

**CITY OF ELGIN, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**September 30, 2006**

**CITY OF ELGIN, TEXAS**

ANNUAL FINANCIAL REPORT  
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Year Ended September 30, 2006

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# GEORGE CHESTER DRAPER III

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CERTIFIED PUBLIC ACCOUNTANT

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## Independent Auditor's Report

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

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Elgin, Texas, as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Elgin, Texas, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated February 12, 2007, on my consideration of the City's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The management's discussion and analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of

inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elgin's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "George Chester Draper, III". The signature is written in dark ink and is positioned above the typed name.

George Chester Draper, III  
February 12, 2007

# CITY OF ELGIN, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

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Our discussion and analysis of the City's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2006. Please read it in conjunction with the City's financial statements, which follow this section.

### **Financial Highlights**

- The City's total net assets increased by \$701,875 or 6% during 2006. Net assets of governmental activities decreased by .3% while net assets of the business-type activities increased by 11%.
- \$454,420 of the utility fund (business-type activities) increase in net assets was made up of impact fees, and another \$181,362 came from contributions and net transfers into the utility fund. The net income of the utility fund before contributions and transfers was \$80,849.
- The City continued construction on the water treatment plant, and drew down an additional \$3,420,000 of bond proceeds issued for that purpose. Through the end of the fiscal year, \$3,896,593 of construction work had been completed on the \$3,998,624 contract.

### **Overview of the Financial Statements**

The basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

### **Government-wide financial statements**

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. The government-wide financial statements provide information about the activities of the City as a whole and present a longer-term view of the City's finances. These statements include all assets and liabilities of the City, and the statements are presented on the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

Activities of the City as a whole include governmental activities, business-type activities, and activities of any component units. Governmental activities are those activities which are financed primarily through taxes and grants. Most of the City's basic services are reported as governmental activities. Business-type activities are those activities which are intended to recover all or a significant portion of their costs through user fees and charges. Utility system operations are a common example of business-type activities. Component units are legally separate organizations for which the City is financially accountable. Whenever a City is financially accountable for activities of a legally separate organization, those activities are reported in the government-wide financial statements as component unit activities.

## **CITY OF ELGIN, TEXAS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

(Continued)

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The accrual basis of accounting used for the government-wide financial statements recognizes revenues when earned and expenses when incurred regardless of when cash is received or paid.

#### **Fund financial statements**

Fund financial statements are used to present more detailed information about the City's most significant funds. Separate fund financial statements are prepared for governmental funds, proprietary funds, and fiduciary funds, as opposed to the government-wide statements which reflect the City as a whole.

Fund financial statements are prepared using the measurement focus and basis of accounting applicable to each broad fund category. Governmental fund financial statements are presented on a spending or "financial flow" measurement focus using the modified accrual basis of accounting. Proprietary fund financial statements are presented on a cost of services or "capital maintenance" measurement focus using the accrual basis of accounting. Because the proprietary fund financial statements are presented using the same measurement focus and basis of accounting as the government-wide financial statements, the totals from the proprietary fund financial statements flow directly into the business-type activities column of the government-wide financial statements. For the governmental funds, a reconciliation is presented to describe the differences between the net assets, and change in net assets reported in the governmental fund financial statements and the net assets, and change in net assets reported in the governmental activities column of the government-wide financial statements.

#### **Notes to the financial statements**

The notes provide additional information that is essential to a complete understanding of the information provided in the government-wide and fund financial statements.

**CITY OF ELGIN, TEXAS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

(Continued)

**Condensed Financial Information**

**Government-wide net assets**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 1,138,702	1,156,982	5,483,873	5,211,957	6,622,575	6,368,939
Capital assets	7,581,615	7,698,090	11,841,980	8,549,603	19,423,595	16,247,693
Total assets	<u>8,720,317</u>	<u>8,855,072</u>	<u>17,325,853</u>	<u>13,761,560</u>	<u>26,046,170</u>	<u>22,616,632</u>
Long-term liabilities	(3,118,869)	(3,211,871)	(9,379,832)	(6,219,255)	(12,498,701)	(9,431,126)
Other liabilities	(253,065)	(280,062)	(697,490)	(1,010,405)	(950,555)	(1,290,467)
Total liabilities	<u>(3,371,934)</u>	<u>(3,491,933)</u>	<u>(10,077,322)</u>	<u>(7,229,660)</u>	<u>(13,449,256)</u>	<u>(10,721,593)</u>
Net assets:						
Invested in capital assets, net of debt	4,534,830	4,540,638	2,366,960	2,071,208	6,901,790	6,611,846
Restricted	245,591	195,678	1,584,264	1,241,334	1,829,855	1,437,012
Unrestricted	567,962	626,823	3,297,307	3,219,358	3,865,269	3,846,181
Total net assets	<u>\$ 5,348,383</u>	<u>5,363,139</u>	<u>7,248,531</u>	<u>6,531,900</u>	<u>12,596,914</u>	<u>11,895,039</u>

Major additions to capital assets during the year included the following: \$101,746 of expenditures for Thomas Park, \$163,508 of capitalized street repairs, \$100,438 for construction to complete the Corlin water and sewer lines, and \$3,209,418 for construction in progress on the water treatment plant. Capital assets of the governmental and business-type activities were reduced by the recording of depreciation expense of \$451,185 and \$238,446 respectively.

The increase in long-term liabilities reflects an additional \$3,420,000 of 2005 certificate of obligation construction funds drawn down, as well as a new capital lease for \$140,000 and reductions of outstanding debt balances by \$527,432.

For governmental activities, total net assets went down \$14,756. Business-type net assets increased by \$716,631 for the year. That amount includes \$454,420 of impact fees collected.

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

**Government-wide changes in net assets**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Change in net assets						
Total revenues	\$ 4,219,749	5,378,400	3,415,011	3,692,434	7,634,760	9,070,834
Total expenses	(4,221,543)	(4,075,733)	(2,868,742)	(2,557,617)	(7,090,285)	(6,633,350)
Change before transfers	(1,794)	1,302,667	546,269	1,134,817	544,475	2,437,484
Extraordinary item	-0-	-0-	-0-	(749,985)	-0-	(749,985)
Transfers	(100,362)	(72,757)	100,362	72,757	-0-	-0-
Transfers from EDC	87,400	661,303	70,000	83,638	157,400	744,941
Change in net assets	(14,756)	1,891,213	716,631	541,227	701,875	2,432,440
Net assets - beginning	5,363,139	3,471,926	6,531,900	5,990,673	11,895,039	9,462,599
Net assets - ending	\$ 5,348,383	5,363,139	7,248,531	6,531,900	12,596,914	11,895,039

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues:						
Charges for services	\$ 998,333	1,198,538	2,863,626	2,630,634	3,861,959	3,829,172
Operating grants and contributions	116,938	151,110	-0-	-0-	116,938	151,110
Capital grants and contributions	-0-	1,147,152	465,420	1,009,067	465,420	2,156,219
General revenues:						
Property taxes	1,918,159	1,779,746	-0-	-0-	1,918,159	1,779,746
Sales tax	700,201	684,537	-0-	-0-	700,201	684,537
Franchise and other taxes	370,676	317,826	-0-	-0-	370,676	317,826
Investment earnings	79,622	29,375	85,965	52,733	165,587	82,108
Miscellaneous	35,820	70,116	-0-	-0-	35,820	70,116
Total revenues	\$ 4,219,749	5,378,400	3,415,011	3,692,434	7,634,760	9,070,834

The category of charges for services in governmental activities includes revenues from fines. The prior fiscal year was the first year in which a receivable was recorded for outstanding fines. That amount was \$139,191. After reviewing the collection of outstanding balances during the current year, the net receivable was adjusted down by \$89,191 for the current fiscal year. Those changes in the estimation of the net collectible receivable resulted in a swing of \$228,382 in reported fine revenue. Governmental activities capital grants and contributions in the prior year included \$242,500 from park grants and \$904,652 of contributed infrastructure. Business-type activities capital grants and contributions includes impact fees and contributed infrastructure. There was no contributed infrastructure in the current year.



**CITY OF ELGIN, TEXAS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

(Continued)

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2006	2005	2006	2005	2006	2005
Expenses						
General government	\$ 1,667,062	1,668,129	-0-	-0-	1,667,062	1,668,129
Public safety	1,171,433	1,086,507	-0-	-0-	1,171,433	1,086,507
Public works	797,099	743,264	-0-	-0-	797,099	743,264
Parks and recreation	387,130	372,968	-0-	-0-	387,130	372,968
Other current	50,279	48,057	-0-	-0-	50,279	48,057
Interest on long-term debt	148,540	156,808	-0-	-0-	148,540	156,808
Utility system	-0-	-0-	2,868,742	2,557,617	2,868,742	2,557,617
Total expenses	\$ 4,221,543	4,075,733	2,868,742	2,557,617	7,090,285	6,633,350

The business-type activities reflected an increase of \$182,364 in the cost of sewer services, and an increase of \$99,295 in interest expense. The increase in interest reflects the additional debt outstanding related to the construction of the water treatment plant.

**Financial Analysis of the City's Funds**

Significant changes between the current and prior year activities of the general fund and the utility fund are essentially the same as the comparisons discussed above for the government-wide financial statements. The general fund has an undesignated fund balance of \$409,770 at the end of the year. That amount represents approximately 1 month in terms of the general fund's annual expenditures. The debt service fund has a fund balance of \$70,577, which is approximately 7% of the annual debt service requirement of that fund including debt service related to the utility fund. The \$89,120 fund balance of the nonmajor governmental funds includes \$40,529 of remaining proceeds from the Series 2002 bond issue which is restricted for capital improvements. The utility fund has net assets of \$7,248,531 at the end of the year. However, \$2,366,961 is invested in capital assets, net of related debt. The total also includes amounts restricted for debt service of \$399,656 and restricted for capital projects of \$1,184,608. The amount of unrestricted net assets of \$3,297,306 includes \$2,644,487 of prepaid service costs. While the prepaid service costs are not reported as a restriction of net assets, they effectively reduce the amount of net assets available for current operations to \$652,819. That represents approximately 3 months in terms of the utility fund's annual expenses.

**General Fund Budgetary Highlights**

The City Council approved various amendments to the original budget through the year, authorizing an additional \$324,667 in expenditures for the general fund. The City's actual expenditures for the general fund were below the amended budget by \$66,330. Revenue exceeded budget by \$161,727.

**CITY OF ELGIN, TEXAS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

**Capital Asset and Debt Administration**

**Capital assets**

The following capital asset information is presented net of depreciation. More detailed information can be found in the notes to the financial statements.

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2006	2005	2006	2005	2006	2005
Land	\$ 25,972	25,972	191,176	161,176	217,148	187,148
Construction in progress	-0-	239,062	4,304,926	1,133,712	4,304,926	1,372,774
Distribution and collection systems	-0-	-0-	6,278,116	6,129,127	6,278,116	6,129,127
Buildings and improvements	2,929,200	2,763,456	112,416	118,162	3,041,616	2,881,618
Equipment	174,127	165,207	955,346	1,007,425	1,129,473	1,172,632
Infrastructure	4,452,316	4,504,393	-0-	-0-	4,452,316	4,504,393
Totals at historical cost	\$ <u>7,581,615</u>	<u>7,698,090</u>	<u>11,841,980</u>	<u>8,549,602</u>	<u>19,423,595</u>	<u>16,247,692</u>

Major additions to capital assets during the year included the following: \$101,746 of expenditures for Thomas Park, \$163,508 of capitalized street repairs, \$100,438 for construction to complete the Corlin water and sewer lines, and \$3,209,418 for construction in progress on the water treatment plant. Capital assets of the governmental and business-type activities were reduced by the recording of depreciation expense of \$451,185 and \$238,446 respectively.

**Debt**

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2006	2005	2006	2005	2006	2005
Bonds and certificates of obligation	\$ 2,955,486	3,056,362	8,459,514	5,353,638	11,415,000	8,410,000
Notes	8,562	9,893	15,000	-0-	23,562	9,893
Capital leases payable	89,219	98,926	1,067,956	1,064,983	1,157,175	1,163,909
Totals	\$ <u>3,053,267</u>	<u>3,165,181</u>	<u>9,542,470</u>	<u>6,418,621</u>	<u>12,595,737</u>	<u>9,583,802</u>

The City drew down \$3,420,000 of additional debt from the \$4,307,000 Series 2005 combination tax and limited surplus revenue certificates of obligation. That debt is for water treatment plant construction. The City made principal payments on existing debt of \$563,065.

## CITY OF ELGIN, TEXAS

### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

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The City's general obligation bond rating is "Baa2" as assigned by the national rating agency Moody's Investors Service. There is no direct debt limitation under state law. The Texas Constitution does limit the maximum tax rate for all City purposes to \$2.50 per \$100 of assessed valuation, and administratively, the Attorney General will permit allocation of \$1.50 of the \$2.50 maximum tax rate to the payment of debt service. The actual amount of debt the City might be able to fund with that tax rate depends on the term over which the debt is to be repaid, the interest rate on the debt, and the amount of taxes which are not collected. The City's current debt service tax rate of \$0.3184 is approximately 21% of the maximum debt service tax rate.

#### **Economic Factors and Next Year's Budgets and Rates**

The City's elected officials considered many factors when setting the next year's budget, tax rates, and fees that will be charged for the business-type activities. Significant changes in next year's budget include an increase in the total tax rate from \$0.6866 to \$0.7148. However, an 8.7% increase in the tax base will generate additional total property tax revenues. This increase is primarily due to an increase of new property valued at \$19,680,000. Also, sales tax revenue is projected conservatively to increase by over 5%.

#### **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. If you have questions about this report or need additional financial information, please direct your requests to the Director of Finance, City of Elgin, 310 N. Main Street, Elgin, Texas, 78621.

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**CITY OF ELGIN, TEXAS**

**STATEMENT OF NET ASSETS**

September 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Cash and cash equivalents (note 2)	\$ 265,775	761,358	1,027,133	258,827
Investments (note 2)	19,045	35,428	54,473	18,030
Receivables (net, where applicable, of allowances for uncollectibles):				
Accounts receivable	93,545	388,060	481,605	-0-
Property taxes	164,385	-0-	164,385	-0-
Sales tax receivable	136,770	-0-	136,770	67,368
Fines receivable	50,000	-0-	50,000	-0-
Other receivables	-0-	71,523	71,523	-0-
Internal balances	386,378	(386,378)	-0-	-0-
Prepaid expenses	7,177	-0-	7,177	-0-
Restricted cash and investments (note 2)	-0-	1,867,177	1,867,177	-0-
Prepaid service costs (note 4)	-0-	2,644,487	2,644,487	-0-
Deferred bond issue costs	15,627	102,218	117,845	15,873
Capital assets (note 6):				
Land	25,972	191,176	217,148	306,901
Construction in progress	-0-	4,304,926	4,304,926	-0-
Other capital assets, net of depreciation	7,555,643	7,345,878	14,901,521	-0-
<b>Total assets</b>	<u>8,720,317</u>	<u>17,325,853</u>	<u>26,046,170</u>	<u>666,999</u>
<b>LIABILITIES</b>				
Accounts payable	203,714	421,035	624,749	-0-
Accrued liabilities	49,351	78,990	128,341	9,005
Customer deposits	-0-	197,465	197,465	-0-
Noncurrent liabilities (note 9):				
Due within one year	178,367	414,162	592,529	92,494
Due in more than one year	2,940,502	8,965,670	11,906,172	842,698
<b>Total liabilities</b>	<u>3,371,934</u>	<u>10,077,322</u>	<u>13,449,256</u>	<u>944,197</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	4,534,830	2,366,960	6,901,790	-0-
Restricted for:				
Municipal court	52,043	-0-	52,043	-0-
Debt service	153,019	399,656	552,675	-0-
Capital improvements	40,529	1,184,608	1,225,137	-0-
Unrestricted (deficit)	567,962	3,297,307	3,865,269	(277,198)
<b>Total net assets</b>	<u>\$ 5,348,383</u>	<u>7,248,531</u>	<u>12,596,914</u>	<u>(277,198)</u>

*The accompanying notes are an integral part of the financial statements.*

**CITY OF ELGIN, TEXAS**

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities:				
General government	\$ 1,667,062	668,946	31,321	-0-
Public safety	1,171,433	110,849	33,574	-0-
Public works	797,099	206,712	-0-	-0-
Parks and recreation	387,130	11,826	-0-	-0-
Other current	50,279	-0-	52,043	-0-
Capital outlay	-0-	-0-	-0-	-0-
Interest on long-term debt	148,540	-0-	-0-	-0-
Total governmental activities	<u>4,221,543</u>	<u>998,333</u>	<u>116,938</u>	<u>-0-</u>
Business-type activities:				
Utility system	<u>2,868,742</u>	<u>2,863,626</u>	<u>-0-</u>	<u>465,420</u>
Total primary government	<u>\$ 7,090,285</u>	<u>3,861,959</u>	<u>116,938</u>	<u>465,420</u>
Component unit:				
Elgin Economic Develop. Corp.	\$ <u>98,912</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
General revenues:				
Property taxes levied for general purposes				
Property taxes levied for debt service				
Sales tax				
Franchise and other taxes				
Investment earnings				
Miscellaneous				
Transfers				
Transfers with component unit				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

*The accompanying notes are an integral part of the financial statements.*

Net (Expense) Revenue and  
Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
(966,795)	-0-	(966,795)	-0-
(1,027,010)	-0-	(1,027,010)	-0-
(590,387)	-0-	(590,387)	-0-
(375,304)	-0-	(375,304)	-0-
1,764	-0-	1,764	-0-
-0-	-0-	-0-	-0-
(148,540)	-0-	(148,540)	-0-
<u>(3,106,272)</u>	<u>-0-</u>	<u>(3,106,272)</u>	<u>-0-</u>
<u>-0-</u>	<u>460,304</u>	<u>460,304</u>	<u>-0-</u>
<u>(3,106,272)</u>	<u>460,304</u>	<u>(2,645,968)</u>	<u>-0-</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(98,912)</u>
\$ 1,028,180	-0-	1,028,180	-0-
889,979	-0-	889,979	-0-
700,201	-0-	700,201	350,101
370,676	-0-	370,676	-0-
79,622	85,965	165,587	14,812
35,820	-0-	35,820	-0-
(100,362)	100,362	-0-	-0-
87,400	70,000	157,400	(157,400)
<u>3,091,516</u>	<u>256,327</u>	<u>3,347,843</u>	<u>207,513</u>
(14,756)	716,631	701,875	108,601
<u>5,363,139</u>	<u>6,531,900</u>	<u>11,895,039</u>	<u>(385,799)</u>
\$ <u>5,348,383</u>	<u>7,248,531</u>	<u>12,596,914</u>	<u>(277,198)</u>

**CITY OF ELGIN, TEXAS**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

September 30, 2006

	General	Debt Service	Other Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 89,107	72,106	104,562
Investments	19,045	-0-	-0-
Receivables (net, where applicable, of allowances for uncollectibles):			
Accounts receivable	93,545	-0-	-0-
Property taxes	81,943	82,442	-0-
Sales tax receivable	136,770	-0-	-0-
Fines receivable	50,000	-0-	-0-
Due from other funds	401,820	-0-	-0-
Prepaid expenses	7,177	-0-	-0-
<b>Total assets</b>	<b>\$ 879,407</b>	<b>154,548</b>	<b>104,562</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 202,185	1,529	-0-
Accrued liabilities	21,437	-0-	-0-
Due to other funds	-0-	-0-	15,442
Deferred revenue	131,943	82,442	-0-
<b>Total liabilities</b>	<b>355,565</b>	<b>83,971</b>	<b>15,442</b>
<b>Fund Balances</b>			
Reserved for debt service	-0-	70,577	-0-
Reserved for municipal court	52,043	-0-	-0-
Unreserved:			
Special revenue funds	-0-	-0-	20,032
Capital projects funds	-0-	-0-	69,088
Designated	62,029	-0-	-0-
Undesignated	409,770	-0-	-0-
<b>Total fund balances</b>	<b>523,842</b>	<b>70,577</b>	<b>89,120</b>
<b>Total liabilities and fund balances</b>	<b>\$ 879,407</b>	<b>154,548</b>	<b>104,562</b>

Fund balance of governmental funds on the modified accrual basis above  
Add recognition of revenue from long-term receivables which was deferred above  
Add net capital assets which are not treated as financial resources on the modified accrual basis  
Add unamortized bond issue costs expensed when incurred under the modified accrual basis  
Subtract long-term liabilities not reported under the modified accrual basis above  
Subtract accrued interest not reported under the modified accrual basis until due  
Net assets of governmental activities as reported on the Statement of Net Assets

*The accompanying notes are an integral part of the financial statements.*



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Total  
Governmental  
Funds

265,775  
19,045

93,545  
164,385  
136,770  
50,000  
401,820  
7,177

1,138,517

203,714  
21,437  
15,442  
214,385

454,978

70,577  
52,043

20,032  
69,088  
62,029  
409,770

683,539

1,138,517

\$ 683,539  
214,385  
7,581,615  
15,627  
(3,118,869)  
(27,914)

\$ 5,348,383

**CITY OF ELGIN, TEXAS**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2006

	General	Debt Service	Other Governmental Funds
<b>REVENUES</b>			
Property taxes	\$ 1,036,288	905,509	-0-
Sales tax	700,201	-0-	-0-
Franchise and other taxes	370,676	-0-	-0-
Licenses and permits	206,712	-0-	-0-
Fines	200,040	-0-	-0-
Intergovernmental	64,895	-0-	-0-
Charges for services	680,772	-0-	-0-
Investment earnings	34,518	40,379	4,725
Miscellaneous	35,820	-0-	52,043
Total revenues	<u>3,329,922</u>	<u>945,888</u>	<u>56,768</u>
<b>EXPENDITURES</b>			
Current:			
General government	1,571,952	-0-	-0-
Public safety	1,193,321	-0-	-0-
Public works	730,985	-0-	-0-
Parks and recreation	392,326	-0-	-0-
Other current	-0-	-0-	50,279
Debt service:			
Principal	-0-	172,920	-0-
Interest and other charges	-0-	141,033	-0-
Total expenditures	<u>3,888,584</u>	<u>313,953</u>	<u>50,279</u>
Excess (deficiency) of revenues over expenditures	<u>(558,662)</u>	<u>631,935</u>	<u>6,489</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from capital lease debt	61,006	-0-	-0-
Transfers from component unit	87,400	-0-	-0-
Operating transfers in	460,000	-0-	5,000
Operating transfers out	(5,000)	(560,362)	-0-
Total other financing sources (uses)	<u>603,406</u>	<u>(560,362)</u>	<u>5,000</u>
Net change in fund balances	44,744	71,573	11,489
Fund balances - beginning	<u>479,098</u>	<u>(996)</u>	<u>77,631</u>
Fund balances - ending	<u>\$ 523,842</u>	<u>70,577</u>	<u>89,120</u>

*The accompanying notes are an integral part of the financial statements.*

---

Total  
Governmental  
Funds

1,941,797  
700,201  
370,676  
206,712  
200,040  
64,895  
680,772  
79,622  
87,863  
4,332,578

1,571,952  
1,193,321  
730,985  
392,326  
50,279  
  
172,920  
141,033  
4,252,816

79,762

61,006  
87,400  
465,000  
(565,362)  
48,044

127,806

555,733

683,539

**CITY OF ELGIN, TEXAS**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2006

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Net change in fund balances - total governmental funds	\$ 127,806
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add back capital outlays.	334,710
Subtract depreciation expense.	(451,185)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Property tax revenues:	
Add deferred property tax revenues at the end of the year.	164,385
Subtract deferred property tax revenues at the beginning of the year.	(188,023)
Fine revenues:	
Add noncurrent receivables at the end of the year.	50,000
Subtract noncurrent receivables at the beginning of the year.	(139,191)
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Subtract current period debt issued (net of deferred amount on refunding).	(61,006)
Add back principal payments on long-term debt.	172,920
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Interest expense:	
Subtract amortization of debt issue costs.	(3,006)
Subtract amortization of deferred amount on refunding	(1,247)
Subtract unmatured accrued interest at the end of the year.	(27,914)
Add unmatured accrued interest at the beginning of the year.	24,660
Compensated absences:	
Subtract noncurrent liability at the end of the year.	(72,084)
Add noncurrent liability at the beginning of the year.	54,419
Change in net assets of governmental activities	\$ <u><u>(14,756)</u></u>

*The accompanying notes are an integral part of the financial statements.*

**CITY OF ELGIN, TEXAS**

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND**

For the Year Ended September 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 1,005,090	1,012,182	1,036,288	24,106
Sales tax	600,000	655,000	700,201	45,201
Franchise and other taxes	320,500	346,500	370,676	24,176
Licenses and permits	128,200	199,200	206,712	7,512
Fines	270,000	212,788	200,040	(12,748)
Intergovernmental	45,500	64,510	64,895	385
Charges for services	583,100	616,590	680,772	64,182
Investment earnings	11,000	26,000	34,518	8,518
Miscellaneous	21,500	35,425	35,820	395
Total revenues	<u>2,984,890</u>	<u>3,168,195</u>	<u>3,329,922</u>	<u>161,727</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,491,260	1,599,058	1,571,952	27,106
Public safety	1,173,305	1,213,780	1,193,321	20,459
Public works	671,235	744,232	730,985	13,247
Parks and recreation	294,447	397,844	392,326	5,518
Total expenditures	<u>3,630,247</u>	<u>3,954,914</u>	<u>3,888,584</u>	<u>66,330</u>
Excess (deficiency) of revenues over expenditures	<u>(645,357)</u>	<u>(786,719)</u>	<u>(558,662)</u>	<u>228,057</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from capital lease debt	-0-	62,683	61,006	(1,677)
Transfers from component unit	87,400	87,400	87,400	-0-
Operating transfers in	460,000	460,000	460,000	-0-
Operating transfers out	-0-	-0-	(5,000)	(5,000)
Total other financing sources (uses)	<u>547,400</u>	<u>610,083</u>	<u>603,406</u>	<u>(6,677)</u>
Net change in fund balances	(97,957)	(176,636)	44,744	221,380
Fund balances - beginning	<u>400,181</u>	<u>479,098</u>	<u>479,098</u>	<u>-0-</u>
Fund balances - ending	<u>\$ 302,224</u>	<u>302,462</u>	<u>523,842</u>	<u>221,380</u>

*The accompanying notes are an integral part of the financial statements.*

**CITY OF ELGIN, TEXAS****STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS**

September 30, 2006

	Business-type Activities Enterprise Funds
	<u>Utility Fund</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 761,358
Investments	35,428
Receivables (net, where applicable, of allowances for uncollectibles):	
Accounts receivable	388,060
Other receivables	71,523
Total current assets	<u>1,256,369</u>
Noncurrent assets:	
Restricted cash and investments	1,867,177
Prepaid service costs	2,644,487
Deferred bond issue costs	102,218
Capital assets:	
Land	191,176
Construction in progress	4,304,926
Other capital assets, net of depreciation	7,345,878
Total noncurrent assets	<u>16,455,862</u>
<b>Total assets</b>	<u><u>17,712,231</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Payable from current assets	
Accounts payable	35,710
Accrued liabilities	78,990
Due to other funds	386,378
Customer deposits	197,465
	<u>698,543</u>
Payable from restricted assets	
Accounts payable	385,325
Long-term debt	414,162
Total current liabilities	<u>1,498,030</u>
Noncurrent liabilities:	
Accrued vacation	16,118
Long-term debt	8,949,552
Total noncurrent liabilities	<u>8,965,670</u>
<b>Total liabilities</b>	<u><u>10,463,700</u></u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	2,366,961
Restricted for debt service	399,656
Restricted for capital projects	1,184,608
Unrestricted (deficit)	3,297,306
<b>Total net assets</b>	<u><u>\$ 7,248,531</u></u>

*The accompanying notes are an integral part of the financial statements.*

**CITY OF ELGIN, TEXAS**

**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS**

For the Year Ended September 30, 2006

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	<u>Business-type Activities Enterprise Funds</u>
	<u>Utility Fund</u>
<b>OPERATING REVENUES</b>	
Charges for services (pledged to secure debt)	\$ <u>2,863,626</u>
<b>OPERATING EXPENSES</b>	
Cost of sewer services	1,164,811
Personnel services	466,790
Materials and supplies	95,636
Maintenance	118,445
Contractual services	394,276
Depreciation	238,447
Total operating expenses	<u>2,478,405</u>
Operating income (loss)	<u>385,221</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment earnings	85,965
Interest expense	(390,337)
Total nonoperating revenues (expenses)	<u>(304,372)</u>
Net income (loss) before contributions and transfers	80,849
Capital contributions - impact fees	454,420
Capital contributions - utility system	11,000
Transfer from Economic Development Corp.	70,000
Transfers in	560,362
Transfers out	<u>(460,000)</u>
Change in net assets	716,631
Net assets - beginning	<u>6,531,900</u>
Net assets - ending	\$ <u><u>7,248,531</u></u>

*The accompanying notes are an integral part of the financial statements.*

**CITY OF ELGIN, TEXAS**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS**

For the Year Ended September 30, 2006

	<u>Business-type Activities Enterprise Funds</u>
	<u>Utility Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 2,978,024
Payments to suppliers	(1,964,013)
Payments to employees	(464,448)
Net cash provided (used) by operating activities	<u>549,563</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Operating transfers from other funds	560,362
Operating transfers to other funds	(460,000)
Net cash provided (used) by noncapital financing activities	<u>100,362</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital contributions	535,420
Proceeds from capital debt	3,513,994
Purchases of capital assets	(3,530,824)
Interest payments on outstanding debt	(339,798)
Principal payments on outstanding debt	(390,145)
Net cash provided (used) by capital and related financing activities	<u>(211,353)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of investments	(7,529)
Investment earnings	85,965
Net cash provided (used) by investing activities	<u>78,436</u>
Net increase (decrease) in cash and cash equivalents	517,008
Balances - beginning of the year	<u>244,350</u>
Balances - end of the year	<u>\$ 761,358</u>

*The accompanying notes are an integral part of the financial statements.*



**CITY OF ELGIN, TEXAS**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS**

(Continued)

	<u>Business-type Activities Enterprise Funds</u>
	<u>Utility Fund</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ 385,221
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	238,447
Bad debt expense	21,766
Changes in assets and liabilities:	
Accounts receivable	(6,049)
Other receivables	(71,523)
Due from other funds	7,816
Prepaid service costs	112,579
Accounts payable	(372,409)
Accrued liabilities	39,403
Due to other funds	171,879
Customer deposits	20,091
Accrued vacation	2,342
Net cash provided (used) by operating activities	\$ <u>549,563</u>

*The accompanying notes are an integral part of the financial statements.*

# CITY OF ELGIN, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2006

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### 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Elgin, Texas (City), was incorporated in 1872. The City operates under a Council-Manager form of government and provides the following services: public safety, street maintenance, sanitation, culture-recreation, public improvements, planning and zoning, general administrative, and water and wastewater services.

The accounting policies of the City conform to generally accepted accounting principles applicable to governments as promulgated by the Governmental Accounting Standards Board (GASB). For its enterprise funds and business-type activities, the City has applied all statements of the Financial Accounting Standards Board (FASB) issued before November 30, 1989, except for those that conflict with GASB pronouncements, and has opted not to apply FASB statements issued after November 30, 1989. The following is a summary of the significant policies.

#### A. GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. The government-wide financial statements provide information about the activities of the City as a whole presenting all assets, liabilities, and changes in net assets of the City and its component units except for information about any fiduciary activities and component units which are fiduciary in nature. These statements are prepared using the accrual basis of accounting.

Separate rows and columns are used in the government-wide statements to distinguish between governmental activities, business-type activities, and activities of component units, with a total column for the governmental and business-type activities of the primary government before any discretely presented component units.

#### B. SCOPE OF THE REPORTING ENTITY

The City has used the criteria detailed in GASB Statement 14 to determine whether or not certain entities should be included in the accompanying financial statements. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The following agencies were considered in determining the scope of the reporting entity.

(Continued)

# CITY OF ELGIN, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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### 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Elgin Economic Development Corporation. The Elgin Economic Development Corporation (the Corporation) was established under the Development Corporation Act of 1979, as amended. Directors of the Corporation are removable by the City Council of the City of Elgin at will, the overall economic development plan of the corporation must be approved by the City Council of the City of Elgin, and the budget for each forthcoming fiscal year must be approved by the City Council of the City of Elgin. Since the Corporation is financially accountable to the City, it is treated as a component unit of the City and is reported as part of the overall financial reporting entity of the City.

#### C. FUND FINANCIAL STATEMENTS

Fund financial statements are used to present more detailed information about the City's most significant funds. Separate fund financial statements are prepared for governmental funds, proprietary funds, and fiduciary funds, if any. The governmental and proprietary fund financial statements place an emphasis on major funds. Those funds which are determined to be major funds are presented in separate columns, with all nonmajor funds being aggregated and displayed in a single column. Interfund receivable and payable balances and transfers between funds have not been eliminated in the fund financial statements.

The City has reported the following major governmental funds.

General Fund – The General Fund accounts for all revenues and expenditures of the City which are not accounted for in other funds. It is the largest of the City's funds and receives a greater variety and number of taxes and other general revenues than any other fund. The General Fund's resources also finance a wider range of activities than any other fund. Major functions financed by the General Fund include administration, finance, library, police, sanitation, park maintenance and street maintenance.

Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of, general obligation long-term debt principal, interest, and related costs.

The City has reported the following major proprietary fund.

Utility Fund - This fund's function is to provide for a source of supply of water, its purification and distribution to customers and to provide for the sanitary collection and disposal of sewage on a user charge basis.

The City has no internal service funds or fiduciary fund types.

(Continued)

# CITY OF ELGIN, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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### 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus refers to whether a particular type of transaction will be recorded in the financial statements. The economic resources measurement focus recognizes all resources and obligations and the changes in them. The current financial resources measurement focus recognizes only current resources and obligations and transactions affecting current resources and obligations. Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

##### Government-wide financial statements

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements specific to the class of nonexchange transaction. For the government-wide financial statements prepared on the accrual basis, property tax revenues are recognized in the period for which the taxes are levied.

##### Fund financial statements – governmental funds

The fund financial statements for the governmental funds are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. This measurement focus affects the accounting and reporting treatment of capital assets and long-term liabilities. The capital assets and long-term liabilities of the governmental activities are not recorded on the balance sheet of the fund financial statements of the governmental funds. Transactions for the purchase of assets, the issuance of debt, and the payment of debt principal are reflected in the governmental funds, but they are reported on the statement of revenues, expenditures, and changes in fund balances as capital outlay and debt service principal expenditures and proceeds from debt.

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become measurable and available and recognizes expenditures in the accounting period in which the fund liability is incurred, except for unmatured interest on general long-term debt, which is recognized when due.

(Continued)

# CITY OF ELGIN, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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### 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. All revenues of the City are considered susceptible to accrual except for revenue from delinquent property taxes receivable, and revenue from fines.

While the City expects all taxes on real property to ultimately be collectible, the bulk of delinquent property taxes receivable at the end of the fiscal year are not anticipated to be collected soon enough thereafter to be used to pay liabilities of the current period. Therefore, revenue from delinquent property taxes receivable is not recognized in the fund financial statements unless collected during the current period.

Fines receivable but not past due at the end of the fiscal year may be subsequently reduced when the offender attends a defensive driving course, provides proof of insurance, has the offense dismissed by the municipal court, or serves jail time. Current fines receivable thus do not meet the measurability criterion required to be susceptible to accrual. A significant portion of past due fines receivable is not anticipated to be collected soon enough to meet the criterion that the revenue be available.

#### Fund financial statements – proprietary funds

The fund financial statements for the proprietary funds are prepared using the economic resources measurement focus and the accrual basis of accounting.

#### E. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for purposes of the statement of cash flows represent unrestricted demand accounts and petty cash. Investments in local government investment pools are recorded as investments and are not treated as cash or cash equivalents.

#### F. INVESTMENTS

Investments are stated at fair value. The City is authorized to invest in certificates of deposit at the City's depository bank, obligations of the United States of America, and investment pools and no-load money market mutual funds which meet the conditions of the State of Texas Public Funds Investment Act. Money market mutual funds must be no-load funds which are regulated by the Securities and Exchange Commission, have a dollar-weighted average stated maturity of 90 days or fewer, and include the investment objective of the maintenance of a stable net asset value of \$1 for each share.

(Continued)

**CITY OF ELGIN, TEXAS**

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. RECEIVABLES**

Unbilled service receivables have been accrued in the proprietary funds to record the estimated amount of revenues earned but not billed as of the end of the fiscal year. The estimate is based on the pro rata number of days in the billing cycle before and after the fiscal year end.

**H. CAPITAL ASSETS**

Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated.

Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Infrastructure	40 years
Distribution & Collection	20-50 years
Buildings	25-50 years
Improvements	20 years
Machinery and Equipment	3-20 years

**I. ACCUMULATED UNPAID VACATION AND SICK PAY AMOUNTS**

Vacation leave may be accumulated at the rate of 10 days for each continuous year of employment for full-time employees with between 1 and 5 years of service. For employees with more than 5 years of service, an additional day of vacation per year is earned for each year of service in excess of 5 years, up to a maximum of 20 days per year. The amount of unused vacation leave which may be carried over at the end of the calendar year is limited to one year's accrual.

Sick leave credits accrue to all full-time employees at the rate of 12 days per year. Employees are not paid for accumulated sick leave; therefore, no liability is accrued.

The liability for the Governmental Fund's accumulated vacation benefits is reflected in the government-wide financial statements. It is not reported in the fund financial statements because it is not a current liability.

(Continued)

# CITY OF ELGIN, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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### 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### J. LONG-TERM DEBT

In the government-wide financial statements, bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds as an adjustment to interest expense. Bond issuance costs are reported as deferred charges.

In the fund financial statements, the face amount of debt issued and any premium received are reported as other financing sources, while discounts on debt issued are reported as other financing uses, and issuance costs are reported as debt service expenditures.

#### K. USE OF RESTRICTED RESOURCES

When an expense is incurred for purposes for which both restricted net assets and unrestricted net assets are available, City policy is to first apply restricted resources.

#### L. PROGRAM REVENUES AND INDIRECT EXPENSES

The government-wide statement of activities is presented in a format that identifies the net cost of the City's individual functions. The expenses of each function are reduced by the functions program revenues. Program revenues are revenues which derive directly from the program itself and include charges for services, program-specific operating grants and contributions, and program specific capital grants and contributions.

Some governmental functions such as administration and finance are in essence indirect expenses of other functions. Governments are not required to allocate those indirect expenses to other functions, but if they do, indirect expenses should be presented in a separate column from direct expenses. The City has chosen not to allocate those indirect expenses.

#### M. OPERATING AND NONOPERATING REVENUES AND EXPENSES

The City's policy in distinguishing proprietary fund operating and nonoperating revenues and expenses follows the guidance for distinguishing types of cash flows. Transactions for capital and related financing activities, noncapital financing activities, or investing activities are normally not treated as operating revenues or expenses.

(Continued)

**CITY OF ELGIN, TEXAS**

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**N. ESTIMATES**

Preparation of financial statements in conformity with generally accepted accounting principles requires the use of management’s estimates. Items for which estimates are necessary include the amount of receivables which may not be collectible, inventory obsolescence, and service lives and salvage values of depreciable assets. Estimates also include the likelihood of loss and potential loss amount from contingencies such as litigation.

**2 DEPOSITS AND INVESTMENTS**

Custodial Credit Risk of Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City maintains a depository contract which requires its bank to pledge securities to the City in an amount sufficient to secure the total amount of the City’s funds on deposit, less any portion of the deposit balance which is secured by FDIC coverage. The carrying amount of the City’s and the Elgin Economic Development Corporation’s deposits, was \$2,549,963 at year end and the bank balance was \$2,697,392. Of the bank balance, \$172,106 was insured by federal depository insurance and the remaining \$2,377,857 was collateralized with securities held by the City’s agent (safekeeping bank) in the City’s name.

As of the end of the fiscal year, all of the investments of the City and the Economic Development Corporation were in TexPool and are carried at fair value.

<u>Investment</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity</u>	<u>Fair Value</u>
City of Elgin:			
TexPool local government investment pool	AAAm	34 days	<u>\$655,280</u>
Elgin Economic Development Corp.:			
TexPool local government investment pool	AAAm	34 days	<u>\$ 18,030</u>

Interest Rate Risk. In accordance with its investment policy, the city manages its exposure to declines in fair values by limiting the weighted average maturity of its investments of operating funds to no greater than 270 days.

Credit Risk. The Authority’s investment policy does not restrict investments in pools to a specific credit rating, but does require the pool to meet the requirements of the Public Funds Investment Act of the Texas Government Code. TexPool was rated AAAm by Standard & Poor’s at year end.

(Continued)



# CITY OF ELGIN, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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### 2 DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk. Investments in pools are excluded from any requirement related to disclosure of concentration of credit risk in any one issuer.

TexPool, a local government investment pool, was created under the Interlocal Cooperation Act of the Texas Government Code, and invests all pooled funds in accordance with the Public Funds Investment Act of the Texas Government Code. The State Comptroller of Public Accounts oversees TexPool. The fair value of the position in the pool is the same as the value of the pool shares.

### 3 AD VALOREM PROPERTY TAXES

Property taxes are levied on October 1 on assessed values as of January 1 for all real and personal property located in the City. Taxes are due in January of the following year and become delinquent on February 1. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The October 1, 2005 levy was based upon 100 percent of the assessed market value of \$274,263,444. The maximum tax rate permitted by the Constitution of the State of Texas is \$2.50 per \$100.00 of assessed valuation and the City Charter provides no limitation within the \$2.50. The tax rate for the October 1, 2005 levy was \$.6866. If the effective tax rate, excluding tax rates for bonds and other contractual obligations and adjusted for new improvements, exceeds the rate for the previous year by more than 8 percent, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8 percent above the tax rate of the previous year.

The county-wide Appraisal District is required under the Property Tax Code to assess all property within the Appraisal District on the basis of 100 percent of its appraised value. The value of property within the Appraisal District must be reviewed at least every five years. The City may challenge appraised values established by the Appraisal District through various appeals and, if necessary, legal action.

### 4 PREPAID CAPACITY AND SERVICE AGREEMENT

In 1997, the City sold the wastewater treatment system to the Lower Colorado River Authority and prepaid \$1,504,004 for service agreement charges and \$2,000,000 for capacity charges. The City and the LCRA agreed upon an amortization schedule, and with each month's billing from LCRA, the gross bill is reduced by the amount of the amortization of the prepaid charges. The balance which is still prepaid at the September 30, 2006, is \$2,644,487.

(Continued)

**CITY OF ELGIN, TEXAS**

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

**5 RECEIVABLES**

Receivables are recorded net of allowances for uncollectible accounts as follows:

	Gross	Allowance for	Net
	Receivables	Uncollectibles	Receivables
General Fund			
Property taxes receivable	\$ 96,404	(14,461)	81,943
Fines receivable	1,693,794	(1,643,794)	50,000
Debt Service Fund			
Property taxes receivable	96,991	(14,549)	82,442
Utility Fund			
Utility accounts receivable	399,932	(11,872)	388,060

**6 CAPITAL ASSETS**

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Land	\$ 25,972	-0-	-0-	25,972
Construction in progress	239,062	101,746	(340,808)	-0-
Total undepreciated assets	<u>265,034</u>	<u>101,746</u>	<u>(340,808)</u>	<u>25,972</u>
Other capital assets:				
Buildings and improvements	3,321,456	-0-	340,808	3,662,264
Equipment	2,104,949	69,456	-0-	2,174,405
Infrastructure	6,878,104	163,508	-0-	7,041,612
Total other capital assets at historical cost	<u>12,304,509</u>	<u>232,964</u>	<u>340,808</u>	<u>12,878,281</u>
Less accumulated depreciation for:				
Buildings and improvements	(558,000)	(175,064)	-0-	(733,064)
Equipment	(1,939,742)	(60,536)	-0-	(2,000,278)
Infrastructure	(2,373,711)	(215,585)	-0-	(2,589,296)
Total accumulated depreciation	<u>(4,871,453)</u>	<u>(451,185)</u>	<u>-0-</u>	<u>(5,322,638)</u>
Other capital assets, net	7,433,056	(218,221)	340,808	7,555,643
Governmental activities capital assets, net	<u>\$ 7,698,090</u>	<u>(116,475)</u>	<u>-0-</u>	<u>7,581,615</u>

(Continued)

**CITY OF ELGIN, TEXAS**

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

**6 CAPITAL ASSETS (Continued)**

Depreciation expense was charged to governmental functions as follows:

General government	\$ 90,739
Public safety	33,632
Public works	226,514
Parks and recreation	100,300
	<u>\$ 451,185</u>

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Business-type activities:				
Land	\$ 161,176	30,000	-0-	191,176
Construction in progress	1,133,712	3,398,179	(226,965)	4,304,926
Total undepreciated assets	<u>1,294,888</u>	<u>3,428,179</u>	<u>(226,965)</u>	<u>4,496,102</u>
Other capital assets:				
Distribution and collection systems	8,339,114	92,004	226,965	8,658,083
Buildings and improvements	143,650	-0-	-0-	143,650
Equipment	1,668,645	10,641	-0-	1,679,286
Total other capital assets at historical cost	<u>10,151,409</u>	<u>102,645</u>	<u>226,965</u>	<u>10,481,019</u>
Less accumulated depreciation for:				
Distribution and collection systems	(2,209,987)	(169,980)	-0-	(2,379,967)
Buildings and improvements	(25,488)	(5,746)	-0-	(31,234)
Equipment	(661,220)	(62,720)	-0-	(723,940)
Total accumulated depreciation	<u>(2,896,695)</u>	<u>(238,446)</u>	<u>-0-</u>	<u>(3,135,141)</u>
Other capital assets, net	7,254,714	(135,801)	226,965	7,345,878
Business-type activities capital assets, net	<u>\$ 8,549,602</u>	<u>3,292,378</u>	<u>-0-</u>	<u>11,841,980</u>

	Component Unit			Ending Balance
	Beginning Balance	Additions	Retirements	
Component unit activities:				
Land	\$ 306,901	-0-	-0-	306,901

(Continued)

**CITY OF ELGIN, TEXAS**

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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**7 INTERFUND RECEIVABLES AND PAYABLES**

The following is a summary of amounts due from and due to other funds by individual major fund and nonmajor governmental funds in the aggregate.

Due to general fund from:		
Nonmajor governmental funds	\$	15,442
Utility fund		<u>386,378</u>
Total due to general fund	\$	<u>401,820</u>

The general fund's receivables from the nonmajor governmental and utility funds primarily represent the use of the operating account recorded on the general fund to make expenditures for all funds which are later reimbursed by the other funds.

**8 OPERATING INTERFUND TRANSFERS**

The following is a summary of operating transfers to and from other funds by individual major fund and nonmajor governmental funds in the aggregate.

Transfers to general fund from:		
Utility fund	\$	460,000
Transfers to nonmajor governmental funds from:		
General fund		<u>5,000</u>
Total transfers to governmental funds	\$	<u>465,000</u>
Transfers to utility system fund from:		
Debt service fund	\$	<u>560,362</u>

The utility fund provides annual support to the general fund. The debt service fund levies property taxes for utility fund debt as well as general obligation debt, and transfers money to the utility fund for the utility fund portion of the property tax revenue.

(Continued)

**CITY OF ELGIN, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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**9 LONG-TERM DEBT**

Long-term debt at September 30, 2006, is composed of the following items:

Payable out of the Debt Service Fund through ad valorem taxes:

\$205,000 Series 1993 combination tax and revenue refunding bonds due in one annual installment of \$205,000 on August 1, 2010; interest at 6.50 percent; there is no early redemption option	\$ 205,000
\$2,250,000 Series 2002 general obligation bonds due in annual installments of \$75,000 to \$200,000 through July 15, 2022; interest at 4.25 percent to 5.00 percent; outstanding bonds may be redeemed on or after July 15, 2011, at par plus accrued interest	2,100,000
\$3,860,000 Series 2005 general obligation refunding bonds due in annual installments of \$295,000 to \$485,000 through July 15, 2016; interest at 3.25 percent to 4.00 percent; outstanding bonds may be redeemed on or after July 15, 2015 at par plus accrued interest (18.17% of the total issue is payable from the Debt Service Fund)	650,486
Less deferred amount on refunding	(6,482)
\$25,000 note payable to the Texas Commission on Fire Protection due in annual installments of \$1,529 for principal and interest through September 1, 2012; interest at 2.00 percent	8,562
Capital leases payable from the debt service fund (Note 10)	89,219
Accrued vacation related to governmental fund employees	<u>72,084</u>
Total governmental activities long-term debt	\$ <u>3,118,869</u>

(Continued)

**CITY OF ELGIN, TEXAS**

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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**9 LONG-TERM DEBT (Continued)**

Payable out of the Utility Fund through revenues and ad valorem taxes:

\$1,505,000 Series 1998 combination tax and revenue certificates of obligation due in annual installments of \$65,000 to \$115,000 through July 15, 2018; interest at 4.00 percent to 5.75 percent; outstanding bonds may be redeemed on or after July 15, 2011, at par plus accrued interest	\$ 990,000
\$500,000 Series 2002 combination tax and revenue certificates of obligation due in annual installments of \$25,000 to \$45,000 through July 15, 2021; interest at 2.41 percent to 4.59 percent; outstanding bonds may be redeemed on or after July 15, 2012, at par plus accrued interest	460,000
\$3,860,000 Series 2005 general obligation refunding bonds due in annual installments of \$295,000 to \$485,000 through July 15, 2016; interest at 3.25 percent to 4.00 percent; outstanding bonds may be redeemed on or after July 15, 2015 at par plus accrued interest (81.83% of the total issue is payable from the Utility Fund)	2,929,514
Less deferred amount on refunding	(178,756)
\$4,307,000 Series 2005 combination tax and limited surplus revenue certificates of obligation due in annual installments of \$110,000 to \$115,000 through July 15, 2045; interest at 4.375 percent; outstanding bonds may be redeemed at any time at par plus accrued interest (only \$4,080,000 of the debt has been drawn down)	4,080,000
Note payable to Three Oaks Cemetery Association for well property due in three annual installments of \$5,000 with no interest	15,000
Capital leases payable from the utility fund (Note 10)	1,067,956
Accrued vacation related to utility fund employees	<u>16,118</u>
Total business-type activities long-term debt	\$ <u>9,379,832</u>

(Continued)

**CITY OF ELGIN, TEXAS**

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

**9 LONG-TERM DEBT (Continued)**

Payable by the component unit Economic Development Corporation through sales tax revenues:

\$700,000 Series 1999 sales tax revenue bonds due in annual installments of \$5,000 to \$65,000 through July 15, 2024; interest at 6.00 percent to 7.25 percent; bonds maturing on or after July 15, 2015, may be redeemed on or after July 15, 2010, at par plus accrued interest	\$ 680,000
\$874,942 note payable to Harold and Betty Dildy due in monthly installments of \$7,291 through August 2009 with no interest; the outstanding balance may be redeemed at any time without penalty	<u>255,191</u>
Total component unit long-term debt	\$ <u>935,191</u>

The City is in compliance with all significant limitations and restrictions contained in the City's debt agreements. The Economic Development Corporation bonds contain a covenant that the EDC shall make a monthly transfer of 1/60<sup>th</sup> of the required reserve amount into a reserve fund until the required reserve has been met. The balance in the reserve account at September 30, 2006, was \$68,503, which meets the reserve requirement.

The following is a summary of long-term debt activity for September 30, 2006.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities					
Bonds, notes and leases payable:					
General obligation bonds	\$ 3,056,362	-0-	(100,876)	2,955,486	133,144
Notes payable	9,893	-0-	(1,331)	8,562	1,358
Capital leases payable	98,926	61,006	(70,713)	89,219	45,118
	<u>3,165,181</u>	<u>61,006</u>	<u>(172,920)</u>	<u>3,053,267</u>	<u>179,620</u>
Less deferred amount on refunding	(7,729)	-0-	1,247	(6,482)	(1,253)
Total bonds, notes and leases payable	<u>3,157,452</u>	<u>61,006</u>	<u>(171,673)</u>	<u>3,046,785</u>	<u>178,367</u>
Other liabilities:					
Accrued vacation	54,419	17,665	-0-	72,084	-0-
Governmental activities					
long-term liabilities	<u>\$ 3,211,871</u>	<u>78,671</u>	<u>(171,673)</u>	<u>3,118,869</u>	<u>178,367</u>

(Continued)

**CITY OF ELGIN, TEXAS**

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

**9 LONG-TERM DEBT (Continued)**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-type activities					
Bonds and leases payable:					
Bonds and certificates of obligation	\$ 5,353,638	3,420,000	(314,124)	8,459,514	351,856
Notes payable	-0-	15,000	-0-	15,000	5,000
Capital leases payable	<u>1,064,983</u>	<u>78,994</u>	<u>(76,021)</u>	<u>1,067,956</u>	<u>91,853</u>
	6,418,621	3,513,994	(390,145)	9,542,470	448,709
Less deferred amount on refunding	<u>(213,142)</u>	<u>-0-</u>	<u>34,386</u>	<u>(178,756)</u>	<u>(34,547)</u>
Total bonds and leases payable	<u>6,205,479</u>	<u>3,513,994</u>	<u>(355,759)</u>	<u>9,363,714</u>	<u>414,162</u>
Other liabilities:					
Accrued vacation	<u>13,776</u>	<u>2,342</u>	<u>-0-</u>	<u>16,118</u>	<u>-0-</u>
Business-type activities long-term liabilities	<u>\$ 6,219,255</u>	<u>3,516,336</u>	<u>(355,759)</u>	<u>9,379,832</u>	<u>414,162</u>
Component unit activities					
Revenue bonds payable	\$ 685,000	-0-	(5,000)	680,000	5,000
Notes payable	<u>342,686</u>	<u>-0-</u>	<u>(87,494)</u>	<u>255,192</u>	<u>87,494</u>
Component unit activities long-term liabilities	<u>\$ 1,027,686</u>	<u>-0-</u>	<u>(92,494)</u>	<u>935,192</u>	<u>92,494</u>

(Continued)



**CITY OF ELGIN, TEXAS**

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

**9 LONG-TERM DEBT (Continued)**

Debt service requirements on outstanding long-term debt are as follows:

Year Ended September 30	Governmental Activities Bonds and Notes		Business-Type Activities Bonds, CO's and Notes		Component Unit Bonds and Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 134,502	136,823	356,856	347,568	92,494	43,223
2008	154,516	131,095	561,869	333,123	92,495	42,860
2009	158,178	124,567	583,235	310,676	90,203	42,497
2010	294,565	117,744	506,876	287,274	10,000	41,773
2011	175,072	101,525	456,398	269,563	30,000	41,047
2012 - 2016	977,215	391,754	2,494,280	1,075,266	185,000	170,525
2017 - 2021	870,000	183,165	985,000	671,138	245,000	106,688
2022 - 2026	200,000	10,000	575,000	503,125	190,000	24,062
2027 - 2031	0	0	575,000	377,343	0	0
2032 - 2036	0	0	575,000	251,563	0	0
2037 - 2041	0	0	575,000	125,781	0	0
2042 - 2046	0	0	230,000	15,094	0	0
	<u>\$ 2,964,048</u>	<u>1,196,673</u>	<u>8,474,514</u>	<u>4,567,514</u>	<u>935,192</u>	<u>512,675</u>

**10 CAPITAL LEASES PAYABLE**

The City is obligated under certain lease agreements which have been classified as capital leases. Property under capital lease consists of equipment totaling \$1,616,865. Accumulated depreciation has been recorded against the assets under capital lease. The leases are payable out of the debt service fund and the utility fund.

Capital lease obligations at September 30, 2006, are composed of the following:

Governmental activities payable out of the debt service fund:

\$185,000 lease payable to Suntrust Leasing for the purchase of vehicles and equipment; monthly installments of \$3,368 including principal and interest through October 16, 2006; interest at 3.65 percent \$ 3,357

(Continued)

**CITY OF ELGIN, TEXAS**

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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**10 CAPITAL LEASES PAYABLE (Continued)**

\$216,000 lease payable to Suntrust Leasing for various equipment; monthly installments of \$3,851 including principal and interest through October 20, 2007; interest at 2.78 percent (60% of the total lease is payable from the Debt Service Fund) 29,558

\$140,000 lease payable to Suntrust Leasing for various equipment, monthly installments of \$3,174 including principal and interest through June 11, 2010; interest at 4.2 percent (44% of the total lease is payable from the Debt Service Fund) 56,304

Governmental activities capital leases payable \$ 89,219

Business-type activities payable out of the utility fund:

\$998,002 lease payable to Government Capital Corporation for RF meter system and various equipment; monthly installments of \$7,846 including principal and interest through September 1, 2019; interest at 4.91 percent \$ 903,338

\$77,863 lease payable to Government Capital Corporation for performance contracting; monthly installments of \$637 including principal and interest through September 1, 2019; interest at 5.23 percent 72,007

\$216,000 lease payable to Suntrust Leasing for various equipment; monthly installments of \$3,851 including principal and interest through October 20, 2007; interest at 2.78 percent (40% of the total lease is payable from the Utility Fund) 19,706

\$140,000 lease payable to Suntrust Leasing for various equipment, monthly installments of \$3,174 including principal and interest through June 11, 2010; interest at 4.2 percent (56% of the total lease is payable from the Utility Fund) 72,905

Business-type activities capital leases payable \$ 1,067,956

(Continued)

**CITY OF ELGIN, TEXAS**

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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**10 CAPITAL LEASES PAYABLE (Continued)**

Future minimum lease payments under capital leases are as follows:

<u>Fiscal Year</u>	<u>Governmental</u>	<u>Business</u>
2007	\$ 47,692	141,767
2008	18,906	124,822
2009	16,595	123,282
2010	12,446	117,909
2011	0	101,793
2012-2016	0	508,966
2017-2021	<u>0</u>	<u>305,380</u>
	95,639	1,423,919
Less amount representing interest	<u>(6,420)</u>	<u>(355,963)</u>
Present value of minimum lease payments	\$ <u>89,219</u>	<u>1,067,956</u>

**11 DESIGNATED FUND BALANCE**

Designations of unreserved fund balance are used to indicate tentative plans for financial resource utilization in a future period. Amounts have been designated for the following purposes.

Fire truck	\$ 48,545
Library books	11,065
Blue Santa	<u>2,419</u>
	\$ <u>62,029</u>

**12 CAPITAL CONTRIBUTIONS**

The City collects impact fees for new connections to the utility system. These are one time fees and may only be used for additions or improvements to the utility system. Impact fees are reported as capital contributions.

(Continued)

# CITY OF ELGIN, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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### 13 PENSION PLAN

#### **Plan description**

The City provides pension benefits for all of its full-time employees, through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 811 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the plans administered by TMRS has an annual, individual actuarial valuation performed. All assumptions for the 12/31/05 valuations are contained in the 2005 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, TX, 78714-9153.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the city-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions.

In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 25 years of service regardless of age. A member is vested after 5 years.

#### **Funding policy**

The contribution rate for the employees is 6%, and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. The City made its required contributions based on the actuarially determined rate of 7.31% for the months in 2005 and 6.77% for the months in 2006. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

(Continued)

# CITY OF ELGIN, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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### 13 PENSION PLAN (Continued)

#### Annual pension cost

The City's annual pension cost for the fiscal year ended September 30, 2006, was \$129,020, and the actual contributions were \$129,020. The City's contribution rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year.

The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his retirement becomes effective.

The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate, and the level percent of payroll amortization method is used. The remaining amortization period for the open amortization period is 25 years. The asset valuation method is amortized cost. The actuarial assumptions included an investment rate of return of 7%, projected salary increases of 0%, an inflation rate of 3.5%, and postretirement benefit increases of 0%.

#### Trend Information Annual Pension Cost

<u>Accounting Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/04	\$103,319	100.0%	\$0
9/30/05	\$125,443	100.0%	\$0
9/30/06	\$129,020	100.0%	\$0

(Continued)

**CITY OF ELGIN, TEXAS**

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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**13 PENSION PLAN (Continued)**

**Schedule of Funding Progress for the Retirement Plan  
for the Employees of the City of Elgin, Texas**

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability (AAL) ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Annual Covered Payroll <sup>1</sup> ( c )	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/03	1,836,151	2,245,374	409,223	81.8%	1,619,588	25.3%
12/31/04	2,019,860	2,255,180	235,320	89.6%	1,558,806	15.1%
12/31/05	2,334,388	2,606,029	271,641	89.6%	1,693,162	16.0%

<sup>1</sup>The annual covered payroll is based on the employee contributions paid to TMRS for the year ending with the valuation date.

**14 CONTINGENT LIABILITIES**

The City participates in federal financial assistance programs. These programs are still subject to financial and compliance audits by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**15 RISK MANAGEMENT**

The City's risk management program includes coverage for property, general liability, automobile liability, public officials liability and employee dishonesty bonds. The City participates in the Texas Municipal League joint self insurance fund, which is a public entity risk pool. The premiums paid to TML result in the transfer of risk to the pool.

(Continued)

## **CITY OF ELGIN, TEXAS**

### **NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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#### **16 CONCENTRATIONS OF CREDIT RISK**

Utility accounts receivable are concentrated within the geographic service area of the utility system, which is within the City of Elgin. Those receivables are not concentrated within any individually significant customers. The City requires a deposit from each utility customer prior to establishing service. The net amount of utility accounts receivable at year end after reducing receivables for the allowance for doubtful accounts and after including estimated amounts for service provided but not yet billed at year end was \$493,440. Utility customer deposits held at year end totaled \$197,465.

#### **17 COMMITMENTS**

The City has incurred \$3,896,593 of construction costs on the water treatment plant contract of \$3,998,624. The City is committed for an additional \$102,031 of construction costs under this contract at September 30, 2006.

**CITY OF ELGIN, TEXAS**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS**

September 30, 2006

	Elgin Main Street Board	2002 Capital Improvement Bonds	Capital Equipment Replacement Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 20,032	55,971	28,559	104,562
<b>Total assets</b>	<b>\$ 20,032</b>	<b>55,971</b>	<b>28,559</b>	<b>104,562</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Due to other funds	\$ -0-	15,442	-0-	15,442
Total liabilities	-0-	15,442	-0-	15,442
Fund Balances				
Unreserved (special revenue)	20,032	-0-	-0-	20,032
Unreserved (capital projects)	-0-	40,529	28,559	69,088
Total fund balances	20,032	40,529	28,559	89,120
<b>Total liabilities and fund balances</b>	<b>\$ 20,032</b>	<b>55,971</b>	<b>28,559</b>	<b>104,562</b>



**CITY OF ELGIN, TEXAS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2006

	Elgin Main Street Board	2002 Capital Improvement Bonds	Capital Equipment Replacement Fund	Total Nonmajor Governmental Funds
<b>REVENUES</b>				
Investment earnings	\$ 814	2,587	1,324	4,725
Miscellaneous	51,469	574	-0-	52,043
Total revenues	<u>52,283</u>	<u>3,161</u>	<u>1,324</u>	<u>56,768</u>
<b>EXPENDITURES</b>				
Current:				
Other current	<u>50,279</u>	<u>-0-</u>	<u>-0-</u>	<u>50,279</u>
Excess (deficiency) of revenues over expenditures	2,004	3,161	1,324	6,489
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	<u>5,000</u>	<u>-0-</u>	<u>-0-</u>	<u>5,000</u>
Net change in fund balances	7,004	3,161	1,324	11,489
Fund balances - beginning	<u>13,028</u>	<u>37,368</u>	<u>27,235</u>	<u>77,631</u>
Fund balances - ending	<u>\$ 20,032</u>	<u>40,529</u>	<u>28,559</u>	<u>89,120</u>

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