

CITY OF ELKHART, TEXAS
BASIC FINANCIAL STATEMENTS
&
REQUIRED SUPPLEMENTARY
& OTHER INFORMATION
FISCAL YEAR ENDED SEPTEMBER 30, 2015

CITY OF ELKHART, TEXAS

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CITY OF ELKHART, TEXAS

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INDEPENDENT AUDITORS' REPORT

To 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, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Elkhart, Texas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City of Elkhart, Texas' 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 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elkhart, Texas, as of September 30, 2015, 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 required supplementary information, such as management's discussion and analysis, and schedule of changes in net pension liability and related ratios and schedule of contributions on pages 3-7 and 34-35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elkhart, Texas' basic financial statements. The Water, Sewer and Sanitation Fund's detailed schedules of revenues and expenditures – budget and actual (budget and actual schedules) as well as the property tax analysis/service fees and insurance schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budget and actual schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2018 on our consideration of the City of Elkhart, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Elkhart, Texas' internal control over financial reporting and compliance.



Certified Public Accountants

Tyler, Texas
January 27, 2018

REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2015
(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, 2015. 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 \$138,818 during the fiscal year. Of this amount, cash and other current assets increased by \$135,787.
- The City's total long-term debt obligations decreased by \$118,194 during the current fiscal year. Total debt outstanding at year end was \$600,866; \$560,000 in bond obligations and \$40,866 in notes payable and capital lease obligations.
- The City's overall assets exceeded its total liabilities by \$3,196,588 (*net position*) at September 30, 2015. Of this amount, \$395,561 (*unrestricted net position*) may be used to meet the on-going obligations to citizens and creditors.
- Excluding grant revenues received, overall revenues increased by \$98,150 from the prior year. An increase in the charges for services and in franchise fees accounted for the majority of the increase.
- Excluding grant expenditures, overall expenses decreased by \$6,161 from the prior year.
- Overall revenues exceeded expenses (or an increase in net position) by \$264,109. Net position increased by \$183,962 in the governmental fund and increased by \$80,147 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.

Government-Wide Financial Statements. The *government-wide financial statements*, which begin on page 14 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

CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended September 30, 2015
(UNAUDITED)

local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting 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 use 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 10-17 of this report.

Notes to the Financial Statements. The notes provided 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 18-32 of this report.

THE CITY'S NET POSITION

Over time, net position may serve as a useful indicator of a government's financial position. At September 30, 2015, the City's assets exceeded its liabilities by \$3,196,588

The City has a large investment in capital assets (e.g., land, building, equipment, and construction in progress) and related debt used to acquire those assets that remain 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 assets themselves cannot be used to liquidate these liabilities. At year end, net position invested in capital assets, net of related debt, totaled \$2,800,828.

An additional portion of the City's net position, \$199, represents resources that are subject to external restriction on how they may be used. The remaining balance is \$395,561 and unrestricted in nature.

CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended September 30, 2015
(UNAUDITED)

The City's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 363,220	\$ 300,736	\$ 262,855	\$ 189,552	\$ 626,075	\$ 490,288
Capital assets	803,207	819,284	2,598,517	2,579,409	3,401,724	3,398,693
Total Assets	1,166,427	1,120,020	2,861,372	2,768,961	4,027,799	3,888,981
 Deferred Outflows of Resources	 4,090	 -	 24,057	 -	 28,147	 -
 Long-term liabilities	 479,421	 683,915	 82,637	 35,145	 562,058	 719,060
Other liabilities	124,124	44,544	173,176	134,048	297,300	178,592
Total Liabilities	603,545	728,459	255,813	169,193	859,358	897,652
 Net Position:						
Invested in capital assets, net of related debt	224,196	135,369	2,576,632	2,544,264	2,800,828	2,679,633
Restricted	199	15,796	-	-	199	15,796
Unrestricted	342,577	240,396	52,984	55,504	395,561	295,900
Total Net Position	\$ 566,972	\$ 391,561	\$2,629,616	\$2,599,768	\$3,196,588	\$ 2,991,329

Current Year Reporting Changes

For the year ended September 30, 2015, the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The fiduciary net position of the Texas Municipal Retirement System of Texas (TMRS) has been determined based on the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net pension liability: deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets and liabilities and additions to /deductions from TMRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable, in accordance with the benefit terms. Investments are reported at fair value. In connection with the implementation of GASB Statement 68, as amended by GASB Statement 71, a restatement to beginning net position has been made for the recording of the beginning net pension liability and for the recording of deferred outflows of resources for contributions made after the measurement date of the beginning net pension liability and the beginning of the reporting entity's fiscal year. Beginning net position as of October 1, 2014 has been restated as follows:

Beginning net position	\$ 2,991,329
Prior period adjustment - implementation of GASB 68:	
Net pension liability (measurement date as of 12/31/13)	(69,989)
Deferred outflows - City contribution made during FY 2014	11,139
Beginning net position as restated	<u>\$ 2,932,479</u>

CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended September 30, 2015
(UNAUDITED)

More detailed information regarding GASB 68 and its implementation can be found with Note V, Defined Benefit Pension Plan, in the note disclosures.

Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Charges for services	\$ -	\$ -	\$ 836,072	\$ 797,318	\$ 836,072	\$ 797,318
Property taxes	102,807	98,629	-	-	102,807	98,629
Sales tax	132,877	128,755	-	-	132,877	128,755
Franchise fees	101,534	71,667	-	-	101,534	71,667
Interest income	15	343	28	102	43	445
Grants and contributions	-	830,292	238,461	100,202	238,461	930,494
Other miscellaneous	23,458	1,827	-	-	23,458	1,827
Total Revenues	360,691	1,131,513	1,074,561	897,622	1,435,252	2,029,135
Expenses						
General government	179,466	149,314	-	-	179,466	149,314
Streets and drainage	92,646	64,575	-	-	92,646	64,575
Fire protection	13,545	14,763	-	-	13,545	14,763
Municipal court	1,100	1,100	-	-	1,100	1,100
Health and welfare	-	10,834	-	-	-	10,834
Pass-through expenditures	-	269,804	-	-	-	269,804
Water, sewer, and sanitation	-	-	635,940	687,109	635,940	687,109
Depreciation	-	-	227,062	225,079	227,062	225,079
Interest on long-term debt	20,499	31,379	885	3,985	21,384	35,364
Total Expenses	307,256	541,769	863,887	916,173	1,171,143	1,457,942
Transfers In (Out)	130,527	23,518	(130,527)	(23,518)	-	-
Total Transfers	130,527	23,518	(130,527)	(23,518)	-	-
Increase (Decrease) in						
Net Position	183,962	613,262	80,147	(42,069)	264,109	571,193
Net position at beginning of year	391,561	(221,701)	2,599,768	2,641,837	2,991,329	2,420,136
Prior period adjustment	(8,551)	-	(50,299)	-	(58,850)	-
Net position at end of year	\$566,972	\$ 391,561	\$2,629,616	\$2,599,768	\$3,196,588	\$2,991,329

FINANCIAL ANALYSIS OF THE CITY'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.

CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended September 30, 2015
(UNAUDITED)

As of September 30, 2015, the City's governmental funds reported a total fund balance of \$346,995. This fund balance is comprised of \$199 that is restricted for payment of debt service. The remaining balance, \$346,796, is unassigned. During the year, the fund balance in the City's governmental funds increased by \$86,903.

General Fund Budget – A comparison of the general fund budget and actual results on page 14. For the current year, actual revenues were higher than budgeted amounts by \$51,555 while actual expenditures were less than budgeted amounts by \$33,045. For the current year, the General fund balance increased by \$92,557 during the fiscal year compared to the \$41,772 increase that was budgeted.

CAPITAL ASSETS

The City's investment in capital assets as of September 30, 2015, totaled \$3,401,724 (net 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:

- Water well project (grant funded and completed in current year)
- Various water/sewer plant improvements and upgrades
- Street improvements

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 2,350	\$ 2,350	\$ 61,203	\$ 61,203	\$ 63,553	\$ 63,553
Buildings and improvements	106,928	94,374	-	-	106,928	94,374
Plant and equipment	-	-	2,299,593	2,248,082	2,299,593	2,248,082
Machinery and equipment	30,375	36,584	231,127	260,146	261,502	296,730
Transportation equipment	-	-	5,718	8,371	5,718	8,371
Office equipment and furniture	4,231	6,626	876	1,607	5,107	8,233
Streets and drainage	659,323	660,638	-	-	659,323	660,638
Construction in progress	-	18,712	-	-	-	18,712
Total Net Assets	\$ 803,207	\$ 819,284	\$ 2,598,517	\$ 2,579,409	\$ 3,401,724	\$ 3,398,693

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total debt outstanding of \$600,866.

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Notes payable	\$ 19,011	\$ 23,915	\$ -	\$ -	\$ 19,011	\$ 23,915
Capital lease obligations	-	-	21,855	35,145	21,855	35,145
Bonds payable	560,000	660,000	-	-	560,000	660,000
Total	\$ 579,011	\$ 683,915	\$ 21,855	\$ 35,145	\$ 600,866	\$ 719,060

CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended September 30, 2015
(UNAUDITED)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In September, 2015, the Council approved the 2015/2016 budget. The City adopted a property tax rate of 0.2972 per \$100, an increase 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.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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. Questions concerning this report or requests for additional financial information should be directed to the City office at 110 W. Parker, Elkhart, Texas.

BASIC FINANCIAL STATEMENTS

**CITY OF ELKHART, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015**

EXHIBIT 1

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 264,094	\$ 178,247	\$ 442,341
Receivables	38,794	128,616	167,410
Inventory	-	16,041	16,041
Internal balances	60,049	(60,049)	-
Restricted assets			
Cash and cash equivalents	283	-	283
Capital assets			
Nondepreciable	2,350	61,203	63,553
Depreciable, net of accumulated depreciation	800,857	2,537,314	3,338,171
Total Assets	\$ 1,166,427	\$ 2,861,372	\$ 4,027,799
<u>Deferred Outflows of Resources</u>			
Deferred Outflows Related to TMRS Pension	\$ 4,090	\$ 24,057	\$ 28,147
Total Deferred Outflows of Resources	4,090	24,057	28,147
<u>Liabilities</u>			
Accounts payable	\$ 11,871	\$ 50,613	\$ 62,484
Customer deposits payable	-	96,732	96,732
Insurance proceeds refundable	-	12,131	12,131
Due within one year	112,253	13,700	125,953
	124,124	173,176	297,300
Noncurrent liabilities:			
Net pension liability	12,663	74,482	87,145
Due in more than one year	466,758	8,155	474,913
	479,421	82,637	562,058
Total Liabilities	603,545	255,813	859,358
<u>Net Position</u>			
Invested in capital assets, net of related debt	224,196	2,576,632	2,800,828
Restricted for:			
Debt service	199	-	199
Unrestricted	342,577	52,984	395,561
Total Net Position	\$ 566,972	\$ 2,629,616	\$ 3,196,588

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

EXHIBIT 2

CITY OF ELKHART, TEXAS
STATEMENT OF CHANGES IN NET POSITION
SEPTEMBER 30, 2015

Functions/Programs	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Position		
		Fees, Fines, Charges for Services	Capital Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Primary Government						
Governmental Activities:						
General government	\$ 179,466	\$ -	\$ -	\$ (179,466)	\$ -	\$ (179,466)
Streets	92,646	-	-	(92,646)	-	(92,646)
Fire protection	13,545	-	-	(13,545)	-	(13,545)
Municipal court	1,100	-	-	(1,100)	-	(1,100)
Interest on long-term debt	20,499	-	-	(20,499)	-	(20,499)
Total Government Activities	307,256	-	-	(307,256)	-	(307,256)
Business-Type Activities:						
Water, sewer, and sanitation	853,459	836,072	238,461	-	221,074	221,074
Interest on long-term debt	885	-	-	-	(885)	(885)
Miscellaneous	9,543	-	-	-	(9,543)	(9,543)
Total Business-Type Activities	863,887	836,072	238,461	-	210,646	210,646
Total Primary Government	\$ 1,171,143	\$ 836,072	\$ 238,461	(307,256)	\$ 210,646	\$ (96,610)
General Revenues:						
Property taxes				102,807	-	102,807
Sales tax				132,877	-	132,877
Franchise taxes				101,534	-	101,534
Interest income				15	28	43
Other revenue				23,458	-	23,458
Transfers in (out)				130,527	(130,527)	-
Total General Revenues and Transfers				491,218	(130,499)	360,719
Change in Net Position				183,962	80,147	264,109
Beginning net position, as originally stated				391,561	2,599,768	2,991,329
Prior period adjustment				(8,551)	(50,299)	(58,850)
Beginning net position, as restated				383,010	2,549,469	2,932,479
Ending Net Position	\$ 566,972	\$ 2,629,616	\$ 3,196,588			

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

**CITY OF ELKHART, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015**

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Assets:</u>			
Cash and cash equivalents	\$ 264,094	\$ -	\$ 264,094
Receivables			
Property taxes, net of allowance	4,354	-	4,354
Sales taxes	22,892	-	22,892
Other	11,548	-	11,548
Due from other funds	60,133	-	60,133
Restricted assets			
Cash and cash equivalents	-	283	283
Total Assets	<u>363,021</u>	<u>283</u>	<u>363,304</u>
<u>Liabilities:</u>			
Accounts payable	11,871	-	11,871
Due to other funds	-	84	84
Total Liabilities	<u>11,871</u>	<u>84</u>	<u>11,955</u>
<u>Deferred Inflows of Resources:</u>			
Unavailable revenue - property taxes	4,354	-	4,354
Total deferred inflows of resources	<u>4,354</u>	<u>-</u>	<u>4,354</u>
<u>Fund Balances:</u>			
Restricted for:			
Debt service	-	199	199
Unassigned	346,796	-	346,796
Total Fund Balances	<u>346,796</u>	<u>199</u>	<u>346,995</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 363,021</u>	<u>\$ 283</u>	<u>\$ 363,304</u>

**CITY OF ELKHART, TEXAS
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

Total Fund Balances - governmental funds balance sheet	\$ 346,995
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds balance sheet.	803,207
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	4,354
Deferred outflows represent the consumption of net position that are applicable to a future reporting period.	4,090
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Net pension liability	(12,663)
Long-term debt	(579,011)
Net Position of Governmental Activities	<u>\$ 566,972</u>

EXHIBIT 4

CITY OF ELKHART, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Revenues</u>			
Property taxes, penalty and interest	\$ 98,811	\$ -	\$ 98,811
Sales taxes	132,877	-	132,877
Franchise taxes	101,534	-	101,534
Interest income	-	15	15
Other revenue	23,458	-	23,458
Total Revenues	<u>356,680</u>	<u>15</u>	<u>356,695</u>
<u>Expenditures</u>			
General government	161,222	-	161,222
Fire protection	10,365	-	10,365
Streets	60,134	-	60,134
Municipal court	1,100	-	1,100
Capital outlay	24,988	-	24,988
Debt service			
Principal retired	4,904	100,000	104,904
Interest	1,495	22,436	23,931
Miscellaneous	-	13,675	13,675
Total Expenditures	<u>264,208</u>	<u>136,111</u>	<u>400,319</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>92,472</u>	<u>(136,096)</u>	<u>(43,624)</u>
<u>Other Financing Sources (Uses)</u>			
Transfers in (out)	85	130,442	130,527
Total Other Financing Sources	<u>85</u>	<u>130,442</u>	<u>130,527</u>
Net Change in Fund Balances	92,557	(5,654)	86,903
Equity Transfer	9,943	(9,943)	-
Fund Balance - Beginning of Year	<u>244,296</u>	<u>15,796</u>	<u>260,092</u>
Ending Fund Balances	<u>\$ 346,796</u>	<u>\$ 199</u>	<u>\$ 346,995</u>

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

EXHIBIT 5

**CITY OF ELKHART, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

Amounts reported for governmental activities in the Statement of Activities
are different because:

Net changes in fund balances - total governmental funds	\$ 86,903
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(16,077)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	3,996
The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) 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. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	104,904
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.	3,432
Changes in GASB 68 pension expense due to changes in the current period Deferred Outflow of Resources and the Deferred Inflow of Resources.	804
Change in Net Position of Governmental Activities	\$ 183,962

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

CITY OF ELKHART, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Original Appropriated Budget	Final Appropriated Budget	Actual Amounts	Variances Favorable (Unfavorable)
<u>Revenues</u>				
Property taxes, penalty and interest	\$ 99,000	\$ 99,000	\$ 98,811	\$ (189)
Sales taxes	105,000	105,000	132,877	27,877
Franchise taxes	100,000	100,000	101,534	1,534
Other revenues	1,125	1,125	23,458	22,333
Total Revenues	305,125	305,125	356,680	51,555
<u>Expenditures</u>				
General government	167,100	167,100	161,222	5,878
Fire protection	7,000	7,000	10,365	(3,365)
Streets	99,153	99,153	60,134	39,019
Municipal court	2,500	2,500	1,100	1,400
Capital outlay	21,500	21,500	24,988	(3,488)
Debt service				
Principal retired	-	-	4,904	(4,904)
Interest	-	-	1,495	(1,495)
Total Expenditures	297,253	297,253	264,208	33,045
Excess (Deficiency) of Revenues Over Expenditures	7,872	7,872	92,472	84,600
<u>Other Financing Sources (Uses)</u>				
Transfers in (out)	33,900	33,900	85	(33,815)
Total Other Financing Sources	33,900	33,900	85	(33,815)
Net Change in Fund Balance	41,772	41,772	92,557	50,785
Equity Transfer From Street Maintenance	-	-	9,943	
Fund Balance - Beginning of Year	209,707	209,707	244,296	34,589
Fund Balance - End of Year	\$ 251,479	\$ 251,479	\$ 346,796	\$ 85,374

EXHIBIT 7

CITY OF ELKHART, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2015

	Utility Fund	Proprietary Grants Fund	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 162,340	\$ 15,907	\$ 178,247
Receivables, net of allowance	77,924	20,801	98,725
Unbilled receivables	29,891	-	29,891
Due from other funds	-	826	826
Inventory	16,041	-	16,041
Total Current Assets	286,196	37,534	323,730
Noncurrent assets:			
Capital assets			
Nondepreciable	61,203	-	61,203
Depreciable, net of accumulated depreciation	2,537,314	-	2,537,314
Total Noncurrent Assets	2,598,517	-	2,598,517
Total Assets	2,884,713	37,534	2,922,247
<u>Deferred Outflows of Resources</u>			
Deferred Outflows Related to TMRS Pension	24,057	-	24,057
Total Deferred Outflows of Resources	24,057	-	24,057
<u>Liabilities</u>			
Current liabilities			
Accounts payable	13,179	37,434	50,613
Customer deposits payable	96,732	-	96,732
Due to other funds	60,875	-	60,875
Insurance proceeds refundable	12,131	-	12,131
Capital leases - current maturities	13,700	-	13,700
Total Current Liabilities	196,617	37,434	234,051
Noncurrent liabilities			
Net pension liability	74,482	-	74,482
Capital leases	8,155	-	8,155
Total Noncurrent Liabilities	82,637	-	82,637
Total Liabilities	279,254	37,434	316,688
<u>Net Position</u>			
Invested in capital assets, net of related debt	2,576,632	-	2,576,632
Unrestricted	52,884	100	52,984
Total Net Position	\$ 2,629,516	\$ 100	\$ 2,629,616

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

CITY OF ELKHART, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Utility Fund	Proprietary Grants Fund	Total
<u>Operating Revenues</u>			
Water sales	\$ 432,605	\$ -	\$ 432,605
Sewer income	215,655	-	215,655
Garbage income	156,268	-	156,268
Late charges and other income	31,544	-	31,544
Total Operating Revenues	836,072	-	836,072
<u>Operating Expenses</u>			
Personnel and related costs	301,304		301,304
Supplies and materials	45,240	-	45,240
Repairs and maintenance	27,333	-	27,333
Garbage expense	146,201	-	146,201
Professional fees	30,935	-	30,935
Insurance	10,183	-	10,183
Utilities	46,547	-	46,547
Office expense	6,768	-	6,768
Other expense	11,886	-	11,886
Depreciation	227,062	-	227,062
Total Operating Expenses	853,459	-	853,459
Operating Income	(17,387)	-	(17,387)
<u>Nonoperating Revenues (Expenses)</u>			
Grant revenues	-	238,461	238,461
Interest income	28	-	28
Interest expense	(885)	-	(885)
Miscellaneous expenses	-	(9,543)	(9,543)
Total Nonoperating Revenues (Expenses)	(857)	228,918	228,061
Income (Loss) Before Transfers	(18,244)	228,918	210,674
<u>Other Financing Sources (Uses)</u>			
Transfers in (out)	98,393	(228,920)	(130,527)
Total Other Financing Sources	98,393	(228,920)	(130,527)
Change in Net Position	80,149	(2)	80,147
Beginning net position, as originally stated	2,599,666	102	2,599,768
Prior period adjustment	(50,299)	-	(50,299)
Beginning net position, as restated	2,549,367	102	2,549,469
Ending Net Position	\$ 2,629,516	\$ 100	\$ 2,629,616

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

EXHIBIT 9

**CITY OF ELKHART, TEXAS
STATEMENT OF CASH FLOWS
COMBINED PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

Cash Flows from Operating Activities

Cash received from customers and users	\$ 818,401
Cash payments to suppliers	(299,990)
Cash payments to employees	(310,362)
Net Cash Provided by Operating Activities	<u>208,049</u>

Cash Flows from Noncapital Financing Activities

Net advances from other funds	69,260
Operating transfers out	(130,527)
Net Cash (Used) by Noncapital Financing Activities	<u>(61,267)</u>

Cash Flows from Capital and Related Financing Activities

Acquisition of capital assets	(246,170)
Grant income received	217,661
Principal payments on long-term debt	(13,290)
Interest payments on long-term debt	(885)
Net Cash (Used) by Capital and Related Financing Activities	<u>(42,684)</u>

Cash Flows From Investing Activities

Interest received	28
Net Cash Provided by Investing Activities	<u>28</u>

Net Decrease in Cash and Cash Equivalents 104,126

Cash and Cash Equivalents at Beginning of Year 74,121

Cash and Cash Equivalents at End of Year \$ 178,247

Reconciliation of Operating Income (Loss) to Net Cash**Provided (Used) by Operating Activities**

Operating loss before nonoperating revenues	\$ (17,387)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	227,062
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	(17,996)
Increase (decrease) in accounts payable	25,103
Increase (decrease) in deferred outflows related to pensions	(14,537)
Increase (decrease) in net pension obligation	5,479
Increase (decrease) in customer deposits payable	325
Total Adjustments	<u>225,436</u>
Net Cash Provided by Operating Activities	<u><u>\$ 208,049</u></u>

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

**CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED SEPTEMBER 30, 2015**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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.

B. 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.

C. Government-Wide 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.

D. New Accounting Pronouncements

GASB Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"), establishes reporting standards for public employee pensions by state and local governments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2014. The City has not determined the impact, if any, upon its financial position, results of operations, or cash flows upon adoption.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2015

D. New Accounting Pronouncements - Continued

GASB Statement No. 69, Government Combinations and Disposals of Government Operations ("GASB 69"), establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2013. The City has not determined the impact, if any, upon its financial position, results of operations, or cash flows upon adoption.

GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees ("GASB 70"), establishes accounting and financial reporting standards related to local governments that extend and receive nonexchange financial guarantees. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2014. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date ("GASB 71"), eliminates the source of a potential understatement of restated beginning net position and expense in the first year of implementation of GASB 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2014. The City has not determined the impact, if any, upon its financial position, results of operations, or cash flows upon adoption.

E. 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.

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 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.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2015

E. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

The City's funds are classified as either governmental or enterprise and are described below.

Governmental Funds. Governmental funds are used to account for all or most of a government's general activity.

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 principal sources of revenue include local property taxes, fees, licenses and permits, and intergovernmental revenue and grants. Expenditures include general government, streets, fire, municipal court, and health and welfare.

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

Enterprise Funds. Enterprise funds (or proprietary funds) are used to account for the City's business-type activities.

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. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt.

The *proprietary grants funds* are used to account for the expenditures of resources accumulated from debt issued by the city or from grants received by the city, as well as related interest earnings for capital improvement projects.

The general fund and utility fund are reported as major funds.

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.

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.

**CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2015**

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. 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.

Certificates of deposit consist of deposits 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 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 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;
- 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 any time during the current fiscal year.

**CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2015**

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance - Continued

2. 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 "fair value."

3. Receivables

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

4. 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.

5. 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).

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

Infrastructure assets are a subset of capital assets and primarily consist of roads and bridges. GASB No. 34 encourages but does not require Phase 3 governments (cities with revenues of less than \$10 million) to retroactively report major general infrastructure assets. New roads and bridges acquired after October 1, 2003 are required to be reported.

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.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings and improvements	20-50 years
Utility plant and equipment	7-40 years
Machinery and equipment	5-20 years
Transportation equipment	5 years
Office, furniture, and equipment	5-10 years
Streets and drainage	10 years

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2015

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance - Continued

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has a deferred charge on the TMRS pension. The TMRS pension expense and net pension liability are reported as of the date of the last actuarial study, which was December 31, 2014. The deferred outflow shows the difference in contributions to the TMRS retirement plan that occurred between December 31, 2014 and September 30, 2015.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category. *Unavailable revenue* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. The second is reported in the government-wide statement of net position. It is a deferred charge related to the TMRS retirement pension. This represents the differences between expected and actual actuarial gains and losses and projected and actual pension plan investment gains and losses. This amount will be amortized in future periods.

8. Compensated Employee 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.

9. 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.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2015

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance - Continued

10. 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, 2014, 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.

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.

11. Estimates

The preparation of financial statements, in conformity with the generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

12. Pensions

For the year ended September 30, 2015, the City implemented the provisions of GASB Statement 68, Accounting and Financial Reporting for Pensions, as amended by GASB Statement 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. The fiduciary net position of the Texas Municipal Retirement System of Texas (TMRS) has been determined based on the flow of economic resource measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net pension liability: deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, and liabilities and additions to/deductions from TMRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable, in accordance with the benefit terms. Investments are reported at fair value.

**CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2015**

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance - Continued

13. Prior Year Restatement

In connection with the implementation of GASB Statement 68, as amended by GASB Statement 71, a restatement to beginning net position has been made for the recording of the beginning net pension liability and for the recording of deferred outflows of resources for contributions made after the measurement date of the beginning net pension liability and the beginning of the reporting entity's fiscal year.

Beginning net position as of October 1, 2014, has been restated as follows:

Beginning net position	\$ 2,991,329
Prior period adjustment - implementation of GASB 68:	
Net pension liability (measurement date as of 12/31/13)	(69,989)
Deferred outflows - City contribution made during FY 2014	11,139
Beginning net position as restated	<u>\$ 2,932,479</u>

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. 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.

B. 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.

NOTE 3: DETAILED NOTES ON ALL FUNDS

A. 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, 2015, 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, 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, 2015, the City's cash deposits with depository banks totaled \$588,336. All deposits were fully collateralized by securities pledged by the depository banks with total collateral value of \$563,041, in addition to FDIC coverage.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2015

B. 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, 2015, the balance of collections to be remitted to the EVFD totaled \$100.

C. Receivables

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>Grants/Other</u>	<u>Totals</u>
Receivables by activity					
Governmental	\$ -	\$ 20,895	\$ 22,892	\$ 11,548	\$ 55,335
Business-Type	123,238	-	-	20,801	144,039
Receivables, gross	<u>123,238</u>	<u>20,895</u>	<u>22,892</u>	<u>32,349</u>	<u>199,374</u>
Allowance for uncollectibles					
Governmental	-	(16,541)	-	-	(16,541)
Business-Type	(15,423)	-	-	-	(15,423)
Total allowance	<u>(15,423)</u>	<u>(16,541)</u>	<u>-</u>	<u>-</u>	<u>(31,964)</u>
Total Receivables, Net	<u>\$ 107,815</u>	<u>\$ 4,354</u>	<u>\$ 22,892</u>	<u>\$ 32,349</u>	<u>\$ 167,410</u>

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, 2015, was \$.29486 per \$100 of assessed valuation. The total taxable value and total tax levy assessed for the year was \$33,557,526 and \$101,363, respectively. The City has contracted with the Anderson County Central Appraisal District for the collection of property taxes.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2015

D. Capital Assets

A summary of changes in Governmental capital assets for the year ended September 30, 2015 is as follows:

	Balance 09/30/2014	Additions	Deletions/ Placed in Svc	Balance 09/30/2015
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 2,350	\$ -	\$ -	\$ 2,350
Construction in progress	18,712	-	(18,712)	-
Total Not Being Depreciated	<u>21,062</u>	<u>-</u>	<u>(18,712)</u>	<u>2,350</u>
Capital assets, being depreciated				
Buildings and improvements	119,885	18,712	-	138,597
Machinery and equipment	49,140	-	-	49,140
Office equipment and furniture	17,329	-	-	17,329
Streets	817,165	24,988	-	842,153
Total Being Depreciated	<u>1,003,519</u>	<u>43,700</u>	<u>-</u>	<u>1,047,219</u>
Less accumulated depreciation:				
Buildings and improvements	(25,511)	(6,158)	-	(31,669)
Machinery and equipment	(12,556)	(6,209)	-	(18,765)
Office equipment and furniture	(10,703)	(2,395)	-	(13,098)
Streets	(156,527)	(26,303)	-	(182,830)
Total Accumulated Depreciation	<u>(205,297)</u>	<u>(41,065)</u>	<u>-</u>	<u>(246,362)</u>
Total Being Depreciated, Net	<u>798,222</u>	<u>2,635</u>	<u>-</u>	<u>800,857</u>
Total Capital Assets, Net	<u>\$ 819,284</u>	<u>\$ 2,635</u>	<u>\$ (18,712)</u>	<u>\$ 803,207</u>
			Less associated debt	591,674
			Invested in capital assets, net of related debt	<u>\$ 211,533</u>

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

General government	\$ 5,373
Fire protection	3,180
Streets	32,512
Total	<u>\$ 41,065</u>

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2015

D. Capital Assets – Continued

A summary of changes in Governmental capital assets for the year ended September 30, 2015 is as follows:

	Balance 09/30/2014	Additions	Deletions/ Placed in Svc	Balance 09/30/2015
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 61,203	\$ -	\$ -	\$ 61,203
Total Not Being Depreciated	<u>61,203</u>	<u>-</u>	<u>-</u>	<u>61,203</u>
Capital assets, being depreciated:				
Plant and equipment	4,856,189	242,670	-	5,098,859
Machinery and equipment	430,627	3,500	-	434,127
Office equipment	7,586	-	-	7,586
Transportation equipment	76,534	-	-	76,534
Total Being Depreciated	<u>5,370,936</u>	<u>246,170</u>	<u>-</u>	<u>5,617,106</u>
Less accumulated depreciation:				
Plant and equipment	(2,608,107)	(191,159)	-	(2,799,266)
Machinery and equipment	(170,481)	(32,519)	-	(203,000)
Office equipment	(5,979)	(731)	-	(6,710)
Transportation equipment	(68,163)	(2,653)	-	(70,816)
Total Accumulated Depreciation	<u>(2,852,730)</u>	<u>(227,062)</u>	<u>-</u>	<u>(3,079,792)</u>
Total Being Depreciated, Net	<u>2,518,206</u>	<u>19,108</u>	<u>-</u>	<u>2,537,314</u>
Total Capital Assets, Net	<u>\$ 2,579,409</u>	<u>\$ 19,108</u>	<u>\$ -</u>	<u>\$ 2,598,517</u>
			Less associated debt	(21,885)
			Invested in capital assets, net of related debt	<u>\$ 2,576,632</u>

Depreciation expense of \$227,062 was charged to the proprietary fund.

E. Interfund Receivables, Payables, and Transfers

The following interfund receivable and payable balances are the result of cash needed by the utility 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, 2015, these internal balances consisted of the following:

	Receivable	Payable	Net Totals
Governmental Activities			
General Fund	\$ 60,133	\$ -	\$ 60,133
Debt Service Fund	-	(84)	(84)
Total Governmental Activities	<u>\$ 60,133</u>	<u>\$ (84)</u>	<u>\$ 60,049</u>
Business-Type Activities			
Utility Fund	\$ -	\$ (60,875)	\$ (60,875)
Proprietary Grants Fund	826	-	826
Total Business-Type Activities	<u>\$ 826</u>	<u>\$ (60,875)</u>	<u>\$ (60,049)</u>

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2015

F. Interfund Receivables, Payables, and Transfers – Continued

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>Transfers Out</u>	<u>Transfers In</u>	<u>Net Totals</u>
Governmental Activities			
General Fund	\$ -	\$ 85	\$ 85
Debt Service Fund	-	130,442	130,442
Total Governmental Activities	<u>\$ -</u>	<u>\$ 130,527</u>	<u>\$ 130,527</u>
Business-Type Activities			
Utility Fund	\$ -	\$ 98,393	\$ 98,393
Proprietary Grants Fund	(228,920)	-	(228,920)
Total Business-Type Activities	<u>\$ (228,920)</u>	<u>\$ 98,393</u>	<u>\$ (130,527)</u>

G. 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>Utility Fund</u>
Asset:	
Machinery and equipment	\$ 70,703
Less: accumulated depreciation	(11,391)
Total	<u>\$ 59,312</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2015, were as follows:

<u>Year ending September 30</u>	<u>Utility Fund</u>
2016	\$ 14,175
2017	8,268
Total minimum lease payments	22,443
Less: amount representing interest	(558)
Present value of minimum lease payments	<u>\$ 21,885</u>

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2015

H. Long-Term Debt

Long-term debt activity for the year ended September 30, 2015, was as follows:

	Balance 09/30/2014	Additions	Refunding/Reductions	Balance 09/30/2015	Due Within One Year
Governmental Activities:					
Series 2005 bonds	\$ 660,000	\$ -	\$ (660,000)	\$ -	\$ -
Series 2015 bonds	-	560,000	-	560,000	107,000
Net pension liability	-	12,663	-	12,663	-
Note payable	23,915	-	(4,904)	19,011	5,253
Total Long-Term Debt	\$ 683,915	\$ 572,663	\$ (664,904)	\$ 591,674	\$ 112,253
	Balance 09/30/2014	Additions	Reductions	Balance 09/30/2015	Due Within One Year
Business-Type Activities:					
Net pension liability	\$ -	\$ 74,482	\$ -	\$ 74,482	\$ -
Capital lease	35,145	-	(13,290)	21,855	13,700
Total Long-Term Debt	\$ 35,145	\$ 74,482	\$ (13,290)	\$ 96,337	\$ 13,700

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

Year Ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 112,253	\$ 11,818	\$ 13,700	\$ 475
2017	115,627	9,157	8,185	83
2018	118,027	6,419	-	-
2018	116,104	3,696	-	-
2020	117,000	1,233	-	-
2021-2025	-	-	-	-
Total	\$ 579,011	\$ 32,323	\$ 21,885	\$ 558

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

Note payable to CNH Industrial Capital. During the year, the City financed the purchase of a new tractor and related accessories for \$27,310. The note bears interest at 6.89% annually and is payable in 58 (fifty-eight) monthly installments. The note matures in 2019 and is collateralized by the equipment that the note serves to finance.

General Obligation Refunding Bonds, Series 2015. During the current year, the City issued General Obligation Refunding Bonds, Series 2015, in the amount of \$560,000. The bonds were issued in order to retire the General Obligation Bonds, Series 2005 and take advantage of lower interest rates. The 2015 bonds were dated March 1, 2015, bear interest at 2.10%, and mature in years through February 15, 2020. 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.

**CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2015**

H Long-Term Debt – Continued

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.

At September 30, 2015, the City had \$199 available in the debt service fund to service bond debt.

NOTE 4: OTHER INFORMATION

A. 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; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pool (the "Pool"). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

NOTE 5: DEFINED BENEFIT PENSION PLAN

A. Plan Description

The City of Elkhart participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2015

A. Plan Description - Continued

Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com. All eligible employees of the city are required to participate in TMRS.

B. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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

	<u>2014</u>	<u>2013</u>
Employee deposit rate	5.0%	5.0%
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	100% Repeating
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Employees Covered by Benefit Terms

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

	<u>12/31/2013</u>	<u>12/31/2014</u>
Inactive employees or beneficiaries currently receiving benefits	11	12
Inactive employees entitled to but not yet receiving benefits	19	25
Active employees	<u>24</u>	<u>25</u>
	<u>54</u>	<u>62</u>

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2015

C. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Elkhart were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Elkhart were 5.00% and 5.65% in calendar years 2014 and 2015, respectively. The city's contributions to TMRS for the year ended September 30, 2015, were \$11,367, and satisfied the required contributions.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

- Inflation at 3.0% per year
- Overall payroll growth at 3.0% per year
- Investment Rate of Return at 7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2015

D. Net Pension Liability - Continued

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.80%
International Equity	17.50%	6.05%
Core Fixed Income	30.00%	1.50%
Non-Core Fixed Income	10.00%	3.50%
Real Return	5.00%	1.75%
Real Estate	10.00%	5.25%
Absolute Return	5.00%	4.25%
Private Equity	5.00%	8.50%
Total	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2013	\$ 636,316	\$ 566,327	\$ 69,989
Changes for the year:			
Service Cost	23,475	-	23,475
Interest	44,030	-	44,030
Change in benefit terms	-	-	-
Difference between expected/actual experience	13,629	-	13,629
Changes in assumptions	-	-	-
Contributions - employer	-	15,960	(15,960)
Contributions - employee	-	15,983	(15,983)
Net investment income	-	32,401	(32,401)
Benefits payments, including refunds of employee contributions	(38,116)	(38,116)	-
Administrative expenses	-	(338)	338
Other charges	-	(28)	28
Net changes	<u>43,018</u>	<u>25,862</u>	<u>17,156</u>
Balance at 12/31/2014	<u>\$ 679,334</u>	<u>\$ 592,189</u>	<u>\$ 87,145</u>

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2015

D. Net Pension Liability - Continued

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

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.00%)	Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
City's net pension liability	\$ 77,745	\$ (75,422)	\$ (202,628)

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

For the year ended September 30, 2015, the city recognized pension income of \$614.

At September 30, 2015, the city reported deferred outflows of resource and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	\$ -	\$ 1,733
Changes in actuarial assumptions	-	-
Differences between projected and actual investment earnings (net of current year amortization)	13,094	-
Contributions subsequent to the measurement date	16,506	-
Total	\$ 29,600	\$ 1,733

\$15,053 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015.

**CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2015**

E. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Continued

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>		
2015	\$	2,597
2016		2,597
2017		2,895
2018		3,272
2019		-
Thereafter		-
Total	\$	11,361

F. Commitments

Effective April 1, 2016, the City entered into a contract with Piney Woods Sanitation Inc. for the collection of garbage for the City's residents. The contract period under the agreement ends March 31, 2013 and calls for a five year extension.

On February 25, 2016, the City executed a contract with Elkhart OSB, LLC to provide water and sewer services to a new plant located outside the City's distribution area. Under the contract, the customer will pay for all costs to extend the City's distribution system to its plant site. The contract, which is for an initial 5 year period, calls for five year renewal options and calls for a base rate fee of \$7,200 per month and usage costs as set forth in the agreement.

G. Subsequent Event

Outside of the two subsequent events listed above as commitments, there were no other events that the City is required to disclose in the financial statements. Subsequent events have been evaluated through January 27, 2018, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF ELKHART, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FISCAL YEAR ENDED SEPTEMBER 30, 2015

	<u>2014</u>
Total Pension Liability	
Service Cost	\$ 23,475
Interest (on the Total Pension Liability)	44,030
Changes in benefit terms	-
Difference between expected and actual results	13,629
Change of assumptions	-
Benefit payments, including refunds of employee contributions	<u>(38,116)</u>
Net Change in Total Pension Liability	43,018
Total Pension Liability - Beginning	<u>636,316</u>
Total Pension Liability - Ending (a)	<u>\$ 679,334</u>
Plan Fiduciary Net Position	
Contributions - Employer	\$ 15,960
Contributions - Employee	15,983
Net investment income	32,401
Benefit payments, including refunds of employee contributions	(38,116)
Administrative Expense	(338)
Other	<u>(28)</u>
Net Change in Plan Fiduciary Net Position	25,862
Plan Fiduciary Net Position - Beginning	<u>566,327</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 592,189</u>
Net Pension Liability - Ending (a)-(b)	<u>\$ 87,145</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	87.17%
Covered Employee Payroll	\$ 319,650
Net Pension Liability as a Percentage of Covered Employee Payroll	27.26%

**CITY OF ELKHART, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
FISCAL YEAR ENDED SEPTEMBER 30, 2015**

	<u>2014</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 11,139	\$ 11,367
Contributions in relation to the actuarially determined contributions	<u>11,139</u>	<u>11,367</u>
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 300,634	\$ 319,650
Contributions as a percentage of covered employee payroll	3.71%	3.56%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date: Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	22 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.00%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB
Other Information:	There were no benefit changes during the year.

SUPPLEMENTAL SCHEDULES

**CITY OF ELKHART, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015**

B-1

	Debt Service Fund	Street Maintenance Fund	Total
<u>Assets:</u>			
Restricted Assets			
Cash and cash equivalents	\$ 283	\$ -	\$ 283
Total Assets	\$ 283	\$ -	\$ 283
 Liabilities and Fund Balances			
<u>Liabilities:</u>			
Due to other funds	\$ 84	\$ -	\$ 84
Total Liabilities	84	-	84
 <u>Fund Balances:</u>			
Restricted for:			
Debt service	199	-	199
Street maintenance	-	-	-
Unassigned	-	-	-
Total Fund Balances	199	-	199
 Total Liabilities and Fund Balances	\$ 283	\$ -	\$ 283

CITY OF ELKHART, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

B-2

	Debt Service Fund	Street Maintenance Fund	Total
<u>Revenues</u>			
Interest income	\$ 15	\$ -	\$ 15
Total Revenues	<u>15</u>	<u>-</u>	<u>15</u>
<u>Expenditures</u>			
Debt service			
Principal retired	100,000	-	100,000
Interest	22,436	-	22,436
Miscellaneous	13,675	-	13,675
Total Expenditures	<u>136,111</u>	<u>-</u>	<u>136,111</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(136,096)</u>	<u>-</u>	<u>(136,096)</u>
<u>Other Financing Sources (Uses)</u>			
Transfers in (out)	130,442	-	130,442
Total Other Financing Sources	<u>130,442</u>	<u>-</u>	<u>130,442</u>
Net Change in Fund Balance	(5,654)	-	(5,654)
Equity Transfer to General Fund		(9,943)	(9,943)
Fund Balance - Beginning of Year	<u>5,853</u>	<u>9,943</u>	<u>15,796</u>
Fund Balance - End of Year	<u>\$ 199</u>	<u>\$ -</u>	<u>\$ 199</u>

COMPLIANCE AND INTERNAL CONTROL SECTION

**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 City Council
City of Elkhart, Texas

We have audited 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, 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 as of and for the year ended September 30, 2015, 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 January 27, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Elkhart, Texas' 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 of Elkhart, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Elkhart, Texas' 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 of Elkhart, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Certified Public Accountants

Tyler, Texas
January 27, 2018