Gollob Morgan Peddy
CERTIFIED PUBLIC ACCOUNTANTS

To the City Council
City of Elkhart, Texas

We have audited the financial statements of City of Elkhart, Texas as of and for the year ended September 30, 2017 and have issued our report thereon dated March 1, 2019. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated October 28, 2018 our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of City of Elkhart, Texas solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practice

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Ciyt of Elkhart, Texas is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2017. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are [*describe*].

> Management's estimate of the collectability of the uncollected property taxes and fine revenue is based on management's current judgment and past history of collections. We evaluated the key factors and assumptions used to develop the accounting estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.
>
> Management's estimate of the depreciation expense of capital assets. We evaluated the key factors and assumptions used to develop the accounting estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting City of Elkhart financial statements relate to: Note 6- Defined Pension Benefit Plan

Identified or Suspected Fraud

We have identified or have obtained information that indicates that the following fraud may have occurred.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit.The attached schedule summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to City of Elkhart, Texas' financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated March 1, 2019

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with City of Elkhart, Texas we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as City of Elkhart, Texas' auditors.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing City of Elkhart, Texas' audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have: with respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

This report is intended solely for the information and use of the Mayor, City Council and management of the City of Elkhart, Texas and is not intended to be and should not be used by anyone other than these specified parties.

Gollob Morgan Peddy PC

Certified Public Accountants

Tyler, Texas
March 1, 2019

CITY OF ELKHART, TEXAS

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY AND OTHER INFORMATION

FISCAL YEAR ENDED SEPTEMBER 30, 2017

Gollob Morgan Peddy PC
CERTIFIED PUBLIC ACCOUNTANTS

1001 ESE Loop 323, Suite 300, Tyler, TX 75701
Tel 903-534-0088 Fax 903-581-3915 www.gmpcpa.com
Members American Institute of Certified Public Accountants and Private Companies Practice Section

CITY OF ELKHART, TEXAS
TABLE OF CONTENTS
SEPTEMBER 30, 2017

Gollob Morgan Peddy
CERTIFIED PUBLIC ACCOUNTANTS

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, 2017, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elkhart, Texas, as of September 30, 2017, 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.

Gollob Morgan Peddy PC
1001 ESE Loop 323, Suite 300, Tyler, TX 75701
Tel 903-534-0088 Fax 903-581-3915 www.gmpcpa.com
Members American Institute of Certified Public Accountants and Private Companies Practice Section

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 on pages 3-7 and schedules of pension liabilities and contributions on pages 38-39 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 additional supplemental information is present for purposes of additional analysis and is 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 additional supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The additional supplemental information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2019 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.

Gollob Morgan Peddy PC

Certified Public Accountants

Tyler, Texas
March 1, 2019

Gollob Morgan Peddy PC
1001 ESE Loop 323, Suite 300, Tyler, TX 75701
Tel 903-534-0088 Fax 903-581-3915 www.gmpcpa.com
Members American Institute of Certified Public Accountants and Private Companies Practice Section

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED SEPTEMBER 30, 2017

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, 2017. 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 decreased by $34,306 during the fiscal year. However, of this amount, cash and other current assets increased by $205,049.
- The City's total long-term debt obligations decreased by $151,247 during the current fiscal year. Total debt outstanding at year end was $421,718; $343,000 in bond obligations, $70,680 in net pension liability, and $8,038 in capital lease obligations.
- The City's overall assets exceeded its total liabilities by $3,408,961 (*net position*) at September 30, 2017. Of this amount, $788,145 (*unrestricted net position)* may be used to meet the on-going obligations to citizens and creditors.
- Excluding grant revenues received, overall revenues increased by $30,767 from the prior year.
- Overall revenues exceeded expenses (or an increase in net position) by $91,296. Net position increased by $253,323 in the governmental fund and decreased by $162,027 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 8 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. However, other nonfinancial factors must also be considered.
>
> The *statement of activities* presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

Fund Financial Statements.
A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal 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.

Because the focus of governmental funds are narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains two individual governmental funds. Information is presented separately in the government fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was $666,335, with no amount being restricted. The debt service fund has a total fund balance of $66,402, all of which is restricted for the payment of debt service.

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 date provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-37 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, 2017, the City's assets exceeded its liabilities by $3,408,961.

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 $2,554,414.

An additional portion of the City's net position, $66,402, represents resources that are subject to external restriction on how they may be used. The remaining balance is $788,145 and unrestricted in nature.

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	$ 743,093	$ 569,327	$ 257,561	$ 226,278	$ 1,000,654	$ 795,605
Capital assets	737,363	777,070	2,228,869	2,428,517	2,966,232	3,205,587
Total Assets	1,480,456	1,346,397	2,486,430	2,654,795	3,966,886	4,001,192
Deferred outflows of resources	2,522	4,592	10,269	26,594	12,791	31,186
Long-term liabilities	242,911	365,668	60,780	84,040	303,691	449,708
Other liabilities	125,704	127,036	130,767	137,969	256,471	265,005
Total Liabilities	368,615	492,704	191,547	222,009	560,162	714,713
Deferred inflows of resources	2,755	-	7,799	-	10,554	-
Net Position:						
Invested in capital assets, net of related debt	386,325	310,860	2,168,089	2,420,354	2,554,414	2,731,214
Restricted	66,402	64,439	-	-	66,402	64,439
Unrestricted	658,881	482,986	129,264	39,026	788,145	522,012
Total Net Position	$ 1,111,608	$ 858,285	$ 2,297,353	$ 2,459,380	$ 3,408,961	$ 3,317,665

Statement of Activities

The following table provides a summary of the City's changes in net position:

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Charges for services	$ -	$ -	$ 791,079	$ 794,515	$ 791,079	$ 794,515
Property taxes	104,608	104,027	-	-	104,608	104,027
Sales tax	159,964	169,477	-	-	159,964	169,477
Franchise fees	103,121	82,579	-	-	103,121	82,579
Interest income	59	24	13	6	72	30
Grants and contributions	-	-	36,810	311	36,810	311
Other miscellaneous	23,662	1,457	22,121	21,775	45,783	23,232
Total Revenues	391,414	357,564	850,023	816,607	1,241,437	1,174,171
Expenses:						
General government	153,916	142,664	-	-	153,916	142,664
Streets and drainage	94,129	76,666	-	-	94,129	76,666
Fire protection	12,613	13,837	-	-	12,613	13,837
Municipal court	1,100	1,980	-	-	1,100	1,980
Water, sewer, and sanitation	-	-	657,437	588,325	657,437	588,325
Depreciation	-	-	220,810	222,181	220,810	222,181
Interest on long-term debt	10,053	6,959	83	482	10,136	7,441
Total Expenses	271,811	242,106	878,330	810,988	1,150,141	1,053,094
Transfers In (Out)	133,720	175,855	(133,720)	(175,855)	-	-
Total Transfers	133,720	175,855	(133,720)	(175,855)	-	-
Change in net position	253,323	291,313	(162,027)	(170,236)	91,296	121,077
Net position at beginning of year	858,285	566,972	2,459,380	2,629,616	3,317,665	3,196,588
Net position at end of year	$ 1,111,608	$ 858,285	$ 2,297,353	$ 2,459,380	$ 3,408,961	$ 3,317,665

FINANCIAL ANAYLSIS 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.

As of September 30, 2017, the City's governmental funds reported a total fund balance of $732,737, of which $66,402 is restricted for payment of debt service. During the year, the fund balance in the City's governmental funds increased by $181,049.

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 $55,112, while actual expenditures were less than budgeted amounts by $16,001. For the current year, the general fund balance increased by $159,568 during the fiscal year compared to the $88,455 increase that was budgeted.

CAPITAL ASSETS

The City's investment in capital assets as of September 30, 2017, totaled $2,966,232 (net accumulated depreciation). This investment includes land, buildings and improvements, streets and drainage, and equipment.

Current year expenditures during the current year included:

- Various water/sewer plant improvements and upgrades
- Sirens (grant funded and completed in current year)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	$ 2,350	$ 2,350	$ 61,203	$ 61,203	$ 63,553	$ 63,553
Buildings and improvements	94,612	100,770	-	-	94,612	100,770
Plant and equipment	-	-	1,991,999	2,158,231	1,991,999	2,158,231
Machinery and equipment	32,841	36,825	168,739	201,073	201,580	237,898
Transportation equipment	-	-	5,000	5,181	5,000	5,181
Office equipment and furniture	-	-	1,928	2,829	1,928	2,829
Streets and drainage	607,560	637,125	-	-	607,560	637,125
Total Net Assets	$ 737,363	$ 777,070	$ 2,228,869	$ 2,428,517	$ 2,966,232	$ 3,205,587

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total debt outstanding of $421,718.

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Capital lease obligations	$ 8,038	$ 13,210	$ -	$ 8,163	$ 8,038	$ 21,373
Net pension liability	9,900	14,552	60,780	84,040	70,680	98,592
Bonds payable	343,000	453,000	-	-	343,000	453,000
Total	$ 360,938	$ 480,762	$ 60,780	$ 92,203	$ 421,718	$ 572,965

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In September, 2017, the Council approved the 2017/2018 budget. The City adopted a property tax rate of .3024 per $100, a slight 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

EXHIBIT 1

CITY OF ELKHART, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	$ 566,603	$ 239,411	$ 806,014
Receivables	48,226	79,025	127,251
Internal balances	60,875	(60,875)	-
Restricted assets			
Cash and cash equivalents	67,389	-	67,389
Capital assets			
Nondepreciable	2,350	61,203	63,553
Depreciable, net of accumulated depreciation	735,013	2,167,666	2,902,679
Total Assets	1,480,456	2,486,430	3,966,886
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows Related to TMRS Pension	2,522	10,269	12,791
Total Deferred Outflows of Resources	2,522	10,269	12,791
LIABILITIES			
Accounts payable	7,677	10,512	18,189
Customer deposits payable	-	108,124	108,124
Insurance proceeds refundable	-	12,131	12,131
Noncurrent liabilities:			
Due within one year	118,027	-	118,027
Due in more than one year	233,011	-	233,011
Net pension liability	9,900	60,780	70,680
Total Liabilities	368,615	191,547	560,162
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows Related to TMRS Pension	2,755	7,799	10,554
Total Deferred Inflows of Resources	2,755	7,799	10,554
NET POSITION			
Invested in capital assets, net of related debt	386,325	2,168,089	2,554,414
Restricted for:			
Debt service	66,402	-	66,402
Unrestricted	658,881	129,264	788,145
Total Net Position	$ 1,111,608	$ 2,297,353	$ 3,408,961

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

EXHIBIT 2

CITY OF ELKHART, TEXAS
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2017

PROGRAM ACTIVITIES	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION – PRIMARY GOVERNMENT: GOVERNMENTAL ACTIVITIES	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION – PRIMARY GOVERNMENT: BUSINESS-TYPE ACTIVITIES	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION – PRIMARY GOVERNMENT: TOTAL
PRIMARY GOVERNMENT:						
Governmental activities:						
General government	$ 153,916	$ -	$ -	$ (153,916)	$ -	$ (153,916)
Streets	94,129	-	-	(94,129)	-	(94,129)
Fire protection	12,613	-	-	(12,613)	-	(12,613)
Municipal court	1,100	-	-	(1,100)	-	(1,100)
Interest on long-term debt	10,053	-	-	(10,053)	-	(10,053)
Total government activities	271,811	-	-	(271,811)	-	(271,811)
Business-type activities:						
Water, sewer, and sanitation	878,247	791,079	36,810	-	(50,358)	(50,358)
Interest on long-term debt	83	-	-	-	(83)	(83)
Total business-type activities	878,330	791,079	36,810	-	(50,441)	(50,441)
Total primary government	1,150,141	791,079	36,810	(271,811)	(50,441)	(322,252)
General Revenues:						
Property taxes				104,608	-	104,608
Sales tax				159,964	-	159,964
Franchise taxes				103,121	-	103,121
Interest income				59	13	72
Other revenue				23,662	22,121	45,783
Transfers in (out)				133,720	(133,720)	-
Total general revenues and transfers				525,134	(111,586)	413,548
Change in net position				253,323	(162,027)	91,296
Net position - beginning of year				858,285	2,459,380	3,317,665
Net position - end of year				$ 1,111,608	$ 2,297,353	$ 3,408,961

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

CITY OF ELKHART, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	GENERAL FUND	DEBT SERVICE	TOTAL
ASSETS			
Cash and cash equivalents	$ 566,603	$ -	$ 566,603
Receivables			
Property taxes, net of allowance	2,679	-	2,679
Sales taxes	32,393	-	32,393
Franchise taxes	2,432	-	2,432
Other	10,722	-	10,722
Due from other funds	60,959	-	60,959
Restricted assets			
Cash and cash equivalents	-	67,389	67,389
Total Assets	675,788	67,389	743,177
LIABILITIES			
Accounts payable	6,774	-	6,774
Accrued interest	-	903	903
Due to other funds	-	84	84
Total Liabilities	6,774	987	7,761
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	2,679	-	2,679
Total deferred inflows of resources	2,679	-	2,679
FUND BALANCES			
Restricted for:			
Debt service	-	66,402	66,402
Unassigned	666,335	-	666,335
Total Fund Balances	666,335	66,402	732,737
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 675,788	$ 67,389	$ 743,177

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

CITY OF ELKHART, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

Reconciliation of the governmental funds balance sheet to the statement of net position (Exhibit 1)

Total fund balances governmental funds (Exhibit 3 page 1)	$	732,737
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the governmental funds balance sheet.		737,363
Other long-term assets are not available to pay for current period expenditures, and therefore, are deferred in the funds.		2,679
Recognition of the City's net pension liability and related deferred resource outflow occurs in the statement of net position but is not reported in the funds.		(10,133)
Long-term liabilities, including bonds payable and capital leases, are not due and payable in the current period, and therefore, are not reported in the governmental funds balance sheet.		(351,038)
Net position of governmental activities	$	1,111,608

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

EXHIBIT 4

CITY OF ELKHART, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2017

	GENERAL FUND	DEBT SERVICE	TOTAL
REVENUES			
Property taxes, penalty and interest	$ 106,362	$ -	$ 106,362
Sales taxes	159,964	-	159,964
Franchise taxes	103,121	-	103,121
Interest income	-	59	59
Other revenue	23,662	-	23,662
Total Revenues	393,109	59	393,168
EXPENDITURES			
General government	137,720	-	137,720
Fire protection	8,733	-	8,733
Streets	62,325	-	62,325
Municipal court	1,100	-	1,100
Capital outlay	12,000	-	12,000
Debt service	-	-	-
Principal retired	5,172	110,000	115,172
Interest	693	8,096	8,789
Total Expenditures	227,743	118,096	345,839
Revenues Over (Under) Expenditures	165,366	(118,037)	47,329
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	13,720	120,000	133,720
Total Other Financing Sources (Uses)	13,720	120,000	133,720
Net Change in Fund Balances	179,086	1,963	181,049
Fund Balance, October 1, 2016	487,249	64,439	551,688
Fund Balance, September 30, 2017	$ 666,335	$ 66,402	$ 732,737

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
FISCAL YEAR ENDED SEPTEMBER 30, 2017

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

Net changes in fund balances - total governmental funds	$	181,049
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.		(39,707)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(1,754)
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.		113,562
Changes in GASB 68 pension expense due to changes in the current period deferred outflow of resources and the deferred inflow of resources.		173
Change in net position of governmental activities	$	253,323

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

EXHIBIT 6

CITY OF ELKHART, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
(NON-GAAP BUDGET BASIS)
FISCAL YEAR ENDED SEPTEMBER 30, 2017

	Original Appropriated Budget	Final Appropriated Budget	Actual Amounts	Variances Favorable (Unfavorable)
REVENUES				
Property taxes, penalty and interest	$ 106,020	$ 106,020	$ 106,362	$ 342
Sales taxes	155,000	155,000	156,995	1,995
Franchise taxes	76,040	76,040	113,161	37,121
Other revenues	1,230	1,230	16,884	15,654
Total Revenues	338,290	338,290	393,402	55,112
EXPENDITURES				
General government	179,435	179,435	139,485	39,950
Fire protection	-	-	20,733	(20,733)
Streets	70,400	70,400	66,651	3,749
Municipal court	-	-	1,100	(1,100)
Debt service				
Principal retired	-	-	5,816	(5,816)
Interest	-	-	49	(49)
Total Expenditures	249,835	249,835	233,834	16,001
Revenues Over (Under) Expenditures	88,455	88,455	159,568	71,113
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net change in fund balances - budget basis	88,455	88,455	159,568	71,113
Budget basis to GAAP basis adjustments:				
Transfers on expenditures paid in other funds	-	-	13,720	13,720
Adjustments made to sales tax revenue to full accrual basis	-	-	2,969	2,969
Adjustments to accrue for liabilities	-	-	2,829	2,829
Net change in fund balances - GAAP basis	88,455	88,455	179,086	90,631
Fund Balance, October 1, 2016	487,249	487,249	487,249	-
Fund Balance, September 30, 2017	$ 575,704	$ 575,704	$ 666,335	$ 90,631

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

EXHIBIT 7

CITY OF ELKHART, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2017

	UTILITY FUND
ASSETS	
Current assets:	
Cash and cash equivalents	$ 239,411
Receivables, net of allowance	68,076
Unbilled receivables	10,949
Total Current Assets	318,436
Noncurrent assets:	
Capital assets	
Nondepreciable	61,203
Depreciable, net of accumulated depreciation	2,167,666
Total Noncurrent Assets	2,228,869
Total Assets	2,547,305
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to TMRS Pension	10,269
Total Deferred Outflows of Resources	10,269
LIABILITIES	
Current liabilities:	
Accounts payable	10,512
Customer deposits payable	108,124
Due to other funds	60,875
Insurance proceeds refundable	12,131
Total Current Liabilities	191,642
Noncurrent liabilities:	
Net pension liability	60,780
Total Noncurrent Liabilities	60,780
Total Liabilities	252,422
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to TMRS Pension	7,799
Total Deferred Inflows of Resources	7,799
NET POSITION	
Invested in capital assets, net of related debt	2,228,869
Unrestricted	68,484
Total Net Position	$ 2,297,353

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

EXHIBIT 8

CITY OF ELKHART, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2017

	UTILITY FUND
OPERATING REVENUES	
Water sales	$ 404,976
Sewer income	206,218
Garbage income	153,939
Late charges and other income	25,946
Total Operating Revenues	791,079
OPERATING EXPENSES	
Personnel and related costs	270,715
Supplies and materials	47,581
Repairs and maintenance	42,242
Garbage expense	136,586
Professional fees	32,879
Insurance	10,938
Utilities	52,730
Office expense	4,771
Other expense	58,995
Depreciation	220,810
Total Operating Expenses	878,247
Operating Income (Loss)	(87,168)
NON-OPERATING REVENUES (EXPENSES)	
Grant revenues	36,810
Lease revenues	8,550
Interest income	13
Interest expense	(83)
Insurance reimbursement	13,245
Miscellaneous income	326
Total Nonoperating Revenues (Expenses)	58,861
INCOME BEFORE TRANSFERS	(28,307)
Transfers in (out)	(133,720)
Change in Net Position	(162,027)
Net Position, October 1, 2016	2,459,380
Net Position, September 30, 2017	$ 2,297,353

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

EXHIBIT 9

CITY OF ELKHART, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$	790,217
Cash payments to suppliers		(375,078)
Cash payments to employees		(269,851)
Net Cash Provided by Operating Activities		145,288
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Net advances from other funds		-
Operating transfers out		(133,720)
Net Cash Used in Noncapital Financing Activities		(133,720)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets		(21,162)
Proceeds from grants		36,810
Proceeds from insurance settlements		13,245
Proceeds from leasing activities		8,876
Principal payments on long-term debt		(8,163)
Interest payments on long-term debt		(83)
Net Cash Provided by Capital and Related Financing Activities		29,523
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received		13
Net Cash Provided by Investing Activities		13
Net Increase in Cash and Cash Equivalents		41,104
Cash and Cash Equivalents at Beginning of Year		198,307
Cash and Cash Equivalents at End of Year	$	239,411
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	$	(87,168)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization		220,810
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable		(6,220)
(Increase) decrease in inventory		16,041
(Increase) decrease in deferred outflows related to pensions		16,325
Increase (decrease) in accounts payable		(4,397)
Increase (decrease) in deferred inflows related to pensions		7,799
Increase (decrease) in net pension obligation		(23,260)
Increase (decrease) in customer deposits payable		5,358
Total Adjustments		232,456
Net Cash Provided by Operating Activities	$	145,288

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City of Elkhart ("The City") 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 financial statements of 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.

The City provides the following services: General government, public works, and water, sewer, and sanitation utilities.

B. Reporting Entity

These financial statements present all of the funds of the City.

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 (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support.

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

D. Basis of Presentation - Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's proprietary fund. Separate financial statements are provided for governmental funds and the proprietary fund.

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

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 as soon as 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. However, debt service expenditures, both principal and interest, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, and interest associated with the current fiscal year are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of the year end). Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The principal sources of revenue include local property taxes, fees, licenses and permits, and sales and franchise taxes. Expenditures include general government, streets, fire, municipal court, and health and welfare. The general fund is always considered a major fund for reporting purposes.

The *debt service fund* is used to account for the accumulation of restricted monies for the payment of general obligation debt. The primary source of revenue for debt service is local sales taxes.

The City reports the following major proprietary fund:

The *utility fund* is used to account for the operation 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.

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.

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

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.

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

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For purposes of the statement of cash flows, the proprietary fund considers temporary investments with a maturity of three months or less when purchased to be cash equivalents.

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 and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. current position of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balance between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

All receivables are shown net of an allowance for uncollectible. The City provides an allowance for doubtful accounts based upon the anticipated collectability of each specific account, as determined by experience.

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. 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.

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

The property tax rate to finance general governmental services for the year ended September 30, 2017, was $.3013 per $100 of assessed valuation. The total taxable value and total tax levy assessed for the year was $34,281,580 and $100,963, respectively. The City has contracted with the Anderson County Central Appraisal District for the collection of property taxes.

6. Capital Assets

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. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. 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.

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:

Asset Description	Estimated Useful Life
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

7. Compensated Absences

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

The City's policy is for employees to take their vacation within the City's fiscal year. If not used within the time frame allotted, the vacation time is forfeited. Under certain Council-approved circumstances, employees are allowed to carry over vacation time balances. No accrual is made to record year-end vacation time carried over in this financial statement because the amount is immaterial.

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

8. Long-Term Obligations

In the government-wide financial statements and proprietary fund type in the fund financial statement, long-term and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities Statement of Net Position. Both premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of applicable bond premium or discount.

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Assets acquired under the terms of a capital lease are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the applicable fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

9. 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, 2015. The deferred outflow shows the difference in contributions to the TMRS retirement plan that occurred between December 31, 2015 and September 30, 2016.

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.

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

11. Fund Balances Classification

In the fund financial statements, governmental funds report fund balance categorized as non-spendable, restricted, committed, assigned, or unassigned. Fund balances are classified as follows:

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

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.

When more than one classification of fund balance is available for use, it is the City's policy to use the most restricted resources first.

12. Net Position

The City has adopted GASB Statement No. 63, which redefines how net assets are presented in the financial statements. The Statement of Net Assets is now the Statement of Net Position. Net position represents the difference between the assets and liabilities and is now divided into three components.

Net investment in capital assets – This component consists of the City's capital assets, net of accumulated depreciation, reduced by any outstanding debt used for the acquisition or construction of those assets and adjusted for any deferred outflows and inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt.

Restricted – This component consists of those amounts which have limitations imposed on their use either through legislation adopted by the City or through external restrictions imposed by creditors, grantors, or other laws and regulations, reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – This component consists of the net amount of the assets, deferred outflows and inflows of resources, and liabilities not included in net investment in capital assets or restricted components of net position.

13. Tax Abatements

During the current year, the City adopted GASB Statement No. 77, Tax Abatement Disclosures. The City has evaluated the total tax abatements issued for the year and has determined that the amount is not material to the financial statements.

14. 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.

NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position

An element of that reconciliation states that "Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the governmental funds balance sheet." The details of this $737,363 difference are as follows:

Capital assets, October 1, 2016, net of accumulated depreciation	$	777,070
Capital asset additions, net of retirements		4
Depreciation of capital assets, net of retirements		(39,711)
Net adjustment to increase total fund balances - total governmental funds to arrive at net position - governmental activities	$	737,363

Another element of the reconciliation states that "Recognition of the City's net pension liability and related deferred resource outflow occurs in the statement of net position but is not reported in the funds." The details of this $(10,133) difference are as follows:

Net pension liabilities	$	(9,900)
Deferred resource outflow		2,522
Deferred resource inflow		(2,755)
Net adjustment to decrease total fund balances - total governmental funds to arrive at net position - governmental activities	$	(10,133)

The reconciliation states that "Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds." The details of this $(351,038) difference are as follows:

General obligation bonds payable	$	(343,000)
Capital lease payable		(8,038)
Net adjustment to decrease total fund balances - total governmental funds to arrive at net position - governmental activities	$	(351,038)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance and the Government-Wide Statement of Activities

An element of that reconciliation explains that "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." The details of this $(39,707) difference are as follows:

Capital outlay expenditures	$	12,000
Asset deletions, net of accumulated depreciation		(10,597)
Depreciation expense		(41,110)
Rounding		-
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities	$	(39,707)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance and the Government-Wide Statement of Activities - Continued

Another element of the reconciliation states that "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." The details of this $113,562 difference are as follows:

Principal payments on debt	$	115,172
Change in accrued interest		(1,610)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities	$	113,562

NOTE 3: 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 4: DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Cash and investments as of September 30, 2017 consist of and are classified in the accompanying financial statements as follows:

Statement of net position:		
Primary Government		
Cash and cash equivalents	$	806,014
Restricted cash and cash equivalents		67,389
Total cash and cash equivalents	$	873,403
Cash on hand	$	283
Savings and checking accounts		873,120
Total cash and investments	$	873,403

A. Deposits and Investments - Continued

At September 30, 2017, the carrying amount of the City's deposits with financial institutions was $873,403 and the bank balance was $893,907. The bank balance was fully covered by federal depository insurance or collateral held by pledging financial institution's agent in the City's name.

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.

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. As of September 30, 2017, the City did not have any investments.

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, 2017, 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.

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, 2017, the balance of collections to be remitted to the EVFD totaled $34.

C. Receivables

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

	General Fund	Utility Fund	Total
Receivables:			
Accounts	$ -	$ 94,501	$ 94,501
Property taxes	19,351	-	19,351
Sales tax	32,393	-	32,393
Miscellaneous	13,154	-	13,154
Gross receivables	64,898	94,501	159,399
Less: Allowance for uncollectables	(16,672)	(15,476)	(32,148)
Net Receivables	$ 48,226	$ 79,025	$ 127,251

D. Capital Assets

A summary of changes in governmental capital assets for the year ended September 30, 2017 was as follows:

PRIMARY GOVERNMENT	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	$ 2,350	$ -	$ -	$ 2,350
Total Capital Assets, Not Being Depreciated	2,350	-	-	2,350
Capital Assets, Being Depreciated				
Buildings and Improvements	138,597	-	-	138,597
Machinery and Equipment	61,136	12,000	(11,996)	61,140
Infrastructure	17,329	-	-	17,329
Streets	845,796	-	-	845,796
Total Capital Assets, Being Depreciated	1,062,858	12,000	(11,996)	1,062,862
Less Accumulated Depreciation For:				
Buildings and Improvements	(37,827)	(6,158)	-	(43,985)
Machinery and Equipment	(24,311)	(5,387)	1,399	(28,299)
Infrastructure	(15,343)	(1,648)	-	(16,991)
Streets	(210,657)	(27,917)	-	(238,574)
Total Accumulated Depreciation	(288,138)	(41,110)	1,399	(327,849)
Net Total Assets Being Depreciated	774,720	(29,110)	(10,597)	735,013
Governmental Activities Capital Assets, Net	$ 777,070	$ (29,110)	$ (10,597)	$ 737,363

D. Capital Assets - Continued

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

General government	$ 5,426
Fire protection	3,880
Streets	31,804
Total	$ 41,110

A summary of changes in business-type capital assets for the year ended September 30, 2017 is as follows:

PRIMARY GOVERNMENT	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	$ 61,203	$ -	$ -	$ 61,203
Total Capital Assets, Not Being Depreciated	61,203	-	-	61,203
Capital Assets, Being Depreciated				
Plant and Equipment	5,146,001	21,162	-	5,167,163
Machinery and Equipment	436,463	-	-	436,463
Office Equipment	10,289	-	-	10,289
Transportation Equipment	68,320	-	-	68,320
Total Capital Assets, Being Depreciated	5,661,073	21,162	-	5,682,235
Less Accumulated Depreciation For:				
Plant and Equipment	(2,987,770)	(187,394)	-	(3,175,164)
Machinery and Equipment	(235,390)	(32,334)	-	(267,724)
Office Equipment	(7,460)	(901)	-	(8,361)
Transportation Equipment	(63,139)	(181)	-	(63,320)
Total Accumulated Depreciation	(3,293,759)	(220,810)	-	(3,514,569)
Net Total Assets Being Depreciated	2,367,314	(199,648)	-	2,167,666
Business-Type Activities Capital Assets, Net	$ 2,428,517	$ (199,648)	$ -	$ 2,228,869

Depreciation expense of $220,810 was charged to the utility 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.

E. Interfund Receivables, Payables, and Transfers - Continued

At September 30, 2017, these internal balances consisted of the following:

	Receivable	Payable	Net Totals
Governmental Activities			
General Fund	$ 60,959	$ -	$ 60,959
Debt Service Fund	-	(84)	(84)
Total Governmental Activities	$ 60,959	$ (84)	$ 60,875
Business-Type Activities			
Utility Fund	$ -	$ (60,875)	$ (60,875)
Total Business-Type Activities	$ -	$ (60,875)	$ (60,875)

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

The composition of interfund transfers as of September 30, 2017 was as follows:

	Transfers In		
	General Fund	Debt Service Fund	Total
Transfers Out:			
Water and Sewer Fund	$ 13,720	$ 120,000	$ 133,720
Total transfers out/in	$ 13,720	$ 120,000	$ 133,720

F. Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of machinery and equipment. These lease agreements qualify 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 assets acquired through a capital leases are as follows:

	Utility Fund	General Fund
Machinery and equipment	$ 70,703	$ 27,310
Less: accumulated depreciation	(30,245)	(9,985)
Total	$ 40,458	$ 17,325

F. Capital Leases - Continued

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2017, were as follows:

Year ending September 30	General Fund
2018	$ 6,399
2019	2,133
	8,532
Total minimum lease payments	8,532
Less: amount representing interest	(494)
Present value of minimum lease payments	$ 8,038

G. Long-Term Debt

The following is a summary of bond and certificates of obligation transactions of the City for the year ended September 30, 2017:

	GENERAL OBLIGATION
Bonds payable - October 1, 2015	$ 453,000
Additions	-
Retirements	(110,000)
Bonds payable - September 30, 2016	$ 343,000

Original issue amounts currently outstanding are as follows:

Purpose	Interest Rates	Original Issue Amount
Governmental Activites:		
2014 CNH Industrial Capital Lease	6.89%	$ 27,310
2015 General Obligation Refunding Bonds	2.10%	560,000
Total Governmental Activities Long-Term Debt		$ 587,310
Business-Type Activites:		
2012 Welch State Bank Capital Lease	3.03%	$ 65,667
Total Business-Type Activities Long-Term Debt		$ 65,667

G. Long-Term Debt - Continued

Annual debt service requirements to maturity for the City for general obligations bonds are as follows:

Year Ending	Governmental Activities		
September 30	Principal	Interest	Total
2018	$ 112,000	$ 6,047	$ 118,047
2019	114,000	3,667	117,667
2020	117,000	1,233	118,233
2020	-	-	-
Total	$ 343,000	$ 10,947	$ 353,947

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. 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.

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.

Long-term liability activity for the year ended September 30, 2017 was as follows:

	Beginning Balance 10/1/16	Additions	Reductions	Ending Balance 9/30/17	Due Within One Year
Governmental Activities:					
General Obligation Bonds	$ 453,000	$ -	$ 110,000	$ 343,000	$ 112,000
Capital Leases	13,210	-	5,172	8,038	6,027
Net Pension Liability	14,552	-	4,652	9,900	-
Governmental Activity Long-Term Liabilities	$ 480,762	$ -	$ 119,824	$ 360,938	$ 118,027
Business-type Activities:					
Capital Leases	$ 8,163	$ -	$ 8,163	$ -	$ -
Net Pension Liability	84,040	-	23,260	60,780	-
Business-type Activity Long-Term Liabilities	$ 92,203	$ -	$ 31,423	$ 60,780	$ -

H. Commitments Under Noncapitalized Leases

Commitments under operating lease agreements for equipment provide for minimum future rental payments as of September 30, 2017, as follows:

H. Commitments Under Noncapitalized Leases - Continued

Year ending September 30		
2018	$	3,477
2019		3,477
2020		3,477
2021		1,739
Total Minimum Rentals	$	12,170.00
Rental Expenditures in 2017	$	4,162.00

I. Leases of Lessors

The City leases the use of the space on top of one of the City's water tower. The tenant installed wireless internet access equipment in this area. Equipment under this operating lease was $97,000 at September 30, 2017, and is included in plant and equipment under the Utility Fund. Accumulated depreciation under this operating lease was $97,000 at September 30, 2017. The lease term will terminate on October 3, 2022.

Future minimum rental payments to be received on non-cancelable operating leases are contractually due as follows as of September 30, 2017:

Year ending September 30	Amount	
2018	$	1,800
2019		1,800
2020		1,800
2021		1,800
2022		1,800
Thereafter		150
	$	9,150

NOTE 5: 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.

B. Contingent Liabilities - Continued

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 6: DEFINED BENEFIT PENSION PLAN

A. Plan Description

The City of Elkhart participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas.

The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at *www.tmrs.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 retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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

	Plan Year 2016	Plan Year 2015
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	1 to 1	1 to 1
Year 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

C. Employees Covered by Benefit Terms

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

	12/31/2014	12/31/2015	12/31/2016
Inactive employees or beneficiaries currently receiving benefits	7	5	4
Inactive emplyees entitled to but not yet receiving benefits	3	4	4
Active employees	2	3	5
	12	12	13

D. 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%, 5.65%, and 5.96% in calendar years 2014, 2015, and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were $12,356, and were $40 less than required contributions of $12,396.

E. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, 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, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%.

For cities with fewer than twenty employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than six members, 85% for employers with six to ten members, 100% for employers with eleven to fifteen members, and 115% for employers with less than 100 members. There is also a load on the life expectancy for employers with less than fifteen active members. The life expectancy will be loaded by decreasing the mortality rates by 1% for every active member less than fifteen.

E. Net Pension Liability - Continued

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 Combined Healthy Mortality Table with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a three year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as 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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.65%
Real Return	10.00%	4.03%
Real Estate	10.00%	5.00%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	8.00%
Total	100.00%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

E. Net Pension Liability - Continued

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2015	$ 692,712	$ 594,120	$ 98,592
Changes for the year:			
Service cost	18,372	-	18,372
Interest	45,652	-	45,652
Change of benefit terms	-	-	-
Difference between expected and actual experience	(28,307)	-	(28,307)
Changes of assumptions	-	-	-
Contributions - employer	-	13,151	(13,151)
Contributions - employee	-	11,041	(11,041)
Net investment income	-	39,914	(39,914)
Benefit payments, including refunds of employee contributions	(51,154)	(51,154)	-
Administrative expense	-	(453)	453
Other changes	-	(24)	24
Net changes	(15,437)	12,475	(27,912)
Balance at 12/31/2016	$ 677,275	$ 606,595	$ 70,680

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

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	$ 191,981	$ 98,593	$ 22,263

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at *www.tmrs.com.*

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

For the year ended September 30, 2017, the city recognized pension expense of $13,384.

At September 30, 2017, 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	$ 5,700	$ 46,951
Changes in actuarial assumptions	7,074	-
Difference between projected and actual investment earnings	27,396	-
Contributions subsequent to the measurement date	9,018	-
Total	$ 49,188	$ 46,951

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

$12,791 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31		
2016		
2017	$	27
2018		29
2019		(3,651)
2020		(3,186)
2021		-
Thereafter		-
	$	(6,781)

NOTE 7: COMMITMENTS

Effective October 1, 2007, the City entered into a contract with Hutto Garbage Service (currently Progressive Waste Solutions of Texas, Inc.) for the collection of garbage for the City's residents. The contract period under the agreement ends October 1, 2010 and is renewed every three years unless either party gives written notice of termination. The contract calls for various base rates for collection services. The City paid $136,586 during the fiscal year for this services. The payment is reported by the City's Utility Fund as an operating expense.

NOTE 8: SUBSEQUENT EVENTS

In October of 2017, the Elkhart Volunteer Fire Department was separated from the City. The City removed all fire department insurance from the TML policy, and capital assets associated with the fire department were transferred.

In April of 2018, the Council approved the early extinguishment of the 2015 General Obligation Refunding Bonds. Effective May 1, 2018, the City paid the remaining principal balance on the bonds in the amount of $231,000 plus accrued interest.

In June 2018, the City was notified by the Texas Commission on Environmental Quality (TCEQ) that an amended schedule for compliance with ordering provisions was approved and the City is in the process of meeting these requirements. The City has until April 2021, to fully implement these provisions and become in compliance.

Subsequent events have been evaluated through March 1, 2019, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF ELKHART, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
FISCAL YEAR ENDED SEPTEMBER 30, 2017

	Measurement Year 2014	Measurement Year 2015	Measurement Year 2016
Total Pension Liability			
Service Cost	$ 23,475	$ 22,129	$ 18,372
Interest (on the Total Pension Liability)	44,030	47,393	45,652
Changes in benefit terms	-	-	-
Difference between expected and actual results	13,629	(40,921)	(28,307)
Change of assumptions	-	11,482	-
Benefit payments, including refunds of employee contributions	(38,116)	(26,705)	(51,154)
			-
Net Change in Total Pension Liability	43,018	13,378	(15,437)
Total Pension Liability - Beginning	636,316	679,334	692,712
Total Pension Liability - Ending (a)	$ 679,334	$ 692,712	$ 677,275
Plan Fiduciary Net Position			
Contributions - Employer	$ 15,960	$ 15,022	$ 13,151
Contributions - Employee	15,983	13,299	11,041
Net Investment Income	32,401	874	39,914
Benefit payments, including refunds of employee contributions	(38,116)	(26,705)	(51,154)
Administrative Expense	(338)	(532)	(453)
Other	(28)	(27)	(24)
Net Change in Plan Fiduciary Net Position	25,862	1,931	12,475
Plan Fiduciary Net Position - Beginning	566,327	592,189	594,120
Plan Fiduciary Net Position - Ending (b)	$ 592,189	$ 594,120	$ 606,595
Net Pension Liability (Asset) - Ending (a)-(b)	$ 87,145	$ 98,592	$ 70,680
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	87.17%	85.77%	89.56%
Covered Payroll	$ 319,650	$ 265,977	$ 220,815
Net Pension Liability as a Percentage of Covered Payroll	27.26%	37.07%	32.01%

Notes to Schedule:

This schedule will present 10 years information when it becomes available.

CITY OF ELKHART, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
FISCAL YEAR ENDED SEPTEMBER 30, 2017

	2014	2015	2016	2017
Actuarially Determined Contribution	$ 11,139	$ 15,697	$ 13,490	$ 12,396
Contributions in relation to the actuarially determined contributions	11,139	15,697	13,490	12,356
Contribution deficiency (Excess)	$ -	$ -	$ -	$ 40
Covered payroll	$ 300,634	$ 287,662	$ 229,715	$ 210,840
Contributions as a percentage of covered payroll	3.71%	5.46%	5.87%	5.86%

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	20 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study for the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Other Information:	There were no benefit changes during the year.

COMPLIANCE AND INTERNAL CONTROL SECTION

Gollob Morgan Peddy
CERTIFIED PUBLIC ACCOUNTANTS

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*

Independent Auditors' Report

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, 2017, 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 March 1, 2019.

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.*

Gollob Morgan Peddy PC
1001 ESE Loop 323, Suite 300, Tyler, TX 75701
Tel 903-534-0088 Fax 903-581-3915 www.gmpcpa.com
Members American Institute of Certified Public Accountants and Private Companies Practice Section

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.

Gollob Morgan Peddy PC

Certified Public Accountants

Tyler, Texas
March 1, 2019

Gollob Morgan Peddy PC
1001 ESE Loop 323, Suite 300, Tyler, TX 75701
Tel 903-534-0088 Fax 903-581-3915 www.gmpcpa.com
Members American Institute of Certified Public Accountants and Private Companies Practice Section