

CITY OF ELKHART, TEXAS
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

**CITY OF ELKHART, TEXAS
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**CITY OF ELKHART, TEXAS
PRINCIPAL CITY OFFICIALS
SEPTEMBER 30, 2013**

Honorable Raymond DunlapMayor
Randy McCoyMayor Pro Tem
Karen Bridges Councilmember
Lucia Butler Councilmember
Doug Smith Councilmember
Erroll Tatum..... Councilmember
Donna Surber City Secretary

Todd, Hamaker & Johnson, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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301 N 6th Street • PO Box 1249 • Crockett, TX 75835-1249 • (936) 544-2143

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

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, (the "City") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund,

INDEPENDENT AUDITORS' REPORT – CONTINUED

and the aggregate remaining fund information of the City of Elkhart, Texas, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress of pension plan on pages 5 through 10 and 38 through 39, 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 operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Todd, Hamaker & Johnson, LLP

Todd, Hamaker & Johnson, LLP
Lufkin, Texas

December 27, 2013

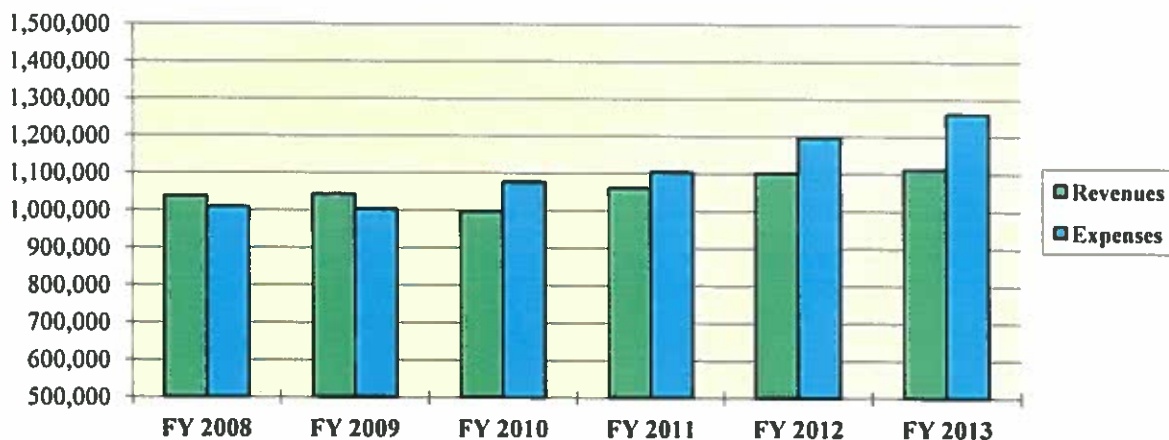
**CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013
(UNAUDITED)**

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, 2013. 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 \$768,462 during the fiscal year. Cash and other current assets decreased by \$84,238; capital assets increased by \$864,838.
- The City's total long-term debt obligations decreased by \$102,513 during the current fiscal year. Total debt outstanding at year end was \$798,003; \$750,000 in bond obligations and \$48,003 in capital lease obligations. No new debt was incurred during the year.
- The City's overall assets exceeded its total liabilities by \$2,420,136 (*net position*) at September 30, 2013. Of this amount, \$402,571 (*unrestricted net position*) may be used to meet the on-going obligations to citizens and creditors.
- Excluding grant revenues received, overall revenues increased by \$9,718 from the prior year. Increases in sales tax revenues, offset by decreases in franchise fees, accounted for the majority of the change.
- Excluding grant expenditures, overall expenses increased by \$63,992 from the prior year. Major contributors to the increase were increases in personnel and related costs, garbage expenses, and depreciation.
- Overall revenues exceeded expenses (or an increase in net position) by \$869,337. Net position increased by \$82,754 in the governmental fund and increased by \$786,586 in the proprietary fund.

**Total Revenues and Expenses
(Excluding Grants)
Governmental and Business-type Activities**



**CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013
(UNAUDITED)**

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.

Government-wide Financial Statements. The *government-wide financial statements*, which begin on page 12 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 position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position 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 15 - 20 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 22 - 36 of this report.

**CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013
(UNAUDITED)**

THE CITY'S NET POSITION

Over time, net position may serve as a useful indicator of a government's financial position. At September 30, 2013, the City's assets exceeded its liabilities by \$2,420,136.

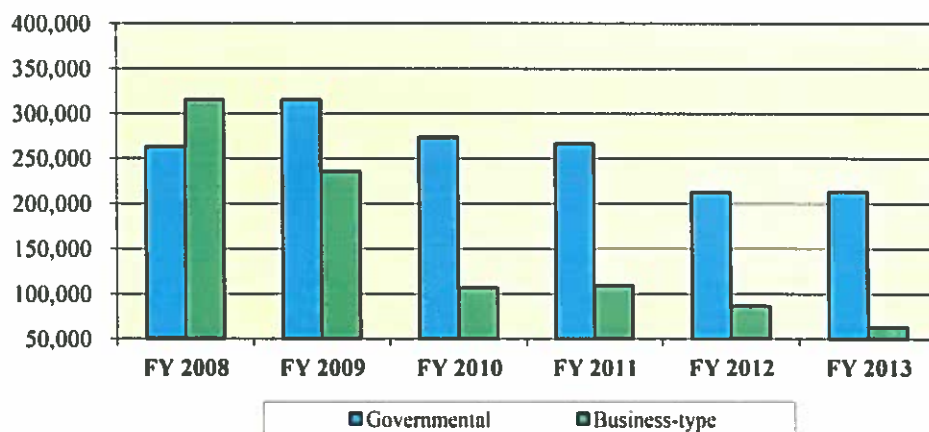
The City has a large investment in capital assets (e.g., land, buildings, equipment, and construction in progress) and related debt used to acquire those assets that remains outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At year end, net position invested in capital assets, net of related debt, totaled \$1,970,152.

An additional portion of the City's net position, \$47,413, represents resources that are subject to external restriction on how they may be used. The remaining balance is \$276,460 and unrestricted in nature.

The City's Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 274,237	\$ 349,152	\$ 192,159	\$ 213,620	\$ 466,396	\$ 562,772
Capital assets	217,710	97,608	2,676,556	1,931,820	2,894,266	2,029,428
Total assets	<u>491,947</u>	<u>446,760</u>	<u>2,868,715</u>	<u>2,145,440</u>	<u>3,360,662</u>	<u>2,592,200</u>
Long-term liabilities	700,000	740,000	98,003	160,516	798,003	900,516
Other liabilities	13,648	11,215	128,875	127,050	142,523	138,265
Total liabilities	<u>713,648</u>	<u>751,215</u>	<u>226,878</u>	<u>287,566</u>	<u>940,526</u>	<u>1,038,781</u>
Net position						
Invested in capital assets, net of related debt	(482,290)	(642,392)	2,578,553	1,771,304	2,096,263	1,128,912
Restricted	47,413	124,945	-	-	47,413	124,945
Unrestricted	213,176	212,992	63,284	86,570	276,460	299,562
Total net position	<u>\$ (221,701)</u>	<u>\$ (304,455)</u>	<u>\$ 2,641,837</u>	<u>\$ 1,857,874</u>	<u>\$ 2,420,136</u>	<u>\$ 1,553,419</u>

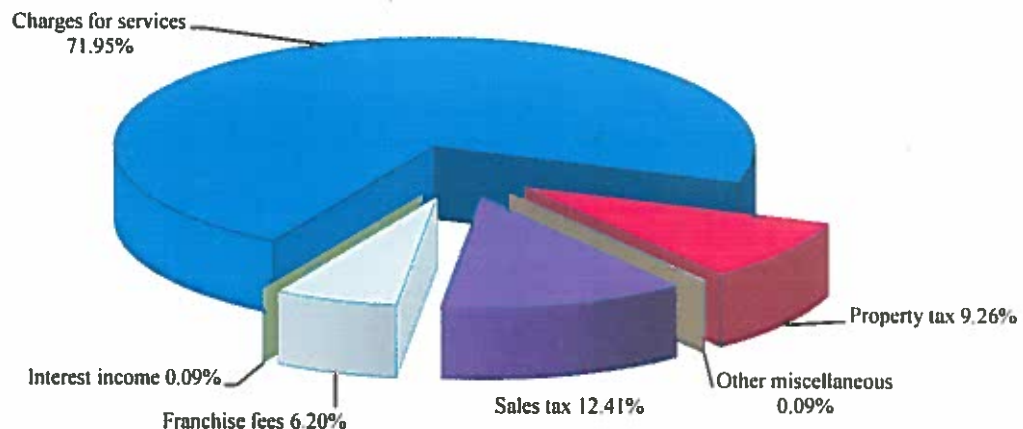
**Unrestricted Net Position
Governmental and Business-type Activities**



**CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013
(UNAUDITED)**

Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Charges for services	\$ -	\$ -	\$ 799,827	\$ 798,580	\$ 799,827	\$ 798,580
Property taxes	102,928	102,877	-	-	102,928	102,877
Sales taxes	138,000	110,339	-	-	138,000	110,339
Franchise fees	68,875	87,058	-	-	68,875	87,058
Interest income	957	1,371	77	40	1,034	1,411
Grants and contributions	260,566	1,920	915,522	-	1,176,088	1,920
Other miscellaneous	1,009	1,690	-	-	1,009	1,690
Total revenues	572,335	305,255	1,715,426	798,620	2,287,761	1,103,875
Expenses						
General government	174,099	207,672	-	-	174,099	207,672
Streets and drainage	99,803	108,297	-	-	99,803	108,297
Fire protection	12,748	9,233	-	-	12,748	9,233
Municipal court	2,062	2,329	-	-	2,062	2,329
Health and welfare	2,000	-	-	-	2,000	-
Pass thru expenditures	157,724	-	-	-	157,724	-
Water, sewer, sanitation	-	-	708,661	649,136	708,661	649,136
Depreciation	8,662	7,191	214,133	170,817	222,795	178,008
Interest on long-term debt	32,183	33,990	6,349	8,043	38,532	42,033
Total expenses	489,281	368,712	929,143	827,996	1,418,424	1,196,708
Transfers						
In (out)	(300)	80,687	300	(80,687)	-	-
Total transfers	(300)	80,687	300	(80,687)	-	-
Increase (decrease) in net position	82,754	17,230	786,583	(110,063)	869,337	(92,833)
Net position at beginning of year	(304,455)	(321,685)	1,857,874	1,967,937	1,553,419	1,646,252
Prior period adjustment	-	-	(2,620)	-	(2,620)	-
Net position at end of year	\$ (221,701)	\$ (304,455)	\$ 2,641,837	\$ 1,857,874	\$ 2,420,136	\$ 1,553,419



**CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013
(UNAUDITED)**

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, 2013, the City's governmental funds reported a total fund balance of \$264,414. This fund balance is comprised of \$52,894 that is restricted for payment of debt service and \$1,813 that is assigned for street repair/construction. The remaining balance, \$209,707, is unassigned. During the year, the fund balance in the City's governmental funds decreased by \$77,573.

General Fund Budget. A comparison of the general fund budget and actual results is presented as required supplementary information on page 38. Actual revenues were higher than budgeted amounts by \$465. Actual expenses exceeded budgeted amounts by \$13,096. The General fund balance decreased by \$5,711 during the fiscal year; an increase of \$6,297 in fund balance was budgeted.

CAPITAL ASSETS

The City's investment in capital assets as of September 30, 2013, totaled \$2,894,266 (net of accumulated depreciation). This investment includes land, buildings and improvements, streets and drainage, equipment, and construction work in progress.

Current year expenditures during the current year included:

- Completion of the pavilion at the park
- Sidewalk project (grant funded and in progress at year end)
- Streets/drainage project (grant funded and in progress at year end)
- Various water/sewer plant improvements and upgrades

During the year, Elkhart ISD conveyed ownership of the sewer facility paid for by the ISD when building the new high school. This asset, valued at \$915,522, has been added to the City's plant and equipment.

Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 2,350	\$ 2,350	\$ 61,203	\$ 61,203	\$ 63,553	\$ 63,553
Buildings and improvements	65,561	48,008	-	-	65,561	48,008
Plant and equipment	-	-	2,306,652	1,520,852	2,306,652	1,520,852
Machinery and equipment	14,668	12,251	291,965	322,361	306,633	334,612
Transportation equipment	-	-	13,553	22,411	13,553	22,411
Office equipment & furniture	9,020	17,340	3,183	4,992	12,203	22,332
Streets and drainage	-	-	-	-	-	-
Construction in progress	126,111	17,660	-	-	126,111	17,660
Total net assets	\$ 217,710	\$ 97,609	\$ 2,676,556	\$ 1,931,819	\$ 2,894,266	\$ 2,029,428

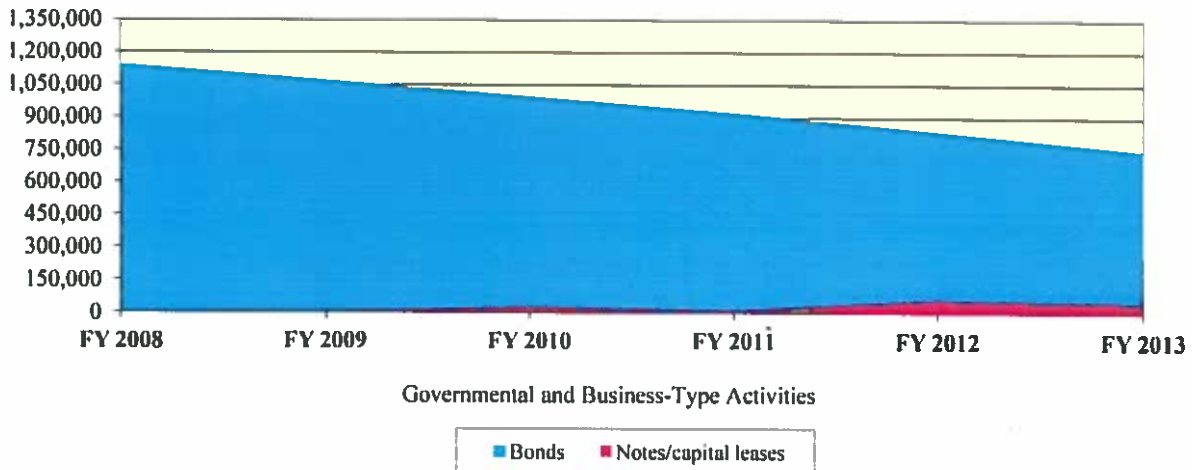
**CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013
(UNAUDITED)**

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total debt outstanding of \$798,003.

Debt Outstanding

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Notes payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capital lease obligations	-	-	48,003	60,516	48,003	60,516
Bonds payable	700,000	740,000	50,000	100,000	750,000	840,000
Total	\$ 700,000	\$ 740,000	\$ 98,003	\$ 160,516	\$ 798,003	\$ 900,516



ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In September, 2013, the Council approved the 2013/2014 budget. The City adopted a property tax rate of .29486 per \$100, a reduction from the prior year. No increases in 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
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 209,529	\$ 76,672	\$ 286,201
Receivables, net of allowance for uncollectibles			
Customers	-	104,831	104,831
Property taxes	-	-	-
Sales taxes	9,067	-	9,067
Due from other governments	916	-	916
Inventory	-	17,968	17,968
Internal balances	7,312	(7,312)	-
Restricted assets			
Cash and cash equivalents	47,413	-	47,413
Capital assets			
Land	2,350	61,203	63,553
Construction in progress	126,111	-	126,111
Capital assets, being depreciated	267,782	5,243,004	5,510,786
Accumulated depreciation	(178,533)	(2,627,651)	(2,806,184)
TOTAL ASSETS	<u>491,947</u>	<u>2,868,715</u>	<u>3,360,662</u>
LIABILITIES			
Accounts payable	9,823	22,097	31,920
Accrued interest	3,825	312	4,137
Customer deposits payable	-	94,335	94,335
Insurance proceeds refundable	-	12,131	12,131
Noncurrent liabilities			
Due within one year	40,000	62,892	102,892
Due in more than one year	660,000	35,111	695,111
TOTAL LIABILITIES	<u>713,648</u>	<u>226,878</u>	<u>940,526</u>
NET POSITION			
Invested in capital assets, net of related debt	(482,290)	2,578,553	2,096,263
Restricted for debt service	47,413	-	47,413
Unrestricted	213,176	63,284	276,460
TOTAL NET POSITION	<u>\$ (221,701)</u>	<u>\$ 2,641,837</u>	<u>\$ 2,420,136</u>

See accompanying notes to financial statements.

**CITY OF ELKHART, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			
	Expenses	Fees, Fines, Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total
Primary government							
Governmental activities							
General government	\$ 182,761	\$ -	\$ -	\$ -	\$ (182,761)	\$ -	\$ (182,761)
Streets and drainage	99,803	-	-	102,842	3,039	-	3,039
Fire protection	12,748	-	-	-	(12,748)	-	(12,748)
Municipal court	2,062	-	-	-	(2,062)	-	(2,062)
Health and welfare	2,000	-	-	-	(2,000)	-	(2,000)
Pass thru expenditures	157,724	-	-	157,724	-	-	-
Interest on long-term debt	32,183	-	-	-	(32,183)	-	(32,183)
Total governmental activities	489,281	-	-	260,566	(228,715)	-	(228,715)
Business-type activities							
Water, sewer, garbage	922,794	799,827	-	915,522	-	792,555	792,555
Interest on long-term debt	6,349	-	-	-	-	(6,349)	(6,349)
Total business-type activities	929,143	799,827	-	915,522	-	786,206	786,206
Total primary government	\$ 1,418,424	\$ 799,827	\$ -	\$ 1,176,088	(228,715)	786,206	557,491
General revenues							
Property taxes					102,928	-	102,928
Sales taxes					138,000	-	138,000
Franchise taxes					68,875	-	68,875
Investment income					957	77	1,034
Miscellaneous income					1,009	-	1,009
Transfers					(300)	300	-
Total general revenues and transfers					311,469	377	311,846
Change in net position					82,754	786,583	869,337
Net position - beginning					(304,455)	1,857,874	1,553,419
Prior period adjustment					-	(2,620)	(2,620)
Net position - ending					\$ (221,701)	\$ 2,641,837	\$ 2,420,136

See accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS.

**CITY OF ELKHART, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013**

	General	Debt Service	Special Revenue	Governmental Grants	Total
ASSETS					
Cash and cash equivalents	\$ 209,529	\$ -	\$ -	\$ -	\$ 209,529
Receivables, net of allowance for uncollectibles					
Property taxes	-	-	-	-	-
Sales taxes	7,254	-	1,813	-	9,067
Due from other governments	916	-	-	-	916
Due from other funds	1,831	5,481	-	-	7,312
Restricted assets					
Cash and cash equivalents	-	47,413	-	-	47,413
TOTAL ASSETS	\$ 219,530	\$ 52,894	\$ 1,813	\$ -	\$ 274,237
LIABILITIES					
Accounts payable	\$ 9,823	\$ -	\$ -	\$ -	\$ 9,823
Total liabilities	9,823	-	-	-	9,823
FUND BALANCE					
Restricted	-	52,894	-	-	52,894
Assigned	-	-	1,813	-	1,813
Unassigned	209,707	-	-	-	209,707
Total fund balance	209,707	52,894	1,813	-	264,414
TOTAL LIABILITIES AND FUND BALANCES	\$ 219,530	\$ 52,894	\$ 1,813	\$ -	

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

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the fund	217,710
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	(700,000)
Interest payable on long-term debt does not require current financial resources and therefore, are not reported in the fund	(3,825)
Net position of governmental activities	\$ (221,701)

CITY OF ELKHART, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	General	Debt Service	Special Revenue	Governmental Grants	Total
REVENUES					
Property taxes, penalty and interest	\$ 102,928	\$ -	\$ -	\$ -	\$ 102,928
Sales taxes	110,400	-	27,600	-	138,000
Franchise taxes	68,875	-	-	-	68,875
Intergovernmental	-	-	-	260,566	260,566
Interest income	-	957	-	-	957
Other revenues	1,009	-	-	-	1,009
Total revenues	<u>283,212</u>	<u>957</u>	<u>27,600</u>	<u>260,566</u>	<u>572,335</u>
EXPENDITURES					
General government	173,499	600	-	-	174,099
Streets	72,392	-	27,411	-	99,803
Fire	12,748	-	-	-	12,748
Municipal court	2,062	-	-	-	2,062
Health and welfare	-	-	-	2,000	2,000
Pass thru expenditures	-	-	-	157,724	157,724
Capital outlay	2,653	-	-	126,111	128,764
Debt service	-	-	-	-	-
Principal retired	-	40,000	-	-	40,000
Interest	-	32,408	-	-	32,408
Total expenditures	<u>263,354</u>	<u>73,008</u>	<u>27,411</u>	<u>285,835</u>	<u>649,608</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>19,858</u>	<u>(72,051)</u>	<u>189</u>	<u>(25,269)</u>	<u>(77,273)</u>
OTHER FINANCING SOURCES (USES)					
Loan proceeds	-	-	-	-	-
Transfers in (out)	(25,569)	-	-	25,269	(300)
Net other financing sources (uses)	<u>(25,569)</u>	<u>-</u>	<u>-</u>	<u>25,269</u>	<u>(300)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	<u>(5,711)</u>	<u>(72,051)</u>	<u>189</u>	<u>-</u>	<u>(77,573)</u>
FUND BALANCE - BEGINNING OF YEAR	<u>215,418</u>	<u>124,945</u>	<u>1,624</u>	<u>-</u>	<u>341,987</u>
FUND BALANCE - END OF YEAR	<u>\$ 209,707</u>	<u>\$ 52,894</u>	<u>\$ 1,813</u>	<u>\$ -</u>	<u>\$ 264,414</u>

See accompanying notes to financial statements.

**CITY OF ELKHART, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

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

Net change in fund balance - governmental funds	\$ (77,573)
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.	120,102
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.	40,000
Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net position, 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>225</u>
Change in net position of governmental activities	<u>\$ 82,754</u>

**CITY OF ELKHART, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2013**

	Utility
ASSETS	
Current assets	
Cash and cash equivalents	\$ 76,672
Receivables, net of allowance for uncollectibles	82,169
Unbilled receivables	22,662
Inventory	17,968
Total current assets	199,471
Noncurrent assets	
Capital assets	
Land	61,203
Capital assets, being depreciated	5,243,004
Accumulated depreciation	(2,627,651)
Total capital assets, net	2,676,556
Total noncurrent assets	2,676,556
TOTAL ASSETS	2,876,027
 LIABILITIES	
Current liabilities	
Accounts payable	22,097
Accrued interest	312
Customer deposits payable	94,335
Due to other funds	7,312
Insurance proceeds refundable	12,131
Capital leases - current maturities	12,892
Bonds payable - current maturities	50,000
Total current liabilities	199,079
Noncurrent liabilities	
Capital leases	35,111
Total noncurrent liabilities	35,111
TOTAL LIABILITIES	234,190
 NET POSITION	
Invested in capital assets, net of related debt	2,578,553
Unrestricted	63,284
TOTAL NET POSITION	\$ 2,641,837

See accompanying notes to financial statements.

**CITY OF ELKHART, TEXAS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	Utility
OPERATING REVENUES	
Water sales	\$ 419,767
Sewer income	207,254
Garbage income	148,440
Late charges and other income	24,366
Total operating revenues	799,827
OPERATING EXPENSES	
Personnel and related costs	275,165
Supplies and materials	96,627
Repairs and maintenance	33,248
Garbage expense	145,635
Professional fees	67,531
Insurance	13,262
Utilities	57,816
Office expense	10,080
Other expense	9,297
Depreciation	214,133
Total operating expenses	922,794
INCOME (LOSS) FROM OPERATIONS	(122,967)
NONOPERATING REVENUES (EXPENSES)	
Interest income	77
Interest expense	(6,349)
Capital contribution	915,522
Transfers in (out)	300
Total nonoperating revenues (expenses)	909,550
CHANGE IN NET POSITION	786,583
NET POSITION - BEGINNING OF YEAR	1,857,874
PRIOR PERIOD ADJUSTMENT	(2,620)
NET POSITION - END OF YEAR	\$ 2,641,837

See accompanying notes to financial statements.

**CITY OF ELKHART, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers and users	\$ 793,617
Cash payments to suppliers	(410,124)
Cash payments to employees	<u>(275,478)</u>
Net cash provided by operating activities	<u>108,015</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating transfers in	<u>300</u>
Net cash provided by noncapital financing activities	<u>300</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(43,347)
Principal payments on long-term debt	(62,513)
Interest payments on long-term debt	<u>(6,349)</u>
Net cash used by capital and related financing activities	<u>(112,209)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>77</u>
Net cash provided by investing activities	<u>77</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,817)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>80,489</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 76,672</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating loss before nonoperating revenues	\$ (122,967)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	214,133
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	(11,076)
(Increase) decrease in inventory	22,456
Increase (decrease) in accounts payable	(2,728)
Increase (decrease) in accrued interest	(313)
(Increase) decrease in due to other funds	3,644
Increase (decrease) in customer deposits payable	<u>4,866</u>
Total adjustments	<u>230,982</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 108,015</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

**CITY OF ELKHART, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The financial statements of the City of Elkhart, Texas (the "City") have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting and reporting policies used by the City are discussed below.

Reporting Entity

The City of Elkhart is a political subdivision and a municipal corporation organized and existing under the general laws of the State of Texas. The City operates under a Mayor-Council form of government. The City's major operations include: street repair and maintenance; general administrative services; and water, sewer, and sanitation utilities.

For financial reporting purposes, based on standards established by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, these financial statements should present the City (the primary government) and its component units. Component units generally are legally separate entities for which the primary government is financially accountable or for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. The City does not have any blended or discretely presented component units.

Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net position 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, grants, and other intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for services 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*.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

CITY OF ELKHART, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

Implementation of New Standards

In the current fiscal year, the City implemented the following new standards:

GASB Statement 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34* (“GASB 61”), which modifies certain requirements for inclusion of component units in the financial reporting entity, amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances and clarifies the reporting of equity interest in legally separate organizations. Implementation of GASB 61 did not have an impact on the City’s financial disclosures.

GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (“GASB 62”), which incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations; 2) Accounting Principles Board Opinions; 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure. Implementation of GASB 62 is reflected in the financial statements.

GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (“GASB 63”), amends the net asset reporting requirements in Statement No. 34 and other pronouncements by incorporating deferred outflows of the resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as “net position” rather than “net assets”. Implementation of GASB 63 is reflected in the financial statements.

GASB Statement 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 64* (“GASB 64”), clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider and establishes when the effective hedging relationship continues and therefore should continue to be applied. Implementation of GASB 64 did not have an impact on the City’s financial disclosures.

GASB Statement 65, *Items Previously Reported as Assets and Liabilities* (“GASB 65”), establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. As a result of implementing GASB 65, the financial statements reflect a restatement and reduction of the government-wide net position totaling \$2,620 for bond issuance costs paid in prior periods.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide 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 donations are recognized as revenue in the fiscal year in which grantor eligibility requirements have been satisfied.

**CITY OF ELKHART, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

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 governmental fund 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. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Proprietary funds distinguish between operating revenues and expenses from non-operating items. 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 expense and depreciation of capital assets. Revenues and expenses not meeting this definition are classified as non-operating in the financial statements.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the City's policy to generally consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of the City that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts. In both instances, when a proposed expenditure is made with specific balances identified as the source of the funding, that specific fund balance will be used.

The government has four 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 *grants fund* is used to account for the City's grants with significant activity in a given year. Significant grants during the year included the HOME grant and funding for sidewalks and drainage projects.

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

**CITY OF ELKHART, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

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.

All funds noted above are reported as major funds.

All expenses incurred by the City are properly segregated and accounted for in the fund to which the expenses apply. Certain general and administrative expenses are allocated to the proprietary fund and to the governmental fund based on the level of services rendered through each fund as estimated by management.

Assets, Liabilities, and Net Position or Fund Balance

Deposits 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 and are stated at fair value.

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 is required by the Public Funds Collateral Act (Government Code, chapter 2257) to maintain security for all deposits of funds that exceed coverage provided by the Federal Deposit Insurance Corporation (FDIC). As of the balance sheet date, the City's cash deposits were fully collateralized by securities pledged by the depository banks. Based on audit procedures conducted in conjunction with the audit of the basic financial statements, the City appears to have complied with the requirements of the Public Funds Collateral Act.

The City is required by the Public Funds Investment Act (Government Code, chapter 2256) (the "Act") to adopt, implement, and publicize a written investment policy which primarily emphasizes safety of principal and liquidity, and addresses investment diversification, yield, and maturity. Additionally, the policy must address the quality and capability of investment management and include the types of investments in which the entity may invest its funds, as well as the maximum allowable stated maturity of any individual investment, the maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio of pooled fund groups, and bid requirements for certificates of deposit.

The City is authorized to invest in financial instruments, as authorized by the Act, including:

- U.S. Treasury securities which have a liquid market; direct obligations of the State of Texas, and other obligations that are guaranteed by the State of Texas or United States of America;
- obligations of states, agencies, counties, and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent;
- fully insured or collateralized certificates of deposit at commercial banks;

**CITY OF ELKHART, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

- repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency securities in accordance with a master repurchase agreement;
- joint pools of political subdivisions in the State of Texas which invest in instruments and follow practices allowed by current law (the pool must be continuously rated no lower than “AAA” or “AAA-m” by at least one nationally recognized rating service).

The Act also requires an annual audit of investment practices. The City did not have any investments at year end or at any time during the current fiscal year.

Fair Value of Financial Instruments

The City evaluates the fair value of its non-investment financial instruments based on the current interest rate environment and current pricing of debt instruments with comparable terms. The carrying value of all non-investment financial instruments, including debt, is considered to approximate fair value.

Receivables

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

Restricted assets

Certain assets are classified as restricted because they are maintained in separate accounts and their use is limited by applicable bond covenants, grant agreements, laws or regulations, and/or other contractual agreements.

Inventories

Inventories are valued at cost which approximates market, using the first-in/first-out method. Inventories consist of expendable supplies and repair parts held for consumption. The cost of inventory is recorded as an expenditure when used (consumption method).

Capital Assets and Depreciation

Capital assets, which include land, buildings and improvements, furniture and equipment, and infrastructure assets are 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. Contributed capital assets are recorded at estimated fair market value at the date received. 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

**CITY OF ELKHART, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

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 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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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 debt service expenditures.

Net Position and Fund Balances

In the government-wide financial statements, the difference between the City's total assets and total liabilities represents net position. Net position is displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. At September 30, 2013, restricted net position represents monies that are legally restricted for payment of debt service. Unrestricted net position represents the net position 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 (such as inventories and prepaid amounts) 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 (such as through debt covenants), 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.

**CITY OF ELKHART, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

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.

Proprietary fund net position is classified the same as in government-wide statements.

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. No amendments were made to the City's original budget during the current fiscal year.

During the current year, the general fund overspent by \$12,008.

Restricted Balances

Bond covenants and other contractual provisions require that the City establish separate bank accounts, with minimum balance requirements, for certain bond debt service and grant related capital expenditures. The City maintained the minimum balance requirements in these accounts at all times during the year and all debt service expenditures were made timely.

CITY OF ELKHART, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

DETAILED NOTES ON ALL FUNDS

ASSETS

Deposits and Investments

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair value by diversifying investments in terms of maturity.

Credit risk. State law and the City's investment policy limit investments to obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent. As of September 30, 2013, the City did not have any investments.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned. The City's investment policy requires funds on deposit at depository banks to be collateralized to the extent that the deposits exceed FDIC coverage. As of September 30, 2013, the City's cash deposits with depository banks totaled \$365,451. All deposits were fully collateralized by securities pledged by the depository banks with total collateral value of \$676,175, in addition to FDIC coverage.

Elkhart Volunteer Fire Department (EVFD) donations

The City receives donations for the EVFD, generally through utility collections. These donations are transacted through a separate cash account and remitted to the EVFD on a periodic basis. Both the cash and offsetting liability are excluded from these financial statements. At September 30, 2013, the balance of collections to be remitted to the EVFD totaled \$21.

Receivables

Receivable and uncollectible accounts

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

	<u>Customer Accounts</u>	<u>Property Taxes</u>	<u>Sales Taxes</u>	<u>Other</u>	<u>Totals</u>
Receivables by activity					
Governmental	\$ -	\$ 18,303	\$ 9,067	\$ 916	\$ 28,286
Business-type	<u>118,114</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>118,114</u>
Receivables, gross	118,114	18,303	9,067	916	146,400
Allowance for uncollectibles					
Governmental	-	(18,303)	-	-	(18,303)
Business-type	<u>(13,283)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,283)</u>
Total allowance	(13,283)	(18,303)	-	-	(31,586)
Total receivables, net	<u>\$ 104,831</u>	<u>\$ -</u>	<u>\$ 9,067</u>	<u>\$ 916</u>	<u>\$ 114,814</u>

**CITY OF ELKHART, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

Property taxes

Property taxes are levied on October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. 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 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property taxes are considered available when paid.

The property tax rate to finance general governmental services for the year ended September 30, 2013, was \$.302123 per \$100 of assessed valuation. The total taxable value and total tax levy assessed for the year was \$32,740,365 and \$98,916, respectively. The City has contracted with the Anderson County Central Appraisal District for the collection of property taxes.

Capital Assets

A summary of changes in capital assets for the year ended September 30, 2013 is as follows:

Governmental activities

	<u>Balance 09/30/2012</u>	<u>Additions</u>	<u>Deletions/ Placed in Svc</u>	<u>Balance 09/30/2013</u>
Capital assets, not being depreciated				
Land	\$ 2,350	\$ -	\$ -	\$ 2,350
Construction in progress	<u>17,660</u>	<u>126,111</u>	<u>(17,660)</u>	<u>126,111</u>
Total not being depreciated	<u>20,010</u>	<u>126,111</u>	<u>(17,660)</u>	<u>128,461</u>
Capital assets, being depreciated				
Buildings and improvements	67,344	20,313	-	87,657
Machinery and equipment	22,140	-	-	22,140
Office equipment and furniture	17,329	-	-	17,329
Streets	<u>140,656</u>	<u>-</u>	<u>-</u>	<u>140,656</u>
Total being depreciated	<u>247,469</u>	<u>20,313</u>	<u>-</u>	<u>267,782</u>
Less accumulated depreciation:				
Buildings and improvements	(19,337)	(2,759)	-	(22,096)
Machinery and equipment	(5,078)	(2,394)	-	(7,472)
Office equipment and furniture	(4,800)	(3,509)	-	(8,309)
Streets	<u>(140,656)</u>	<u>-</u>	<u>-</u>	<u>(140,656)</u>
Total accumulated depreciation	<u>(169,871)</u>	<u>(8,662)</u>	<u>-</u>	<u>(178,533)</u>
Total being depreciated, net	<u>77,598</u>	<u>11,651</u>	<u>-</u>	<u>89,249</u>
Total capital assets, net	<u>\$ 97,608</u>	<u>\$ 137,762</u>	<u>\$ (17,660)</u>	<u>\$ 217,710</u>
				<u>(700,000)</u>
				<u>\$ (482,290)</u>

Depreciation expense was charged to the following functions/programs of governmental activities as follows:

General government	<u>\$ 8,662</u>
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CITY OF ELKHART, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

Business-type activities

	Balance 09/30/2012	Additions	Deletions/ Placed in Svc	Balance 09/30/2013
Capital assets, not being depreciated				
Land	\$ 61,203	\$ -	\$ -	\$ 61,203
Total not being depreciated	61,203	-	-	61,203
Capital assets, being depreciated				
Plant and equipment	3,770,608	957,649	-	4,728,257
Transportation equipment	76,534	-	-	76,534
Machinery and equipment	429,406	1,221	-	430,627
Office equipment	7,586	-	-	7,586
Total being depreciated	4,284,134	958,870	-	5,243,004
Less accumulated depreciation:				
Plant and equipment	(2,249,755)	(171,850)	-	(2,421,605)
Transportation equipment	(54,122)	(8,859)	-	(62,981)
Machinery and equipment	(107,046)	(31,616)	-	(138,662)
Office equipment	(2,594)	(1,809)	-	(4,403)
Total accumulated depreciation	(2,413,517)	(214,134)	-	(2,627,651)
Total being depreciated, net	1,870,617	744,736	-	2,615,353
Total capital assets, net	\$ 1,931,820	\$ 744,736	\$ -	\$ 2,676,556
		Less associated debt		(98,003)
		Invested in capital assets, net of related debt		\$ 2,578,553

Depreciation expense of \$214,133 was charged to the proprietary fund.

LIABILITIES

Interfund Receivables, Payables, and Transfers

The following interfund receivable and payable balances are the result of cash needed by the water and sewer fund until the fund is able to generate sufficient revenues to cover expenditures. These receivables and payables are netted and eliminated on the government-wide statement of net assets.

At September 30, 2013, internal balances consisted of the following:

<u>Due to</u>	<u>Due from</u>	<u>Amount</u>
General fund	Utility fund	\$ 1,831
	Total	\$ 1,831

**CITY OF ELKHART, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

Interfund transfers are indicative of re-allocation of revenues between funds with no anticipation of repayment.

Net interfund transfers during the year consisted of the following:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>
General fund	Utility fund	\$ 300
	Total	<u>\$ 300</u>

Capital Leases

The City has entered into a lease agreement as lessee for financing the acquisition of machinery and equipment. This lease agreement qualifies as a capital lease for accounting purposes, and therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The asset acquired through a capital lease is as follows:

	<u>General Fund</u>	<u>Utility Fund</u>
Asset:		
Machinery and equipment	\$ -	\$ 70,703
Less accumulated depreciation	-	(6,678)
Total	<u>\$ -</u>	<u>\$ 64,025</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2013, were as follows:

	<u>General Fund</u>	<u>Utility Fund</u>
<u>Year ending September 30,</u>		
2014	\$ -	\$ 14,175
2015	-	14,175
2016	-	14,175
2017	-	8,267
Total minimum lease payments	\$ -	\$ 50,792
Less amount representing interest	-	(2,789)
Present value of minimum lease payments	<u>\$ -</u>	<u>\$ 48,003</u>

Long-Term Debt

Long-term debt activity for the year ended September 30, 2013, was as follows:

Governmental activities

	<u>Balance 09/30/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 09/30/13</u>	<u>Due Within One Year</u>
Series 2005 bonds	\$ 740,000	\$ -	\$ (40,000)	\$ 700,000	\$ 40,000
Total long-term debt	<u>\$ 740,000</u>	<u>\$ -</u>	<u>\$ (40,000)</u>	<u>\$ 700,000</u>	<u>\$ 40,000</u>

**CITY OF ELKHART, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

Business-type activities

	Balance 09/30/12	Additions	Reductions	Balance 09/30/13	Due Within One Year
Series 1999 bonds	\$ 100,000	\$ -	\$ (50,000)	\$ 50,000	\$ 50,000
Capital lease	60,516	-	(12,513)	48,003	12,892
Total long-term debt	\$ 160,516	\$ -	\$ (62,513)	\$ 98,003	\$ 62,892

The annual debt service requirements to maturity for all long-term debt are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 40,000	\$ 30,600	\$ 62,892	\$ 3,782
2015	100,000	27,450	13,290	885
2016	100,000	22,950	13,698	476
2017	105,000	18,338	8,123	145
2018	110,000	13,500	-	-
2019-2023	245,000	11,137	-	-
Total	\$ 700,000	\$ 123,975	\$ 98,003	\$ 5,288

Additional information regarding the City's long-term debt obligations follows:

General Obligation Refunding Bonds, Series 2005.

During the fiscal year ended September 30, 2006, the City issued General Obligation Refunding Bonds, Series 2005, in the amount of \$960,000. The bonds were issued in order to retire the Waterworks and Sewer System Bonds Series 1989 and 1989-A and take advantage of lower interest rates. The 2005 bonds were dated November 8, 2005, bear interest at 4.50%, and mature in years through 2020. Bonds in increments of \$5,000 may be called on February 15, 2015, or on any date thereafter at the redemption price of par. The bond indenture allows the City to pay the bonds from the proceeds of an additional ad valorem tax that may be levied by the City, and the City has pledged any such proceeds to secure the payment. However, the City Council has elected to repay the bonds from the City's proprietary fund revenues.

Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 1999.

During the fiscal year ended September 30, 2000, the City issued Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 1999, in the amount of \$550,000. The bonds were dated March 15, 1999, bear interest at 5.00% to 5.35%, and mature in years through 2014. Bonds in increments of \$5,000 may be called on August 15, 2009, or any date thereafter at the redemption price of par. The bonds were issued for the purpose of water and sewer system improvements. The bonds are repaid from and secured by a pledge of surplus net revenues of the City's proprietary fund.

Bond compliance requirements.

The bond ordinances require that during the period in which the bonds are outstanding, the City must create and maintain certain accounts or funds to receive the proceeds from the sale of the bonds and to account for the revenues (as defined) and/or taxes, which are pledged for payment of the bonds. The assets can be used only in accordance with the terms of the bond ordinance and for the specific purpose(s) designated therein.

The City is generally required to make a monthly transfer to debt service funds equal to one-sixth of the next interest payment and one-twelfth of the next principal payment. Certain bond ordinances have

**CITY OF ELKHART, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

additional requirements for the establishment of rates and the accumulation of principal and interest repayment amounts from surplus operating funds. Generally, the bonds may be redeemed prior to their maturities in accordance with the bond ordinances and at various premiums equal to or less than 2%.

At September 30, 2013, the City had \$47,413 available in the debt service fund to service the bond indebtedness.

OTHER INFORMATION

Pension plan

Plan Description. The City provides pension benefits for all of its eligible 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 the System. The report may be obtained from TMRS' website at [www. TMRS.com](http://www.TMRS.com).

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. The plan provisions for the City were as follows:

	<u>Plan Year 2012</u>	<u>Plan Year 2013</u>
Employee deposit rate	5%	5%
Matching ratio (city to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions and actuarial information. 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. The rate was 6.33% for the months in calendar year 2012 and 5.90% for the months in calendar year 2013. 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 that city. 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. 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, 2013**

The City's Annual Pension Cost for the year equaled their actual contributions, which totaled \$18,259.

Three-Year Trend Information

<u>Accounting Year Ending</u>	<u>Annual Pension Cost ("APC")</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/11	\$20,962	100%	-
9/30/12	\$17,966	100%	-
9/30/13	\$18,259	100%	-

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

<i>Contribution information</i>	<u>12/31/2010</u>	<u>12/31/2011</u>	<u>12/31/2012</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
GASB 25 Equivalent Single Amortization Period	27.0 years; Closed Period	26.1 years; Closed Period	25.1 years; Closed Period
Amortization Period for new Gains/Losses	18 years	17 years	19 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
<i>Actuarial assumptions</i>	<u>12/31/2009</u>	<u>12/31/2010</u>	<u>12/31/2011</u>
Investment Rate of Return *	7.0%	7.0%	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%

Funded Status and Funding Progress. The funded status as of December 31, 2012, the most recent actuarial valuation date, is presented as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u> (1)	<u>Actuarial Accrued Liability (AAL)</u> (2)	<u>Funded Ratio</u> (3) (1) / (2)	<u>Unfunded AAL (UAAL)</u> (4) (2) - (1)	<u>Covered Payroll</u> (5)	<u>UAAL UAAL as a Percentage of Covered Payroll</u> (6) (4) / (5)
12/31/12	\$ 485,337	\$ 565,740	85.8%	\$ 80,403	\$ 274,923	29.2%

**CITY OF ELKHART, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. 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.

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 December 27, 2013, the date when the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ELKHART, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 94,000	\$ 94,000	\$ 99,387	\$ 5,387
Penalties and interest	1,500	1,500	3,541	2,041
Sales taxes	105,000	105,000	110,400	5,400
Franchise taxes	79,347	79,347	68,875	(10,472)
Miscellaneous	2,900	2,900	1,009	(1,891)
Total revenues	<u>282,747</u>	<u>282,747</u>	<u>283,212</u>	<u>465</u>
EXPENDITURES				
Personnel and related costs	159,950	159,950	131,502	28,448
Repair and maintenance, including streets	40,200	40,200	30,302	9,898
Professional fees	10,200	10,200	18,290	(8,090)
Insurance	15,000	15,000	11,733	3,267
Utilities	39,500	39,500	42,122	(2,622)
Office expense	6,900	6,900	8,470	(1,570)
Other expense	4,700	4,700	18,282	(13,582)
Capital outlay	-	-	2,653	(2,653)
Debt service	-	-	-	-
Total expenditures	<u>276,450</u>	<u>276,450</u>	<u>263,354</u>	<u>13,096</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>6,297</u>	<u>6,297</u>	<u>19,858</u>	<u>13,561</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	-	-	-
Transfers in (out)	-	-	(25,569)	(25,569)
Net other financing sources	<u>-</u>	<u>-</u>	<u>(25,569)</u>	<u>(25,569)</u>
NET CHANGE IN FUND BALANCE	6,297	6,297	(5,711)	(12,008)
FUND BALANCE - BEGINNING OF YEAR	<u>215,418</u>	<u>215,418</u>	<u>215,418</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 221,715</u>	<u>\$ 221,715</u>	<u>\$ 209,707</u>	<u>\$ (12,008)</u>

**CITY OF ELKHART, TEXAS
SCHEDULE OF FUNDING PROGRESS OF PENSION PLAN -
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

The following schedule presents multi-year information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits. The data presented is unaudited.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3) (1) / (2)	(4) (2) - (1)	(5)	(6) (4) / (5)
12/31/2004	\$ 204,522	\$ 293,000	69.8%	\$ 88,488	\$ 136,966	64.6%
12/31/2005	234,238	321,273	72.9%	87,035	166,553	52.2%
12/31/2006	263,795	369,664	71.4%	105,869	170,091	62.2%
12/31/2007	295,505	447,407	66.0%	151,902	227,957	66.6%
12/31/2008	331,711	473,805	70.0%	142,094	206,043	69.0%
12/31/2009	382,117	506,778	75.4%	124,661	233,976	53.3%
12/31/2010	429,537	549,823	78.1%	120,286	227,371	52.9%
12/31/2011	438,601	531,054	82.6%	92,453	232,916	39.7%
12/31/2012	485,337	565,740	85.8%	80,403	274,923	29.2%

INTERNAL CONTROL AND COMPLIANCE

Todd, Hamaker & Johnson, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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Kim Johnson, CPA
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INDEPENDENT AUDITORS' 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*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elkhart, Texas (the "City"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Elkhart, Texas' basic financial statements and have issued our report thereon dated December 27, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

**INDEPENDENT AUDITORS' 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* - CONTINUED**

provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Todd, Hamaker & Johnson, LLP

Todd, Hamaker & Johnson, LLP
Lufkin, Texas

December 27, 2013