

**CITY OF ELKHART, TEXAS**

**AUDITED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2011**

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# Todd, Hamaker & Johnson, LLP

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CERTIFIED PUBLIC ACCOUNTANTS

420 S 1<sup>st</sup> Street • PO Box 468 • Lufkin, TX 75902-0468 • (936) 632-8181  
301 N 6<sup>th</sup> Street • PO Box 1249 • Crockett, TX 75835-1249 • (936) 544-2143

Melvin R. Todd, CPA  
Daren Hamaker, CPA  
Kim Johnson, CPA  
Rachel Kennerly, CPA

To the Honorable Mayor and  
Members of the City Council  
City of Elkhart, Texas

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitation in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, as defined above.

## Significant Deficiencies

### *Segregation of Duties*

Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction. Control over some financial transactions of the City is limited due to this lack of segregation of duties and because of the limited number of personnel involved in accounting and financial areas. While the City's segregation of duties appears reasonable given the number of personnel, there are some inherent risk given the City's staff size.

We realize that it is not economically feasible for the City to employ a larger accounting staff. However, we recommend that the Council continue to closely monitor day to day operations, to the extent possible, as a compensating control. This oversight should include a periodic review of certain detailed accounting schedules and/or reconciliations, looking for old or unusual items included therein.

*Reconciliation of general and subsidiary ledgers*

General ledger balances for both property taxes receivable and utilities receivable did not agree with their respective detailed subsidiary ledgers. It was also noted that a specific procedure was not in place to assure that these ledgers remain in balance. Inconsistencies in the recording of transactions for billings, collections and adjustments resulted in significant corrections to receivables and revenues during the audit.

The current procedures for the recording these transactions must be reviewed and accurate procedures put in place. Further, the general and subsidiary ledgers must be in agreement at the end of each month. Any discrepancies must be researched and corrected.

Other areas of improvement/recommendations

*Written accounting policies*

The City does not have written documents outlining certain key accounting policies (for example, policies relating to the capitalization of assets, investments, allowances for receivables, and others). We recommend that the Council review existing practices, formulate a list of desired policies, and begin the process of adopting written policies. We would be happy to assist with developing a list of needed policies.

This report is intended solely for the use of management of the City and should not be used for any other purposes.

*Todd, Hamaker & Johnson, LLP*

Todd, Hamaker & Johnson, LLP  
Lufkin, Texas

May 14, 2012

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**CITY OF ELKHART  
PRINCIPAL CITY OFFICIALS  
SEPTEMBER 30, 2011**

Honorable Raymond Dunlap .....Mayor  
Randy McCoy.....Mayor Pro Tem  
Karen Bridges.....Alderman  
Lucia Butler.....Alderman  
Doug Smith .....Alderman  
Erroll Tatum.....Alderman  
Donna Surber .....City Secretary

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council  
City of Elkhart, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elkhart, 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's 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 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, each major fund and the aggregate remaining fund information of the City of Elkhart, 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 May 14, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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 schedule of funding progress – pension plan on pages 4 through 8 and pages 30 through 31, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, 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 principally 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.

Todd, Hamaker & Johnson, LLP

Todd, Hamaker & Johnson, LLP  
Lufkin, Texas

May 14, 2012

**CITY OF ELKHART, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

As management of City of Elkhart, Texas (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2011. We encourage readers to consider information presented here as well as the City's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- The overall assets of the City increased by \$129,976 during the fiscal year. Cash and other current assets increased by \$16,703; capital assets increased by \$113,273.
- The City's total long-term debt obligations decreased by \$89,435 during the current fiscal year. Total debt outstanding at year end was \$936,030; \$925,000 in bond obligations and \$11,030 in notes payable. In November, 2010 the City entered into a one-year note agreement totaling \$22,755 for the purpose of financing the purchase of a 2010 Dodge truck.
- The City's overall assets exceeded its total liabilities by \$1,646,252 (*net assets*) at September 30, 2011. Of this amount, \$375,583 (*unrestricted net assets*) may be used to meet the on-going obligations to citizens and creditors.
- Excluding grant revenues received, overall revenues increased by \$63,470 from the prior year. Increases in water usage during the year, corresponding to increases in water revenue, was the major factor contributing to this increase.
- Overall expenses increased by \$27,948 from the prior year. The TCEQ enforcement penalty of \$21,070 was the largest contributor to this increase. Other expenses remained in-line with the prior year.
- Overall revenues exceeded expenses (or an increase in net assets) by \$190,863. Net assets increased by \$31,772 in the governmental fund and increased by \$159,091 in the proprietary fund.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The *government-wide financial statements*, which begin on page 10 of this report, are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the fiscal year. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: *governmental* funds and *proprietary* funds.

*Governmental Funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Revenues are recognized when they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest, which are reported as expenditures in the year due.

*Proprietary funds* are used to report the same functions presented as *business-type* activities in the government-wide financial statements. The City uses a proprietary fund to account for the operations of the water, sewer and garbage collections systems that are financed and operated in a manner similar to private business enterprises -- where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods and services to the general public on a continuing basis are to be financed or recovered primarily through user charges. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The basic governmental and proprietary fund financial statements can be found on pages 13 - 18 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 28 of this report.

## **THE CITY'S NET ASSETS**

Over time, net assets may serve as a useful indicator of a government's financial position. At September 30, 2011, the City's assets exceeded its liabilities by \$1,646,252.

The City has a large investment in capital assets (e.g., land, buildings, equipment, and construction in progress) and related debt used to acquire those assets that remains outstanding. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Net assets invested in capital assets, net of related debt, totaled \$1,148,634 at September 30, 2011.

An additional portion of the City's net assets, \$122,035, represents resources that are subject to external restriction on how they may be used. The remaining balance is \$375,583 and unrestricted in nature.

During the year, revenues exceeded expenses (or an increase in net assets) by \$190,863.



### The City's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 401,388	\$ 430,915	\$ 241,810	\$ 195,580	\$ 643,198	\$ 626,495
Capital assets	74,317	38,848	2,010,347	1,932,543	2,084,664	1,971,391
Total assets	<u>475,705</u>	<u>469,763</u>	<u>2,252,157</u>	<u>2,128,123</u>	<u>2,727,862</u>	<u>2,597,886</u>
Long-term liabilities	784,510	810,000	151,520	215,465	936,030	1,025,465
Other liabilities	12,880	13,220	132,700	103,812	145,580	117,032
Total liabilities	<u>797,390</u>	<u>823,220</u>	<u>284,220</u>	<u>319,277</u>	<u>1,081,610</u>	<u>1,142,497</u>
Net assets						
Invested in capital assets, net of related debt	(710,193)	(771,152)	1,858,827	1,702,078	1,148,634	930,926
Restricted	122,035	143,788	-	-	122,035	143,788
Unrestricted	266,473	273,907	109,110	106,768	375,583	380,675
Total net assets	<u>\$ (321,685)</u>	<u>\$ (353,457)</u>	<u>\$ 1,967,937</u>	<u>\$ 1,808,846</u>	<u>\$ 1,646,252</u>	<u>\$ 1,455,389</u>

### Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Charges for services	\$ -	\$ -	\$ 764,075	\$ 710,699	\$ 764,075	\$ 710,699
General revenues:						
Property taxes	85,426	100,776	-	-	85,426	100,776
Sales taxes	103,856	98,527	-	-	103,856	98,527
Franchise fees	81,762	74,231	-	-	81,762	74,231
Interest income	2,782	2,677	287	736	3,069	3,413
Grants and contributions	-	-	234,894	3,650	234,894	3,650
Other miscellaneous	18,492	8,076	3,806	1,294	22,298	9,370
Total revenues	<u>292,318</u>	<u>284,287</u>	<u>1,003,062</u>	<u>716,379</u>	<u>1,295,380</u>	<u>1,000,666</u>
Expenses						
General government	218,865	217,679	-	-	218,865	217,679
Streets and drainage	76,266	99,829	-	-	76,266	99,829
Water, sewer, sanitation	-	-	606,769	562,184	606,769	562,184
Depreciation	3,532	1,348	152,691	145,775	156,223	147,123
Interest on long-term debt	36,164	36,900	10,230	12,854	46,394	49,754
Total expenses	<u>334,827</u>	<u>355,756</u>	<u>769,690</u>	<u>720,813</u>	<u>1,104,517</u>	<u>1,076,569</u>
Transfers						
In (out)	74,281	70,712	(74,281)	(70,712)	-	-
Total transfers	<u>74,281</u>	<u>70,712</u>	<u>(74,281)</u>	<u>(70,712)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	<u>31,772</u>	<u>(757)</u>	<u>159,091</u>	<u>(75,146)</u>	<u>190,863</u>	<u>(75,903)</u>
Net assets at beginning of year	<u>(353,457)</u>	<u>(352,700)</u>	<u>1,808,846</u>	<u>1,883,992</u>	<u>1,455,389</u>	<u>1,531,292</u>
Net assets at end of year	<u>\$ (321,685)</u>	<u>\$ (353,457)</u>	<u>\$ 1,967,937</u>	<u>\$ 1,808,846</u>	<u>\$ 1,646,252</u>	<u>\$ 1,455,389</u>

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of September 30, 2011, the City's governmental funds reported a total fund balance of \$392,932. This fund balance is comprised of \$122,035 that is restricted for payment of debt service and \$31,219 that is assigned for major street repair/construction. The remaining balance, \$239,678, is unassigned. During the year, the fund balance in the City's governmental funds decreased by \$11,748.

**General Fund Budget.** A comparison of the general fund budget and actual results is presented as required supplementary information on page 30. Actual revenues were lower than budgeted amounts by \$8,892. Actual expenses exceeded budgeted amounts by \$19,074. The General fund balance decreased by \$19,934 during the fiscal year; an increase of \$187 in fund balance was budgeted.

## CAPITAL ASSETS

The City's investment in capital assets as of September 30, 2011 totaled \$2,084,664 (net of accumulated depreciation). This investment includes land, buildings and improvements, streets and drainage, equipment, and construction work in progress.

Capital assets of \$296,245 were purchased during the year. Significant purchases included:

- Computers and software
- Phone system for City office
- 2010 Dodge truck
- Kawasaki mower
- Generators for sewer plant and school well (grant funded)

### Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 2,350	\$ 2,350	\$ 61,203	\$ 60,717	\$ 63,553	\$ 63,067
Buildings and improvements	44,691	36,214	-	-	44,691	36,214
Plant and equipment	-	-	1,880,600	1,785,280	1,880,600	1,785,280
Machinery and equipment	13,799	-	40,522	46,313	54,321	46,313
Transportation equipment	-	-	21,221	13,483	21,221	13,483
Office equipment & furniture	13,477	284	6,801	-	20,278	284
Streets and drainage	-	-	-	-	-	-
Construction in progress	-	-	-	26,750	-	26,750
<b>Total net assets</b>	<b>\$ 74,317</b>	<b>\$ 38,848</b>	<b>\$ 2,010,347</b>	<b>\$ 1,932,543</b>	<b>\$ 2,084,664</b>	<b>\$ 1,971,391</b>

**DEBT ADMINISTRATION**

At the end of the current fiscal year, the City had total debt outstanding of \$936,030.

**Debt Outstanding**

	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Notes payable	\$ 4,510	\$ -	\$ 6,520	\$ 25,465	\$ 11,030	\$ 25,465
Bonds payable	\$ 780,000	\$ 810,000	\$ 145,000	\$ 190,000	\$ 925,000	\$ 1,000,000

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

In August, 2010, the Council approved the 2010/2011 budget. No increases in tax or utility rates were projected. With slight variances, the overall revenues and expenses of the City were budgeted to remain at prior year levels.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City office at 110 W. Parker, Elkhart, Texas.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**CITY OF ELKHART, TEXAS**  
**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2011**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 272,244	\$ 89,493	\$ 361,737
Receivables, net of allowance for uncollectibles			
Customers	-	98,127	98,127
Property taxes	-	-	-
Sales taxes	7,109	-	7,109
Due from other governments	-	-	-
Inventory	-	50,261	50,261
Restricted assets			
Cash and cash equivalents	122,035	-	122,035
Capital assets			
Land	2,350	61,203	63,553
Buildings and improvements	62,299	-	62,299
Utility plant and equipment	-	4,014,483	4,014,483
Transportation equipment	-	65,796	65,796
Machinery and equipment	15,456	123,352	138,808
Office equipment and furniture	23,269	42,600	65,869
Streets and drainage	140,656	-	140,656
Accumulated depreciation	(169,713)	(2,297,087)	(2,466,800)
Bond issue costs, net of accumulated amortization	-	3,929	3,929
<b>TOTAL ASSETS</b>	<b>475,705</b>	<b>2,252,157</b>	<b>2,727,862</b>
<b>LIABILITIES</b>			
Accounts payable	8,456	26,954	35,410
Accrued interest	4,424	1,747	6,171
Customer deposits payable	-	91,868	91,868
Deferred revenue	-	12,131	12,131
Noncurrent liabilities			
Due within one year			
Notes payable	4,510	6,520	11,030
Bonds payable	40,000	45,000	85,000
Due in more than one year			
Bonds payable	740,000	100,000	840,000
<b>TOTAL LIABILITIES</b>	<b>797,390</b>	<b>284,220</b>	<b>1,081,610</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	(710,193)	1,858,827	1,148,634
Restricted for debt service	122,035	-	122,035
Unrestricted	266,473	109,110	375,583
<b>TOTAL NET ASSETS</b>	<b>\$ (321,685)</b>	<b>\$ 1,967,937</b>	<b>\$ 1,646,252</b>

See accompanying notes to financial statements.

**CITY OF ELKHART, TEXAS**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			
	Expenses	Operating		Governmental Activities	Primary Government		Total
		Fees, Fines, Charges for Services	Grants and Contributions		Capital Grants and Contributions	Governmental Activities	
<b>Primary government</b>							
Governmental activities							
General government	\$ 222,397	\$ -	\$ -	\$ (222,397)	\$ -	\$ -	\$ (222,397)
Streets and drainage	76,266	-	-	(76,266)	-	-	(76,266)
Interest on long-term debt	36,164	-	-	(36,164)	-	-	(36,164)
Total governmental activities	334,827	-	-	(334,827)	-	-	(334,827)
<b>Business-type activities</b>							
Water	279,001	436,839	-	-	392,732	-	392,732
Sewer	344,758	190,773	-	-	(153,985)	-	(153,985)
Garbage	135,701	136,463	-	-	762	-	762
Interest on long-term debt	10,230	-	-	-	(10,230)	-	(10,230)
Total business-type activities	769,690	764,075	-	-	229,279	-	229,279
<b>Total primary government</b>	<b>\$ 1,104,517</b>	<b>\$ 764,075</b>	<b>\$ -</b>	<b>\$ (334,827)</b>	<b>\$ 229,279</b>	<b>\$ -</b>	<b>\$ (105,548)</b>
<b>General revenues</b>							
Property taxes				85,426	-	-	85,426
Sales taxes				103,856	-	-	103,856
Franchise taxes				81,762	-	-	81,762
Investment income				2,782	287	-	3,069
Miscellaneous income				18,492	3,806	-	22,298
Transfers				74,281	(74,281)	-	-
Total general revenues and transfers				366,599	(70,188)	-	296,411
Change in net assets				31,772	159,091	-	190,863
Net assets - beginning				(353,457)	1,808,846	-	1,455,389
Net assets - ending				\$ (321,685)	\$ 1,967,937	\$ -	\$ 1,646,252

See accompanying notes to financial statements.

**FUND FINANCIAL STATEMENTS**

**CITY OF ELKHART, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2011**

	General	Debt Service	Special Revenue	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 242,447	\$ -	\$ 29,797	\$ 272,244
Receivables, net of allowance for uncollectibles				
Property taxes	-	-	-	-
Sales taxes	5,687	-	1,422	7,109
Restricted assets				
Cash and cash equivalents	-	122,035	-	122,035
<b>TOTAL ASSETS</b>	<b>\$ 248,134</b>	<b>\$ 122,035</b>	<b>\$ 31,219</b>	<b>\$ 401,388</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 8,456	\$ -	\$ -	\$ 8,456
Accrued expenses	-	-	-	-
Deferred revenue	-	-	-	-
<b>Total liabilities</b>	<b>8,456</b>	<b>-</b>	<b>-</b>	<b>8,456</b>
<b>FUND BALANCE</b>				
Restricted	-	122,035	-	122,035
Assigned	-	-	31,219	31,219
Unassigned	239,678	-	-	239,678
<b>Total fund balance</b>	<b>239,678</b>	<b>122,035</b>	<b>31,219</b>	<b>392,932</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 248,134</b>	<b>\$ 122,035</b>	<b>\$ 31,219</b>	

Amounts reported for governmental activities in the government-wide statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the fund	74,317
Other assets are not available to pay for current period expenditures and therefore, are deferred in the funds	-
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the fund	(784,510)
Interest payable on long-term debt does not require current financial resources and therefore, are not reported in the fund	(4,424)
<b>Net assets of governmental activities</b>	<b>\$ (321,685)</b>



**CITY OF ELKHART, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	General	Debt Service	Special Revenue	Total
<b>REVENUES</b>				
Property taxes, penalty and interest	\$ 103,034	\$ -	\$ -	\$ 103,034
Sales taxes	83,085	-	20,771	103,856
Franchise taxes	81,762	-	-	81,762
Interest income	30	1,360	1,392	2,782
Other revenues	10,492	-	8,000	18,492
<b>Total revenues</b>	<u>278,403</u>	<u>1,360</u>	<u>30,163</u>	<u>309,926</u>
<b>EXPENDITURES</b>				
General government				
Personnel	137,028	-	-	137,028
Supplies and materials	20,906	-	-	20,906
Contractual services	58,957	-	-	58,957
Maintenance and repair	1,973	-	-	1,973
Streets and drainage				
Personnel	-	-	-	-
Supplies and materials	2,255	-	-	2,255
Contractual services	33,721	-	-	33,721
Maintenance and repair	9,008	-	31,282	40,290
Capital outlay	39,001	-	-	39,001
Debt service				
Principal retired	3,075	30,000	-	33,075
Interest	258	36,076	-	36,334
<b>Total expenditures</b>	<u>306,182</u>	<u>66,076</u>	<u>31,282</u>	<u>403,540</u>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>				
<b>OVER EXPENDITURES</b>	<u>(27,779)</u>	<u>(64,716)</u>	<u>(1,119)</u>	<u>(93,614)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan proceeds	7,585	-	-	7,585
Transfers in	549	128,725	18,054	147,328
Transfers out	(102)	(72,945)	-	(73,047)
<b>Net other financing sources (uses)</b>	<u>8,032</u>	<u>55,780</u>	<u>18,054</u>	<u>81,866</u>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>				
<b>OVER EXPENDITURES AND OTHER USES</b>	<u>(19,747)</u>	<u>(8,936)</u>	<u>16,935</u>	<u>(11,748)</u>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>259,425</u>	<u>130,971</u>	<u>14,284</u>	<u>404,680</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 239,678</u>	<u>\$ 122,035</u>	<u>\$ 31,219</u>	<u>\$ 392,932</u>

See accompanying notes to financial statements.

**CITY OF ELKHART, TEXAS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Amounts reported for governmental activities in the government-wide statement of activities are different because:

Net change in fund balance - governmental funds	\$ (11,748)
Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	35,468
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. This amount is the net effect of these differences in the treatment of long-term debt and related items.	25,490
Some property tax revenues will not be collected for several months after the City's fiscal year. These are not considered "available" revenues in the governmental funds until they are received. This amount is the change in deferred revenues.	(17,608)
Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds. This amount is the change in accrued interest.	<u>170</u>
Change in net assets of governmental activities	<u>\$ 31,772</u>

See accompanying notes to financial statements.

**CITY OF ELKHART, TEXAS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2011**

	Water Utility	Sewer Utility	Garbage Utility	Total
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 599,168	\$ (562,070)	\$ 52,395	\$ 89,493
Receivables, net of allowance for uncollectibles	31,773	17,732	11,536	61,041
Unbilled receivables	20,424	10,295	6,367	37,086
Inventory	50,261	-	-	50,261
<b>Total current assets</b>	<u>701,626</u>	<u>(534,043)</u>	<u>70,298</u>	<u>237,881</u>
<b>Noncurrent assets</b>				
<b>Capital assets</b>				
Land	26,704	31,499	3,000	61,203
Utility plant and equipment	1,979,354	2,035,129	-	4,014,483
Transportation equipment	44,527	21,269	-	65,796
Machinery and equipment	32,169	91,143	40	123,352
Office equipment and furniture	19,935	13,498	9,167	42,600
Accumulated depreciation	(1,025,180)	(1,264,942)	(6,965)	(2,297,087)
<b>Total capital assets, net</b>	<u>1,077,509</u>	<u>927,596</u>	<u>5,242</u>	<u>2,010,347</u>
<b>Other assets</b>				
Bond issue cost, net of accumulated amortization	-	3,929	-	3,929
<b>Total other assets</b>	<u>-</u>	<u>3,929</u>	<u>-</u>	<u>3,929</u>
<b>Total noncurrent assets</b>	<u>1,077,509</u>	<u>931,525</u>	<u>5,242</u>	<u>2,014,276</u>
<b>TOTAL ASSETS</b>	<u>1,779,135</u>	<u>397,482</u>	<u>75,540</u>	<u>2,252,157</u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable	6,891	9,776	10,287	26,954
Accrued interest	-	868	879	1,747
Customer deposits payable	91,868	-	-	91,868
Deferred revenue	12,131	-	-	12,131
Notes payable - current maturities	2,260	4,260	-	6,520
Bonds payable - current maturities	-	45,000	-	45,000
<b>Total current liabilities</b>	<u>113,150</u>	<u>59,904</u>	<u>11,166</u>	<u>184,220</u>
<b>Noncurrent liabilities</b>				
Bonds payable	-	100,000	-	100,000
<b>Total noncurrent liabilities</b>	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>100,000</u>
<b>TOTAL LIABILITIES</b>	<u>113,150</u>	<u>159,904</u>	<u>11,166</u>	<u>284,220</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	1,075,249	778,336	5,242	1,858,827
Unrestricted	590,736	(540,758)	59,132	109,110
<b>TOTAL NET ASSETS</b>	<u>\$ 1,665,985</u>	<u>\$ 237,578</u>	<u>\$ 64,374</u>	<u>\$ 1,967,937</u>

See accompanying notes to financial statements.

**CITY OF ELKHART, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Garbage Utility</u>	<u>Total</u>
<b>OPERATING REVENUES</b>				
Charges and fees for service	\$ 436,839	\$ 190,773	\$ 136,463	\$ 764,075
Miscellaneous	<u>3,702</u>	<u>104</u>	<u>-</u>	<u>3,806</u>
Total operating revenues	<u>440,541</u>	<u>190,877</u>	<u>136,463</u>	<u>767,881</u>
<b>OPERATING EXPENSES</b>				
Personnel	92,324	82,406	-	174,730
Supplies and materials	51,491	34,711	438	86,640
Contractual services	62,425	122,759	135,139	320,323
Maintenance and repair	13,019	10,747	-	23,766
Depreciation	59,742	92,825	124	152,691
Amortization	<u>-</u>	<u>1,310</u>	<u>-</u>	<u>1,310</u>
Total operating expenses	<u>279,001</u>	<u>344,758</u>	<u>135,701</u>	<u>759,460</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<u>161,540</u>	<u>(153,881)</u>	<u>762</u>	<u>8,421</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income	287	-	-	287
Interest expense	<u>(258)</u>	<u>(9,972)</u>	<u>-</u>	<u>(10,230)</u>
Total nonoperating revenues (expenses)	<u>29</u>	<u>(9,972)</u>	<u>-</u>	<u>(9,943)</u>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>				
	<u>161,569</u>	<u>(163,853)</u>	<u>762</u>	<u>(1,522)</u>
Capital contributions	117,690	117,204	-	234,894
Gain (loss) on the sale of fixed assets	-	-	-	-
Transfers in	14,954	83,953	-	98,907
Transfers out	<u>(110,703)</u>	<u>(54,891)</u>	<u>(7,594)</u>	<u>(173,188)</u>
<b>CHANGE IN NET ASSETS</b>	183,510	(17,587)	(6,832)	159,091
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>1,482,475</u>	<u>255,165</u>	<u>71,206</u>	<u>1,808,846</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 1,665,985</u>	<u>\$ 237,578</u>	<u>\$ 64,374</u>	<u>\$ 1,967,937</u>

See accompanying notes to financial statements.

**CITY OF ELKHART, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Garbage Utility</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers and users	\$ 442,982	\$ 187,282	\$ 138,944	\$ 769,208
Cash payments to suppliers	(146,837)	(160,872)	(136,251)	(443,960)
Cash payments to employees	(92,324)	(82,406)	-	(174,730)
Net cash provided (used) by operating activities	<u>203,821</u>	<u>(55,996)</u>	<u>2,693</u>	<u>150,518</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Capital contributions/grants	117,690	117,204	-	234,894
Operating transfers in	14,954	83,953	-	98,907
Operating transfers out	(110,703)	(54,891)	(7,594)	(173,188)
Net cash provided (used) by noncapital financing activities	<u>21,941</u>	<u>146,266</u>	<u>(7,594)</u>	<u>160,613</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase of capital assets	(120,057)	(92,902)	(2,366)	(215,325)
Principal payments on notes/bonds	(5,325)	(73,790)	-	(79,115)
Interest paid on debt	(258)	(9,972)	-	(10,230)
Net cash provided (used) by capital and related financing activities	<u>(125,640)</u>	<u>(176,664)</u>	<u>(2,366)</u>	<u>(304,670)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received	287	-	-	287
Net cash provided (used) by investing activities	<u>287</u>	<u>-</u>	<u>-</u>	<u>287</u>
<b>NET INCREASE (DECREASE) IN CASH/CASH EQUIVALENTS</b>	100,409	(86,394)	(7,267)	6,748
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	498,759	(475,676)	59,662	82,745
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 599,168</u>	<u>\$ (562,070)</u>	<u>\$ 52,395</u>	<u>\$ 89,493</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating income (loss) before nonoperating revenues	\$ 161,540	\$ (153,881)	\$ 762	\$ 8,421
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	59,742	94,135	124	154,001
(Increase) decrease in accounts receivable	(2,004)	(3,595)	2,481	(3,118)
(Increase) decrease in inventory	(37,674)	-	-	(37,674)
Increase (decrease) in accounts payable/accrued expenses	17,772	7,345	(674)	24,443
Increase (decrease) in due to depositors	4,445	-	-	4,445
Total adjustments	<u>42,281</u>	<u>97,885</u>	<u>1,931</u>	<u>142,097</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ 203,821</u>	<u>\$ (55,996)</u>	<u>\$ 2,693</u>	<u>\$ 150,518</u>

The City executed an installment agreement totaling \$22,750 during the year for the purchase of a Dodge truck.

See accompanying notes to financial statements.

**NOTES TO FINANCIAL STATEMENTS**

**CITY OF ELKHART, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Introduction**

The accounting and reporting framework and the more significant accounting principles and practices of the City of Elkhart, Texas (City) are discussed in subsequent sections of this Note. The Notes that follow are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2011.

**Government-wide and fund financial statements**

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report information on all of the activities of the City as a whole. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other revenue sources not properly included with program revenues are reported as *general revenues*.

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and major individual enterprise funds are reported in separate columns in the fund financial statements.

**Measurement focus, basis of accounting, and financial statement presentation**

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements and the proprietary fund 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 when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied. Grants and similar items are recognized as revenue when grantor eligibility requirements are met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related liability is incurred, as under accrual accounting. Debt service expenditures, both principal and interest, are recorded only when payment is due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes and investment income. In general, all other revenue items are considered to be measurable and available only when cash is received.

CITY OF ELKHART, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011

Operating income reported in proprietary fund financial statements include revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Revenues and expenses not meeting this definition are classified as non-operating in the financial statements.

The government has three governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *debt service fund* is used to account for the accumulation of restricted monies for the payment of general obligation debt.

The *special revenue fund* is used to account for the proceeds of specific revenues that are restricted to expenditures for special purposes. The City has one special purpose fund -- the Street Maintenance and Repair Fund.

The government has one proprietary fund:

The *utility fund* is used to account for operations of the water, sewer and sanitation systems that are financed and operated in a manner similar to private business enterprises -- where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions and, 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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



**CITY OF ELKHART, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**Assets, liabilities, and net assets or fund balance**

**Cash and investments**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, money market accounts, and certificates of deposit or short-term, highly liquid investments that are readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents include investments with original maturities of three months or less.

Time deposits consist of certificates of deposit with maturities greater than three months. Certificates of deposit are recorded at cost, which approximates market value. The City did not own any certificates of deposit at year end or at any time during the current fiscal year.

The City's investment policy regarding the investment of the City's funds is guided by the Public Funds Investment Act of 1995. The City did not have any investments at year end or at any time during the fiscal year.

**Receivables**

All customer and property tax receivables are shown net of an allowance for uncollectibles. These allowances are reviewed annually by City management.

**Capital assets, depreciation, and amortization**

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The City, a Phase 3 government as described by GASB Statement No. 34, has elected not to report major general infrastructure assets retroactively.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

The estimated useful lives are as follows:

Buildings and improvements	20 to 50 years
Utility plant and equipment	7 to 40 years
Machinery and equipment	5 to 20 years
Transportation equipment	5 years
Office furniture and equipment	5 to 10 years
Streets and drainage	10 years

**Compensated absences**

Employees of the City are entitled to paid vacation and sick days, depending on length of service.

The City's policy is for employees to take their vacation within the City's fiscal year. If not used within the

**CITY OF ELKHART, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011**

time frame allotted, the vacation time is forfeited. Under certain Council-approved circumstances, employees are allowed to carry over vacation time balances. No accrual is made to record year-end vacation time carried over in this financial statement because the amount is immaterial.

Employee sick leave time may be carried over from one year to the next, but no cash payment for accumulated sick leave is made when an employee separates from the City, whatever the reason. The City's policy is to pay for, and expense, sick leave as it is taken.

**Long-term obligations**

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

The governmental fund financial statements recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures when incurred.

**Net assets and fund balances**

In the government-wide financial statements, the difference between the City's total assets and total liabilities represents net assets. Net assets are displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. At September 30, 2011, restricted net assets represent monies that are legally restricted for payment of debt service. Unrestricted net assets represent the net assets available for future operations.

In the governmental fund financial statements, fund balances are classified as follows:

**Non-spendable** – amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

**Restricted** – amounts that can be spent only for specific purposes due to constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

**Committed** – amounts that can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Council – the government's highest level of decision making authority. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Council.

**Assigned** – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes.

**Unassigned** – all other spendable amounts.

**CITY OF ELKHART, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgets and budgetary process**

In accordance with the City's legal requirements, the City adopts an annual budget for the General Fund. Budgeted expenditures for the current year, as adopted in the original budget, may be amended to take into account special authorizations of the City Council during the year. All appropriations lapse at the end of each fiscal year. The City's original budget was not amended during the current fiscal year.

**DETAILED NOTES ON ALL FUNDS**

**ASSETS**

**Deposits**

The City maintains its cash deposits at financial institutions whose deposits are insured by the FDIC. It is the policy of the City to require that deposits in excess of the applicable coverage be collateralized with securities held by the pledging financial institutions. As of September 30, 2011, the City's cash deposits with depository banks totaled \$514,547. All deposits were fully secured by FDIC coverage and securities pledged by the depository banks with total collateral value of \$942,719.

**Receivables**

The City's receivables at year end, including the related allowances for uncollectible accounts, are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Customer accounts	\$ -	\$ 72,688	\$ 72,688
Unbilled services	-	37,086	37,086
Property taxes	20,650	-	20,650
Sales taxes	7,109	-	7,109
Less allowance for uncollectibles	<u>(20,650)</u>	<u>(11,647)</u>	<u>(32,297)</u>
Net	<u>\$ 7,109</u>	<u>\$ 98,127</u>	<u>\$ 105,236</u>

Property taxes are levied on October 1, are due upon receipt of the tax bill, and become delinquent if not paid before February 1 of the following year. On January 31 of each year, a tax lien attaches to property to secure payment of all taxes, penalties, and interest ultimately imposed.

The property tax rate to finance general governmental services for the year ended September 30, 2011 was \$.3043 per \$100 of assessed valuation. The assessed value and total tax levy for the year was \$32,516,546 and \$98,947, respectively.

**CITY OF ELKHART, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011**

**Restricted assets**

Certain resources set aside for the repayment of debt are classified as restricted assets on the statement of net assets. At September 30, 2011, the debt service fund had restricted assets in the amount of \$122,035.

**Inventory**

Inventory consists of repair parts and supplies, which are priced at cost using the first-in/first out method.

**Capital assets**

A summary of changes in property and equipment reported in the governmental fund at September 30, 2011, is as follows:

	<u>Balance</u> <u>09/30/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>09/30/2011</u>
Land	\$ 2,350	\$ -	\$ -	\$ 2,350
Buildings and improvements	52,599	9,700	-	62,299
Machinery and equipment	-	15,456	-	15,456
Office equipment and furniture	9,424	13,845	-	23,269
Streets and drainage	<u>140,656</u>	<u>-</u>	<u>-</u>	<u>140,656</u>
	\$ 205,029	\$ 39,001	\$ -	\$ 244,030
Less accumulated depreciation	<u>(166,181)</u>	<u>(3,532)</u>	<u>-</u>	<u>(169,713)</u>
Net	<u>\$ 38,848</u>	<u>\$ 35,468</u>	<u>\$ -</u>	<u>\$ 74,317</u>

A summary of changes in property and equipment reported in the proprietary fund at September 30, 2011, is as follows:

	<u>Balance</u> <u>09/30/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>09/30/2011</u>
Land	\$ 60,717	\$ 486	\$ -	\$ 61,203
Plant and equipment	3,780,075	234,408	-	4,014,483
Transportation equipment	50,626	15,170	-	65,796
Machinery and equipment	123,352	-	-	123,352
Office equipment and furniture	35,419	7,181	-	42,600
Construction in progress	<u>26,750</u>	<u>-</u>	<u>(26,750)</u>	<u>-</u>
	\$ 4,076,939	\$ 257,245	\$ (26,750)	\$ 4,307,434
Less accumulated depreciation	<u>(2,144,396)</u>	<u>(152,691)</u>	<u>-</u>	<u>(2,297,087)</u>
Net	<u>\$ 1,932,543</u>	<u>\$ 104,554</u>	<u>\$ (26,750)</u>	<u>\$ 2,010,347</u>

Depreciation expense of \$3,532 and \$152,691 was charged to the governmental fund and proprietary fund, respectively.

**CITY OF ELKHART, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

**LIABILITIES**

**Interfund Receivables, Payables and Transfers**

During the course of routine operations, transactions occur between individual funds. Receivables and payables created by these transactions are classified as "internal balances" on the government-wide statement of net assets.

At September 30, 2011, there were no internal balances outstanding.

Interfund transfers during the year consisted of the following:

Transfers Out:	Transfers In:	
	Governmental Funds	Total
Proprietary fund	\$ 74,280	\$ 74,280
Net	<u>\$ 74,280</u>	<u>\$ 74,280</u>

**Bonds payable**

A summary of changes in bond indebtedness follows:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Series 2005	<u>\$ 810,000</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 780,000</u>	<u>\$ 40,000</u>
<u>Business-type Activities</u>					
Series 1999	<u>\$ 190,000</u>	<u>\$ -</u>	<u>\$ 45,000</u>	<u>\$ 145,000</u>	<u>\$ 45,000</u>

The annual debt service requirements to maturity for bond indebtedness are as follows:

Year Ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 40,000	\$ 34,200	\$ 45,000	\$ 7,205
2013	40,000	32,400	50,000	5,000
2014	40,000	30,600	50,000	2,500
2015	100,000	27,450	-	-
2016	100,000	22,950	-	-
2017-2020	460,000	42,975	-	-
TOTAL	<u>\$ 780,000</u>	<u>\$ 190,575</u>	<u>\$ 145,000</u>	<u>\$ 14,705</u>

At September 30, 2011, the City had \$122,035 available in the debt service fund to service the bond indebtedness.

**CITY OF ELKHART, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011**

**Notes payable**

At September 30, 2011, notes payable consisted of the following:

\$22,755 note due to Elkhart State Bank for the purchase of a 2010 Dodge truck; 11 monthly payments of \$500 beginning May, 2011 and 1 balloon payment of \$18,325 due in December 2011, interest at 5.00%	\$ <u>11,030</u>
Less current maturities	<u>(11,030)</u>
	\$ <u>          -</u>

**OTHER INFORMATION**

**Pension plan**

*Plan Description*

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www. TMRS.com](http://www.TMRS.com).

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. 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. The contribution rate for the employees is 5%, and the City matching ratio is currently 1 to 1, both as adopted by the city council.

*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 costs method. The rate was 10.04% for the months in calendar year 2010 and is 8.59% for the months in calendar year 2011. 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 remainder of the plan's 27-year amortization period. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. The City's Annual Pension Cost (APC) was \$20,962. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

**CITY OF ELKHART, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011**

*Actuarial Valuation Information*

Actuarial Valuation Date	December 31, 2010
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	27.0 Years – Closed Period
Amortization Period for new Gains/Losses	30 years
	18 years *
Asset Valuation Method	10-year Smoothed Market
Investment Rate of Return	7.5%
	7.0% *
Projected Salary Increases	Varies by age and service
Inflation Rate	3.0%
Cost-of-Living Adjustments	2.1%

\* contribution rates under the new fund structure

*Restructuring*

SB 350, which relates to the restructuring of fund obligations and accounts of the TMRS and related actuarial and accounting procedures, was passed into law on June 17, 2011. Prior to the passage of this bill, under TMRS' internal account structure, assets were held in the Pension Trust Fund predominantly in three separate accounts called "funds". The city contributions and interest were held in the Municipality Accumulation Fund (MAF) and the member contributions and interest were held in the Employees Saving Fund (ESF). When a member retired, the funds in the member's ESF, plus the appropriate matching funds from the employer (from the MAF) were immediately transferred into the Current Service Annuity Reserve Fund (CSARF). This accounting transfer of funds from the MAF reduced the assets and liabilities of the city and shifted them to the CSARF where they became assets and liabilities of the System. As a result, when a city's funded ratio was calculated, those assets and liabilities that transferred to the CSARF were not included in the calculation.

The passage of this restructuring permitted the TMRS actuary to prepare the December 31, 2010 actuarial valuation as if the fund restructuring had occurred as of December 31, 2010. Since SB 350 was not passed into law until June, 2011, we are providing funding progress for both "pre" and "post" restructuring. See Schedule of Funding Progress on page 31.

**Risk management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The City provides insurance coverage for each of those risks of loss by participation in the Texas Municipal League Intergovernmental Risk Pool. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. The City did not have any significant claims during the current year.

**Contingent liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**Subsequent events**

Management has evaluated subsequent events through May 14, 2012, the date when the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**



**CITY OF ELKHART, TEXAS**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Property taxes	\$ 90,300	\$ 97,263	\$ 6,963
Penalties and interest	2,000	5,771	3,771
Sales taxes	75,000	83,085	8,085
Franchise	70,495	81,762	11,267
Miscellaneous	49,500	10,522	(38,978)
Total revenues	287,295	278,403	(8,892)
<b>EXPENDITURES</b>			
Personnel	110,533	137,028	(26,495)
Supplies and materials	18,875	23,161	(4,286)
Contractual services	89,400	92,678	(3,278)
Maintenance and repair	68,300	10,981	57,319
Capital outlay	-	39,001	(39,001)
Debt service	-	3,333	(3,333)
Total expenditures	287,108	306,182	(19,074)
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	187	(27,779)	(27,966)
<b>OTHER FINANCING SOURCES (USES)</b>			
Loan proceeds	-	7,585	7,585
Transfers in (out)	-	447	447
Net other financing sources	-	8,032	8,032
<b>NET CHANGE IN FUND BALANCE</b>	187	(19,747)	(19,934)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	259,425	259,425	-
<b>FUND BALANCE - END OF YEAR</b>	\$ 259,612	\$ 239,678	\$ (19,934)

**CITY OF ELKHART, TEXAS**  
**SCHEDULE OF FUNDING PROGRESS - PENSION PLAN**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Percentage Funded	Unfunded AAL (UAAL)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2004	\$ 204,552	\$ 293,000	69.80%	\$ 88,488	\$ 136,966	64.60%
12/31/2005	\$ 234,238	\$ 321,273	72.90%	\$ 87,035	\$ 166,553	52.20%
12/31/2006	\$ 263,795	\$ 369,664	71.40%	\$ 105,869	\$ 170,091	62.20%
12/31/2007	\$ 295,505	\$ 447,407	66.00%	\$ 151,902	\$ 227,957	66.60%
12/31/2008	\$ 331,711	\$ 473,805	70.00%	\$ 142,094	\$ 206,043	69.00%
12/31/2009	\$ 382,117	\$ 506,778	75.40%	\$ 124,661	\$ 233,976	53.30%
12/31/2010 (a)	\$ 340,283	\$ 480,373	70.80%	\$ 140,090	\$ 227,371	61.60%
12/31/2010 (b)	\$ 429,537	\$ 549,823	78.10%	\$ 120,286	\$ 227,371	52.90%

(a) Actuarial valuation performed under the original fund structure

(b) Actuarial valuation performed under the new fund structure

See additional information regarding this fund restructuring included in the notes to the financial statements.