

CITY OF BURKBURNETT, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2011

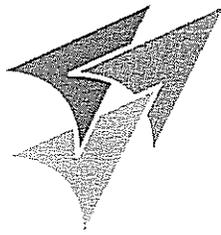


CITY OF BURKBURNETT, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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Financial Section



MWH GROUP
CERTIFIED PUBLIC ACCOUNTANTS
CONSULTANTS

Independent Auditor's Report on Financial Statements

The Board of Commissioners
City of Burkburnett, Texas
501 Sheppard Road
Burkburnett, Texas 76354

Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Burkburnett, Texas as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Burkburnett, Texas' management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Burkburnett, Texas as of September 30, 2011, and the respective changes in financial position, and, cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2012, on our consideration of the City of Burkburnett, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedules of actuarial liabilities and funding progress on pages 3 through 9 and 36 through 37 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 statement 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.

Respectfully submitted,

MWH Group, P.C.

MWH GROUP, P.C.

Wchita Falls, Texas
February 23, 2012

CITY OF BURKBURNETT, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Burkburnett, Texas' discussion and analysis is designed to provide an objective and easy-to-read analysis of the City's financial activities for the year ended September 30, 2011. It is intended to provide the readers of this report with a broad overview short-term and long-term analysis of the City's activities based on information presented in the financial report and the City's adopted fiscal policies.

As with other sections of this financial report, the information contained within this narrative should be considered only a part of a greater whole. The reader should take time to read and evaluate all sections of this report, including the financial statements, footnotes and other required supplementary information.

FINANCIAL HIGHLIGHTS

The following are the highlights of financial activity for the fiscal year ending September 30, 2011:

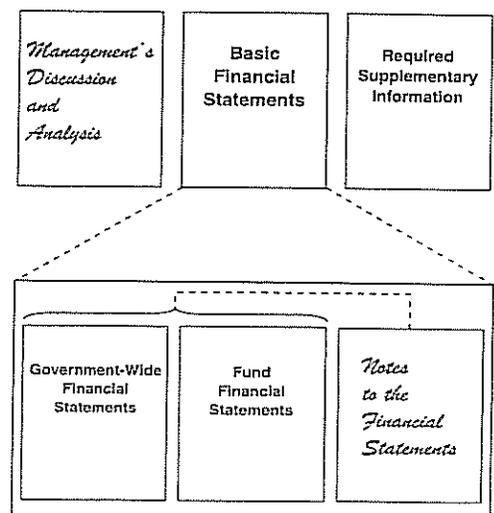
- The City's assets exceed its liabilities at September 30 2011, by \$13,535,070 (net assets). Of this amount, \$2,790,520 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- During the year, the City's total net assets decreased by \$241,963. The decrease is largely due to an operating loss for the water supply and wastewater treatment business-type activities.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$4,541,476. Of the fund balance, \$2,824,862, or 62%, is available for spending at the government's discretion (unassigned fund balance).
- As of September 30, 2011, unassigned fund balance for the General Fund was \$2,893,321 or 43% of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government services* were financed in the *short term* as well as what remains for future spending.
- The *proprietary fund statements* offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as the water and sewer system.

Figure A-1
Required Components of the City's
Annual Financial Report



Summary \longleftrightarrow Detail

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City's government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the City's Government-wide and Fund Financial Statements

| <i>Type of Statements</i> | Fund Statements | | |
|---|--|--|--|
| | Government-wide | Governmental Funds | Proprietary Funds |
| <i>Scope</i> | Entire Agency's government (except fiduciary funds) and the Agency's component units | The activities of the City that are not proprietary or fiduciary | Activities the City operates similar to private businesses - the water and sewer system |
| <i>Required financial statements</i> | <ul style="list-style-type: none"> • Statement of net assets • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures & changes in fund balances | <ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses, and changes in net assets • Statement of cash flows |
| <i>Accounting basis and measurement focus</i> | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus |
| <i>Type of asset/liability information</i> | All assets and liabilities, both financial and capital, short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included | All assets and liabilities, both financial and capital, and short-term and long-term |
| <i>Type of inflow/outflow information</i> | All revenues and expenses during the year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid |

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets 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 assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net assets are 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 non-financial factors such as changes in the City's tax base.

The government-wide financial statements of the City are divided into three categories:

- *Governmental activities*. Most of the City's basic services are included here, such as the police department, streets and public works, garbage collection, parks and recreation, and administration.

- *Business-type activities.* The City charges fees to customers to help it cover the cost of certain services it provides. The City's water and sewer system are included here.
- *Component Units.* The City includes two other entities in its report - the Burkburnett Development Corporation and the Burkburnett Housing Finance Corporation. Although legally separate, these "component units" are important because the City is financially accountable for them.

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 accounting devices that the City uses 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 Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out 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 additional information on the page subsequent to the governmental funds statement that explain the relationship (or differences) between them.
- *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 short- and long-term financial information. In fact, the City's proprietary funds are the same as its business-type activities, but provide more detail and information, such as cash flows.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. The City's combined net assets were \$13,535,070 at September 30, 2011. (See Table A-1)

Table A-1
City's Net Assets

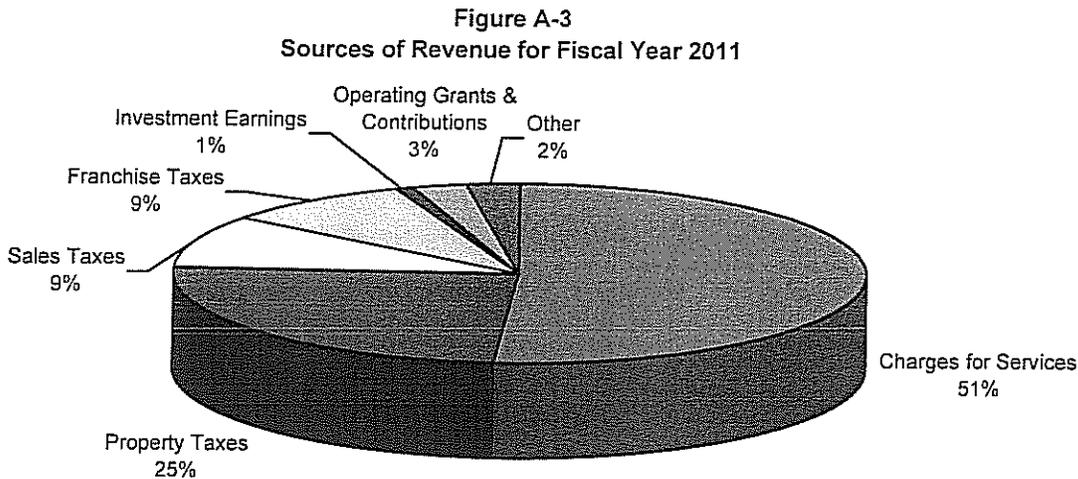
| | Governmental Activities | | Business-type Activities | | Total | |
|-----------------------------|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Cash and cash equivalents | \$ 2,659,239 | \$ 1,959,193 | \$ 1,000 | \$ 673,026 | \$ 2,660,239 | \$ 2,632,219 |
| Receivables | 661,703 | 513,980 | 465,774 | 285,977 | 1,127,477 | 799,957 |
| Internal balances | 237,219 | 768,320 | (237,219) | (768,320) | - | - |
| Restricted assets | 1,693,605 | 2,508,996 | 753,183 | - | 2,446,788 | 2,508,996 |
| Capital assets, net | 12,063,946 | 11,433,548 | 7,229,092 | 6,711,963 | 19,293,038 | 18,145,511 |
| Other assets | 29,899 | 30,227 | 188,325 | 168,005 | 218,224 | 198,232 |
| Total assets | 17,345,611 | 17,214,264 | 8,400,155 | 7,070,651 | 25,745,766 | 24,284,915 |
| Current liabilities | 498,024 | 378,493 | 427,469 | 239,890 | 925,493 | 618,383 |
| Long-term liabilities: | | | | | | |
| Due within one year | 481,602 | 708,593 | 143,362 | 160,000 | 624,964 | 868,593 |
| Due in more than one year | 6,154,577 | 5,882,011 | 4,505,662 | 3,138,895 | 10,660,239 | 9,020,906 |
| Total liabilities | 7,134,203 | 6,969,097 | 5,076,493 | 3,538,785 | 12,210,696 | 10,507,882 |
| Net assets | | | | | | |
| Invested in capital assets, | | | | | | |
| net of related debt | 5,558,383 | 4,870,844 | 2,718,697 | 3,504,575 | 8,277,080 | 8,375,419 |
| Restricted | 1,714,287 | 2,508,996 | 753,183 | - | 2,467,470 | 2,508,996 |
| Unrestricted | 2,938,738 | 2,865,327 | (148,218) | 27,291 | 2,790,520 | 2,892,618 |
| Total net assets | \$10,211,408 | \$10,245,167 | \$ 3,323,662 | \$ 3,531,866 | \$13,535,070 | \$13,777,033 |

The \$2,790,520 of unrestricted net assets at September 30, 2011, represents resources available to fund the programs of the City next year if sufficient resources are not derived from future resources. The restricted net assets are required to be set aside for long-term debt and other program purposes.

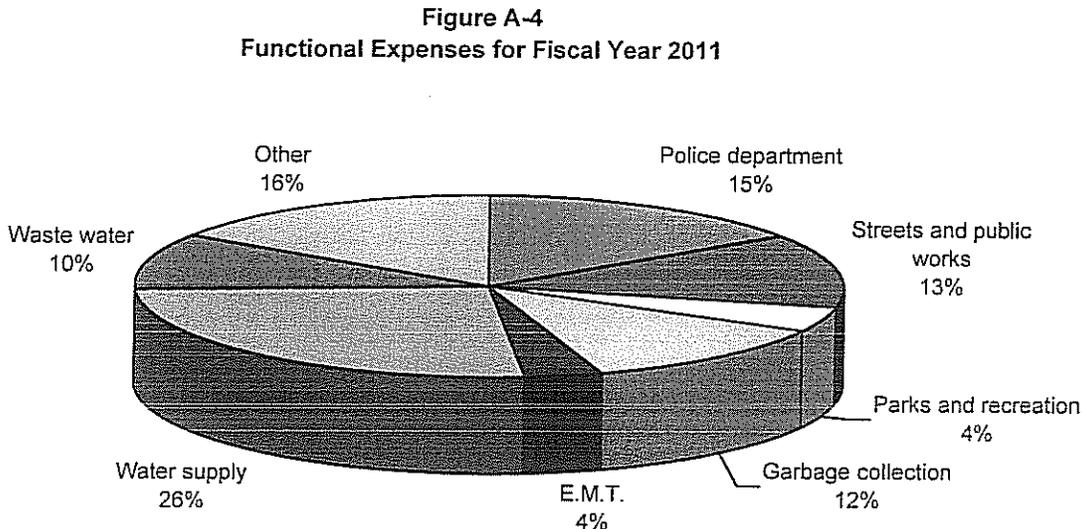
Governmental activities decreased the City's net assets by \$33,759. The net assets invested in capital assets, net of related debt, decreased by \$98,339. Unrestricted net assets decreased by \$102,098, or 4%.

Net assets from business-type activities decreased by \$208,204, or 6%. This decrease is primarily due to the loss from operations of the water and wastewater treatment activities.

Changes in net assets. The City's total revenues, both program and general, were \$9,970,783. A significant portion, 51%, of the City's revenue comes from charges for services. (See Figure A-3.) Property taxes provide 25% of the total, sales taxes and franchise taxes provide 9% each, and operating and capital grants and contributions provide 3%. Other minor categories provide the remaining 3%.



The total cost of all programs and services was \$10,212,746; 36% of these costs are for water and sewer related expenses. The City's other expenses cover a range of services, with 15% for the police department, 13% for streets, 12% for garbage collection, and 4% each for E.M.T. and parks and recreation. Other minor categories combined make up the remaining 16%. (See Figure A-4.)



Governmental Activities

Table A-2 presents the various revenue categories and gross costs of each of the City's functional areas for the current year.

Table A-2
Changes in Net Assets

| | Governmental Activities | | Business-type Activities | | Totals | |
|------------------------------------|-------------------------|------------------|--------------------------|------------------|-------------------|------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$1,616,175 | \$ 1,631,789 | \$3,430,194 | \$ 2,939,607 | \$ 5,046,369 | \$ 4,571,396 |
| Operating grants and contributions | 34,125 | 34,125 | - | - | 34,125 | 34,125 |
| Capital grants and contributions | 221,756 | 361,626 | - | - | 221,756 | 361,626 |
| General revenues: | | | | | | |
| Property taxes | 2,442,006 | 2,464,394 | - | - | 2,442,006 | 2,464,394 |
| Franchise fees | 890,982 | 861,237 | - | - | 890,982 | 861,237 |
| Sales taxes | 938,766 | 884,683 | - | - | 938,766 | 884,683 |
| Other taxes | 88,238 | 88,771 | - | - | 88,238 | 88,771 |
| Investment earnings | 48,098 | 53,679 | 13,828 | 6,788 | 61,926 | 60,467 |
| Other | 219,767 | 149,216 | 26,848 | 28,464 | 246,615 | 177,680 |
| Intergovernmental transfers | (89,114) | (218,986) | 89,114 | 218,986 | - | - |
| Total revenues | 6,410,799 | 6,310,534 | 3,559,984 | 3,193,845 | 9,970,783 | 9,504,379 |
| Expenses: | | | | | | |
| General government | 229,921 | 198,554 | - | - | 229,921 | 198,554 |
| Administration | 166,136 | 224,992 | - | - | 166,136 | 224,992 |
| Tax assessing/collecting | 33,302 | 34,696 | - | - | 33,302 | 34,696 |
| City hall | 211,259 | 202,339 | - | - | 211,259 | 202,339 |
| Police department | 1,561,646 | 1,537,639 | - | - | 1,561,646 | 1,537,639 |
| Municipal court | 67,687 | 79,020 | - | - | 67,687 | 79,020 |
| Fire department | 106,536 | 97,809 | - | - | 106,536 | 97,809 |
| Library | 134,499 | 176,829 | - | - | 134,499 | 176,829 |
| Streets and public works | 1,343,989 | 1,492,945 | - | - | 1,343,989 | 1,492,945 |
| Parks and recreation | 447,765 | 492,244 | - | - | 447,765 | 492,244 |
| Community center | 26,566 | 99,334 | - | - | 26,566 | 99,334 |
| Garbage collection | 1,207,650 | 1,253,392 | - | - | 1,207,650 | 1,253,392 |
| E.M.T. | 383,820 | 367,593 | - | - | 383,820 | 367,593 |
| Community planning | 115,528 | 148,411 | - | - | 115,528 | 148,411 |
| Drainage improvement | 37,680 | 58,035 | - | - | 37,680 | 58,035 |
| Grant outlay | 154,913 | 138,329 | - | - | 154,913 | 138,329 |
| Interest and fiscal charges | 215,661 | 260,333 | - | - | 215,661 | 260,333 |
| Water system | - | - | 2,746,141 | 2,274,582 | 2,746,141 | 2,274,582 |
| Wastewater system | - | - | 1,022,047 | 821,890 | 1,022,047 | 821,890 |
| Total expenses | 6,444,558 | 6,862,494 | 3,768,188 | 3,096,472 | 10,212,746 | 9,958,966 |
| Increase (Decrease) in net assets | \$ (33,759) | \$ (551,960) | \$ (208,204) | \$ 97,373 | \$ (241,963) | \$ (454,587) |

Explanations for the large and/or unusual variances between 2010 and 2011 are as follows:

- Capital grants and contributions decreased by \$139,870 as the project funded by capital grants was completed during 2011.

- Charges for services increased by \$474,973 due to higher volume of water sales as a result of the drought during fiscal year 2011. Water system expenses increased by \$471,559 for the same reason.

Table A-3 presents the cost of each of the City's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$6,444,558; however, the amount that our taxpayers paid for these activities through property taxes was only \$2,442,006.
- Some of the cost was paid by those who directly benefited from the programs through charges for services of \$1,616,175.

**Table A-3
Net Cost of Governmental Activities**

| | Total Cost of Services | | Net Cost of Services | |
|--------------------------|------------------------|-------------|----------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Police department | \$1,561,646 | \$1,537,639 | \$1,561,646 | \$1,537,639 |
| Streets and public works | 1,343,989 | 1,492,945 | 1,343,989 | 1,463,528 |
| Garbage collection | 1,207,650 | 1,253,392 | (157,564) | (8,314) |
| E.M.T. | 383,820 | 367,593 | 383,820 | 367,593 |
| Water system | 2,746,141 | 2,274,582 | 247,238 | 233,325 |
| Waste water | 1,022,047 | 821,890 | 90,756 | (76,460) |

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

General Fund Budgetary Highlights

Over the course of the year, the City revised its budget two times. With these adjustments, actual expenditures were \$624,604 below and actual revenues were \$281,573 below final budget amounts. Actual capital outlay expenditures were \$1,282,484 above the final budgeted amount.

The most significant variances were due to non-property tax revenues and general government expenditures. The City budgeted \$2,225,768 for consumer taxes and franchise fees, but actually received \$1,917,986 for these taxes. The City budgeted approximately \$562,000 for general government expenditures, but only spent approximately \$218,000. The majority of capital outlay expenditures were related to the bond project, which was not included in the budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the City had invested in a broad range of capital assets, net of accumulated depreciation, totaling \$19,293,038, including land, equipment, buildings, and vehicles. (See Table A-4.)

**Table A-4
Capital Assets, Net of Accumulated Depreciation**

| | Governmental Activities | | Business-type Activities | | Totals | |
|---------------------------|-------------------------|------------|--------------------------|-----------|------------|------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Building and improvements | \$ 824,643 | \$ 759,581 | \$ 63,988 | \$ 67,752 | \$ 888,631 | \$ 827,333 |
| Library books | 76,710 | 67,300 | - | - | 76,710 | 67,300 |
| Streets and curbs | 9,104,029 | 9,717,001 | - | - | 9,104,029 | 9,717,001 |
| Golf course | 191,103 | 304,660 | - | - | 191,103 | 304,660 |
| Golf course land | 64,000 | 64,000 | - | - | 64,000 | 64,000 |
| Equipment and vehicles | 749,445 | 512,538 | 396,309 | 623,900 | 1,145,754 | 1,136,438 |
| Land | 8,469 | 8,469 | - | - | 8,469 | 8,469 |

| | | | | | | |
|-------------------------|----------------------|----------------------|---------------------|---------------------|---------------------|----------------------|
| Construction in process | 1,045,547 | - | - | - | 1,045,547 | - |
| Water system | - | - | 5,051,807 | 4,698,789 | 5,051,807 | 4,698,789 |
| Sewer system | - | - | 1,716,988 | 1,321,522 | 1,716,988 | 1,321,522 |
| Total capital assets | <u>\$ 12,063,946</u> | <u>\$ 11,433,549</u> | <u>\$ 7,229,092</u> | <u>\$ 6,711,963</u> | <u>\$19,293,038</u> | <u>\$ 18,145,512</u> |

Long-term Liabilities

At year-end, the City had \$11,267,981 in bonds, compensated absences, and notes outstanding as shown in Table A-5. More detailed information about the City's debt is presented in the notes to the financial statements.

Table A-5
Long-term Liabilities Outstanding

| | Governmental Activities | | Business-type Activities | | Totals | |
|--------------------------------------|-------------------------|---------------------|--------------------------|--------------------|---------------------|---------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| General obligation bonds | \$ 5,865,000 | \$ 6,115,000 | \$ - | \$ - | \$ 5,865,000 | \$ 6,115,000 |
| General obligation refunding bonds | - | - | 2,475,000 | 2,475,000 | 2,475,000 | 2,475,000 |
| Note payable - golf course | 383,501 | 441,581 | - | - | 383,501 | 441,581 |
| Note payable - police vehicles | 17,367 | 34,023 | - | - | 17,367 | 34,023 |
| Note payable - fire truck | 263,995 | - | - | - | 263,995 | - |
| Water and sewer system revenue bonds | - | - | 1,485,000 | - | 1,485,000 | - |
| Certificates of obligation | - | - | 645,000 | - | 645,000 | 805,000 |
| Compensated absences | 106,316 | 98,301 | 26,802 | 30,301 | 133,118 | 128,602 |
| Totals | <u>\$ 6,636,179</u> | <u>\$ 6,688,905</u> | <u>\$4,631,802</u> | <u>\$3,310,301</u> | <u>\$11,267,981</u> | <u>\$ 9,999,206</u> |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Appraised value used for the 2011-2012 budget preparation is \$424,669,647, up \$3,669,512, or 0.9% above 2010-2011 values. This indicator was taken into account when adopting the General Fund budget for 2011-2012.

Budgeted General Fund revenues for 2011-2012 are \$6,163,506, which represents a 7% increase of \$425,889, from 2010-2011 actual revenues of \$5,737,617. Budgeted General Fund expenditures for 2011-2012 are \$6,161,207, which represents an 18% increase of \$946,138 from 2010-2011 actual expenditures of \$5,215,069. If these estimates are realized, the City's budgeted General Fund balance is expected to increase by \$2,299 by the close of 2011-2012.

RESTATEMENT

The prior year schedules within this analysis have been restated to correct certain balances reported in the prior year. See Note K in the Notes to the Financial Statements for more information.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the City's Administration Office.

Basic Financial Statements

CITY OF BURKBURNETT, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

| | Primary Government | | | Component Units | |
|--|----------------------|---------------------|----------------------|-------------------------|-----------------------------|
| | Governmental | Business-type | Total | Burkburnett | Burkburnett |
| | Activities | Activities | | Development Corporation | Housing Finance Corporation |
| Assets: | | | | | |
| Cash and cash equivalents | \$ 2,659,239 | \$ 1,000 | \$ 2,660,239 | \$ 497,823 | \$ 7,416 |
| Receivables, net of allowances for uncollectibles: | | | | | |
| Property taxes | 54,802 | - | 54,802 | - | - |
| Sales taxes | 181,146 | - | 181,146 | 60,382 | - |
| Garbage | 174,275 | - | 174,275 | - | - |
| Water and sewer charges | - | 465,774 | 465,774 | - | - |
| Municipal court | 153,489 | - | 153,489 | - | - |
| Due from other governments | 57,576 | - | 57,576 | - | - |
| Other | 40,415 | - | 40,415 | 68,750 | - |
| Internal balances due to/from other funds | 237,219 | (237,219) | - | - | - |
| Inventory | 2,327 | 76,498 | 78,825 | - | - |
| Restricted assets: | | | | | |
| Cash and cash equivalents | 1,693,605 | 753,183 | 2,446,788 | - | - |
| Capital assets, net of accumulated depreciation | 12,063,946 | 7,229,092 | 19,293,038 | 590,791 | - |
| Other assets: | | | | | |
| Bond issuance costs, net of accumulated amortization | 24,300 | 91,633 | 115,933 | - | - |
| Deferred loss on refunding | - | 20,194 | 20,194 | - | - |
| Other | 3,272 | - | 3,272 | - | - |
| Total assets | 17,345,611 | 8,400,155 | 25,745,766 | 1,217,746 | 7,416 |
| Liabilities: | | | | | |
| Accounts payable | 367,199 | 215,281 | 582,480 | 5,741 | - |
| Retainage payable | 95,039 | - | 95,039 | - | - |
| Unearned revenue | 3,389 | - | 3,389 | - | - |
| Accrued interest payable | 32,397 | 20,710 | 53,107 | - | - |
| Customer deposits | - | 191,478 | 191,478 | - | - |
| Long-term liabilities: | | | | | |
| Due within one year: | | | | | |
| Accrued compensated absences | 52,481 | 13,352 | 65,843 | 462 | - |
| General obligation and certificates of obligation debt | 260,000 | 200,000 | 460,000 | - | - |
| Revenue bonds | - | 60,000 | 60,000 | - | - |
| Notes payable | 39,121 | - | 39,121 | - | - |
| Due in more than one year: | | | | | |
| Accrued compensated absences | 53,835 | 13,440 | 67,275 | 2,310 | - |
| General obligation and certificates of obligation debt | 5,605,000 | 2,920,000 | 8,525,000 | - | - |
| Revenue bonds | - | 1,425,000 | 1,425,000 | - | - |
| Unamortized premium on general obligation debt | - | 17,222 | 17,222 | - | - |
| Notes payable | 625,742 | - | 625,742 | - | - |
| Total liabilities | 7,134,203 | 5,076,493 | 12,210,696 | 8,513 | - |
| Net assets: | | | | | |
| Invested in capital assets, net of related debt | 5,558,363 | 2,718,697 | 8,277,060 | 590,791 | - |
| Restricted for: | | | | | |
| Debt service | 20,682 | 111,611 | 132,293 | - | - |
| Other purposes | 1,693,605 | 641,572 | 2,335,177 | 75,950 | - |
| Unrestricted | 2,938,738 | (148,218) | 2,790,520 | 542,492 | 7,416 |
| Total net assets | \$ 10,211,408 | \$ 3,323,662 | \$ 13,535,070 | \$ 1,209,233 | \$ 7,416 |

The accompanying notes are an integral part of this statement.

| Functions/Programs | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | | Component Units | |
|--|----------------------|------------------------------------|----------------------------------|---|--------------------------|----------------|--------------------------------------|--|
| | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total | Burk Burnett Development Corporation | Burk Burnett Housing Finance Corporation |
| Governmental activities: | | | | | | | | |
| General government | \$ 229,921 | \$ - | \$ - | \$ (203,326) | \$ - | \$ (203,326) | \$ - | \$ - |
| Administration | 166,135 | - | - | (166,135) | - | (166,135) | - | - |
| Tax assessing/collecting | 33,302 | - | - | (33,302) | - | (33,302) | - | - |
| City hall | 211,259 | - | - | (211,259) | - | (211,259) | - | - |
| Police department | 1,561,646 | - | - | (1,561,646) | - | (1,561,646) | - | - |
| Municipal court | 67,687 | - | - | (67,687) | - | (67,687) | - | - |
| Fire department | 105,536 | 34,125 | - | (72,411) | - | (72,411) | - | - |
| Library | 134,499 | - | - | (134,499) | - | (134,499) | - | - |
| Streets and public works | 1,343,989 | - | - | (1,343,989) | - | (1,343,989) | - | - |
| Parks and recreation | 447,765 | - | - | (332,364) | - | (332,364) | - | - |
| Community center | 26,566 | - | - | (12,836) | - | (12,836) | - | - |
| Garbage collection | 1,207,650 | - | - | 157,564 | - | 157,564 | - | - |
| E.M.T. | 383,820 | - | - | (383,820) | - | (383,820) | - | - |
| Community planning | 115,528 | - | - | (115,528) | - | (115,528) | - | - |
| Drainage improvement | 37,680 | - | - | 57,555 | - | 57,555 | - | - |
| Grant outlay | 154,913 | - | 221,755 | 66,843 | - | 66,843 | - | - |
| Interest expense | 215,661 | - | - | (215,661) | - | (215,661) | - | - |
| Total governmental activities | 5,444,558 | 34,125 | 221,755 | (4,572,502) | - | (4,572,502) | - | - |
| Business-type activities: | | | | | | | | |
| Water supply, distribution and wells | 2,499,903 | - | - | - | (247,236) | (247,236) | - | - |
| Waste water treatment | 1,022,047 | - | - | - | (90,756) | (90,756) | - | - |
| Total business-type activities | 3,768,188 | - | - | - | (337,994) | (337,994) | - | - |
| Total primary government | \$ 10,212,746 | \$ 34,125 | \$ 221,756 | \$ (4,572,502) | \$ (337,994) | \$ (4,910,496) | - | - |
| Component units: | | | | | | | | |
| Burk Burnett Development Corporation | \$ 186,291 | \$ 54,200 | \$ - | - | - | - | (132,091) | - |
| Burk Burnett Housing Finance Corporation | - | - | - | - | - | - | - | - |
| Total component units | \$ 186,291 | \$ 54,200 | \$ - | - | - | - | (132,091) | - |
| General revenues: | | | | | | | | |
| Property taxes | | | | 2,442,006 | - | 2,442,006 | - | - |
| Franchise taxes | | | | 890,982 | - | 890,982 | - | - |
| Sales taxes | | | | 938,766 | - | 938,766 | 312,922 | - |
| Other taxes | | | | 68,238 | - | 68,238 | - | - |
| Investment earnings | | | | 48,098 | 13,828 | 61,926 | - | - |
| Fines and forfeitures | | | | 65,055 | - | 65,055 | 2,015 | - |
| Licenses and permits | | | | 33,669 | - | 33,669 | - | - |
| Miscellaneous | | | | 101,043 | 26,848 | 127,891 | 26,785 | - |
| Transfers | | | | (89,114) | 69,114 | - | - | - |
| Total general revenues and transfers | | | | 4,538,743 | 129,790 | 4,668,533 | 341,722 | - |
| Change in net assets | | | | (33,759) | (208,204) | (241,963) | 209,631 | - |
| Net assets - beginning, as restated | | | | 10,245,167 | 3,531,866 | 13,777,033 | 989,602 | 7,416 |
| Net assets - ending | | | | \$ 10,211,408 | \$ 3,323,662 | \$ 13,535,070 | \$ 1,209,233 | \$ 7,416 |

The accompanying notes are an integral part of this statement.

CITY OF BURKBURNETT, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

| | General Fund | Debt Service Fund | Special Revenue Funds | Total Governmental Funds |
|--|---------------------|-------------------------|-----------------------------|--------------------------------|
| Assets: | | | | |
| Petty cash | \$ 500 | \$ - | \$ - | \$ 500 |
| Cash in bank | 1,958,739 | - | - | 1,958,739 |
| Certificates of deposit | 700,000 | - | - | 700,000 |
| Receivables, net of allowances for uncollectables: | | | | |
| Property taxes | 54,802 | - | - | 54,802 |
| Sales taxes | 181,146 | - | - | 181,146 |
| Garbage | 174,275 | - | - | 174,275 |
| Municipal court | 153,489 | - | - | 153,489 |
| Due from other government | - | - | 57,576 | 57,576 |
| Other | 40,415 | - | - | 40,415 |
| Due from other funds | 247,695 | 20,682 | - | 268,377 |
| Inventory | 2,327 | - | - | 2,327 |
| Other assets | 3,272 | - | - | 3,272 |
| Restricted assets: | | | | |
| Cash | 393,847 | - | - | 393,847 |
| Certificates of deposit and money market | 1,299,758 | - | - | 1,299,758 |
| Total assets | \$ 5,210,265 | \$ 20,682 | \$ 57,576 | \$ 5,288,523 |
| Liabilities: | | | | |
| Accounts payable | \$ 309,216 | \$ - | \$ 57,983 | \$ 367,199 |
| Retainage payable | 95,039 | - | - | 95,039 |
| Deferred revenue | 196,075 | - | 57,576 | 253,651 |
| Due to other funds | 20,682 | - | 10,476 | 31,158 |
| Total liabilities | 621,012 | - | 126,035 | 747,047 |
| Fund balances: | | | | |
| Nonspendable | 2,327 | - | - | 2,327 |
| Restricted | 1,693,605 | 20,682 | - | 1,714,287 |
| Unassigned | 2,893,321 | - | (68,459) | 2,824,862 |
| Total fund balances | 4,589,253 | 20,682 | (68,459) | 4,541,476 |
| Total liabilities and fund balances | \$ 5,210,265 | \$ 20,682 | \$ 57,576 | \$ 5,288,523 |

The accompanying notes are an integral part of this statement.

CITY OF BURKBURNETT, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

Total fund balances - governmental funds balance sheet (Exhibit A-3) \$ 4,541,476

Amounts reported for governmental activities in the statement of net assets
(Exhibit A-1) are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds. Capital assets at year-end
consist of:

| | | |
|----------------------------------|---------------|------------|
| Gross capital assets | \$ 23,449,304 | |
| Related accumulated depreciation | (11,385,358) | 12,063,946 |

| | | |
|--|--|---------|
| Accounts receivable are not available to pay for current period expenditures and therefore are deferred in the funds. | | 250,262 |
|--|--|---------|

Some long-term assets and liabilities are not due and payable in the
current period and therefore are not reported as liabilities in the funds.
Those assets and liabilities at year-end consists of:

| | | |
|------------------------------|-------------|-------------|
| Notes payable | (664,863) | |
| Bonds payable | (5,865,000) | |
| Unamortized bond issue costs | 24,300 | |
| Compensated absences | (106,316) | |
| Accrued interest | (32,397) | (6,644,276) |

| | | |
|---|--|---------------|
| Net assets of governmental activities - statement of net assets (Exhibit A-1) | | \$ 10,211,408 |
|---|--|---------------|

The accompanying notes are an integral part of this statement.

CITY OF BURKBURNETT, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

| | General | Debt Service | Special Revenue | Total Governmental Funds |
|---|---------------------|------------------|--------------------|--------------------------------|
| Revenues: | | | | |
| Property taxes | \$ 1,973,522 | \$ 511,312 | \$ - | \$ 2,484,834 |
| Non-property taxes | 1,917,986 | - | - | 1,917,986 |
| Fines and forfeitures | 61,097 | - | - | 61,097 |
| Licenses and permits | 33,669 | - | - | 33,669 |
| Fees and services | 1,616,175 | - | - | 1,616,175 |
| Miscellaneous | 101,043 | - | - | 101,043 |
| Intergovernmental revenue | 34,125 | - | 164,180 | 198,305 |
| Total revenues | 5,737,617 | 511,312 | 164,180 | 6,413,109 |
| Expenditures: | | | | |
| General government | 218,076 | 1,430 | - | 219,506 |
| Administration | 168,665 | - | - | 168,665 |
| Tax assessing/collecting | 33,302 | - | - | 33,302 |
| City hall | 205,683 | - | - | 205,683 |
| Police department | 1,485,303 | - | - | 1,485,303 |
| Municipal court | 66,698 | - | - | 66,698 |
| Fire department | 94,884 | - | - | 94,884 |
| Library | 138,923 | - | - | 138,923 |
| Streets and public works | 683,974 | - | - | 683,974 |
| Parks and recreation | 365,568 | - | - | 365,568 |
| Community center | 25,486 | - | - | 25,486 |
| Garbage collection | 1,207,650 | - | - | 1,207,650 |
| E.M.T. | 369,849 | - | - | 369,849 |
| Community planning | 113,328 | - | - | 113,328 |
| Drainage improvement | 37,680 | - | - | 37,680 |
| Grant outlay | - | - | 154,914 | 154,914 |
| Total expenditures | 5,215,069 | 1,430 | 154,914 | 5,371,413 |
| Excess of revenues over expenditures | 522,548 | 509,882 | 9,266 | 1,041,696 |
| Capital expenditures | | | | |
| Capital outlay - Capital Improvement Fund | 1,479,865 | - | - | 1,479,865 |
| Total capital expenditures | 1,479,865 | - | - | 1,479,865 |
| Other financing sources (uses): | | | | |
| Principal payments on debt | - | (324,736) | - | (324,736) |
| Proceeds from issuance of note payable | - | 263,995 | - | 263,995 |
| Interest expense | - | (262,413) | - | (262,413) |
| Interest income | 44,717 | 3,381 | - | 48,098 |
| Transfers | 174,492 | (178,893) | (84,713) | (89,114) |
| Total other financing sources (uses) | 219,209 | (498,666) | (84,713) | (364,170) |
| Change in fund balances | (738,108) | 11,216 | (75,447) | (802,339) |
| Fund balances - beginning, as restated | 5,327,361 | 9,466 | 6,988 | 5,343,815 |
| Fund balances - ending | \$ 4,589,253 | \$ 20,682 | \$ (68,459) | \$ 4,541,476 |

The accompanying notes are an integral part of this statement.

CITY OF BURKBURNETT, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Net change in fund balances - total governmental funds (Exhibit A-5) \$ (802,339)

Amounts reported for governmental activities in the statement of activities (Exhibit A-2) are different because:

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the costs of those assets are allocated over their useful lives as depreciation expense. The net difference between the two is as follows:

| | | |
|-----------------------------------|------------------|---------|
| Capital outlay during the year | \$ 1,510,124 | |
| Depreciation expense for the year | <u>(874,792)</u> | 635,332 |

In the statement of activities, the loss on disposal of capital assets is reported. Conversely, governmental funds do not report any or loss on disposal of capital assets.

| | | |
|---|------------------|---------|
| Cost of disposed capital assets | 372,419 | |
| Accumulated depreciation of disposed capital assets | <u>(367,484)</u> | (4,935) |

Because accounts receivable will not be collected for several months after the City's fiscal year ends, they are not considered 'available' revenues and are deferred in the governmental funds. Deferred revenues increased by this amount this year.

38,706

Decreases in accrued compensated absences is not reported as an expenditure in the governmental funds, but increases long-term liabilities in the statement of net assets. Accrued compensated absences increased by this amount this year.

(8,016)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. The net effect of these transactions are as follows:

| | | |
|-----------------------------|----------------|--------|
| Issuance of long-term debt | (263,995) | |
| Repayment of long-term debt | <u>324,736</u> | 60,741 |

Decreases in bond issuance costs are not reported as an expenditure in the governmental funds, but decreases long-term assets in the statement of net assets.

(3,600)

Accrued interest on long-term debt is reported in the statement of activities but does not required the use of current financial resources; therefore, it is not reported as expenditures in the governmental funds.

50,352

Change in net assets of governmental activities - statement of activities (Exhibit A-2)

\$ (33,759)

The accompanying notes are an integral part of this statement.

CITY OF BURKBURNETT, TEXAS
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 WATER AND SEWER FUND
 SEPTEMBER 30, 2011

Assets:

Current assets:

| | | |
|---|----|----------------|
| Petty cash | \$ | 1,000 |
| Water and sewer receivables, net of allowance | | 465,774 |
| Inventory | | 76,498 |
| Bond issuance costs, net | | 91,633 |
| Deferred loss on refunding | | 20,194 |
| Total current assets | | <u>655,099</u> |

Restricted assets:

| | | |
|--|--|----------------|
| Certificates of deposit and money market | | <u>753,183</u> |
|--|--|----------------|

Fixed assets:

| | | |
|----------------------------|--|--------------------|
| Buildings and improvements | | 150,560 |
| Equipment and vehicles | | 1,306,600 |
| Water system | | 8,753,985 |
| Sewer system | | 4,816,222 |
| Accumulated depreciation | | <u>(7,798,275)</u> |
| Net fixed assets | | <u>7,229,092</u> |

| | | |
|--------------|----|-------------------------|
| Total assets | \$ | <u><u>8,637,374</u></u> |
|--------------|----|-------------------------|

Liabilities:

Current liabilities:

| | | |
|-------------------------------------|----|----------------|
| Accounts payable | \$ | 215,281 |
| Accrued compensated absences | | 13,362 |
| Accrued interest payable | | 20,710 |
| Customer deposits | | 191,478 |
| Due to other funds | | 237,219 |
| Debt due or payable within one year | | 260,000 |
| Total current liabilities | | <u>938,050</u> |

Long-term liabilities:

| | | |
|------------------------------------|--|------------------|
| Accrued compensated absences | | 13,440 |
| Debt due or payable after one year | | 4,362,222 |
| Total liabilities | | <u>5,313,712</u> |

Net assets:

| | | |
|---|----|-------------------------|
| Invested in capital assets, net of related debt | | 2,718,697 |
| Restricted for: | | |
| Debt service | | 111,611 |
| Other purposes | | 641,572 |
| Unrestricted | | <u>(148,218)</u> |
| Total net assets | | <u>3,323,662</u> |
| Total liabilities and net assets | \$ | <u><u>8,637,374</u></u> |

The accompanying notes are an integral part of this statement.

CITY OF BURKBURNETT, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUND
WATER AND SEWER FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

| | |
|--------------------------------------|---------------------|
| Revenues: | |
| Water revenues | \$ 2,498,903 |
| Sewer services | 927,818 |
| Industrial charges | 3,473 |
| Total revenues | <u>3,430,194</u> |
| Expenses: | |
| Water supply and distribution | 870,950 |
| Billing and collections | 443,453 |
| Waste water treatment | 1,022,047 |
| Water wells | 1,226,827 |
| Total expenses: | <u>3,563,277</u> |
| Operating loss | <u>(133,083)</u> |
| Nonoperating revenue (expense): | |
| Interest revenue | 13,828 |
| Miscellaneous revenue | 26,848 |
| Interest expense and fiscal charges | (204,911) |
| Transfer | 89,114 |
| Total nonoperating revenue (expense) | <u>(75,121)</u> |
| Net loss | (208,204) |
| Net assets - beginning, as adjusted | <u>3,531,866</u> |
| Net Assets - ending | <u>\$ 3,323,662</u> |

The accompanying notes are an integral part of this statement.

CITY OF BURKBURNETT, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
WATER AND SEWER FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

| | |
|---|-------------------|
| Cash flows from operating activities: | |
| Cash received from customers | \$ 3,258,167 |
| Cash payments to employees for services | (737,487) |
| Cash payments to other suppliers for goods and services | (2,113,675) |
| Net cash provided by operating activities | <u>407,005</u> |
| Cash flows from non-capital financing activities: | |
| Payments to other funds | (531,101) |
| Transfers from other funds | 89,114 |
| Other receipts | 26,848 |
| Net cash used by non-capital financing activities | <u>(415,139)</u> |
| Cash flows from capital and related financing activities: | |
| Proceeds from issuance of long-term debt | 1,519,500 |
| Principal paid on long-term debt | (230,000) |
| Interest and paying agent fees paid on long-term debt | (178,510) |
| Acquisition of capital assets | (1,035,527) |
| Net cash provided by capital and related financing activities | <u>75,463</u> |
| Cash flows from investing activities: | |
| Interest earned | <u>13,828</u> |
| Net increase (decrease) in cash and cash equivalents | 81,157 |
| Cash and cash equivalents - beginning | <u>673,026</u> |
| Cash and cash equivalents - ending | <u>\$ 754,183</u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating loss | \$ (133,083) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 483,773 |
| Loss on disposal | 34,625 |
| Change in assets and liabilities: | |
| Increase in receivables | (179,797) |
| Increase in accounts payable | 197,216 |
| Increase in customer deposits | 7,770 |
| Decrease in accrued compensated absences | (3,499) |
| Net cash provided by operating activities | <u>\$ 407,005</u> |
| Reconciliation of cash and cash equivalents | |
| Unrestricted cash | \$ 1,000 |
| Restricted cash equivalents | <u>753,183</u> |
| | <u>\$ 754,183</u> |

The accompanying notes are an integral part of this statement.

CITY OF BURKBURNETT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

A. Summary of Significant Accounting Policies

The accompanying financial statements of the City of Burkburnett, Texas (City) have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Financial Reporting Model

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This statement, known as the “Reporting Model” statement, affects the way the City prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private-sector financial reports.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

Management’s Discussion and Analysis - GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government’s financial activities in the form of a “management’s discussion and analysis” (MD&A). This analysis is similar to the analysis the private-sector provides in their annual reports.

Government-Wide Financial Statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government’s activities. Government-wide financial statements do not provide information by fund or account group, but distinguish between the City’s governmental activities, business-type activities and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the statement of net assets includes both noncurrent assets and noncurrent liabilities of the City, which were previously recorded in the General Fixed Assets Account Group and the General Long-Term Debt Account Group. Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. The government-wide statement of activities also reflects depreciation expenses on the City’s capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared governmental fund financial statements which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. Accordingly, the accounting and financial reporting for the City’s General Fund, the City’s major governmental fund, is similar to that presented in the City’s financial statements, although the format of financial statements has been modified by GASB Statement No. 34.

Statement of Net Assets - The statement of net assets is designed to display the financial position of the primary government (government and business-type activities) and its discretely presented component units. Governments report all capital assets, including infrastructure, in the government-wide statement of net assets and reports depreciation expense - the cost of “using up” capital assets - in the statement of

CITY OF BURKBURNETT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

activities. The net assets of a government are broken down into three categories, 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities - The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

2. Reporting Entity

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an Amendment of GASB Statement No. 14, include the following:

- the organization is legally separate
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City
- the exclusion of the organization would result in misleading or incomplete financial statements

Blended component units, although legally separate entities, are in substance, part of the City's operations and data from these units is combined with data presented by the City. Discretely presented component units, on the other hand, are reported in separate columns in the financial statements to emphasize they are legally separate from the City. Each blended and discretely presented component unit has a September 30th year end.

The City also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 39 requires inclusion of such an organization as a component unit when: 1) the economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the City, its component units or its constituents; 2) the City or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) such economic resources are significant to the City.

Discretely Presented Component Units

The Burkburnett Development Corporation is a non-profit corporation formed in August 1997 for the purpose of benefiting and accomplishing the public purposes of the City of Burkburnett, Texas, by the promotion and development of industrial and manufacturing enterprises to promote and encourage employment and the public welfare as provided by section 4B of the Development Corporation Act. The Board of Directors consists of seven members appointed by the City's Board of Commissioners. The Corporation issues a separate set of financial statements. A copy of the report can be obtained by sending a request addressed to the Executive Director, Burkburnett Development Corporation, 104 W. Third Street, Burkburnett, Texas 76354.

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The Burburnett Housing Finance Corporation is a non-profit corporation formed in March 2001 for the purpose of carrying out the Texas Housing Finance Corporations Act Chapter 394, as amended. The Board of Directors consists of five directors, each of whom is appointed by the City's Board of Commissioners.

3. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include fees, fines, and charges paid by the recipients of goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City has three major governmental funds: General Fund, Debt Service Fund and Special Revenue Fund. The General Fund is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund. The Debt Service Fund accounts for all debt service activity, and the Special Revenue Fund accounts for the City's grant activity.

The Water and Sewer Fund is the City's only major enterprise fund. This fund accounts for water and sewer services to residents of the City. Activities necessary to provide such services are accounted for in the fund, including, but not limited to, administration, operations, maintenance, finance, and related debt service.

CITY OF BURKBURNETT, TEXAS
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b. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, all proprietary funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City has chosen to apply future FASB standards.

4. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

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b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectable tax receivables within the General Fund are based upon historical experience in collecting property taxes. Uncollectable personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

At September 30, 2011, net property taxes receivable is calculated as follows:

| | |
|-----------------------------------|------------------|
| Gross property taxes receivable | \$ 107,630 |
| Allowance for uncollectable taxes | <u>(52,828)</u> |
| Net property taxes receivable | <u>\$ 54,802</u> |

c. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid obscuring significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables, other than delinquent property taxes, which are not scheduled for collection within one year. Of the \$107,630 in delinquent property taxes at September 30, 2011, it is expected that the City will collect approximately \$55,000 in future periods. An allowance is provided for delinquent property taxes not expected to be collected in the future.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of the donation. The City generally capitalizes assets with a cost of \$2,500 or more as purchase and construction outlays occur. Exceptions are stand alone office equipment, communications equipments, real property and firearms. These items are capitalized regardless of cost. The cost of normal maintenance and repairs that add no value to or materially extend the lives of the asset lives are not capitalized.

Capital assets, including those of component units, are depreciated using the straight-line method over the following estimated useful lives:

| <u>Asset Class</u> | <u>Estimated Useful Lives</u> |
|------------------------------------|-------------------------------|
| Buildings | 5-40 |
| Improvements, other than buildings | 5-40 |
| Mobile equipment | 3-10 |
| Furniture, machinery and equipment | 3-10 |

CITY OF BURKBURNETT, TEXAS
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e. Inventories

Inventories are valued at cost. Inventory consists of expendable supplies held for consumption. Inventories are capitalized under the consumption method, whereby expenditures are capitalized as inventory until used.

f. Inter-fund Activity

Inter-fund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as inter-fund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other inter-fund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, inter-fund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

g. Fund Balance

Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the City Council through a resolution. A resolution also must be passed by the City Council to modify or rescind committed fund balances.

Assigned fund balances are constrained by an intent to be used for specific purposes but are neither restricted or committed. The city manager has assignment authority, but the City Council retains the right to undo any assignments created by the city manager.

The City has established the following order to use fund balances when resources are available from multiple sources for a specific purpose: Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance.

h. Compensated Absences

Full time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the Corporation. Vacations must be used as vacation or is paid annually upon reaching maximums. Compensated absences are reported in the government wide financial statements.

Sick leave accrues to employees in varying amounts to specified maximums, but does not vest. Accordingly, employees can only utilize sick leave when sick. Since the employees accumulating rights to receive compensation for future absences are contingent upon the absences being cause by future illnesses and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements.

i. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

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B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, violations of finance-related legal and contractual provisions, if any, must be reported along with actions taken to address such violations. The City does not have any finance-related findings in the current year other than those noted in the Schedule of Findings and Responses.

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

The special revenue fund accounts for expenditure driven grants. The fund makes expenditures and then files for reimbursement from the granting agency. Reimbursements not received within sixty days of year end are deferred revenue, creating a deficit fund balance. The fund is expected to be replenished in 2012 from reimbursements by Federal and State grants.

C. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. 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.

Cash Deposits:

At September 30, 2011, the balance of the City's cash deposits was \$5,164,871. The City's cash deposits at September 30, 2011, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

At September 30, 2011, the component units' cash deposits balance was \$493,827. The component unit's cash deposits at September 30, 2011 and during 2011, were entirely covered by FDIC insurance or by pledged collateral held by the component unit's agent bank in the component unit's name.

Investments:

The City is required by Government Code Chapter 2256, the Public Funds Investment Act (Act), to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, maturity and the quality and capability of investment management; include a list of the types of authorized investments in which the investing entity's funds may be invested; and set the maximum allowable stated maturity of any individual investment owned by the entity.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of

CITY OF BURKBURNETT, TEXAS
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Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and, if so, the reporting of certain related disclosures:

a. **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

b. **Custodial Credit Risk**

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

At year end, the City was not exposed to custodial credit risk.

c. **Concentrations of Credit Risk**

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

d. **Interest Rate Risk**

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

e. **Foreign Currency Risk**

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report non-participating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of non-participating interest-earning investment contracts.

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Restricted Assets:

Restricted assets in the Governmental and Proprietary Funds consist of cash and cash equivalents held for specific purposes in accordance with bond ordinances or other legal restrictions and are comprised of the following:

| | <u>General Fund</u> | <u>Proprietary Fund</u> |
|-------------------|-------------------------|-----------------------------|
| Debt service | \$ - | \$ 111,611 |
| Capital projects | 1,156,958 | 641,572 |
| Cemetery | 105,081 | - |
| Golf course | 36,736 | - |
| Hotel/motel funds | 264,950 | - |
| TIF funds | 126,935 | - |
| Other | 2,945 | - |
| | <u>\$ 1,693,605</u> | <u>\$ 753,183</u> |

D. Capital Assets

Capital asset activity for the period ended September 30, 2011, was as follows:

Primary government

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>Decreases and Reclassifications</u> | <u>Ending Balances</u> |
|---|-------------------------------|-------------------|--|----------------------------|
| Governmental activities: | | | | |
| Buildings and improvements | \$ 1,740,829 | \$ - | \$ - | \$ 1,740,829 |
| Library books | 508,031 | 18,333 | - | 526,364 |
| Streets and curbs | 16,457,455 | - | - | 16,457,455 |
| Golf course | 644,030 | - | - | 644,030 |
| Golf course land | 64,000 | - | - | 64,000 |
| Equipment and vehicles | 2,888,784 | 446,320 | (372,493) | 2,962,611 |
| Land | 8,469 | - | - | 8,469 |
| Construction in process | - | 1,045,547 | - | 1,045,547 |
| Total at historical cost | <u>22,311,598</u> | <u>1,510,200</u> | <u>(372,493)</u> | <u>23,449,305</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 981,248 | 51,738 | (116,800) | 916,186 |
| Library books | 440,731 | 8,923 | - | 449,654 |
| Streets and curbs | 6,740,454 | 612,972 | - | 7,353,426 |
| Golf course | 339,370 | 64,403 | 49,154 | 452,927 |
| Equipment and vehicles | 2,376,246 | 136,756 | (299,836) | 2,213,166 |
| Total accumulated depreciation | <u>10,878,049</u> | <u>874,792</u> | <u>(367,482)</u> | <u>11,385,359</u> |
| Governmental activities capital assets, net | <u>\$11,433,549</u> | <u>\$ 635,408</u> | <u>\$ (5,011)</u> | <u>\$12,063,946</u> |

CITY OF BURKBURNETT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

| | Beginning Balances | Increases | Decreases and Reclassifications | Ending Balances |
|--|-----------------------|-------------------|------------------------------------|---------------------|
| Business-type activities: | | | | |
| Buildings and improvements | \$ 150,560 | \$ - | \$ - | \$ 150,560 |
| Equipment and vehicles | 1,532,088 | 130,763 | (356,252) | 1,306,599 |
| Water system | 8,133,006 | 401,992 | 218,987 | 8,753,985 |
| Sewer system | 4,313,451 | 502,772 | - | 4,816,223 |
| Total at historical cost | <u>14,129,105</u> | <u>1,035,527</u> | <u>(137,265)</u> | <u>15,027,367</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 82,808 | 3,764 | - | 86,572 |
| Equipment and vehicles | 908,188 | 96,069 | (93,967) | 910,290 |
| Water system | 3,434,217 | 276,634 | (8,673) | 3,702,178 |
| Sewer system | 2,991,929 | 107,306 | - | 3,099,235 |
| Total accumulated depreciation | <u>7,417,142</u> | <u>483,773</u> | <u>(102,640)</u> | <u>7,798,275</u> |
| Business-type activities capital assets, net | <u>\$ 6,711,963</u> | <u>\$ 551,754</u> | <u>\$ (34,625)</u> | <u>\$ 7,229,092</u> |

Depreciation was charged to functions as follows:

| | |
|---|-------------------|
| Governmental activities: | |
| General government | \$ 5,479 |
| Administration | 6,363 |
| City hall | 7,749 |
| Police department | 74,950 |
| Municipal court | 808 |
| Fire department | 11,652 |
| Library | 12,847 |
| Streets and public works | 657,267 |
| Parks and recreation | 81,875 |
| Community center | 1,080 |
| E.M.T. | 13,105 |
| Community planning | 1,617 |
| Total depreciation expense - governmental activities | <u>\$ 874,792</u> |
| Business-type activities: | |
| Water supply and distribution | \$ 331,263 |
| Billing and collections | 6,679 |
| Waste water treatment | 114,791 |
| Water wells | 31,040 |
| Total depreciation expense - business-type activities | <u>\$ 483,773</u> |

Discretely presented component units

Activity for the Burkburnett Development Corporation for the year ended September 30, 2011 was as follows:

CITY OF BURKBURNETT, TEXAS
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| | Beginning Balances | Increases | Decreases | Ending Balances |
|--------------------------------------|-----------------------|-------------|--------------------|--------------------|
| Furniture and office equipment | \$ 35,242 | \$ - | \$ (16,226) | 19,016 |
| Industrial Park lots – held for sale | 653,291 | - | (62,500) | 590,791 |
| Total at historical cost | 688,533 | - | (78,726) | 609,807 |
| Less accumulated depreciation for: | | | | |
| Furniture and office equipment | 35,242 | - | (16,226) | 19,016 |
| Total accumulated depreciation | 35,242 | - | (16,226) | 19,016 |
| Capital assets, net | <u>\$ 653,291</u> | <u>\$ -</u> | <u>\$ (62,500)</u> | <u>\$ 590,791</u> |

The Burkburnett Development Corporation had no depreciation expense for the year ended September 30, 2011.

E. Inter-fund Balances and Activity

1. Due To and From Other Funds

Inter-fund receivables and payables at September 30, 2011, consisted of the following:

| <u>Fund</u> | <u>Inter-fund Receivables</u> | <u>Inter-fund Payables</u> |
|----------------------|-----------------------------------|--------------------------------|
| General Fund | \$ 247,695 | \$ 20,682 |
| Debt Service Fund | 20,682 | - |
| Special Revenue Fund | - | 10,476 |
| Water and Sewer Fund | - | 237,219 |
| | <u>\$ 268,377</u> | <u>\$ 268,377</u> |

The General Fund receivable represents cash used by the Special Revenue Fund and Water and Sewer Fund to finance certain activities pending receipt of funds from other investments and receivables. The General Fund payable represents cash owed to the Debt Service Fund.

2. Transfers To and From Other Funds

Transfers to and from other funds during fiscal year 2011, consisted of the following:

| <u>Fund</u> | <u>Transfers Out</u> | <u>Transfers In</u> |
|----------------------|----------------------|---------------------|
| General Fund | \$ 89,503 | \$ 263,995 |
| Debt Service Fund | 263,995 | 85,102 |
| Special Revenue Fund | 89,114 | 4,401 |
| Water and Sewer Fund | - | 89,114 |
| | <u>\$ 442,612</u> | <u>\$ 442,612</u> |

CITY OF BURKBURNETT, TEXAS
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The General Fund transferred funds to the Debt Service Fund to cover debt service payments. The Debt Service Fund transferred proceeds from the issuance of a note payable to the General Fund to purchase a new fire truck. The Special Revenue Fund transferred funds to the Water and Sewer Fund to reimburse grant-funded capital expenditures.

F. Long-Term Liabilities

1. Long-Term Liability Activity

Long-term liabilities include debt and other long-term payables. Changes in long-term liabilities for the year ended September 30, 2011, are as follows:

| | Beginning Balances | Increases | Decreases | Ending Balance | Amounts Due Within One Year |
|--|-----------------------|---------------------|---------------------|---------------------|-----------------------------------|
| Governmental activities: | | | | | |
| General obligation bonds, series 2008 and 2006 | \$ 6,115,000 | \$ - | \$ (250,000) | \$ 5,865,000 | \$ 260,000 |
| Notes payable | 475,604 | 263,995 | (74,736) | 664,863 | 39,121 |
| Compensated absences | 98,301 | 60,496 | (52,481) | 106,316 | 52,481 |
| Total governmental activities | \$ 6,688,905 | \$ 324,491 | \$ (377,217) | \$ 6,636,179 | \$ 351,602 |
| Business-type activities: | | | | | |
| Certificates of obligation, series 2003 | \$ 710,000 | \$ - | \$ (65,000) | \$ 645,000 | \$ 70,000 |
| Certificates of obligation, series 2001 | 95,000 | - | (95,000) | - | - |
| General obligation refunding bonds, series 2010 | 2,475,000 | - | - | 2,475,000 | 130,000 |
| Revenue bonds | - | 1,555,000 | (70,000) | 1,485,000 | 60,000 |
| Compensated absences | 30,301 | 9,863 | (13,362) | 26,802 | 13,362 |
| Total business-type activities | \$ 3,310,301 | \$ 1,564,863 | \$ (243,362) | \$ 4,631,802 | \$ 273,362 |
| Component units: | | | | | |
| Compensated absences | \$ - | \$ 3,234 | \$ (462) | \$ 2,772 | \$ 462 |
| Total component units | \$ - | \$ 3,234 | \$ (462) | \$ 2,772 | \$ 462 |

2. General Obligation Bonds

In April 2010, the City issued \$2,475,000 in General Obligation Refunding Bonds, Series 2010 to advance refund Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2001. Interest rates range from 2.00% to 3.50% with a maturity date of February 15, 2026 and annual series payments range from \$130,000 to \$215,000.

In June 2008, the City issued General Obligation Bonds, Series 2008 in the amount of \$3,375,000 to finance certain street improvements. The bonds are payable from ad valorem taxes of the City. The Bonds bear interest at 3.82%. The final maturity date is in 2028 and the annual series payments range from \$90,000 to \$245,000.

In August 2006, the City issued General Obligation Bonds, Series 2006 in the amount of \$3,400,000 to finance certain street improvements. The bonds are payable from ad valorem

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taxes of the City. The Bonds bear interest at 5.25% to 6.00%. The final maturity date is in 2026 and the annual series payments range from \$125,000 to \$250,000.

3. Revenue Bonds and Certificates of Obligation

In October 2010, the City issued Waterworks and Sewer System Revenue Bonds, Series 2010 in the amount of \$1,555,000 to finance certain water and sewer improvements. The bonds are payable from pledge net revenues of the waterworks and sewer system. The bonds bear interest at 3.00% to 4.00%. The final maturity date is in 2030 and the annual series payments range from \$60,000 to \$195,000.

In December 2003, the City issued Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2003 in the amount of \$1,040,000 to finance certain water and sewer improvements. The Certificates are payable from ad valorem taxes of the City and are additionally payable from a lien on and pledge of the net revenue of the

City's combined Waterworks and Sewer System. The Certificates of Obligation bear interest at 3.15% to 5.00%. The final maturity date is in 2019 and the annual series payments range from \$50,000 to \$95,000.

In January 2001, the City issued Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2001 in the amount of \$3,055,000 to finance certain water and sewer improvements. Interest rates range from 4.875% to 5.125%. During the fiscal year ended September 2010, these Certificates of Obligation were partially refunded by the General Obligation Refunding Bonds, Series 2010. The final maturity date for the outstanding balance was February 2011.

4. Notes Payable

In September 2011, the City purchased a fire truck, which was financed with a note in the amount of \$263,995. The note bears interest at the rate of 4.25% with fixed monthly payments of \$2,713. The final maturity date is in September 2021.

In October 2009, the City executed a line of credit in the amount of \$441,581 for certain golf course improvements. The note bears interest at 2% and originally matured on September 30, 2011. In September 2011, the City renewed the loan and extended the maturity date to October 1, 2012.

In November 2008, the City purchased police vehicles, which were financed with a note in the amount of \$50,000, bearing interest at the rate of 4.5% with fixed annual payments of \$18,102. The final maturity date is in October 2011.

5. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2011, are as follows:

| Year Ending September 30, | Governmental Activities | | Business-type Activities | |
|---------------------------|------------------------------------|------------|--|------------|
| | Notes and General Obligation Bonds | | Certificates of Obligation and Revenue Bonds | |
| | Principal | Interest | Principal | Interest |
| 2012 | \$ 299,121 | \$ 250,955 | \$ 260,000 | \$ 163,088 |
| 2013 | 676,198 | 243,972 | 265,000 | 156,063 |
| 2014 | 308,680 | 221,409 | 280,000 | 148,383 |

CITY OF BURKBURNETT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

| | | | | |
|-----------|---------------------|---------------------|---------------------|---------------------|
| 2015 | 319,707 | 206,560 | 285,000 | 139,520 |
| 2016 | 335,777 | 192,483 | 295,000 | 129,658 |
| 2017-2021 | 1,915,380 | 741,881 | 1,475,000 | 482,397 |
| 2022-2026 | 2,195,000 | 323,895 | 1,460,000 | 213,039 |
| 2027-2030 | 480,000 | 18,528 | 285,000 | 29,858 |
| Totals | <u>\$ 6,529,863</u> | <u>\$ 2,199,683</u> | <u>\$ 4,605,000</u> | <u>\$ 1,462,006</u> |

6. **Defeasance of Prior Debt**

In 2010, the City defeased certain outstanding Revenue Bonds by placing the proceeds from the issuance of new refunding bonds in irrevocable trusts which will provide amounts sufficient for future redemption or payments of principal and interest of the issues refunded.

Accordingly, the trust accounts and the liability for the refunded (defeased) bonds are not reflected in the financial statements of the City.

At September 30, 2011, the refunded debt outstanding is as follows:

| | |
|---|--------------------|
| Series 2001 Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation | <u>\$2,360,000</u> |
|---|--------------------|

G. **Risk Management**

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City obtains general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage.

The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

H. **Pension Plan**

1. **Plan Description**

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by TMRS. This report may be obtained by writing TMRS, P.O. Box

CITY OF BURKBURNETT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit (referred to as an updated service credit) which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Members can retire at ages 60 or above with 5 or more years of services or with 20 years of service regardless of age. A member is vested after 10 years. The contribution rate for the employees is 7%, and the City's matching ratio is currently 2 to 1.

2. Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for the city. Both the normal cost and prior service contribution rate include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarial determined rate. Both the employees and the City make contributions monthly. Since the City needs its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

| Valuation Date | <u>12/31/2008</u> | <u>12/31/2009</u> | <u>12/31/2010</u> |
|-------------------------------|--------------------------|--------------------------|---------------------------|
| Actuarial Cost Method | Projected Unit Credit | Projected Unit Credit | Projected Unit Credit |
| Amortization Method | Level Percent of Payroll | Level Percent of Payroll | Level Percent of Payroll |
| Remaining Amortization Period | 24 years: closed period | 23 years: closed period | 21.9 years: closed period |
| Asset Valuation Method | Amortized Cost | 10-year smoothed market | 10-year smoothed market |

CITY OF BURKBURNETT, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

| | | | |
|----------------------------|---------------------------|---------------------------|---------------------------|
| Actuarial Assumptions: | | | |
| Investment Rate of Return | 7.5% | 7.5% | 7.0% |
| Projected Salary Increases | Varies by age and service | Varies by age and service | Varies by age and service |
| Includes Inflation at | 3.00% | 3.00% | 3.00% |
| Cost-of-Living Adjustments | 2.1% | 2.1% | 2.1% |

The funded status as of 12/31/2010, the most recent actuarial valuation dates, is as follows:

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability (AAL)</u> | <u>Funded Ratio</u> | <u>Unfunded AAL (UAAL)</u> | <u>Covered Payroll</u> | <u>UAAL as a Percentage of Covered Payroll</u> |
|---------------------------------|----------------------------------|--|---------------------|----------------------------|------------------------|--|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| | | | (1) / (2) | (2) / (1) | | (4) / (5) |
| 12/31/2010 | \$9,134,824 | \$10,619,751 | 86.0% | \$1,484,927 | \$2,549,886 | 58.2% |

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

J. Commitments and Contingencies

1. Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

The City is subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management and the Council that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the City.

K. Restatement

The government-wide and fund financial statements at October 1, 2010, the beginning of the current year, have been restated to reflect the effect of recording various receivables and payables and related accounts which had not been previously recorded. The effect of this restatement is noted below for the government-wide and fund financial statements.

CITY OF BURKBURNETT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

| | Financial Statements | | |
|---|----------------------------|---|-----------------------|
| | Government-Wide | | Fund |
| | Governmental Activities | Proprietary Fund/ Business-type activities | Governmental Funds |
| Beginning Fund Balance/Net Assets, as previously reported | \$ 10,348,025 | \$ 3,575,587 | \$ 5,302,676 |
| Restatement adjustments: | | | |
| Increase to remove long-term liabilities recognized in governmental funds in the prior year | - | - | 181,050 |
| Increase (decrease) to correct accounts receivable and related deferred revenues | 39,836 | - | (139,911) |
| Decrease to record catch-up depreciation for streets and curbs | (134,594) | - | - |
| Decrease to correct balances related to long-term debt | (8,100) | (43,721) | - |
| Total restatement adjustments | <u>(102,858)</u> | <u>(43,721)</u> | <u>41,139</u> |
| Beginning Fund Balance/Net Assets, as restated | <u>\$ 10,245,167</u> | <u>\$ 3,531,866</u> | <u>\$ 5,343,815</u> |

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

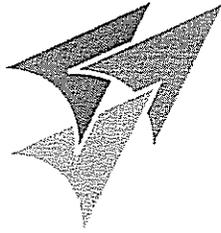
CITY OF BURKBURNETT, TEXAS
 GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

| | Budgeted Amounts | | Actual | Variance with |
|--|-------------------|-------------------|---------------------|--|
| | Original | Final | | Final Budget Positive (Negative) |
| Revenues: | | | | |
| Property taxes | \$ 1,923,553 | \$ 1,923,553 | \$ 1,973,522 | \$ 49,969 |
| Non-property taxes | 2,225,768 | 2,225,768 | 1,917,986 | (307,782) |
| Fines and forfeitures | 209,183 | 209,183 | 61,097 | (148,086) |
| Licenses and permits | 31,000 | 31,000 | 33,669 | 2,669 |
| Fees and services | 1,438,200 | 1,443,840 | 1,616,175 | 172,335 |
| Miscellaneous | 185,846 | 185,846 | 101,043 | (84,803) |
| Intergovernmental revenue | - | - | 34,125 | 34,125 |
| Total operating revenues | <u>6,013,550</u> | <u>6,019,190</u> | <u>5,737,617</u> | <u>(281,573)</u> |
| Expenditures: | | | | |
| General government | 562,220 | 562,220 | 218,076 | 344,144 |
| Administration | 223,971 | 223,971 | 168,665 | 55,306 |
| Tax assessing/collecting | 34,012 | 34,012 | 33,302 | 710 |
| City hall | 230,280 | 230,280 | 205,683 | 24,597 |
| Police department | 1,534,999 | 1,534,999 | 1,485,303 | 49,696 |
| Municipal court | 70,758 | 70,758 | 66,698 | 4,060 |
| Fire department | 82,948 | 82,948 | 94,884 | (11,936) |
| Library | 146,860 | 146,860 | 138,923 | 7,937 |
| Streets and public works | 722,071 | 722,071 | 683,974 | 38,097 |
| Parks and recreation | 440,767 | 446,407 | 365,568 | 80,839 |
| Community center | 23,120 | 23,120 | 25,486 | (2,366) |
| Garbage collection | 1,173,486 | 1,173,486 | 1,207,650 | (34,164) |
| E.M.T. | 376,071 | 376,071 | 369,849 | 6,222 |
| Community planning | 117,820 | 117,820 | 113,328 | 4,492 |
| Drainage improvement | 94,650 | 94,650 | 37,680 | 56,970 |
| Total expenditures | <u>5,834,033</u> | <u>5,839,673</u> | <u>5,215,069</u> | <u>624,604</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>179,517</u> | <u>179,517</u> | <u>522,548</u> | <u>343,031</u> |
| Capital outlay - Capital Improvement Fund | <u>(197,381)</u> | <u>(197,381)</u> | <u>(1,479,865)</u> | <u>(1,282,484)</u> |
| Other financing sources (uses): | | | | |
| Interest income | 50,250 | 50,250 | 44,717 | 5,533 |
| Transfers | 124,190 | 124,190 | 174,492 | (50,302) |
| Total other financing sources (uses) | <u>174,440</u> | <u>174,440</u> | <u>219,209</u> | <u>(44,769)</u> |
| Excess of revenues and other financing sources over (under) expenditures and other financing uses | <u>\$ 156,576</u> | <u>\$ 156,576</u> | <u>\$ (738,108)</u> | <u>\$ (894,684)</u> |

Schedules of Actuarial Liabilities and Funding Progress

| | |
|---|---------------|
| Actuarial Valuation Date | 12/31/2010 |
| Actuarial Value of Assets | \$ 9,134,824 |
| Actuarial Accrued Liability | \$ 10,619,751 |
| Percentage Funded | 86.0% |
| Unfunded Actuarial Accrued Liability (UAAL) | \$ 1,484,927 |
| Annual Covered Payroll | \$ 2,549,886 |
| UAAL as a Percentage of Covered Payroll | 58.2% |
| Net Pension Obligation (NPO) at the Beginning of the Period | \$ - |
| Annual Pension Cost: | |
| Annual Required Contribution (ARC) | \$ 385,247 |
| Contributions Made | \$ (385,247) |
| NPO at the end of the Period | \$ - |
| Two Preceding Years: | |
| 12/31/2010: | |
| Annual Pension Cost | \$ 387,646 |
| Percentage of Annual Pension Cost Contributed | 100% |
| NPO at the end of the Period | \$ - |
| 12/31/2009: | |
| Annual Pension Cost | \$ 358,513 |
| Percentage of Annual Pension Cost Contributed | 100% |
| NPO at the end of the Period | \$ - |

Internal Control and Compliance Section



MWH GROUP
CERTIFIED PUBLIC ACCOUNTANTS
CONSULTANTS

Independent Auditor's Report

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

City Council
City of Burkburnett, Texas
501 Sheppard Road
Burkburnett, Texas 76354

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Burkburnett, Texas as of and for the year ended September 30, 2011, which collectively comprise the City of Burkburnett, Texas' basic financial statements and have issued our report thereon dated February 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Burkburnett, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Burkburnett, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Burkburnett, Texas' internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting, which are findings 2011-1, 2011-2, 2011-3, 2011-4 and 2011-5. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet is important enough to merit attention by those charged with governance.

Compliance and other Matters

As part of obtaining reasonable assurance about whether the City of Burkburnett, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and

material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Burkburnett, Texas' response to the finding indentified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City of Burkburnett, Texas' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

MWH Group, P.C.

MWH GROUP, P.C.

February 23, 2012

**CITY OF BURKBURNETT, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

A. Summary of Auditor's Results - Financial Statements

| | |
|--|------------------------------|
| Type of auditor's report issued: | Unqualified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | _____ Yes <u> X </u> No |
| Significant deficiency (ies) identified that are not considered to be material weaknesses? | <u> X </u> Yes _____ No |
| Noncompliance material to financial statements noted? | _____ Yes <u> X </u> No |

B. Financial Statement Findings

Finding 2011-1: Segregation of Duties

Condition and Criteria: Internal controls are not optimal due to the lack of segregation of duties.

Cause: The size of the City's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough in number to provide optimum segregation of duties.

Effect: There is a possibility that misstatements would not be detected or prevented by management or employees in a timely manner while performing their normal functions.

Recommendations: We recommend that the City always be aware of their deficiencies in internal control resulting from their small number of business office and administrative staff. We recommend that the City be open to opportunities to improve their internal controls as the opportunities present themselves.

Finding 2011-2: System Access Control

Condition and Criteria: Access to the general ledger system is not adequately safeguarded to prevent unauthorized individuals from gaining access. Additionally, authorized users have the ability to access more areas within the general ledger system than are required to perform their daily job activities.

Cause: Due to the small number of accounting and administrative personnel, employees can be called upon to assist in multiple areas outside of their daily functions. Granting personnel access to multiple areas within the general ledger system allows them to perform additional duties more easily if the need arises.

Effect: There is a possibility that inappropriate adjustments could be made to the financial records, either intentionally or unintentionally, by individuals who should not have access to the general ledger system or whose access should be limited to only certain applications within the system.

Recommendations: We recommend that all authorized users of the general ledger system secure the application with a strong password. Additionally, we recommend that the City reviews each user's access to ensure that each user is limited to only applications that are necessary to perform their daily job duties.

Finding 2011-3: Accounting for Fixed Assets

Condition and Criteria: The City has not historically maintained control over the fixed asset listing that encompasses all City assets and related accumulated depreciation, including infrastructure and the water and sewer systems. Additionally, the City does not have a formal fixed asset capitalization policy. A fixed asset capitalization policy should be in place to ensure that all significant equipment purchases are identified and tracked by the City, while insignificant equipment purchases are expensed and do not require ongoing effort.

Cause: The City has maintained records of equipment and vehicle purchases but has relied on the auditors to maintain the complete fixed asset listing. Equipment purchases are capitalized and included in the fixed assets listing based on an informal capitalization policy that is not consistently applied.

Effect: Failure to maintain control of the complete fixed asset listing and establish formal policies regarding capitalization could result in fixed asset records that are incomplete or inaccurate.

Recommendations: We recommend that the City maintain control over their fixed asset listing, update it as necessary throughout the year, and review it periodically for ongoing pertinence. We also recommend that the City establish a formal fixed asset capitalization policy and apply it consistently to all equipment purchases.

Finding 2011-4: Oversight and Review

Condition and Criteria: The City does not have a formal oversight and review process over routine accounting procedures, such as bank reconciliations and journal entries. Additionally, controls over invoice review and approval are not consistently applied.

Cause: The City does not have adequate staffing to allow for effective review. As a result, the individual who should be performing the oversight activities, including review and approval, is often the one performing the control. It is ineffective for an individual to review his own work.

Effect: Lack of adequate oversight activities could lead to misstatements not being detected in a timely manner.

Recommendations: We recommend that the City consider ways to delegate routine accounting tasks to individuals other than the individual in charge of review and oversight to allow for a more effective control environment.

Finding 2011-5: Deposit Collateral and Insurance

Condition and Criteria: State law mandates that all deposits in financial institutions be fully securitized through FDIC insurance or collateral held in the City's name. During the year, the City's deposits exceeded the insurance coverage and deposit collateral held in the City's name.

Cause: The letter of credit held in the City's name as collateral for its deposits expired during the year, but the City and the bank were unaware of its expiration.

Effect: The City's deposits exceeded the FDIC insurance coverage and collateral from November, 2010, to March, 2011, resulting in City deposits being at risk.

Recommendations: We recommend that the City, in conjunction with its depository bank, develop a system to adequately monitor its collateral requirement so that timely adjustments can be made, as necessary, to insure that all City funds are adequately collateralized at all times.