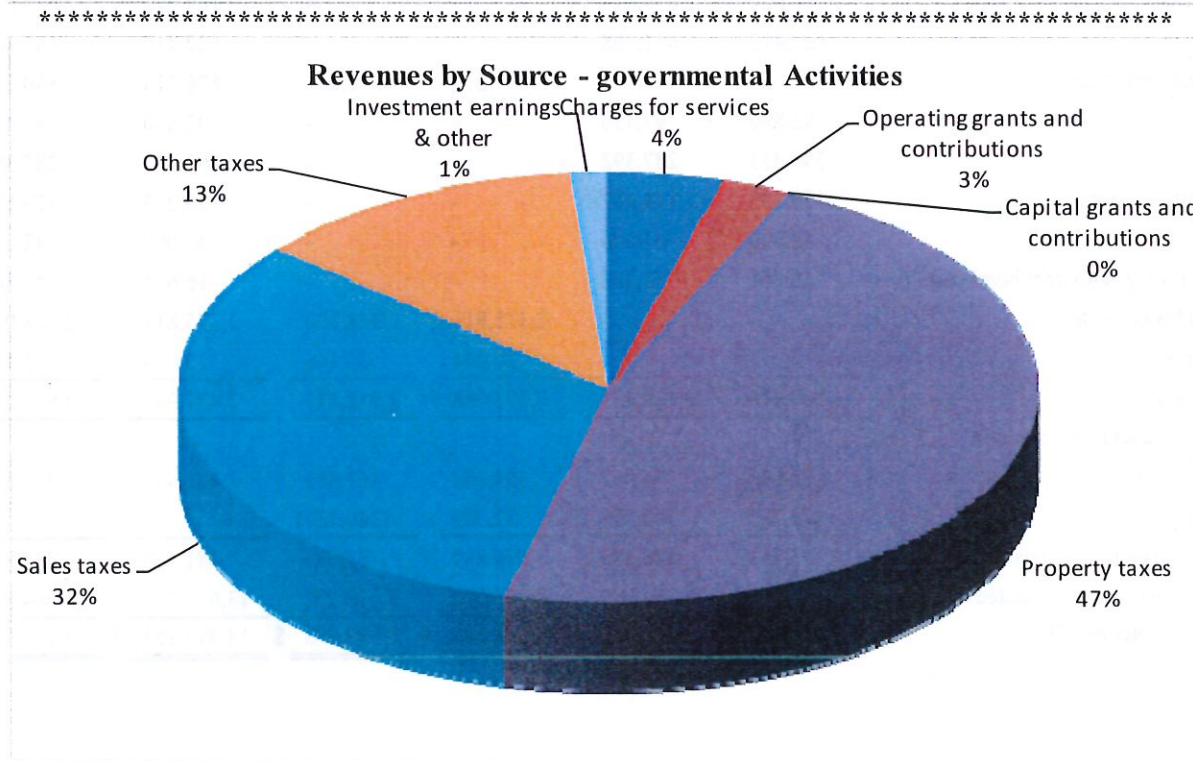
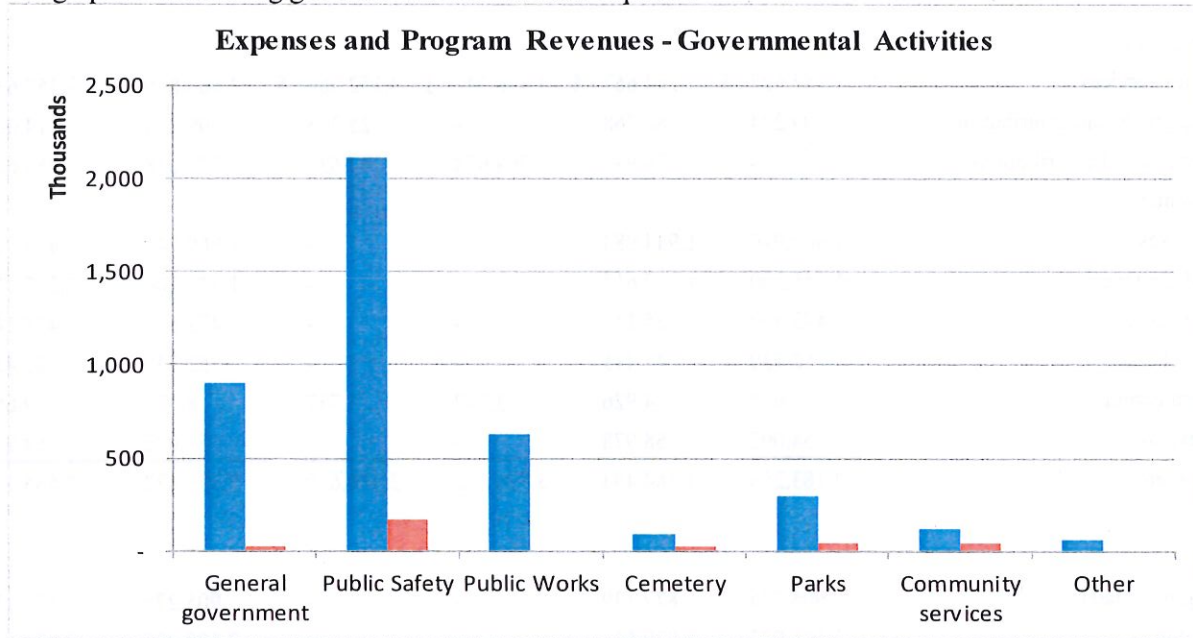
At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position for its separate business-type activities and its component unit. Governmental activities unrestricted net position at year end was negative \$539,994 compared to negative \$350,276 in the prior year. This negative unrestricted net position is primarily the result of the governmental activities portion of the net pension liability and total OPEB liability.

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

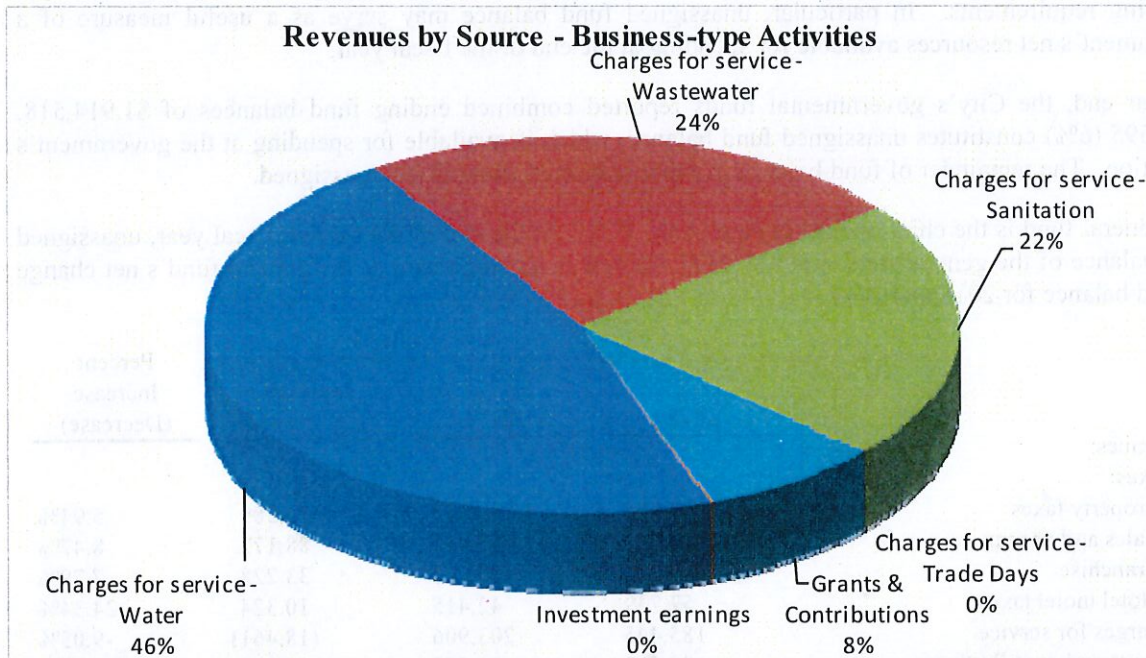
Changes in Net Position

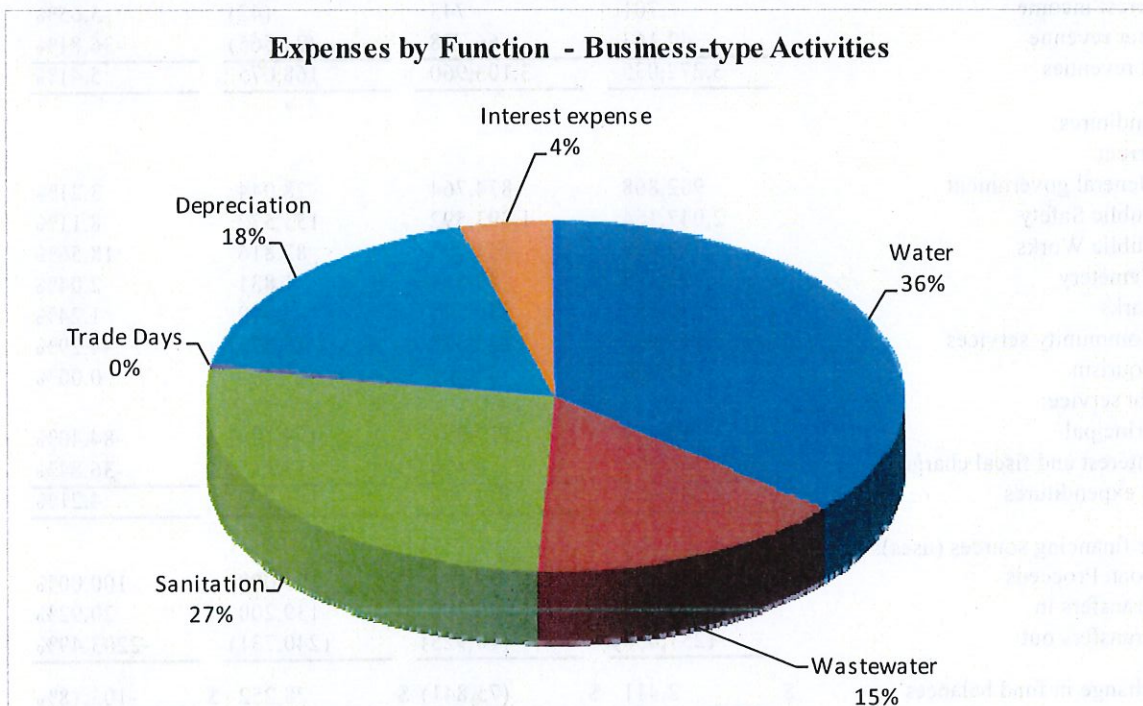
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 182,527	\$ 204,667	\$ 3,478,342	\$ 3,152,966	\$ 3,660,869	\$ 3,357,633
Operating grants and contributions	109,294	88,768	-	25,273	109,294	114,041
Capital grants and contributions	-	156,994	294,058	197,634	294,058	354,628
General revenues:						
Property taxes	1,960,940	1,944,984	-	-	1,960,940	1,944,984
Sales and use taxes	1,345,200	1,247,612	-	-	1,345,200	1,247,612
Franchise taxes	473,890	425,149	-	-	473,890	425,149
Hotel motel taxes	52,739	42,415	-	-	52,739	42,415
Investment earnings	4,658	4,926	3,772	4,737	8,430	9,663
Other Revenue	54,002	68,978	-	-	54,002	68,978
Total revenues	4,183,250	4,184,493	3,776,172	3,380,610	7,959,422	7,565,103
Expenses						
General government	905,275	877,139	-	-	905,275	877,139
Public Safety	2,108,022	2,039,613	-	-	2,108,022	2,039,613
Public Works	627,412	651,808	-	-	627,412	651,808
Health and sanitation	-	-	876,213	530,661	876,213	530,661
Cemetery	92,890	97,430	-	-	92,890	97,430
Parks	293,433	287,392	-	-	293,433	287,392
Community services	120,233	129,687	-	-	120,233	129,687
Tourism	42,000	42,000	-	-	42,000	42,000
Interest on long-term debt bond costs	16,651	13,362	-	-	16,651	13,362
Water and wastewater	-	-	2,375,811	2,348,970	2,375,811	2,348,970
Trade Days	-	-	20,044	33,146	20,044	33,146
Total expenses	4,205,916	4,138,431	3,272,068	2,912,777	7,477,984	7,051,208
Increase (decrease) in net position						
before transfers	(22,666)	46,062	504,104	467,833	481,438	513,895
Transfers	(72,785)	380,327	72,785	(380,327)	-	-
Increase (decrease) in net position	(95,451)	426,389	576,889	87,506	481,438	513,895
Net Position October 1 - Restated	4,546,713	4,254,099	8,465,000	8,410,792	13,011,713	12,664,891
Net Position September 30	\$ 4,451,262	\$ 4,680,488	\$ 9,041,889	\$ 8,498,298	\$ 13,493,151	\$ 13,178,786

Governmental Activities. Governmental activities decreased the City's net position by \$95,451 in the current year. Total governmental activities revenues decreased \$1,243 to \$4,183,250. Sales and franchise taxes increased \$97,588 and \$48,741 respectively due to increased activity in the local economy. Capital grants and contributions decreased \$156,994 because the City received grants and contributions for parks improvements in the previous year. Total governmental activities expenses increased \$67,485 (2%) to \$4,205,916. The largest increase was in public safety for health insurance and police overtime. Below are two graphs summarizing governmental revenue and expense:



Business-type activities. Business-type activities increased the City's net position by \$576,889. The business-type activities total revenues increased \$395,562 (12%) to \$3,776,172 and total expenses increased \$359,291 (12%) to \$3,272,068. Charges for service and sanitation expenses increased primarily because the City took over billing for dumpsters and poly carts. Capital grants and contributions increased \$96,424 because the City began wastewater improvements funded with a CWSRF grant. 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.

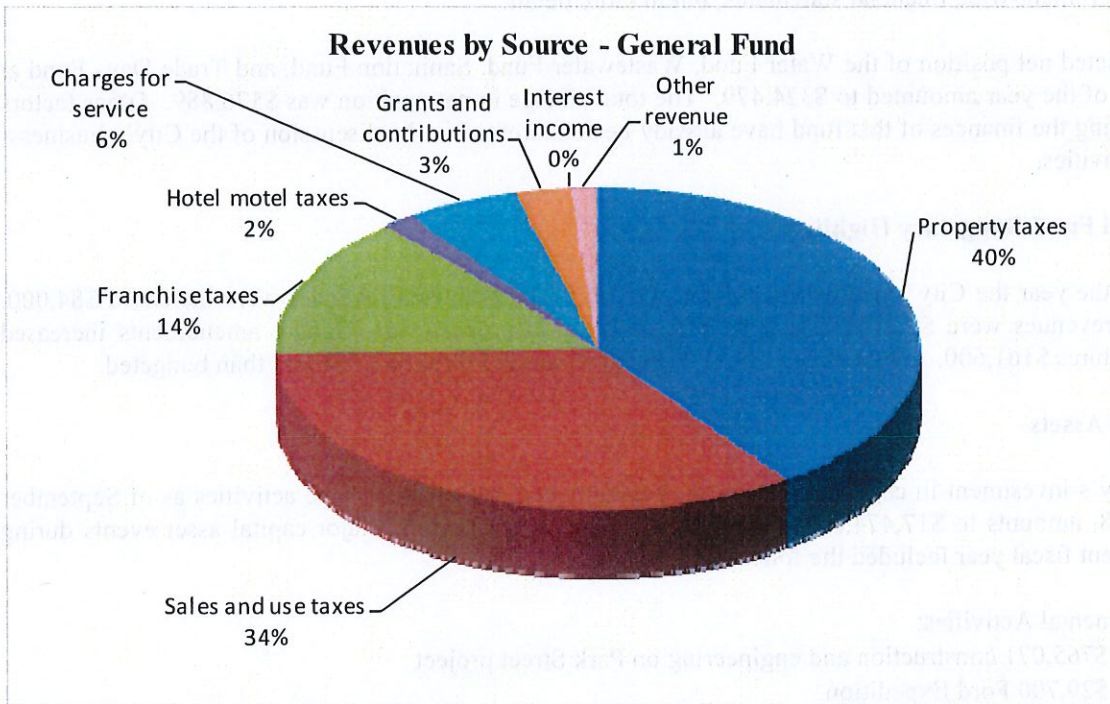
Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure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

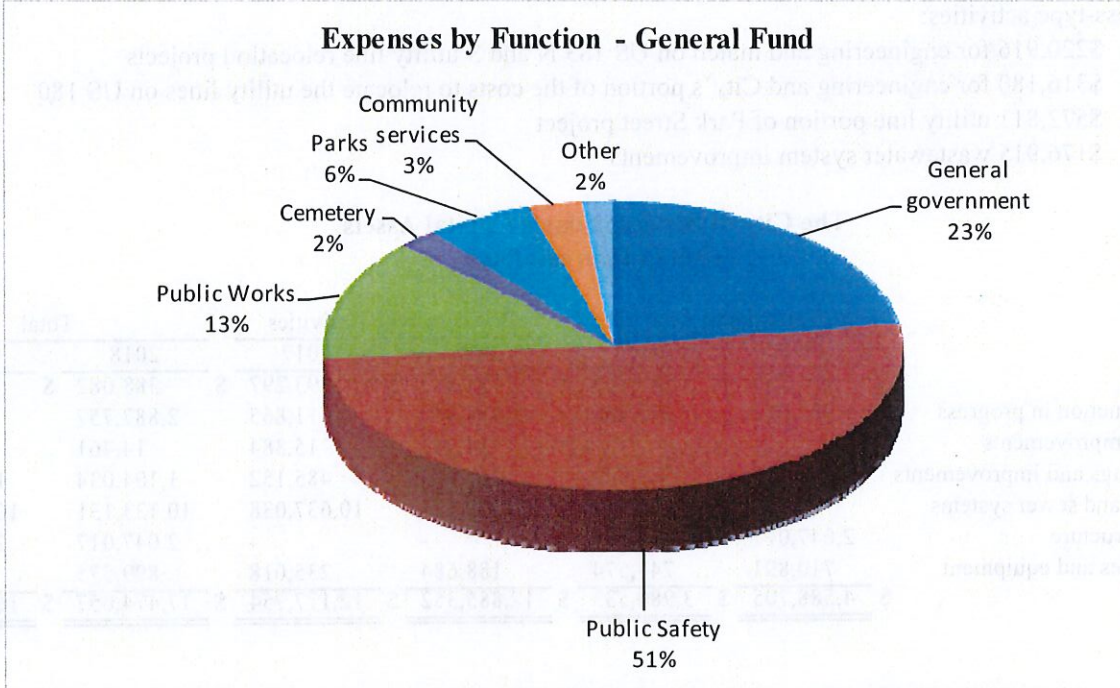
At year end, the City's governmental funds reported combined ending fund balances of \$1,914,518. \$117,595 (6%) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is either restricted, committed or assigned.

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 \$117,595. Below is a comparison of the general fund's net change in fund balance for 2018 and 2017.

	2018	2017	Increase (Decrease)	Percent Increase (Decrease)
Revenues:				
Taxes:				
Property taxes	\$ 1,309,826	\$ 1,236,437	\$ 73,389	5.94%
Sales and use tax	1,128,621	1,040,449	88,172	8.47%
Franchise	459,948	426,720	33,228	7.79%
Hotel motel taxes	52,739	42,415	10,324	24.34%
Charges for service	185,445	203,906	(18,461)	-9.05%
Grants and contributions	92,592	86,562	6,030	6.97%
Interest income	701	743	(42)	-5.65%
Other revenue	42,163	66,728	(24,565)	-36.81%
Total revenues	<u>3,272,035</u>	<u>3,103,960</u>	<u>168,075</u>	<u>5.41%</u>
Expenditures:				
Current				
General government	902,808	874,764	28,044	3.21%
Public Safety	2,047,164	1,893,592	153,572	8.11%
Public Works	528,909	446,093	82,816	18.56%
Cemetery	91,385	89,554	1,831	2.04%
Parks	239,685	236,745	2,940	1.24%
Community services	119,997	125,370	(5,373)	-4.29%
Tourism	42,000	42,000	-	0.00%
Debt service:				
Principal	18,379	117,802	(99,423)	-84.40%
Interest and fiscal charges	5,341	8,456	(3,115)	-36.84%
Total expenditures	<u>3,995,668</u>	<u>3,834,376</u>	<u>161,292</u>	<u>4.21%</u>
Other financing sources (uses):				
Loan Proceeds	173,000	-	173,000	100.00%
Transfers in	804,700	665,500	139,200	20.92%
Transfers out	(251,656)	(10,925)	(240,731)	-2203.49%
Net change in fund balances	<u>\$ 2,411</u>	<u>\$ (75,841)</u>	<u>\$ 78,252</u>	<u>\$ -103.18%</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 \$324,479. The total change in net position was \$576,889. 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. General fund budgeted revenues were increased \$84,000. Actual revenues were \$32,165 less than budgeted due to property tax. Budget amendments increased expenditures \$161,600. Actual expenditures of the general fund were \$82,504 less than budgeted.

Capital Assets

The City's investment in capital assets for its governmental and business type activities as of September 30, 2018, amounts to \$17,474,057 (net of accumulated depreciation). Major capital asset events during the current fiscal year included the following:

Governmental Activities:

- \$765,071 construction and engineering on Park Street project
- \$29,700 Ford Expedition.
- \$43,816 for dozer, small tractor and other public works equipment

Business-type activities:

- \$220,916 for engineering and match on US 183 N and S utility line relocation projects
- \$316,180 for engineering and City's portion of the costs to relocate the utility lines on US 180
- \$572,811 utility line portion of Park Street project
- \$176,915 wastewater system improvements

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

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 194,785	\$ 187,285	\$ 193,297	\$ 193,297	\$ 388,082	\$ 380,582
Construction in progress	989,071	275,246	1,898,686	611,865	2,887,757	887,111
Land Improvements	-	-	14,461	15,384	14,461	15,384
Buildings and improvements	646,941	678,942	457,093	485,152	1,104,034	1,164,094
Water and sewer systems	-	-	10,133,131	10,637,038	10,133,131	10,637,038
Infrastructure	2,047,017	2,095,486	-	-	2,047,017	2,095,486
Vehicles and equipment	710,891	743,574	188,684	235,018	899,575	978,592
Total	<u>\$ 4,588,705</u>	<u>\$ 3,980,533</u>	<u>\$ 12,885,352</u>	<u>\$ 12,177,754</u>	<u>\$ 17,474,057</u>	<u>\$ 16,158,287</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	
	2018	2017	2018	2017	2018	2017
Capital leases payable	\$ 146,480	\$ 164,859	\$ -	\$ -	\$ 146,480	\$ 164,859
Loans Payable	173,000	-	27,000	-	200,000	-
Certificates of Obligation	1,148,000	-	4,939,000	4,665,000	6,087,000	4,665,000
Tax & Revenue Ref. Bonds	-	-	-	165,000	-	165,000
Total	<u>\$ 1,467,480</u>	<u>\$ 164,859</u>	<u>\$ 4,966,000</u>	<u>\$ 4,830,000</u>	<u>\$ 6,433,480</u>	<u>\$ 4,994,859</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 2018-19 Budget increased by \$1,017,378 or .53%. New improvements added for 2018 are \$718,060. Mineral property decreased by \$286,848, and Personal Property decreased by \$756,318. The Debt Rate decreased to \$0.28698. The total tax rate decreased to \$1.02000/\$100 valuation.
- In 2017-18, sales tax revenue is projected to come in \$27,700 more than budgeted and remain level for 2018-19. Sales tax increases to have been due to improvements in the oil and gas industries and the economy as a whole.
- Economic development has improved in 2017-18 with some loss in commercial and manufacturing business, but some additions as well. Resource Care completed their \$2.4 million medical care facility, additional restaurants opened, and Nu-Vision replaced the Colt firearms manufacturing firm in the Carstens Plant. Nu-Vision manufactures oil field housing units, HUD modular homes, and "tiny" houses. A housing developer is working on a \$2.5 million, 22-unit townhouse development which will provide critically needed housing as well as additional tax base.
- The 2018-219 General Fund disbursements are budgeted to decrease \$99,652 from the 2017-18 Budget and decrease \$24,680 or .62% from projected year-end 2017-18. The larges items increasing the budget in 2018-19 are the columbarium in the Cemetery Department and health insurance rates increases of 9.4%. Additional transfers from Water and Wastewater Funds supplement the General Fund in 2018-19. Fund Balance is budgeted to increase by \$184,780 mainly due to the additional transfers from the Water Fund and increased property tax revenues which are the result of lowing the debt service portion of the tax rate thereby increasing the maintenance and operations portion.
- With continuing rains and cooler weather, water consumption is expected to remain in 2017-18 range. Water revenues for 2018-19 are budgeted the increase by \$205,000 over 2017-18 due to a \$7.50 surcharge placed on monthly water bills to pay for the unplanned E. Highway 180 water line project. The surcharge will expire after twelve months. No water rate increases are projected for the Water Fund in 2018-19.
- Water Fund expenditures were projected to come in under budget by \$103,700 in 2017-18. The total 2018-19 expenditures are projected to be in line with last year. A \$55,000 CDBG water line grant match is included in the Water Distribution Department as well as an additional \$60,000 for the Walker Sayle elevated storage tank rehabilitation project. Transfers to the General Fund in 2018-19 will increase by \$100,000 to \$450,000, with no debt service transfers. The City began blending water from Hubbard Creek Lake and Lake Daniels in 2018 on a limited basis and is expected to continue in 2018-19. By blending water from Lake Daniels, the City expects to save \$25,000 in 2018-19.

Transfers to the Breck Trade Days Fund will decrease in 2018-19 to \$2,500. Transfers to the Capital Projects fund for the City's portion of Texas Department of Transportation projects will decrease by \$66,500 in 2018-19. Wastewater Fund revenue for 2017-18 remains at the 2016-17 level. No wastewater rate increases are projected for 2017-18.

- Wastewater Fund revenue for 2018-19 remains at the 2017-18 level. No wastewater rate increases are projected for 2018-19.
- Wastewater Fund expenditures for 2018-19 are projected at \$30,400 less than 2017-18. Lift station maintenance required additional funding in 2017-18. No transfers to the Capital Improvement Fund are required in 2018-19. Transfers to the Breck Trade Days Fund have decreased in 2018-19 to \$5,000.
- The Sanitation Fund remains stable, projecting a cash balance of \$71,983 for 2018-19. Under the new eight-year sanitation contract negotiated in July 2017, staff experienced a few billing problems, but they were straightened out before year end. No rate increases are planned for residential, commercial or industrial customers in 2018-19. The single-axle garbage trucks required under the contract is in service on City streets with the expectation of reducing street maintenance. The city clean-up effort continues to be funded through the Sanitation Fund and has had sixty-two (62) sub-standard houses deposited in the Monofill through 2017-18. The goal for 2018-19 is to demolish another twenty-five (25) structures.
- In 2017-18 a new business model was adopted for the Breck Trade Days to allow the show to continue operating at a reduced level and to cut costs. The show operates monthly for one Saturday per month, and lot rental fees have been eliminated. The fund is not yet self-sustaining and will require additional funds, at a reduced level, in 2018-19 from the Water and Wastewater Funds.
- The 2018-19 Capital Improvements Project Fund expenditures total \$3,703,901. The \$1.2 million Wastewater Treatment Plant project is still under construction. Construction on the \$5.4 million Park Street project started April 2018 with an expected substantial completion date of April 2019. The Texas Department of Transportation projects on E. Highway 180 and S. Highway 183 are expected to be completed by March 2019. The N. Highway 183 water line project is set to be awarded in December 2019. A \$330,000 CDBG water line project is also expected to be completed in 2019. There are no specific street paving projects planned for 2018-19, but \$600,000 is available.
- Transfers will be made into the Equipment Replacement Fund in 2018-19 for \$105,200.
- No new full-time positions or salary increases are to be added in 2018-19. Two part-time jobs were made full-time and additional hours were added to several part-time positions. Health insurance is planned for a 9.4% increase.
- Debt service requirements in the General Debt Service Fund significantly decreased due to paying off two bond issues, 2013 and 2010. The Revenue Debt Service Fund has been closed and all debt service requirements will be paid by the General Debt Service Fund in 2018-19. Reserve balances are projected to increase in the General Debt Service Fund in 2018-19. Reserve balances are projected to increase in the General Debt Service Fund to \$1,011,466.

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.

BASIC FINANCIAL STATEMENTS

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EXHIBIT A-1

CITY OF BRECKENRIDGE, TEXAS
Statement of Net Position
September 30, 2018

	Primary Government			Component Unit
	Governmental	Business-type	Total	Breckenridge Economic Development
	Activities	Activities		
ASSETS:				
Cash and cash equivalents	\$ 1,824,691	\$ 165,547	\$ 1,990,238	\$ 1,287,112
Receivables (Net of allowances for uncollectibles)				
Property taxes	143,873	-	143,873	-
Other taxes	347,745	-	347,745	74,573
Accounts	14,986	307,415	322,401	-
Miscellaneous	211,832	153,088	364,920	-
Internal Balances	(25,908)	25,908	-	-
Supplies inventory	-	150,691	150,691	-
Restricted assets:				
Cash and cash equivalents	-	1,203,847	1,203,847	-
Notes receivable	-	-	-	253,369
Capital assets (net of accumulated depreciation):				
Land	194,785	193,297	388,082	56,546
Construction in progress	989,071	1,898,686	2,887,757	-
Land improvements	-	14,461	14,461	-
Buildings and improvements	646,941	457,093	1,104,034	169,020
Water and wastewater systems	-	10,133,131	10,133,131	-
Infrastructure	2,047,017	-	2,047,017	-
Vehicles and equipment	710,891	188,684	899,575	-
Land held for economic development, at cost				1,830,131
Total Assets	7,105,924	14,891,848	21,997,772	3,670,751
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred outflow related to TMRS pension	118,741	30,052	148,793	-
Deferred outflow related to TMRS OPEB	9,731	2,423	12,154	-
Total Deferred Outflows of Resources	128,472	32,475	160,947	-
LIABILITIES:				
Accounts Payable	277,794	358,362	636,156	-
Accrued Payroll	73,642	17,708	91,350	2,172
Due to other governments	5,827	-	5,827	-
Unearned Revenue	-	82,056	82,056	-
Current Liabilities Payable from Restricted Assets:				
Interest payable	1,092	5,668	6,760	-
Customer deposits	-	214,361	214,361	-
Noncurrent liabilities:				
Due within one year	253,974	159,000	412,974	29,234
Due in more than one year	1,913,883	4,981,329	6,895,212	168,138
Total Liabilities	2,526,212	5,818,484	8,344,696	199,544
DEFERRED INFLOWS OF RESOURCES:				
Deferred inflow related to TMRS pension	256,922	63,950	320,872	-
Total Deferred Inflows of Resources	256,922	63,950	320,872	-
NET POSITION:				
Net Investments in Capital Assets	3,294,225	8,717,410	12,011,635	225,566
Restricted Net Position (Expendable)				
Restricted for USDA loan program	-	-	-	445,772
Debt service	1,201,143	-	1,201,143	-
Property tax reduction	17,234	-	17,234	-
Public safety	11,103	-	11,103	-
Public works	456,967	-	456,967	-
Parks	10,584	-	10,584	-
Unrestricted Net Position	(539,994)	324,479	(215,515)	2,799,869
Total Net Position	\$ 4,451,262	\$ 9,041,889	\$ 13,493,151	\$ 3,471,207

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, 2018

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General government	\$ 905,275	\$ 18,938	\$ -	\$ -
Public Safety	2,108,022	127,833	45,197	-
Public Works	627,412	-	-	-
Cemetery	92,890	8,810	10,043	-
Parks	293,433	26,946	11,653	-
Community services	120,233	-	42,401	-
Tourism	42,000	-	-	-
Interest on long-term debt	11,639	-	-	-
Bond issuance costs	5,012	-	-	-
Total governmental activities	<u>4,205,916</u>	<u>182,527</u>	<u>109,294</u>	<u>-</u>
Business-type activities:				
Water and wastewater	2,375,811	2,642,778	-	294,058
Sanitation	876,213	834,586	-	-
Trade Days	20,044	978	-	-
Total business-type activities	<u>3,272,068</u>	<u>3,478,342</u>	<u>-</u>	<u>294,058</u>
Total primary government	<u>\$ 7,477,984</u>	<u>\$ 3,660,869</u>	<u>\$ 109,294</u>	<u>\$ 294,058</u>
Component Unit				
Governmental activities:				
General administration	\$ 133,419	\$ -	\$ -	\$ -
Economic development	67,463	-	-	-
Community development	16,673	-	-	-
Interest on long-term debt	9,772	-	-	-
Total component unit	<u>\$ 227,327</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2017 - Restated

Net Position September 30, 2018

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

EXHIBIT B-1

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Breckenridge Economic Development
\$ (886,337)	\$ -	\$ (886,337)	\$ -
(1,934,992)	-	(1,934,992)	-
(627,412)	-	(627,412)	-
(74,037)	-	(74,037)	-
(254,834)	-	(254,834)	-
(77,832)	-	(77,832)	-
(42,000)	-	(42,000)	-
(11,639)	-	(11,639)	-
(5,012)	-	(5,012)	-
<u>(3,914,095)</u>	<u>-</u>	<u>(3,914,095)</u>	<u>-</u>
-	561,025	561,025	-
-	(41,627)	(41,627)	-
-	(19,066)	(19,066)	-
<u>-</u>	<u>500,332</u>	<u>500,332</u>	<u>-</u>
\$ <u>(3,914,095)</u>	\$ <u>500,332</u>	\$ <u>(3,413,763)</u>	\$ <u>-</u>
\$ -	\$ -	\$ -	\$ (133,419)
-	-	-	(67,463)
-	-	-	(16,673)
-	-	-	(9,772)
\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(227,327)</u>
\$ 1,310,720	\$ -	\$ 1,310,720	\$ -
650,220	-	650,220	-
1,345,200	-	1,345,200	442,661
473,890	-	473,890	-
52,739	-	52,739	-
4,658	3,772	8,430	12,843
54,002	-	54,002	(8,778)
(72,785)	72,785	-	-
<u>3,818,644</u>	<u>76,557</u>	<u>3,895,201</u>	<u>446,726</u>
(95,451)	576,889	481,438	219,399
4,546,713	8,465,000	13,011,713	3,251,808
\$ <u>4,451,262</u>	\$ <u>9,041,889</u>	\$ <u>13,493,151</u>	\$ <u>3,471,207</u>

CITY OF BRECKENRIDGE, TEXAS
Balance Sheet
Governmental Funds
September 30, 2018

	General Fund	General Debt Service Fund	General Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Assets:					
Cash and cash equivalents	\$ 77,977	\$ 1,156,855	\$ 19,410	\$ 570,449	\$ 1,824,691
Receivables (Net of allowances)					
Property taxes	98,493	45,380	-	-	143,873
Other taxes	310,458	-	-	37,287	347,745
Accounts	14,986	-	-	-	14,986
Miscellaneous	16,832	-	195,000	-	211,832
Due from other funds	17,520	-	-	-	17,520
	<u>536,266</u>	<u>1,202,235</u>	<u>214,410</u>	<u>607,736</u>	<u>2,560,647</u>
Total assets	\$	\$	\$	\$	\$
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 82,379	\$ -	\$ 193,457	\$ 1,958	\$ 277,794
Accrued payroll	73,642	-	-	-	73,642
Due to other funds	39,531	-	-	3,897	43,428
Due to other governments	5,827	-	-	-	5,827
	<u>201,379</u>	<u>-</u>	<u>193,457</u>	<u>5,855</u>	<u>400,691</u>
Total liabilities					
Deferred inflows of resources:					
Deferred property tax	98,493	45,380	-	-	143,873
Other deferred revenue	101,565	-	-	-	101,565
	<u>200,058</u>	<u>45,380</u>	<u>-</u>	<u>-</u>	<u>245,438</u>
Total deferred inflows of resources					
Fund Balances:					
Restricted fund balance	17,234	1,156,855	20,953	457,701	1,652,743
Committed fund balance	-	-	-	144,180	144,180
Unassigned Fund Balance	117,595	-	-	-	117,595
	<u>134,829</u>	<u>1,156,855</u>	<u>20,953</u>	<u>601,881</u>	<u>1,914,518</u>
Total fund balances					
Total liabilities, deferred inflows of resources, and fund balances	\$ 536,266	\$ 1,202,235	\$ 214,410	\$ 607,736	\$ 2,560,647

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, 2018

Total Fund Balances - Governmental Funds	1,914,518
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 \$8,599,823 and the accumulated depreciation was \$4,011,118.	4,588,705
Long-term liabilities, including \$146,480 capital leases payable, \$173,000 loans payable and \$1,148,000 certificates of obligation bonds are not due and payable in the current period and, therefore are not reported as liabilities in the fund financial statements.	(1,467,480)
Some liabilities are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the statement of net position. Including interest payable results in a decrease to net position.	(1,092)
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.	245,438
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 \$545,181 , a Deferred Resource Inflow related to pensions in the amount of \$256,922, and a Deferred Resource Outflow related to pensions in the amount of \$118,741. This results in a decrease in Net Position.	(683,362)
Included in the items related to noncurrent liabilities is the recognition of the City's total OPEB liability required by GASB 75 in the amount of \$155,196 and a Deferred Resource Outflow related to OPEB in the amount of \$9,731. This results in a decrease in Net Position.	(145,465)
Net Position of Governmental Activities	4,451,262

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, 2018

	General Fund	General Debt Service Fund	General Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes:					
Property taxes	\$ 1,309,826	\$ 650,885	\$ -	\$ -	1,960,711
Sales and use tax	1,128,621	-	-	216,579	1,345,200
Franchise	459,948	-	-	-	459,948
Hotel motel taxes	52,739	-	-	-	52,739
Charges for service	185,445	-	-	-	185,445
Grants and contributions	92,592	-	-	16,702	109,294
Interest income	701	2,916	50	991	4,658
Other revenue	42,163	-	-	-	42,163
Total revenues	<u>3,272,035</u>	<u>653,801</u>	<u>50</u>	<u>234,272</u>	<u>4,160,158</u>
Expenditures:					
Current					
General government	902,808	-	-	-	902,808
Public Safety	2,047,164	-	-	4,083	2,051,247
Public Works	528,909	-	-	5,430	534,339
Cemetery	91,385	-	-	-	91,385
Parks	239,685	-	-	24,584	264,269
Community services	119,997	-	-	-	119,997
Tourism	42,000	-	-	-	42,000
Capital Outlay	-	-	765,071	73,516	838,587
Debt service:					
Principal	18,379	-	-	-	18,379
Interest and fiscal charges	5,341	5,206	-	-	10,547
Bond issuance costs	-	-	5,012	-	5,012
Total expenditures	<u>3,995,668</u>	<u>5,206</u>	<u>770,083</u>	<u>107,613</u>	<u>4,878,570</u>
Excess (deficiency) of revenue over (under) expenditures	\$ <u>(723,633)</u>	\$ <u>648,595</u>	\$ <u>(770,033)</u>	\$ <u>126,659</u>	<u>(718,412)</u>
Other financing sources (uses):					
Proceeds from line of credit	173,000	-	-	-	173,000
Proceeds from bonds	-	-	1,148,000	-	1,148,000
Proceeds from Sale of Assets	-	-	-	24,408	24,408
Transfers in	804,700	-	-	105,200	909,900
Transfers out	<u>(251,656)</u>	<u>(409,309)</u>	<u>(321,720)</u>	<u>-</u>	<u>(982,685)</u>
Net change in fund balances	2,411	239,286	56,247	256,267	554,211
Fund balance, October 1, 2017	<u>132,418</u>	<u>917,569</u>	<u>(35,294)</u>	<u>345,614</u>	<u>1,360,307</u>
Fund balance, September 30, 2018	\$ <u><u>134,829</u></u>	\$ <u><u>1,156,855</u></u>	\$ <u><u>20,953</u></u>	\$ <u><u>601,881</u></u>	<u><u>1,914,518</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, 2018

Total Net Change in Fund Balances - Governmental Funds	554,211
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 \$861,937 of capital outlays and \$18,379 of debt principal payments is to increase net position.	880,316
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.	(12,569)
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.	(241,196)
Current year loans and bonds are other financing sources in the fund financial statements. The increase in long-term debt is a decrease in net position.	(1,321,000)
Current year interest payable of the governmental funds is not due and payable in the current period and, therefore is not reported as a liability in the funds. The increase in interest payable decreases net position.	(1,092)
Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.	11,253
GASB 68 required the City to recognize their net pension liability, deferred resource inflow related to pension, and deferred resource outflow related to pension. The changes in these balances decreased net pension.	46,316
GASB 75 requires the City to recognize their OPEB liability and deferred resource outflow related to OPEB. The changes in these balances decreased net pension.	(11,690)
Change in Net Position of Governmental Activities	<u>(95,451)</u>

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, 2018

	Enterprise Funds				
	Water Fund	Wastewater Fund	Sanitation Fund	Trade Days Fund	Totals
ASSETS:					
Current Assets:					
Cash and cash equivalents	\$ 57,769	\$ 41,589	\$ 40,504	\$ 25,685	\$ 165,547
Receivables (Net of allowances):					
Accounts	174,470	86,028	46,917	-	307,415
Miscellaneous	82,088	71,000	-	-	153,088
Due from other funds	-	25,547	13,984	-	39,531
Supplies inventory	150,691	-	-	-	150,691
Restricted Assets:					
Cash and cash equivalents	270,292	933,555	-	-	1,203,847
Total current assets	735,310	1,157,719	101,405	25,685	2,020,119
Noncurrent Assets:					
Capital assets, at cost:					
Land and land improvements	165,068	2,474	39,000	18,382	224,924
Construction in progress	1,273,512	625,174	-	-	1,898,686
Buildings and improvements	993,146	108,362	-	209,321	1,310,829
Water system	13,592,791	-	-	-	13,592,791
Wastewater system	-	5,255,827	-	-	5,255,827
Vehicles and equipment	371,585	425,555	78,107	6,247	881,494
Less: accumulated depreciation	(6,940,658)	(3,250,582)	(66,707)	(21,252)	(10,279,199)
Capital assets, net	9,455,444	3,166,810	50,400	212,698	12,885,352
Total noncurrent assets	9,455,444	3,166,810	50,400	212,698	12,885,352
Total assets	10,190,754	4,324,529	151,805	238,383	14,905,471
DEFERRED OUTFLOWS OF RESOURCES:					
Deferred outflow related to TMRS pension	20,688	9,122	242	-	30,052
Deferred outflow related to TMRS OPEB	1,667	629	127	-	2,423
Total Deferred Outflows of Resources	22,355	9,751	369	-	32,475
LIABILITIES:					
Current Liabilities:					
Accounts payable	144,192	151,904	61,829	437	358,362
Accrued payroll	11,654	5,477	577	-	17,708
Due to other funds	13,623	-	-	-	13,623
Unearned revenues	-	82,056	-	-	82,056
Current Liabilities Payable from Restricted Assets:					
Current portion of long-term debt	128,120	30,880	-	-	159,000
Interest payable	4,940	728	-	-	5,668
Customer deposits payable	214,361	-	-	-	214,361
Total current liabilities	516,890	271,045	62,406	437	850,778
Noncurrent Liabilities:					
Long-term portion of bonds payable	3,868,120	938,880	-	-	4,807,000
Net pension liability	93,349	35,201	7,149	-	135,699
Total OPEB liability	26,574	10,021	2,035	-	38,630
Total noncurrent liabilities	3,988,043	984,102	9,184	-	4,981,329
Total liabilities	4,504,933	1,255,147	71,590	437	5,832,107
DEFERRED INFLOWS OF RESOURCES:					
Deferred inflow related to TMRS	43,992	16,589	3,369	-	63,950
Total Deferred Inflows of Resources	43,992	16,589	3,369	-	63,950
NET POSITION:					
Net Investment in Capital Assets	5,459,204	2,995,108	50,400	212,698	8,717,410
Unrestricted	204,980	67,436	26,815	25,248	324,479
Total net position	\$ 5,664,184	\$ 3,062,544	\$ 77,215	\$ 237,946	\$ 9,041,889

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, 2018

	Enterprise Funds				
	Water Fund	Wastewater Fund	Sanitation Fund	Trade Days Fund	Totals
Operating revenues:					
Charges for sales and services	\$ 1,691,968	\$ 891,381	\$ 833,702	978	\$ 3,418,029
Miscellaneous	55,223	4,206	884	-	60,313
Total operating revenue	<u>1,747,191</u>	<u>895,587</u>	<u>834,586</u>	<u>978</u>	<u>3,478,342</u>
Operating expenses:					
Water and sewer commercial	77,351	-	-	-	77,351
Water meters and readers	94,861	-	-	-	94,861
Lake Daniel	2,801	-	-	-	2,801
Water production	786,844	-	-	-	786,844
Water distribution	214,832	-	-	-	214,832
Sewer collection	-	209,797	-	-	209,797
Sewer treatment	-	275,822	-	-	275,822
Solid waste	-	-	874,413	-	874,413
Trade Days	-	-	-	12,993	12,993
Depreciation	402,243	168,129	1,800	7,051	579,223
Total operating expenses	<u>1,578,932</u>	<u>653,748</u>	<u>876,213</u>	<u>20,044</u>	<u>3,128,937</u>
Operating income (loss)	<u>168,259</u>	<u>241,839</u>	<u>(41,627)</u>	<u>(19,066)</u>	<u>349,405</u>
Nonoperating revenues (expenses):					
Interest revenue	968	2,621	130	53	3,772
Interest expense and fiscal charges	(127,821)	(15,310)	-	-	(143,131)
Total nonoperating revenues (expenses)	<u>(126,853)</u>	<u>(12,689)</u>	<u>130</u>	<u>53</u>	<u>(139,359)</u>
Income (loss) before contributions and transfers	<u>41,406</u>	<u>229,150</u>	<u>(41,497)</u>	<u>(19,013)</u>	<u>210,046</u>
Transfers (to) from other funds and contributions:					
Capital Grants & Contributions	117,143	176,915	-	-	294,058
Transfers in	689,218	176,990	-	86,814	953,022
Transfers out	(552,700)	(322,337)	(5,200)	-	(880,237)
Change in Net Position	295,067	260,718	(46,697)	67,801	576,889
Net Position, October 1, 2017 - Restated	<u>5,369,117</u>	<u>2,801,826</u>	<u>123,912</u>	<u>170,145</u>	<u>8,465,000</u>
Net Position, September 30, 2018	<u>\$ 5,664,184</u>	<u>\$ 3,062,544</u>	<u>\$ 77,215</u>	<u>237,946</u>	<u>\$ 9,041,889</u>

CITY OF BRECKENRIDGE, TEXAS
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2018

	Enterprise Funds				
	Water Fund	Wastewater Fund	Sanitation Fund	Trade Days Fund	Totals
Cash flows from operating activities:					
Cash received from customers	\$ 1,765,125	\$ 902,055	\$ 833,344	\$ 978	\$ 3,501,502
Cash paid to suppliers	(889,384)	(361,846)	(791,834)	(12,229)	(2,055,293)
Cash paid to employees	(298,800)	(130,057)	(19,105)	(480)	(448,442)
Net cash provided (used) by operating activities	<u>576,941</u>	<u>410,152</u>	<u>22,405</u>	<u>(11,731)</u>	<u>997,767</u>
Cash flow from noncapital financing activities:					
Due to/from other funds	21,720	(8,372)	(8,114)	(67,075)	(61,841)
Transfers in	689,218	176,990	-	86,814	953,022
Transfers out	(552,700)	(322,337)	(5,200)	-	(880,237)
Net cash provided (used) by noncapital financing activities	<u>158,238</u>	<u>(153,719)</u>	<u>(13,314)</u>	<u>19,739</u>	<u>10,944</u>
Cash flow from capital and related financing activities:					
Capital expenditures	(711,669)	(409,170)	-	-	(1,120,839)
Grants received	131,546	-	-	-	131,546
Proceeds from loans	27,000	-	-	-	27,000
Proceeds from issuance of bonds	165,240	158,760	-	-	324,000
Principal payments on long-term debt	(251,000)	(109,000)	-	-	(360,000)
Interest paid on bonds	(127,251)	(14,908)	-	-	(142,159)
Net cash (used) by capital and related financing activities	<u>(766,134)</u>	<u>(374,318)</u>	<u>-</u>	<u>-</u>	<u>(1,140,452)</u>
Cash flow from investing activities:					
Interest received	968	2,621	130	53	3,772
Net cash provided by investing activities	<u>968</u>	<u>2,621</u>	<u>130</u>	<u>53</u>	<u>3,772</u>
Net increase (decrease) in cash and cash equivalents	(29,987)	(115,264)	9,221	8,061	(127,969)
Cash and cash equivalents, October 1, 2017	<u>358,048</u>	<u>1,090,408</u>	<u>31,283</u>	<u>17,624</u>	<u>1,497,363</u>
Cash and cash equivalents, September 30, 2018	<u>\$ 328,061</u>	<u>\$ 975,144</u>	<u>\$ 40,504</u>	<u>\$ 25,685</u>	<u>\$ 1,369,394</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities					
Operating income	\$ 168,259	\$ 241,839	\$ (41,627)	\$ (19,066)	\$ 349,405
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	402,243	168,129	1,800	7,051	579,223
(Increase) decrease in accounts receivable	16,607	6,468	(1,242)	-	21,833
(Increase) decrease in supplies inventory	(32,261)	-	-	-	(32,261)
Increase (decrease) in accounts payable	27,631	9,142	61,796	399	98,968
Increase (decrease) in accrued payroll	200	678	(223)	(115)	540
Increase (decrease) in customer meter deposits	1,327	-	-	-	1,327
Increase (decrease) in net pension balances	(9,066)	(16,858)	1,747	-	(24,177)
Increase (decrease) in total OPEB balances	2,001	754	154	-	2,909
Total adjustments	<u>408,682</u>	<u>168,313</u>	<u>64,032</u>	<u>7,335</u>	<u>648,362</u>
Net cash provided by operating activities	<u>\$ 576,941</u>	<u>\$ 410,152</u>	<u>\$ 22,405</u>	<u>\$ (11,731)</u>	<u>\$ 997,767</u>

EXHIBIT E-1

CITY OF BRECKENRIDGE, TEXAS
Statement of Fiduciary Net Position
Cemetery Trust Fund
September 30, 2018

ASSETS:

Investments	\$ <u>558,850</u>
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Total assets	<u>558,850</u>
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NET POSITION:

Held in trust for cemetery care	<u>558,850</u>
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Total net position	\$ <u><u>558,850</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, 2018

Additions:

Sale of lots	\$ 1,553
Investment Income	<u>7,400</u>

Total additions	<u>8,953</u>
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Deductions:

Benefits to Breckenridge Cemetery	12,375
Trust Fees	<u>6,482</u>

Total deductions	<u>18,857</u>
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Change in Net Position	(9,904)
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Net Position, October 1, 2017	<u>568,754</u>
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Net Position, September 30, 2018	<u><u>\$ 558,850</u></u>
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The notes to the financial statements are an integral part of this statement.

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2018

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, 2018

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 general capital projects fund accounts for financial resources used for major capital projects.

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.

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 \$97,599 and the general debt service fund of \$46,045 is equal to 50% of outstanding delinquent property taxes at September 30, 2018. The court fines and fees receivable is reported net of an allowance of \$16,502 which is 50% of the outstanding receivable. Trade accounts receivable in the enterprise funds are reported net of an allowance of \$20,309 which is the accounts aged over 60 days.

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2018

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 \$143,131. 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, 2018

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.

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unassigned – All amounts not included in other spendable classifications.

	General Fund	General Debt Service Fund	General Capital Projects	Other Governmental Funds	Total Governmental Funds
Restricted:					
Debt service	\$ -	\$ 1,156,855	\$ -	\$ -	\$ 1,156,855
Property tax reduction	17,234	-	-	-	17,234
Public Safety	-	-	-	11,103	11,103
Public Works	-	-	20,953	436,014	456,967
Parks	-	-	-	10,584	10,584
Committed:					
Equipment replacement	-	-	-	144,180	144,180
Unassigned	117,595	-	-	-	117,595
	<u>\$ 134,829</u>	<u>\$ 1,156,855</u>	<u>\$ 20,953</u>	<u>\$ 601,881</u>	<u>\$ 1,914,518</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 by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and 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, 2018

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 the City's pledge of securities and FDIC Insurance. At September 30, 2018, the City's deposits and BEDC's deposits were fully collateralized and insured.

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 a trust agreement. 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	Cost	Fair Value	Percentage of Total Investments	Investment Maturities (in Years)			
					Less than 1 year	1-5 Years	6-10 Years	Over 10 Years
Cash	N/A	23,403	23,403	4.19%	23,403	-	-	-
Equity Mutual Funds	N/A	154,876	161,547	28.91%	161,547	-	-	-
Bond Mutual Funds	N/A	173,213	166,838	29.85%	166,838	-	-	-
Corporate Bonds	Aaa - Baa2	111,459	108,443	19.40%	6,012	59,975	34,464	7,992
U.S. Treasuries	N/A	33,827	32,535	5.82%	-	5,158	6,505	20,872
U.S. Government Agencies	N/A	67,434	66,084	11.82%	-	-	10,775	55,309
		<u>\$ 564,212</u>	<u>\$ 558,850</u>		<u>\$ 357,800</u>	<u>\$ 65,133</u>	<u>\$ 51,744</u>	<u>\$ 84,173</u>

Investment Valuation

All securities are stated at fair value as reported by the City's portfolio manager. For securities traded on a major exchange, market values are priced as of the statement date, September 30, 2018, as provided by various pricing services (Level 1 inputs). The method and frequency of pricing assets not traded on major exchanges varies depending on the type of assets (Level 2 inputs); therefore, the market value may not be a current value as of the statement date.

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2018

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	\$ 217,069
Construction - water fund	53,223
Construction - wastewater fund	933,555
	<u>\$ 1,203,847</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 outflow related to TMRS pension and deferred outflows related to TMRS OPEB reported in the government-wide statement of net position and proprietary funds statement of net position.

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)	\$ 98,493
Deferred property taxes receivable (general debt service fund)	45,380
Deferred franchise taxes receivable (general fund)	85,063
Deferred court costs (general fund)	16,502
Total deferred inflows for governmental funds	<u>\$ 245,438</u>

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2018

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, 2018, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water Fund	\$ 13,623
	Other governmental funds	3,897
Total governmental funds		<u>\$ 17,520</u>
Wastewater fund	General Fund	\$ 25,547
Sanitation Fund	General Fund	13,984
Total proprietary funds		<u>\$ 39,531</u>

The receivables and payables between the general, water, wastewater and sanitation fund are related to utility billings.

The composition of interfund transfers for the City's individual major funds and nonmajor funds at September 30, 2018, is as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Water Fund	\$ 507,700
General Fund	Wastewater Fund	297,000
Other governmental funds	General Fund	50,000
Other governmental funds	Water Fund	40,000
Other governmental funds	Wastewater Fund	10,000
Other governmental funds	Sanitation Fund	5,200
Total Governmental Funds Transfers In		<u>\$ 909,900</u>
Water Fund	General Fund	\$ 129,842
Water Fund	General Debt Service Fund	285,401
Water Fund	General Capital Projects	268,638
Water Fund	Wastewater Fund	5,337
Wastewater Fund	General Debt Service Fund	123,908
Wastewater Fund	General Capital Projects	53,082
Trade Days Fund	General Fund	71,814
Trade Days Fund	Water Fund	5,000
Trade Days Fund	Wastewater Fund	10,000
Total Enterprise Funds Transfers In		<u>\$ 953,022</u>

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2018

NOTE 5: INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS (Continued)

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

NOTE 6: CAPITAL ASSETS

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

Governmental activities:

	Primary Government				Ending Balance
	Beginning Balance	Increases	Decreases	Transfers	
Non - Depreciable Assets:					
Land	\$ 187,285	\$ 7,500	\$ -	\$ -	\$ 194,785
Construction in Progress	275,246	765,071	-	(51,246)	989,071
Total non-depreciable assets	462,531	772,571	-	(51,246)	1,183,856
Depreciable Assets:					
Buildings and improvements	1,514,085	6,800	-	-	1,520,885
Infrastructure	3,499,989	24,230	-	-	3,524,219
Vehicles and Equipment	2,348,279	58,336	(95,347)	59,595	2,370,863
Total capital assets being depreciated	7,362,353	89,366	(95,347)	59,595	7,415,967
Accumulated Depreciation:					
Buildings and improvements	(835,140)	(38,804)	-	-	(873,944)
Infrastructure	(1,404,503)	(72,699)	-	-	(1,477,202)
Vehicles and Equipment	(1,604,708)	(129,693)	82,778	(8,349)	(1,659,972)
Total accumulated depreciation	(3,844,351)	(241,196)	82,778	(8,349)	(4,011,118)
Governmental activities capital assets, net	\$ 3,980,533	\$ 620,741	\$ (12,569)	\$ -	\$ 4,588,705

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2018

NOTE 6: CAPITAL ASSETS - (Continued)

Business-type activities:

	Primary Government				
	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Non - Depreciable Assets:					
Land	\$ 193,297	\$ -	\$ -	\$ -	\$ 193,297
Construction in Progress	611,865	1,286,821	-	-	1,898,686
Total non-depreciable assets	805,162	1,286,821	-	-	2,091,983
Depreciable Assets:					
Land improvements	31,627				31,627
Buildings and improvements	1,310,829				1,310,829
Water and sewer systems	18,848,618				18,848,618
Vehicles and equipment	875,943		(36,825)	42,376	881,494
Total capital assets being depreciated	21,067,017	-	(36,825)	42,376	21,072,568
Accumulated Depreciation:					
Land improvements	(16,243)	(923)			(17,166)
Buildings and improvements	(825,677)	(28,059)			(853,736)
Water and sewer systems	(8,211,580)	(503,907)			(8,715,487)
Vehicles and equipment	(640,925)	(46,334)	36,825	(42,376)	(692,810)
Total accumulated depreciation	(9,694,425)	(579,223)	36,825	(42,376)	(10,279,199)
Business-type activities capital assets, net	\$ 12,177,754	\$ 707,598	\$ -	\$ -	\$ 12,885,352

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

Governmental activities:

General government	13,231
Public Safety	81,133
Public Works	96,237
Cemetery	2,446
Parks	47,257
Community services	892
Total depreciation expense - governmental activities	<u>\$ 241,196</u>

Business-type activities:

Water	\$ 402,243
Wastewater	168,129
Sanitation	1,800
Trade Days	7,051
Total depreciation expense - business-type activities	<u>\$ 579,223</u>

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2018

NOTE 6: CAPITAL ASSETS - (Continued)

Discretely Presented Component Unit

Activity for the Breckenridge Economic Development Corporation for the year ended September 30, 2018 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	(50,189)	(5,436)	-	(55,625)
Office furniture and Equipment	(4,108)	-	-	(4,108)
Total accumulated depreciation	(54,297)	(5,436)	-	(59,733)
Governmental activities capital assets, net	\$ 231,002	\$ (5,436)	\$ -	\$ 225,566

Properties 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 \$1,830,131.

NOTE 7: CAPITAL LEASES

The City has entered into a lease agreement as lessee to finance the acquisition of equipment for the general fund. This lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of inception. The interest rate on the lease is 3.24%. Future minimum lease purchase commitments are as follows:

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2018

NOTE 7: CAPITAL LEASES- (Continued)

	Governmental Activities
2019	\$ 23,719
2020	23,719
2021	23,719
2022	23,719
2023	23,719
2024-2027	<u>47,441</u>
Total debt service requirements	166,036
Less: Interest Portion	<u>19,556</u>
Debt Principal	<u><u>\$ 146,480</u></u>

Assets under lease and related accumulated depreciation are as follows:

	Governmental Activities
Vehicles and equipment	\$ 269,298
Less: Accumulated depr	<u>(48,267)</u>
Net	<u><u>\$ 221,031</u></u>

NOTE 8: LOANS PAYABLE

The City has borrowed \$200,000 on its line of credit with a local bank to fund operating expenditures. Interest is due annually at 5.25%. The loan matures on September 30, 2019. The loan is secured by all of the deposit accounts of the City and property tax revenue collected over the next twelve month period.

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2018

NOTE 9: LONG-TERM DEBT

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2018.

Primary Government	9/30/2017	Additions	Retirements	9/30/2018	Due Within One Year
Governmental Activities.:					
Capital Leases Payable	\$ 164,859	\$ -	\$ 18,379	\$ 146,480	\$ 18,974
Certificates of Obligation	-	1,148,000	-	1,148,000	62,000
Loans payable	-	173,000	-	173,000	173,000
Net pension liability	1,092,938	-	547,757	545,181	-
Total OPEB liability	-	155,196	-	155,196	-
Total Governmental Activities	1,257,797	1,476,196	566,136	2,167,857	253,974
Business-type Activities:					
Certificates of Obligation	4,665,000	469,000	195,000	4,939,000	132,000
General Obligation Refunding Bonds	165,000	-	165,000	-	-
Premium on GO Refunding Bonds	2,745	-	2,745	-	-
Loans payable	-	27,000	-	27,000	27,000
Net pension liability	288,429	-	152,730	135,699	-
Total OPEB liability	-	38,630	-	38,630	-
Total Business-type Activities	5,121,174	534,630	515,475	5,140,329	159,000
Total Long-Term Liabilities	\$ 6,378,971	\$ 2,010,826	\$ 1,081,611	\$ 7,308,186	\$ 412,974
Component Unit					
Governmental Activities.:					
Tax leveraged fund note	225,694	-	28,322	197,372	29,234
Total Component Unit	\$ 225,694	\$ -	\$ 28,322	\$ 197,372	\$ 29,234

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2018

NOTE 9: LONG-TERM DEBT – (continued)

At September 30, 2018, governmental activities and business-type activities bonds payable consisted of the following issues:

	<u>Primary Government</u>
<u>Governmental Activities</u>	
\$4,262,000 Combination Tax and Revenue Certificates of Obligation, Series 2017B, due in annual installments through September 15, 2057, bearing interest at 2.75%	<u>\$ 1,148,000</u>
<u>Business-Type Activities</u>	
\$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%.	1,500,000
\$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%.	740,000
\$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%	2,230,000
\$846,000 Combination Tax and Revenue Certificates of Obligation Series, 2017A, due in annual installments through September 15, 2057, bearing interest at 2.75%	<u>469,000</u>
Total business-type activities	<u>\$ 4,939,000</u>

At September 30, 2018, 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>197,372</u>
Total component unit	<u>\$ 197,372</u>

The Combination Tax and Revenue Certificates of Obligation, Series 2017A and 2017B were sold to the United States of America Department of Agriculture, Rural Utilities Service. Rural Utilities Services purchases these certificates as work progresses on the approved project. The amounts payable reflected in the table above are the amounts purchased as of September 30, 2018, plus \$195,000 and \$145,000 accrued as receivables in the governmental activities and business-type activities respectively. The receivables were accrued for amounts expended by the City in September 30, 2018.

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2018

NOTE 9: LONG-TERM DEBT (Continued)

The annual requirements to amortize governmental activities and business-type activities bonds outstanding as of September 30, 2018 are as follows:

Primary Government	Certificates of Obligation					
	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 62,000	\$ 31,570	\$ 93,570	\$ 132,000	139,456	\$ 271,456
2020	64,000	29,865	93,865	133,000	137,776	270,776
2021	65,000	28,105	93,105	143,000	135,566	278,566
2022	67,000	26,318	93,318	143,000	132,928	275,928
2023	69,000	24,475	93,475	144,000	130,033	274,033
2024-2028	375,000	92,812	467,812	764,000	597,940	1,361,940
2029-2033	430,000	38,335	468,335	871,000	489,725	1,360,725
2034-2038	16,000	440	16,440	1,014,000	350,248	1,364,248
2039-2043	-	-	-	1,187,000	174,879	1,361,879
2044-2048	-	-	-	408,000	13,906	421,906
Total debt service requirements	\$ 1,148,000	\$ 271,920	\$ 1,419,920	\$ 4,939,000	\$ 2,302,457	\$ 7,241,457

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 \$.35194 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 \$1,156,855 for the general debt service and \$139 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, 2018.

The annual requirements to amortize the component unit governmental activity bonds as of September 30, 2018 are as follows:

Component Unit	Governmental Activities		
	Principal	Interest	Total
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
2023	36,020	2,855	38,875
2024	34,718	918	35,636
Total debt service requirements	\$ 198,442	\$ 26,944	\$ 225,386

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2018

NOTE 10: 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 11: TAX ABATEMENTS

The City of Breckenridge is authorized to provide assistance for economic development under Chapter 380 of the Texas Local Government Code. The economic development must serve the purpose of promoting state or local economic development by stimulating business or commercial activity within the City. The assistance may be in the form of loans, grants, tax rebates and use of City personnel and services. The City has entered into Chapter 380 Economic Development Program Agreements with a developer and has agreed to provide sales tax grants and rebates. The City will pay to developer an amount equal to 60% of the project sales tax revenue for a period of ten years up to a maximum of \$325,000. The first payment was made in February 2018 and the final payment will be made in February 2027 if the maximum has not been paid at that date. The 380 Agreement was entered into in conjunction with a Performance Agreement between a developer and Breckenridge Economic Development Corporation, the two agreements being contingent upon execution of the other. BEDC will make annual performance grants to a developer in an amount equal to 50% of the annual local sales tax rebate which the City has agreed to make pursuant to the 380 Development Agreement.

Below is a table of tax abatements for the year ended September 30, 2018.

Type of Business	Purpose	Tax Abated	Percent Abated	Amount Abated	
				City	BEDC
Retail shopping center	Purchase, remodel and redevelop property	Sales Tax	60% of 1 cent	\$ 15,154	\$ 15,154

NOTE 12: DEFINED BENEFIT PENSION PLANS

Plan Description

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

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

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2018

NOTE 12: DEFINED BENEFIT PENSION PLANS – (Continued)

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.

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 2017</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, 2017 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	48
Inactive employees entitled to but not yet receiving benefits	48
	<u>161</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 8.72% in calendar years 2017 and 2018, respectively. The city's contributions to TMRS for the year ended September 30, 2018, were \$194,107, and were equal to the required contributions.

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2018

NOTE 12: DEFINED BENEFIT PENSION PLANS – (Continued)

Net Pension Liability

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

Actuarial Assumptions:

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

Inflation	2.5% per year
Overall payroll growth	3.0% 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.

The actuarial assumptions used in the December 31, 2017, 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:

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2018

NOTE 12: 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%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
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 12/31/16	\$ 8,210,353	\$ 6,828,986	\$ 1,381,367
Changes for the year:			
Service cost	208,582	-	208,582
Interest	542,655	-	542,655
Difference between expected and actual experience	(186,991)	-	(186,991)
Contributions-employer	-	202,916	(202,916)
Contributions-employee	-	120,197	(120,197)
Net investment income	-	946,773	(946,773)
Benefit payments, including refunds of employee contributions	(550,633)	(550,633)	-
Administrative expense	-	(4,905)	4,905
Other changes	-	(248)	248
Net changes	13,613	714,100	(700,487)
Balance at 12/31/17	\$ 8,223,966	\$ 7,543,086	\$ 680,880

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2018

NOTE 12: 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	\$ 1,699,054	\$ 680,880	\$ (157,583)

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.

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

For the year ended September 30, 2018, the City recognized pension expense of \$137,711.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 4,411	\$ 134,904
Changes in actuarial assumptions	2,021	-
Differences between projected and actual investment earnings	-	185,968
Contributions subsequent to the measurement date	142,361	-
Total	<u>\$ 148,793</u>	<u>\$ 320,872</u>

\$142,361 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2018

NOTE 12: DEFINED BENEFIT PENSION PLANS – (Continued)

Year ended December 31:	Net Deferred outflows (inflows) of resources
2018	\$ (34,350)
2019	(54,886)
2020	(128,040)
2021	(97,164)
2022	-
Thereafter	-
	<u>\$ (314,440)</u>

NOTE 13: POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description

TMRS administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. 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). The death benefit for retirees is considered an other postemployment benefit (OPEB) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

The member 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.

B. Benefits Provided

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

Inactive employees or beneficiaries currently receiving benefits	33
Inactive employees entitled to but not yet receiving benefits	6
Active employees	<u>65</u>
	104

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2018

NOTE 13: POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – (Continued)

C. Total OPEB Liability

The City's total OPEB liability was measured as of December 31, 2017, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

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

Inflation	2.5% per year
Overall payroll growth	3.50% to 10.50% including inflation
Retirees' share of benefit related costs	\$0

All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.

Mortality rates for service retirees were based on the gender distinct RP 2000 Combined Mortality Table with Blue Collar Adjustments with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Mortality rates for disabled retirees were based on the gender distinct RP 2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 3.31%. The discount rate was based on Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2018

NOTE 13: POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – (Continued)

Changes in the OPEB Liability

	Total OPEB Liability (a)
Balances as of December 31, 2016	\$ 167,073
Changes for the year:	
Service cost	6,888
Interest on total OPEB liability	6,417
Effect of plan changes	-
Effect of economic/demographic gains or losses	-
Effect of assumptions changes or inputs	14,955
Benefit payments	(1,507)
Net changes	<u>26,753</u>
Balances as of December 31, 2017	<u>\$ 193,826</u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.31%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current rate:

	1% decrease discount rate 2.31%	Current Discount Rate 3.31%	1% increase discount rate 4.31%
Net Pension Liability	\$ 232,319	\$ 193,826	\$ 164,105

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of \$16,106.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources relate to OPEB for the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	12,154	-
Contributions made subsequent to measurement date	-	-
Total	<u>\$ 12,154</u>	<u>\$ -</u>

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2018

NOTE 13: POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – (Continued)

Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Plan year ended December 31:		
2018	\$	2,801
2019		2,801
2020		2,801
2021		2,801
2022		950
Thereafter		-
Total	\$	<u>12,154</u>

NOTE 14: CONTINGENT LIABILITIES

A. Federal and State Programs

Federal and state funding received related to various grant programs are based upon periodic reports detailing reimbursable expenditures made, in compliance with program guidelines, to the grantor agency. These programs are governed by various statutory rules and regulations of the grantors. Amounts received and receivable under these various funding programs are subject to periodic audit and adjustment by the funding agencies. To the extent, if any, the City has not complied with all the rules and regulations with respect to performance, financial or otherwise, adjustment to or return of fund monies may be required.

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

B. USDA Loan Program

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

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

C. Litigation

The City has claims or lawsuits arising from the normal course of business. Although the outcome of these claims and lawsuits is not presently determinable, it is the opinion of City management and legal counsel that they will not have a material adverse effect on the financial condition of the City.

CITY OF BRECKENRIDGE, TEXAS
Notes to Financial Statements
September 30, 2018

NOTE 15: CONTRACTS AND COMMITMENTS

A. Texas Water Development Board Projects

In 2012, the City received an \$840,000 loan and \$353,461 loan forgiveness grant for wastewater improvements, of which \$271,406 has been expended to date on engineering and construction.

The City entered into an Escrow Agreement with the Texas Water Development Board for the 2012 bonds. The escrowed funds are kept in separate accounts at the City's depositor bank and shall not be subject to warrants, drafts or checks drawn by the City but shall be disbursed or withdrawn to pay the costs of the Project which the agreement was executed and solely upon written authorization from the Executive Administrator or his designated representative. The balance in the Escrow Accounts at September 30, 2018 was \$933,540.

B. USDA – Rural Utility Services Projects

In March 2018, the City issued \$846,000 and \$4,262,000 Combination Tax and Revenue Certificates of Obligation for water and sewer system improvements and street and drainage improvements. The Certificates of Obligation were purchased by the United States of America Department of Agriculture, Rural Utilities Service. In April 2018 the City awarded a \$4,009,418 construction contract for these improvements. At September 30, 2018, \$1,154,089 has been completed on this project.

NOTE 16: SUBSEQUENT EVENTS

Subsequent events were evaluated through January 29, 2019, which is the date the financial statements were available to be issued.

NOTE 17: NEW ACCOUNTING PRONOUNCEMENTS

The City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement replaces the requirements of Statements No. 45 and No. 57 for accounting and financial reporting of postemployment benefits other than pensions. This change requires beginning net position be restated to account for the balance at the beginning of the year.

	Governmental Activities	Business-type Activities	Water Fund	Wastewater Fund	Sanitation Fund
Beginning net position	\$ 4,680,488	\$ 8,498,298	\$ 5,392,023	\$ 2,810,464	\$ 125,665
Total OPEB Liability	(133,775)	(33,298)	(22,906)	(8,638)	(1,753)
Restated beginning net position	\$ 4,546,713	\$ 8,465,000	\$ 5,369,117	\$ 2,801,826	\$ 123,912

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, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Property taxes	\$ 1,365,800	\$ 1,365,800	\$ 1,309,826	(55,974)
Sales and use tax	1,106,100	1,106,100	1,128,621	22,521
Franchise	416,000	441,600	459,948	18,348
Hotel motel taxes	48,000	48,000	52,739	4,739
Charges for service	205,400	208,900	185,445	(23,455)
Grants and contributions	59,600	96,200	92,592	(3,608)
Interest income	800	800	701	(99)
Other revenue	18,500	36,800	42,163	5,363
Total revenues	<u>3,220,200</u>	<u>3,304,200</u>	<u>3,272,035</u>	<u>(32,165)</u>
Expenditures:				
Current				
General government	864,700	929,100	902,808	26,292
Public Safety	2,010,072	2,063,372	2,047,164	16,208
Public Works	486,100	528,800	528,909	(109)
Cemetery	97,000	97,000	91,385	5,615
Parks	251,000	252,200	239,685	12,515
Community services	142,000	142,000	119,997	22,003
Tourism	42,000	42,000	42,000	-
Debt service:				
Principal	18,400	18,400	18,379	21
Interest and fiscal charges	5,300	5,300	5,341	(41)
Total expenditures	<u>3,916,572</u>	<u>4,078,172</u>	<u>3,995,668</u>	<u>82,504</u>
Excess (deficiency) of revenue over (under) expenditures	<u>\$ (696,372)</u>	<u>\$ (773,972)</u>	<u>\$ (723,633)</u>	<u>50,339</u>
Other financing sources (uses):				
Loan proceeds	-	-	173,000	173,000
Transfers in	650,000	656,000	804,700	148,700
Transfers out	-	(6,000)	(251,656)	(245,656)
Net change in fund balances	<u>(46,372)</u>	<u>(123,972)</u>	<u>2,411</u>	<u>126,383</u>
Fund balance, October 1, 2017	<u>132,418</u>	<u>132,418</u>	<u>132,418</u>	<u>-</u>
Fund balance, September 30, 2018	<u>\$ 86,046</u>	<u>\$ 8,446</u>	<u>\$ 134,829</u>	<u>126,383</u>

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

CITY OF BRECKENRIDGE
Schedule of Changes in Net Pension Liability and Related Ratios
September 30, 2018

Total pension liability

Plan Year	2014	2015	2016	2017
Service Cost	\$ 180,948	\$ 202,264	\$ 210,034	\$ 208,582
Interest (on the Total Pension Liability)	523,394	529,436	528,297	542,655
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(78,389)	9,535	7,317	(186,991)
Change of assumptions	-	20,408	-	-
Benefit payments, including refunds of employee contributions	(609,804)	(490,767)	(513,801)	(550,633)
Net Change in Total Pension Liability	16,149	270,876	231,847	13,613
Total Pension Liability-Beginning	\$ 7,691,481	\$ 7,707,630	\$ 7,978,506	\$ 8,210,353
Total Pension Liability-Ending (a)	\$ 7,707,630	\$ 7,978,506	\$ 8,210,353	\$ 8,223,966

Plan Fiduciary Net Position

Contributions-Employer	\$ 192,605	194,097	190,642	202,916
Contributions-Employee	110,082	111,625	108,714	120,197
Net Investment Income	383,868	10,008	446,397	946,773
Benefit payments, including refunds of employee contributions	(609,804)	(490,767)	(513,801)	(550,633)
Administrative Expense	(4,008)	(6,097)	(5,039)	(4,905)
Other	(330)	(302)	(272)	(248)
Net Change in Plan Fiduciary Net Position	72,413	(181,436)	226,641	714,100
Plan Fiduciary Net Position-Beginning	6,711,368	6,783,781	6,602,345	6,828,986
Plan Fiduciary Net Position-Ending (b)	\$ 6,783,781	\$ 6,602,345	\$ 6,828,986	\$ 7,543,086
Net Pension Liability-Ending (a) - (b)	\$ 923,849	\$ 1,376,161	\$ 1,381,367	\$ 680,880

Plan Fiduciary Net Position as a Percentage of Total Pension Liability

88.01% 82.75% 83.18% 91.72%

Covered Employee Payroll

\$ 2,201,639 \$ 2,232,491 \$ 2,174,270 \$ 2,152,549

Net Pension Liability as a Percentage of Covered Employee Payroll

41.96% 61.64% 63.53% 31.63%

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 5 Fiscal Years

Fiscal Year Ending September 30	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Contribution as a % of Covered Payroll
2014	\$ 189,895	\$ 189,895	\$ -	\$ 2,112,810	8.99%
2015	193,572	193,572	-	2,193,754	8.82%
2016	196,535	196,535	-	2,224,633	8.83%
2017	187,357	187,357	-	2,174,270	8.62%
2018	194,107	194,107	-	2,222,130	8.74%

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

CITY OF BRECKENRIDGE
Schedule of Changes in Total OPEB Liability and Related Ratios
September 30, 2018

Total OPEB liability

Plan Year	2017
Service Cost	\$ 6,888
Interest (on the Total Pension Liability)	6,417
Changes of benefit terms	-
Differences between expected and actual experience	-
Change of assumptions or other inputs	14,955
Benefit payments, including refunds of employee contributions	(1,507)
Net Change in Total Pension Liability	26,753
Total Pension Liability-Beginning	167,073
Total Pension Liability-Ending (a)	\$ 193,826
Covered Employee Payroll	\$ 2,152,549
Net OPEB Liability as a Percentage of Covered Employee Payroll	9.00%

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, 2018

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

Public works and interest and fiscal charges expenditures exceeded budget in the general fund. Total expenditures were \$82,504 less than budgeted.

CITY OF BRECKENRIDGE
Notes to the Required Supplementary Information
For the Year Ended September 30, 2018

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	26 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 Adopted buy-back provision

Schedule of Changes in Total OPEB Liability

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

COMBINING FINANCIAL STATEMENTS

NONMAJOR GOVERNMENTAL FUNDS

CITY OF BRECKENRIDGE, TEXAS
Nonmajor Funds
Combining Balance Sheet
September 30, 2018

	Special Revenue Funds			
	Fire Department	Park	Police Department	Total Special Revenue Funds
Assets:				
Cash	\$ 10,263	\$ 10,584	\$ 845	\$ 21,692
Receivables (Net of allowances)				
Other taxes	-	-	-	-
Total assets	<u>\$ 10,263</u>	<u>\$ 10,584</u>	<u>\$ 845</u>	<u>\$ 21,692</u>
Liabilities and fund balance:				
Liabilities:				
Accounts payable	\$ 5	\$ -	\$ -	\$ 5
Due to other funds	-	-	-	-
Total liabilities	<u>5</u>	<u>-</u>	<u>-</u>	<u>5</u>
Fund Balances:				
Restricted fund balance	\$ 10,258	\$ 10,584	\$ 845	\$ 21,687
Committed fund balance	-	-	-	-
Total fund balance	<u>10,258</u>	<u>10,584</u>	<u>845</u>	<u>21,687</u>
Total liabilities and fund balances	<u>\$ 10,263</u>	<u>\$ 10,584</u>	<u>\$ 845</u>	<u>\$ 21,692</u>

EXHIBIT G-1

Capital Project Funds			
Equipment Replacement	Street Maintenance Fund	Total Capital Projects Funds	Total Nonmajor Funds
\$ 144,180	\$ 404,577	\$ 548,757	\$ 570,449
-	37,287	37,287	37,287
<u>\$ 144,180</u>	<u>\$ 441,864</u>	<u>\$ 586,044</u>	<u>\$ 607,736</u>
\$ -	\$ 1,953	\$ 1,953	\$ 1,958
-	3,897	3,897	3,897
-	5,850	5,850	5,855
\$ -	\$ 436,014	\$ 436,014	\$ 457,701
144,180	-	144,180	144,180
144,180	436,014	580,194	601,881
<u>\$ 144,180</u>	<u>\$ 441,864</u>	<u>\$ 586,044</u>	<u>\$ 607,736</u>

CITY OF BRECKENRIDGE, TEXAS

Nonmajor Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balance

For the year ended September 30, 2018

	Special Revenue Funds			
	Fire Department	Park	Police Department	Total Special Revenue Funds
Revenues:				
Sales and use tax	\$ -	\$ -	\$ -	\$ -
Grants and contributions	5,049	11,653	-	16,702
Interest	23	92	2	117
Total revenue	5,072	11,745	2	16,819
Expenditures:				
Current:				
Public Safety	4,083	-	-	4,083
Public Works	-	-	-	-
Parks	-	24,584	-	24,584
Capital Outlay				
Total expenditures	4,083	24,584	-	28,667
Excess (deficiency) of revenue over (under) expenditures	989	(12,839)	2	(11,848)
Other financing sources (uses):				
Gain on Sale of Assets	-	-	-	-
Transfers in	-	50,000	-	50,000
Net change in fund balances	989	37,161	2	38,152
Fund Balance, October 1, 2017	9,269	(26,577)	843	(16,465)
Fund Balance, September 30, 2018	\$ 10,258	\$ 10,584	\$ 845	\$ 21,687

EXHIBIT G-2

Capital Project Funds			
Equipment Replacement	Street Maintenance Fund	Total Capital Projects Funds	Total Nonmajor Funds
\$ -	\$ 216,579	\$ 216,579	\$ 216,579
-	-	-	16,702
182	692	874	991
182	217,271	217,453	234,272
-	-	-	4,083
-	5,430	5,430	5,430
-	-	-	24,584
73,516	-	73,516	73,516
73,516	5,430	78,946	107,613
(73,334)	211,841	138,507	126,659
24,408	-	24,408	24,408
55,200	-	55,200	105,200
6,274	211,841	218,115	256,267
137,906	224,173	362,079	345,614
\$ 144,180	\$ 436,014	\$ 580,194	\$ 601,881

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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, 2018

Last Ten Years Ended Sept 30	Tax Rate		Assessed Value	Beginning Balance
	Maintenance	Debt Service		October 1
2009 and prior	0.7570	0.2029	154,800,440	24,721
2009	0.7663	0.1898	164,281,038	6,874
2010	0.7556	0.1744	176,676,216	6,596
2011	0.8367	0.2106	188,634,444	8,799
2012	0.7557	0.2543	204,984,229	13,565
2013	0.6282	0.2618	192,875,823	22,337
2014	0.5652	0.2966	201,105,727	29,175
2015	0.6148	0.3252	196,762,440	50,166
2016	0.6588	0.3812	184,686,029	125,056
2017 (Year under audit)	0.6846	0.3519	185,111,143	
TOTALS				<u>\$ 287,289</u>

EXHIBIT G-3

Current Year's Total Levy	Maintenance Collections	Debt Service Collections	Entire Year's Adjustments	Ending Balance September 30
	(515)	(138)	(2,297)	21,771
	(139)	(34)	(220)	6,481
	(146)	(34)	(742)	5,674
	(630)	(159)	(327)	7,683
	(1,912)	(643)	(348)	10,662
	(3,418)	(1,424)	262	17,757
	(5,383)	(2,825)	565	21,532
	(10,381)	(5,491)	(2,372)	31,922
-	(40,329)	(22,425)	(4,591)	57,711
1,925,116	(1,193,185)	(619,166)	(6,441)	106,324
<u>\$ 1,925,116</u>	<u>\$ (1,256,038)</u>	<u>\$ (652,339)</u>	<u>\$ (16,511)</u>	<u>\$ 287,517</u>

EXHIBIT G-4

City of Breckenridge, Texas
 Statistics - Water and Wastewater Fund
 For the year ended September 30, 2018
 (Unaudited)

Number of water connections at end of year	2,347
Number of wastewater connections at end of year	2,044
Gallons of water billed through the system during the fiscal year	175,429,825

	2018	2017
<u>Outstanding Bonds and Certificates:</u>		
Combination Tax and Revenue Certificates of Obligation, Series 2003	\$ -	\$ 75,000
General Obligation Refunding Bonds, Series 2010	-	165,000
Combination Tax and Revenue Certificates of Obligation, Series 2012	1,500,000	1,545,000
Combination Tax and Revenue Certificates of Obligation, Series 2013	740,000	765,000
Combination Tax and Revenue Certificates of Obligation, Series 2014	2,230,000	2,280,000
Combination Tax and Revenue Certificates of Obligation, Series 2017A	469,000	-
Premium on bond	-	2,745
	<u>\$ 4,939,000</u>	<u>\$ 4,832,745</u>

<u>Water and Wastewater Operating Income Available for Debt Retirement:</u>		
Net Operating Income	\$ 410,098	\$ 371,468
Net Nonoperating Interest Income	3,589	4,618
Add Depreciation Expense	<u>570,372</u>	<u>487,828</u>
Water and Sewer Operating Income Available for Debt Retirement	<u>\$ 984,059</u>	<u>\$ 863,914</u>

Annual Debt Service Requirements and Coverage:

Combination Tax and Revenue Certificates of Obligation, Series 2003	\$ 77,063	\$ 81,188
General Obligation Refunding Bonds, Series 2010	168,094	168,988
Combination Tax and Revenue Certificates of Obligation, Series 2012	72,546	72,589
Combination Tax and Revenue Certificates of Obligation, Series 2013	38,104	38,104
Combination Tax and Revenue Certificates of Obligation, Series 2014	136,808	137,278
Combination Tax and Revenue Certificates of Obligation, Series 2017A	<u>1,818</u>	<u>-</u>
Total Debt Service Requirements	494,433	498,147
Less Current Year Property Taxes	(650,885)	(686,300)
Net System Fund Requirements	<u>\$ (156,452)</u>	<u>\$ (188,153)</u>
Coverage of Total System Fund Debt Service	<u>not applicable</u>	<u>not applicable</u>

Cash Available in Bond Sinking Funds

General Debt Service	\$ 1,156,855	\$ 917,569
Revenue Debt Service	139	63,447
	<u>\$ 1,156,994</u>	<u>\$ 981,016</u>

EXHIBIT G-5

CITY OF BRECKENRIDGE, TEXAS
Insurance in Force
September 30, 2018
(Unaudited)

	Coverage	Premium
Flood, Fire and Extended Coverage Buildings and Contents	\$ 12,830,377	\$ 28,600
Errors & Omission Liability		
Each Wrongful Act	500,000	7,103
Aggregate	1,000,000	
Commercial General Liability		
Per Occurrence	1,000,000	4,806
Aggregate	2,000,000	
Law Enforcement Personal Liability		
Each Wrongful Act	500,000	7,344
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	25,063
Combined Single Limit	25,000	
Heavy Equipment		
Physical Damage	1,010,766	4,354
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	10/1/2018
Texas Municipal League	Commercial Auto	10/1/2018
Texas Municipal League	Flood	10/1/2018
Texas Municipal League	Public Officials Liability	10/1/2018
Texas Municipal League	Law Enforcement Liability	10/1/2018
CNA Surety Corporation	Fidelity Bond - City Secretary	9/6/2019
CNA Surety Corporation	Fidelity Bond - Assistant City Secretary	10/1/2018
CNA Surety Corporation	City Manager & Other Public Employees	1/23/2019
Texas Municipal League	Heavy Equipment	10/1/2018

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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, 2018, 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, 2019.

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. 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.

 George Morgan

Weatherford, Texas
January 29, 2019

**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, 2018. 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, 2018.

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, 2019

CITY OF BRECKENRIDGE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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? 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: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal Systems for Rural Communities

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

NONE

C. Federal Award Findings and Questioned Costs

NONE

CITY OF BRECKENRIDGE, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2018

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 2nd 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.

Current Status: New cash handling internal control policies were implemented following the previous audit. Each deposit is verified by a 2nd person and the City Secretary is notified if a drawer is ever over or short. A 2nd drawer was added at the utility window so that only 1 person can access each drawer. The cash short for the year was \$1,705. \$1,468 of this occurred through January 2018 and \$237 occurred in the last 8 months of the year.

CITY OF BRECKENRIDGE, TEXAS
CORRECTIVE ACTION PLAN
YEAR ENDED SEPTEMBER 30, 2018

Contact for Corrective Action Plan:

Andy McCuiston
City Manager

Financial Statement Findings

None.

Federal Award Findings

None.

CITY OF BRECKENRIDGE, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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 Agriculture Rural Development</u>				
Water and Waste Disposal Systems for Rural Communities	10.76	2017A & 2017B	\$ -	\$ 1,536,752
Total U.S. Department of Agriculture Rural Development			-	1,536,752
<u>U.S. Department of Justice</u>				
Pass-through from Texas Office of the Governor				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	DJ 3391101	-	18,460
Total U.S. Department of Justice			-	18,460
<u>U.S. Department of Transportation</u>				
Pass-through Texas Department of Transportation				
DOT Highway Planning and Construction*	20.205	0011-08-026	-	30,434
DOT Highway Planning and Construction*	20.205	0011-09-065	-	14,718
DOT Highway Planning and Construction*	20.205	0257-01-041	-	71,990
Total CFDA Number 20.205			-	117,142
Total U.S. Department of Transportation			-	117,142
<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	-	28,189
Total U.S. General Services Administration			-	28,189
<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	-	168,866
Capitalization Grants for Drinking Water State Revolving Funds	66.468	62519	-	21,005
Total U.S. Environmental Protection Agency			-	189,871
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ -	\$ 1,890,414

* Clustered Programs as required by the 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, 2018

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.