

CITY OF ELGIN, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2007

GEORGE CHESTER DRAPER III

Certified Public Accountant

CITY OF ELGIN, TEXAS

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GEORGE CHESTER DRAPER III

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, 2007, 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.

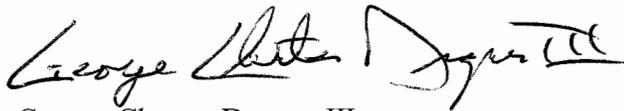
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Elgin, Texas, as of September 30, 2007, 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, 2008, 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.

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 black ink, reading "George Chester Draper, III". The signature is written in a cursive style with a large, prominent "G" and "D".

George Chester Draper, III
February 12, 2008

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

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, 2007. 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 \$1,513,735 or 12% during 2007. Net assets of governmental activities decreased by \$4,163,799 and net assets of the business-type activities increased by \$5,677,534, but each reflects a transfer of \$5,205,728 to move debt previously reported in the business-type activities to the governmental activities. Changes in net assets excluding that transfer were \$1,041,929 for governmental activities and \$471,806 for business-type activities.
- \$571,041 of the change in governmental activities net assets arose from a developer contribution of streets and drainage for a new subdivision, and \$623,329 of the increase represented property taxes levied to cover the principal portion of general governmental debt. \$206,160 of the utility fund (business-type activities) increase in net assets was made up of impact fees, and another \$516,475 came from a developer contribution of water and wastewater lines for a new subdivision. Excluding capital contributions and the transfer of debt, the utility fund reported a loss of \$(323,529).
- The City issued certificates of obligation of \$2,000,000 during the year. Those funds will be used for acquisition, construction, improvements and extension of both street and drainage systems, and water and wastewater systems.
- The Elgin Economic Development Corporation (a component unit of the City) refunded \$515,000 of existing Sales Tax Revenue, Series 1999 debt with \$565,000 of new debt at a lower interest rate, resulting in a net reduction in future debt service requirements of \$68,174. The Corporation also issued new debt in 2007 in the principal amount of \$680,000 for the acquisition of an 80-acre development site.

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.

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

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.

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	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 3,368,610	1,138,702	4,235,039	5,483,873	7,603,649	6,622,575
Capital assets	7,964,801	7,581,615	13,426,964	11,841,980	21,391,765	19,423,595
Total assets	<u>11,333,411</u>	<u>8,720,317</u>	<u>17,662,003</u>	<u>17,325,853</u>	<u>28,995,414</u>	<u>26,046,170</u>
Long-term liabilities	(9,797,356)	(3,118,869)	(4,342,251)	(9,379,832)	(14,139,607)	(12,498,701)
Other liabilities	(351,471)	(253,065)	(393,687)	(697,490)	(745,158)	(950,555)
Total liabilities	<u>(10,148,827)</u>	<u>(3,371,934)</u>	<u>(4,735,938)</u>	<u>(10,077,322)</u>	<u>(14,884,765)</u>	<u>(13,449,256)</u>
Net assets:						
Invested in capital assets, net of debt	213,037	4,534,830	9,109,964	2,366,960	9,323,001	6,901,790
Restricted	250,699	245,591	1,203,109	1,584,264	1,453,808	1,829,855
Unrestricted	720,848	567,962	2,612,992	3,297,307	3,333,840	3,865,269
Total net assets	<u>\$ 1,184,584</u>	<u>5,348,383</u>	<u>12,926,065</u>	<u>7,248,531</u>	<u>14,110,649</u>	<u>12,596,914</u>

Governmental activities current assets are up significantly due to the issuance of \$2,000,000 of certificates of obligation, the net proceeds from which had not yet been spent at year end. Conversely, current assets of business-type activities are down as a result of spending \$1,302,067 on utility system construction projects. Major additions to capital assets are detailed below.

Major additions to capital assets during the year included the following: \$80,749 for two police cars and a public works vehicle, \$184,325 of capitalized street repairs, \$571,041 of new subdivision street and drainage additions and \$516,475 of new subdivision water and sewer system additions paid for by the developer, \$602,905 for the construction of water well #15, \$326,568 for elevated tank construction in progress, \$109,246 for construction to complete the water treatment plant, \$114,246 for FM 1100 utility system extensions, \$83,726 for major well repairs, and a backhoe for \$66,835. Capital assets of the governmental and business-type activities were reduced by the recording of depreciation expense of \$484,099 and \$300,394 respectively.

The increase in long-term liabilities reflects the final \$227,000 of 2005 certificate of obligation construction funds drawn down, as well as \$2,000,000 of 2007 certificates of obligation issued, and reductions of outstanding debt balances by \$592,529. Another significant event was the transfer of \$5,268,714 of utility fund debt, \$39,233 of related accrued interest, and \$102,219 of related unamortized debt issue costs from the utility fund to general governmental activities. The debt was originally issued for the purchase and construction of utility fund assets, but the principal and interest has been paid from debt service property taxes rather than utility fund revenues and will continue to be paid from property taxes in the future.

CITY OF ELGIN, TEXAS

MANAGEMENT’S DISCUSSION AND ANALYSIS

(Continued)

Net assets invested in capital assets, net of related debt, of the separate governmental activities and business-type activities reflect that transfer of debt. Unrestricted net assets of the City as a whole decreased by \$531,429. Details of the components of those changes in net assets are shown below.

Government-wide changes in net assets

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2007	2006	2007	2006	2007	2006
Change in net assets						
Total revenues	\$ 5,429,855	4,307,149	3,735,648	3,485,011	9,165,503	7,792,160
Total expenses	(4,853,967)	(4,221,543)	(2,797,801)	(2,868,742)	(7,651,768)	(7,090,285)
Change before transfers	575,888	85,606	937,847	616,269	1,513,735	701,875
Transfers	(4,739,687)	(100,362)	4,739,687	100,362	-0-	-0-
Change in net assets	(4,163,799)	(14,756)	5,677,534	716,631	1,513,735	701,875
Net assets - beginning	5,348,383	5,363,139	7,248,531	6,531,900	12,596,914	11,895,039
Net assets - ending	\$ 1,184,584	5,348,383	12,926,065	7,248,531	14,110,649	12,596,914

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues:						
Charges for services	\$ 1,217,571	998,333	2,835,256	2,863,626	4,052,827	3,861,959
Operating grants and contributions	222,426	204,338	-0-	70,000	222,426	274,338
Capital grants and contributions	571,041	-0-	795,335	465,420	1,366,376	465,420
General revenues:						
Property taxes	2,134,211	1,918,159	-0-	-0-	2,134,211	1,918,159
Sales tax	756,286	700,201	-0-	-0-	756,286	700,201
Franchise and other taxes	377,813	370,676	-0-	-0-	377,813	370,676
Investment earnings	94,385	79,622	105,057	85,965	199,442	165,587
Miscellaneous	56,122	35,820	-0-	-0-	56,122	35,820
Total revenues	\$ 5,429,855	4,307,149	3,735,648	3,485,011	9,165,503	7,792,160

The category of charges for services in governmental activities includes revenues from fines. The prior fiscal year included a downward adjustment in the estimated net collectible amount of outstanding fines. In that year, cash collections were adjusted downward by \$89,191 to arrive at the accrual basis figure for fine revenues. The estimate of net collectible fines was not changed in 2007, and actual collections were up by \$33,568. That resulted in a change between 2006 and 2007 on the accrual basis of \$122,759. The other significant change in charges for services was in the line item of sanitation revenue which was up by \$98,127. That was due to the addition of a recycling charge in August 2006.

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Governmental activities capital grants and contributions in 2007 includes \$571,041 of street and drainage improvements and business-type activities includes \$516,475 of water and sewer system improvements paid for by the developer of a subdivision accepted by the City in 2007. The increase in property tax revenue resulted from both an 8% increase in property valuations and a 4% increase in the tax rate.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Expenses						
General government	\$ 1,753,684	1,667,062	-0-	-0-	1,753,684	1,667,062
Public safety	1,363,593	1,171,433	-0-	-0-	1,363,593	1,171,433
Public works	800,462	797,099	-0-	-0-	800,462	797,099
Parks and recreation	422,208	387,130	-0-	-0-	422,208	387,130
Other current	79,343	50,279	-0-	-0-	79,343	50,279
Interest on long-term debt	434,677	148,540	-0-	-0-	434,677	148,540
Utility system	-0-	-0-	2,797,801	2,868,742	2,797,801	2,868,742
Total expenses	\$ 4,853,967	4,221,543	2,797,801	2,868,742	7,651,768	7,090,285

Sanitation costs are included in the general administration department, and were up \$122,883 in conjunction with the increase in sanitation revenues discussed above. Salary expense was up \$138,195 for public safety and \$38,492 for parks and recreation. Total interest expense for the City was up \$84,694 as a significant amount of the water treatment plant debt was still being drawn down in the prior year. More noticeable though, was the shift of interest expense between utility system expenses and general governmental activities. Approximately \$5,200,000 of utility fund debt was transferred to the general governmental category accounting for the bulk of the \$286,137 increase in interest reported in the governmental activities column.

Financial Analysis of the City's Funds

Governmental fund financial statements are presented on a spending or "financial flow" measurement focus using the modified accrual basis of accounting. Because of that difference in measurement focus, the results of operations of the governmental funds are significantly different from the results of operations of governmental activities reported in the government-wide statements discussed above. Significant changes between the current and prior year activities of the utility fund are essentially the same as the comparisons discussed above for the government-wide financial statements. The general fund and debt service fund each reported a net change in fund balances of under \$25,000. The general fund has an undesignated fund balance of \$386,658 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 \$93,734, which is approximately 10% of the annual debt service requirement of that fund. The 2007 certificate of obligation construction fund was newly created to account for the net proceeds from the issuance of debt. No construction had begun, and with the addition of interest earnings, \$1,976,206 of fund balance reflects the amount available for future construction costs. The utility fund has net assets of \$12,926,065 at the end of the year. However, \$9,109,964 is invested in capital assets, net

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

of related debt. The total also includes amounts restricted for debt service of \$421,209 and restricted for capital projects of \$781,900. The amount of unrestricted net assets of \$2,612,992 includes \$2,532,563 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 \$80,429. That represents less than a third of a month in terms of the utility fund's annual expenses. The utility fund's cash position should be helped with expected financing from the USDA in 2008 which would allow for reimbursement of capital expenditures which have already been incurred for the elevated storage tank (\$326,568) and water well #15 (\$602,905).

General Fund Budgetary Highlights

The City Council approved various amendments to the original budget through the year, authorizing an additional \$282,141 in expenditures for the general fund. The City's actual expenditures for the general fund were below the amended budget by \$182,596. Revenue exceeded budget by \$22,111.

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 Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Land	\$ 25,972	25,972	191,176	191,176	217,148	217,148
Construction in progress	-0-	-0-	391,944	4,304,926	391,944	4,304,926
Distribution and collection systems	-0-	-0-	11,779,163	6,278,116	11,779,163	6,278,116
Buildings and improvements	2,754,136	2,929,200	106,670	112,416	2,860,806	3,041,616
Equipment	217,126	174,127	958,011	955,346	1,175,137	1,129,473
Infrastructure	4,967,567	4,452,316	-0-	-0-	4,967,567	4,452,316
Totals at historical cost	\$ <u>7,964,801</u>	<u>7,581,615</u>	<u>13,426,964</u>	<u>11,841,980</u>	<u>21,391,765</u>	<u>19,423,595</u>

Major additions to capital assets during the year included the following: \$80,749 for two police cars and a public works vehicle, \$184,325 of capitalized street repairs, \$571,041 of new subdivision street and drainage additions and \$516,475 of new subdivision water and sewer system additions paid for by the developer, \$602,905 for the construction of water well #15, \$326,568 for elevated tank construction in progress, \$109,246 for construction to complete the water treatment plant, \$114,246 for FM 1100 utility system extensions, \$83,726 for major well repairs, and a backhoe for \$66,835. Capital assets of the governmental and business-type activities were reduced by the recording of depreciation expense of \$484,099 and \$300,394 respectively.

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Debt

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Bonds and certificates of obligation	\$ 8,850,000	2,955,486	4,307,000	8,459,514	13,157,000	11,415,000
Notes	7,204	8,562	10,000	15,000	17,204	23,562
Capital leases payable	1,020,204	89,219	-0-	1,067,956	1,020,204	1,157,175
Totals	\$ <u>9,877,408</u>	<u>3,053,267</u>	<u>4,317,000</u>	<u>9,542,470</u>	<u>14,194,408</u>	<u>12,595,737</u>

The increase in long-term liabilities reflects the final \$227,000 of 2005 certificate of obligation construction funds drawn down, as well as \$2,000,000 of 2007 certificates of obligation issued, and reductions of outstanding debt balances by \$592,529. Another significant event was the transfer of \$5,268,714 of utility fund debt, \$39,233 of related accrued interest, and \$102,219 of related unamortized debt issue costs from the utility fund to general governmental activities.

The City's general obligation bond rating was upgraded in 2007 to "Baa1" 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 \$0.3220 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 \$0.7148 to \$0.7300 per \$100 property valuation. However, an 8% 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 \$18,825,000. Also, sales tax revenues increased by 9% between 2006 and 2007. This trend is projected to continue in 2008.

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, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents (note 2)	\$ 2,541,204	164,360	2,705,564	403,842
Investments (note 2)	20,072	37,338	57,410	19,002
Receivables (net, where applicable, of allowances for uncollectibles):				
Accounts receivable	105,216	371,045	476,261	-0-
Property taxes	180,334	-0-	180,334	-0-
Sales tax receivable	138,990	-0-	138,990	68,109
Fines receivable	50,000	-0-	50,000	-0-
Other receivables	10,897	2,820	13,717	6,553
Internal balances	162,754	(162,754)	-0-	-0-
Prepaid expenses	19,020	414	19,434	-0-
Restricted cash and investments (note 2)	-0-	1,289,253	1,289,253	69,305
Prepaid service costs (note 4)	-0-	2,532,563	2,532,563	-0-
Deferred bond issue costs	140,123	-0-	140,123	31,140
Capital assets (note 6):				
Land	25,972	191,176	217,148	737,845
Construction in progress	-0-	391,944	391,944	-0-
Other capital assets, net of depreciation	7,938,829	12,843,844	20,782,673	-0-
Total assets	<u>11,333,411</u>	<u>17,662,003</u>	<u>28,995,414</u>	<u>1,335,796</u>
LIABILITIES				
Accounts payable	247,395	140,320	387,715	-0-
Accrued liabilities	104,076	44,476	148,552	5,363
Customer deposits	-0-	208,891	208,891	-0-
Noncurrent liabilities (note 9):				
Due within one year	695,329	115,000	810,329	149,964
Due in more than one year	9,102,027	4,227,251	13,329,278	1,386,203
Total liabilities	<u>10,148,827</u>	<u>4,735,938</u>	<u>14,884,765</u>	<u>1,541,530</u>
NET ASSETS				
Invested in capital assets, net of related debt	213,037	9,109,964	9,323,001	-0-
Restricted for:				
Municipal court	69,658	-0-	69,658	-0-
Debt service	181,041	421,209	602,250	-0-
Capital improvements	-0-	781,900	781,900	-0-
Unrestricted (deficit)	720,848	2,612,992	3,333,840	(205,734)
Total net assets	<u>\$ 1,184,584</u>	<u>12,926,065</u>	<u>14,110,649</u>	<u>(205,734)</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, 2007

<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	\$ 1,753,684	769,048	117,703	-0-
Public safety	1,363,593	233,608	34,490	-0-
Public works	800,462	192,896	-0-	571,041
Parks and recreation	422,208	22,019	-0-	-0-
Other current	79,343	-0-	70,233	-0-
Interest on long-term debt	434,677	-0-	-0-	-0-
Total governmental activities	<u>4,853,967</u>	<u>1,217,571</u>	<u>222,426</u>	<u>571,041</u>
Business-type activities:				
Utility system	<u>2,797,801</u>	<u>2,835,256</u>	<u>-0-</u>	<u>795,335</u>
Total primary government	<u>\$ 7,651,768</u>	<u>4,052,827</u>	<u>222,426</u>	<u>1,366,376</u>
Component unit:				
Elgin Economic Develop. Corp.	<u>\$ 327,076</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				
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
(866,933)	-0-	(866,933)	-0-
(1,095,495)	-0-	(1,095,495)	-0-
(36,525)	-0-	(36,525)	-0-
(400,189)	-0-	(400,189)	-0-
(9,110)	-0-	(9,110)	-0-
(434,677)	-0-	(434,677)	-0-
<u>(2,842,929)</u>	<u>-0-</u>	<u>(2,842,929)</u>	<u>-0-</u>
<u>-0-</u>	<u>832,790</u>	<u>832,790</u>	<u>-0-</u>
<u>(2,842,929)</u>	<u>832,790</u>	<u>(2,010,139)</u>	<u>-0-</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(327,076)</u>
\$ 1,172,299	-0-	1,172,299	-0-
961,912	-0-	961,912	-0-
756,286	-0-	756,286	378,143
377,813	-0-	377,813	-0-
94,385	105,057	199,442	-0-
56,122	-0-	56,122	20,397
(4,739,687)	4,739,687	-0-	-0-
<u>(1,320,870)</u>	<u>4,844,744</u>	<u>3,523,874</u>	<u>398,540</u>
(4,163,799)	5,677,534	1,513,735	71,464
<u>5,348,383</u>	<u>7,248,531</u>	<u>12,596,914</u>	<u>(277,198)</u>
<u>\$ 1,184,584</u>	<u>12,926,065</u>	<u>14,110,649</u>	<u>(205,734)</u>

CITY OF ELGIN, TEXAS

**BALANCE SHEET
GOVERNMENTAL FUNDS**

September 30, 2007

	<u>General</u>	<u>Debt Service</u>	<u>2007 CO Construction</u>
ASSETS			
Cash and cash equivalents	\$ 358,836	93,909	1,968,469
Investments	20,072	-0-	-0-
Receivables (net, where applicable, of allowances for uncollectibles):			
Accounts receivable	105,216	-0-	-0-
Property taxes	93,027	87,307	-0-
Sales tax receivable	138,990	-0-	-0-
Fines receivable	50,000	-0-	-0-
Other receivables	1,160	-0-	9,737
Due from other funds	164,929	-0-	-0-
Prepaid expenses	19,020	-0-	-0-
Total assets	<u>\$ 951,250</u>	<u>181,216</u>	<u>1,978,206</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 240,067	-0-	-0-
Accrued liabilities	23,366	-0-	-0-
Due to other funds	-0-	175	2,000
Deferred revenue	143,027	87,307	-0-
Total liabilities	<u>406,460</u>	<u>87,482</u>	<u>2,000</u>
Fund Balances			
Reserved for debt service	-0-	93,734	-0-
Reserved for municipal court	69,658	-0-	-0-
Reserved for prepaid expenses	19,020	-0-	-0-
Unreserved:			
Special revenue funds	-0-	-0-	-0-
Capital projects funds	-0-	-0-	1,976,206
Designated	69,454	-0-	-0-
Undesignated	386,658	-0-	-0-
Total fund balances	<u>544,790</u>	<u>93,734</u>	<u>1,976,206</u>
Total liabilities and fund balances	<u>\$ 951,250</u>	<u>181,216</u>	<u>1,978,206</u>

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.

Other Governmental Funds	Total Governmental Funds
119,990	2,541,204
-0-	20,072
-0-	105,216
-0-	180,334
-0-	138,990
-0-	50,000
-0-	10,897
-0-	164,929
-0-	19,020
<u>119,990</u>	<u>3,230,662</u>
7,328	247,395
-0-	23,366
-0-	2,175
-0-	230,334
<u>7,328</u>	<u>503,270</u>
-0-	93,734
-0-	69,658
-0-	19,020
49,149	49,149
63,513	2,039,719
-0-	69,454
-0-	386,658
<u>112,662</u>	<u>2,727,392</u>
<u>119,990</u>	<u>3,230,662</u>

\$	2,727,392
	230,334
	7,964,801
	140,123
	(9,797,356)
	(80,710)
\$	<u>1,184,584</u>

CITY OF ELGIN, TEXAS

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

For the Year Ended September 30, 2007

	<u>General</u>	<u>Debt Service</u>	<u>2007 CO Construction</u>
REVENUES			
Property taxes	\$ 1,161,215	957,047	-0-
Sales tax	756,286	-0-	-0-
Franchise and other taxes	341,502	-0-	-0-
Licenses and permits	192,896	-0-	-0-
Fines	233,608	-0-	-0-
Intergovernmental	152,193	-0-	-0-
Charges for services	791,067	-0-	-0-
Investment earnings	44,769	22,194	21,286
Miscellaneous	56,005	117	-0-
Total revenues	<u>3,729,541</u>	<u>979,358</u>	<u>21,286</u>
EXPENDITURES			
Current:			
General government	1,678,876	-0-	-0-
Public safety	1,402,672	-0-	-0-
Public works	753,023	-0-	-0-
Parks and recreation	320,219	-0-	-0-
Other current	-0-	-0-	-0-
Debt service:			
Principal	-0-	623,329	-0-
Interest and other charges	-0-	362,511	-0-
Debt issuance costs	-0-	-0-	45,080
Total expenditures	<u>4,154,790</u>	<u>985,840</u>	<u>45,080</u>
Excess (deficiency) of revenues over expenditures	<u>(425,249)</u>	<u>(6,482)</u>	<u>(23,794)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from issuance of debt	-0-	-0-	2,000,000
Operating transfers in	446,197	29,639	-0-
Operating transfers out	-0-	-0-	-0-
Total other financing sources (uses)	<u>446,197</u>	<u>29,639</u>	<u>2,000,000</u>
Net change in fund balances	20,948	23,157	1,976,206
Fund balances - beginning	<u>523,842</u>	<u>70,577</u>	<u>-0-</u>
Fund balances - ending	<u>\$ 544,790</u>	<u>93,734</u>	<u>1,976,206</u>

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

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
-0-	2,118,262
-0-	756,286
36,311	377,813
-0-	192,896
-0-	233,608
-0-	152,193
-0-	791,067
6,136	94,385
70,233	126,355
<u>112,680</u>	<u>4,842,865</u>
-0-	1,678,876
-0-	1,402,672
-0-	753,023
-0-	320,219
79,343	79,343
-0-	623,329
-0-	362,511
-0-	45,080
<u>79,343</u>	<u>5,265,053</u>
<u>33,337</u>	<u>(422,188)</u>
-0-	2,000,000
-0-	475,836
(9,795)	(9,795)
<u>(9,795)</u>	<u>2,466,041</u>
23,542	2,043,853
89,120	683,539
<u>112,662</u>	<u>2,727,392</u>

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, 2007

Net change in fund balances - total governmental funds	\$ 2,043,853
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.	296,244
Subtract depreciation expense.	(484,099)
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.	180,334
Subtract deferred property tax revenues at the beginning of the year.	(164,385)
Fine revenues:	
Add noncurrent receivables at the end of the year.	50,000
Subtract noncurrent receivables at the beginning of the year.	(50,000)
Capital contributions:	
Add developer contribution of street and drainage infrastructure	571,041
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.	(2,000,000)
Add back current period debt issue costs and discount or (premium).	45,080
Add back principal payments on long-term debt.	623,329
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.	
Subtract transfer of long-term obligations from the utility fund to governmental activities	(5,205,728)
Interest expense:	
Subtract amortization of debt issue costs.	(22,803)
Subtract amortization of deferred amount on refunding	(35,800)
Subtract unmatured accrued interest at the end of the year.	(80,710)
Add unmatured accrued interest at the beginning of the year.	67,147
Compensated absences:	
Subtract noncurrent liability at the end of the year.	(69,386)
Add noncurrent liability at the beginning of the year.	72,084
Change in net assets of governmental activities	\$ <u>(4,163,799)</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, 2007

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 1,171,004	1,171,004	1,161,215	(9,789)
Sales tax	693,000	720,000	756,286	36,286
Franchise and other taxes	324,500	338,000	341,502	3,502
Licenses and permits	197,850	197,850	192,896	(4,954)
Fines	230,400	236,400	233,608	(2,792)
Intergovernmental	153,489	154,977	152,193	(2,784)
Charges for services	680,700	815,146	791,067	(24,079)
Investment earnings	18,000	33,000	44,769	11,769
Miscellaneous	16,900	40,513	56,005	15,492
Total revenues	<u>3,485,843</u>	<u>3,706,890</u>	<u>3,729,541</u>	<u>22,651</u>
EXPENDITURES				
Current:				
General government	1,620,062	1,749,201	1,678,876	70,325
Public safety	1,368,649	1,487,795	1,402,672	85,123
Public works	756,720	766,378	753,023	13,355
Parks and recreation	309,814	334,012	320,219	13,793
Total expenditures	<u>4,055,245</u>	<u>4,337,386</u>	<u>4,154,790</u>	<u>182,596</u>
Excess (deficiency) of revenues over expenditures	<u>(569,402)</u>	<u>(630,496)</u>	<u>(425,249)</u>	<u>205,247</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from debt	133,000	133,000	-0-	(133,000)
Operating transfers in	436,402	446,197	446,197	-0-
Total other financing sources (uses)	<u>569,402</u>	<u>579,197</u>	<u>446,197</u>	<u>(133,000)</u>
Net change in fund balances	-0-	(51,299)	20,948	72,247
Fund balances - beginning	<u>523,842</u>	<u>523,842</u>	<u>523,842</u>	<u>-0-</u>
Fund balances - ending	<u>\$ 523,842</u>	<u>472,543</u>	<u>544,790</u>	<u>72,247</u>

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

CITY OF ELGIN, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2007

	<u>Business-type Activities</u> <u>Enterprise Funds</u>
	<u>Utility</u> <u>Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 164,360
Investments	37,338
Receivables (net, where applicable, of allowances for uncollectibles):	
Accounts receivable	371,045
Other receivables	2,820
Prepaid expenses	414
Total current assets	<u>575,977</u>
Noncurrent assets:	
Restricted cash and investments	1,289,253
Prepaid service costs	2,532,563
Capital assets:	
Land	191,176
Construction in progress	391,944
Other capital assets, net of depreciation	12,843,844
Total noncurrent assets	<u>17,248,780</u>
Total assets	<u><u>17,824,757</u></u>
LIABILITIES	
Current liabilities:	
Payable from current assets	
Accounts payable	106,409
Accrued liabilities	44,476
Due to other funds	162,754
Customer deposits	208,891
	<u>522,530</u>
Payable from restricted assets	
Accounts payable	33,911
Long-term debt	115,000
Total current liabilities	<u>671,441</u>
Noncurrent liabilities:	
Accrued vacation	25,251
Long-term debt	4,202,000
Total noncurrent liabilities	<u>4,227,251</u>
Total liabilities	<u><u>4,898,692</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	9,109,964
Restricted for debt service	421,209
Restricted for capital projects	781,900
Unrestricted (deficit)	2,612,992
Total net assets	<u><u>\$ 12,926,065</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, 2007

	<u>Business-type Activities Enterprise Funds</u>
	<u>Utility Fund</u>
OPERATING REVENUES	
Charges for services (pledged to secure debt)	\$ <u>2,835,256</u>
OPERATING EXPENSES	
Cost of sewer services	1,177,956
Personnel services	508,002
Materials and supplies	83,425
Maintenance	139,713
Contractual services	399,416
Depreciation	300,394
Total operating expenses	<u>2,608,906</u>
Operating income (loss)	<u>226,350</u>
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	105,057
Interest expense	(188,895)
Total nonoperating revenues (expenses)	<u>(83,838)</u>
Net income (loss) before contributions and transfers	142,512
Capital contributions - impact fees	206,160
Capital contributions - from developers	516,475
Capital contributions - other governments	72,700
Transfers in	5,205,728
Transfers out	(466,041)
Change in net assets	5,677,534
Net assets - beginning	<u>7,248,531</u>
Net assets - ending	\$ <u><u>12,926,065</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, 2007

	<u>Business-type Activities Enterprise Funds</u>
	<u>Utility Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 2,904,915
Payments to suppliers	(2,165,854)
Payments to employees	(498,606)
Net cash provided (used) by operating activities	<u>240,455</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating transfers to other funds	<u>(466,041)</u>
Net cash provided (used) by noncapital financing activities	<u>(466,041)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	278,860
Proceeds from capital debt	227,000
Purchases of capital assets	(1,368,903)
Interest payments on outstanding debt	(184,440)
Principal payments on outstanding debt	(5,000)
Net cash provided (used) by capital and related financing activities	<u>(1,052,483)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of investments	576,014
Investment earnings	105,057
Net cash provided (used) by investing activities	<u>681,071</u>
Net increase (decrease) in cash and cash equivalents	(596,998)
Balances - beginning of the year	<u>761,358</u>
Balances - end of the year	<u>\$ 164,360</u>

Non-cash transactions:

The City takes over the maintenance and repair of utility system extensions installed and paid for by developers once construction by the developers is complete and has been accepted by the City. The value of utility system additions contributed to the City during the year was \$516,475.

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>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 226,350
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	300,394
Bad debt expense	27,485
Changes in assets and liabilities:	
Accounts receivable	(10,470)
Other receivables	68,703
Prepaid service costs	111,510
Accounts payable	(280,715)
Accrued liabilities	263
Due to other funds	(223,624)
Customer deposits	11,426
Accrued vacation	9,133
Net cash provided (used) by operating activities	\$ <u>240,455</u>

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

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2007

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)

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, and proprietary funds. 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.

2007 Certificates of Obligation Construction Fund – This fund accounts for the proceeds from the issuance of certificates of obligation to be used for the purpose of constructing street and drainage improvements and for the purpose of constructing improvements and extension of the City's water and wastewater utilities.

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.

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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)

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)

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)

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)

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 \$3,834,756 at year end and the bank balance was \$4,032,840. Of the bank balance, \$192,979 was insured by federal depository insurance and the remaining \$3,839,861 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>\$690,618</u>
Elgin Economic Development Corp.:			
TexPool local government investment pool	AAAm	34 days	<u>\$ 19,002</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)

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, 2006 levy was based upon 100 percent of the assessed market value of \$297,127,966. 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, 2006 levy was \$.7148. 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, 2007, is \$2,532,563.

(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 Receivables	Allowance for Uncollectibles	Net Receivables
General Fund			
Property taxes receivable	\$ 109,444	(16,417)	93,027
Fines receivable	1,841,014	(1,791,014)	50,000
Debt Service Fund			
Property taxes receivable	102,714	(15,407)	87,307
Utility Fund			
Utility accounts receivable	385,329	(14,284)	371,045

6 CAPITAL ASSETS

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Governmental activities:				
Land	\$ 25,972	-0-	-0-	25,972
Construction in progress	-0-	-0-	-0-	-0-
Total undepreciated assets	<u>25,972</u>	<u>-0-</u>	<u>-0-</u>	<u>25,972</u>
Other capital assets:				
Buildings and improvements	3,662,264	-0-	-0-	3,662,264
Equipment	2,174,405	111,919	-0-	2,286,324
Infrastructure	7,041,612	755,366	-0-	7,796,978
Total other capital assets at historical cost	<u>12,878,281</u>	<u>867,285</u>	<u>-0-</u>	<u>13,745,566</u>
Less accumulated depreciation for:				
Buildings and improvements	(733,064)	(175,064)	-0-	(908,128)
Equipment	(2,000,278)	(68,920)	-0-	(2,069,198)
Infrastructure	(2,589,296)	(240,115)	-0-	(2,829,411)
Total accumulated depreciation	<u>(5,322,638)</u>	<u>(484,099)</u>	<u>-0-</u>	<u>(5,806,737)</u>
Other capital assets, net	<u>7,555,643</u>	<u>383,186</u>	<u>-0-</u>	<u>7,938,829</u>
Governmental activities capital assets, net	<u>\$ 7,581,615</u>	<u>383,186</u>	<u>-0-</u>	<u>7,964,801</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	\$ 90,434
Public safety	44,492
Public works	248,448
Parks and recreation	100,725
	<u>\$ 484,099</u>

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Business-type activities:				
Land	\$ 191,176	-0-	-0-	191,176
Construction in progress	4,304,926	1,104,095	(5,017,077)	391,944
Total undepreciated assets	<u>4,496,102</u>	<u>1,104,095</u>	<u>(5,017,077)</u>	<u>583,120</u>
Other capital assets:				
Distribution and collection systems	8,658,083	714,447	5,017,077	14,389,607
Buildings and improvements	143,650	-0-	-0-	143,650
Equipment	1,679,286	66,836	-0-	1,746,122
Total other capital assets at historical cost	<u>10,481,019</u>	<u>781,283</u>	<u>5,017,077</u>	<u>16,279,379</u>
Less accumulated depreciation for:				
Distribution and collection systems	(2,379,967)	(230,477)	-0-	(2,610,444)
Buildings and improvements	(31,234)	(5,746)	-0-	(36,980)
Equipment	(723,940)	(64,171)	-0-	(788,111)
Total accumulated depreciation	<u>(3,135,141)</u>	<u>(300,394)</u>	<u>-0-</u>	<u>(3,435,535)</u>
Other capital assets, net	<u>7,345,878</u>	<u>480,889</u>	<u>5,017,077</u>	<u>12,843,844</u>
Business-type activities capital assets, net	<u>\$ 11,841,980</u>	<u>1,584,984</u>	<u>-0-</u>	<u>13,426,964</u>

	Component Unit			
	Beginning Balance	Additions	Retirements	Ending Balance
Component unit activities:				
Land	\$ 306,901	643,921	(212,977)	737,845

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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:

Debt service fund	\$	175
2007 CO construction fund		2,000
Utility fund		<u>162,754</u>
Total due to general fund	\$	<u>164,929</u>

The general fund's receivables from the other 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:

Nonmajor governmental funds	\$	9,795
Utility fund		436,402

Transfers to debt service fund from:

Utility fund		<u>29,639</u>
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Total transfers to governmental funds	\$	<u>475,836</u>
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Transfers to utility fund from:

Government-wide governmental activities	\$	<u>5,205,728</u>
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The utility fund provides annual support to the general fund. The utility fund had a large amount of debt which is being serviced by property taxes rather than utility fund revenues. During this fiscal year, that debt was transferred off of the utility fund balance sheet and into governmental activities debt to report it along with other tax supported debt. The utility fund did make a small contribution to the debt service fund to go toward payment of that debt.

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

9 LONG-TERM DEBT

Long-term debt at September 30, 2007, 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
\$1,505,000 Series 1998 combination tax and revenue certificates of obligation due in annual installments of \$70,000 to \$115,000 through July 15, 2018; interest at 4.00 percent to 4.50 percent; outstanding bonds may be redeemed on or after July 15, 2008, at par plus accrued interest	925,000
\$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 3.04 percent to 4.59 percent; outstanding bonds may be redeemed on or after July 15, 2012, at par plus accrued interest	435,000
\$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	2,025,000
\$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	3,260,000
Less deferred amount on refunding	(149,438)
\$2,000,000 Series 2007 combination tax and revenue certificates of obligation due in annual installments of \$30,000 to \$140,000 through July 15, 2027; interest at 4.10 percent to 5.00 percent; outstanding bonds may be redeemed on or after July 15, 2017, at par plus accrued interest	2,000,000

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

9 LONG-TERM DEBT (Continued)

\$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	7,204
Capital leases payable from the debt service fund (Note 10)	1,020,204
Accrued vacation related to governmental fund employees	<u>69,386</u>
Total governmental activities long-term debt	\$ <u>9,797,356</u>
Payable out of the Utility Fund through revenues:	
\$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	\$ 4,307,000
Note payable to Three Oaks Cemetery Association for well property due in three annual installments of \$5,000 with no interest	10,000
Accrued vacation related to utility fund employees	<u>25,251</u>
Total business-type activities long-term debt	\$ <u>4,342,251</u>
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 \$35,000 through July 15, 2014, for the undefeased portion; interest at 6.00 percent to 7.25 percent; there is no early redemption option for this remaining undefeased debt	\$ 160,000
\$565,000 Series 2007 sales tax revenue refunding bonds due in annual installments of \$5,000 to \$65,000 through July 15, 2024; interest at 4.34 percent; the bonds may be redeemed at any time prior to their scheduled maturities at par plus accrued interest plus a prepayment fee	565,000
Less deferred amount on refunding	(36,530)

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

9 LONG-TERM DEBT (Continued)

\$680,000 Series 2007 sales tax revenue bonds due in annual installments of \$55,000 to \$90,000 through July 15, 2017; interest at 6.125 percent; the bonds may be redeemed at any time prior to their scheduled maturities at par plus accrued interest plus a prepayment fee	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>167,697</u>
Total component unit long-term debt	\$ <u>1,536,167</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 1/60th 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, 2007, was \$69,305, which meets the reserve requirement.

The following is a summary of long-term debt activity for September 30, 2007.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities					
Bonds, notes and leases payable:					
General obligation bonds	\$ 2,955,486	6,379,514	(485,000)	8,850,000	630,000
Notes payable	8,562	-0-	(1,358)	7,204	1,385
Capital leases payable	89,219	1,067,956	(136,971)	1,020,204	96,231
	<u>3,053,267</u>	<u>7,447,470</u>	<u>(623,329)</u>	<u>9,877,408</u>	<u>727,616</u>
Less deferred amount on refunding	(6,482)	(178,756)	35,800	(149,438)	(32,287)
Total bonds, notes and leases payable	<u>3,046,785</u>	<u>7,268,714</u>	<u>(587,529)</u>	<u>9,727,970</u>	<u>695,329</u>
Other liabilities:					
Accrued vacation	72,084	-0-	(2,698)	69,386	-0-
Governmental activities long-term liabilities	<u>\$ 3,118,869</u>	<u>7,268,714</u>	<u>(590,227)</u>	<u>9,797,356</u>	<u>695,329</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	\$ 8,459,514	227,000	(4,379,514)	4,307,000	110,000
Notes payable	15,000	-0-	(5,000)	10,000	5,000
Capital leases payable	1,067,956	-0-	(1,067,956)	-0-	-0-
	<u>9,542,470</u>	<u>227,000</u>	<u>(5,452,470)</u>	<u>4,317,000</u>	<u>115,000</u>
Less deferred amount on refunding	(178,756)	-0-	178,756	-0-	-0-
Total bonds and leases payable	<u>9,363,714</u>	<u>227,000</u>	<u>(5,273,714)</u>	<u>4,317,000</u>	<u>115,000</u>
Other liabilities:					
Accrued vacation	16,118	9,133	-0-	25,251	-0-
Business-type activities					
long-term liabilities	<u>\$ 9,379,832</u>	<u>236,133</u>	<u>(5,273,714)</u>	<u>4,342,251</u>	<u>115,000</u>
Component unit activities					
Revenue bonds payable	\$ 680,000	1,245,000	(520,000)	1,405,000	65,000
Notes payable	255,192	-0-	(87,495)	167,697	87,494
	<u>935,192</u>	<u>1,245,000</u>	<u>(607,495)</u>	<u>1,572,697</u>	<u>152,494</u>
Less deferred amount on refunding	-0-	(36,530)	-0-	(36,530)	(2,530)
Component unit activities					
long-term liabilities	<u>\$ 935,192</u>	<u>1,208,470</u>	<u>(607,495)</u>	<u>1,536,167</u>	<u>149,964</u>

During 2007, the Elgin Economic Development Corporation (a component unit of the City) issued \$565,000 in Sales Tax Revenue Refunding Bonds with an average interest rate of 4.8 percent to advance refund \$515,000 of outstanding 1999 Series bonds with an average interest rate of 6.4 percent. The net proceeds of \$543,986 after payment of issuance costs of \$21,014 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on that portion of the 1999 Series bonds. As a result, that portion of the 1999 Series bonds is considered to be defeased and the liability for that portion of the bonds has been removed from the books of the Elgin Economic Development Corporation.

The advance refunding by the EEDC resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$36,530. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2024 using the effective-interest method. The EEDC completed the advance refunding to reduce its total debt service payments over the next 17 years by \$68,174 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of 46,258.

(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
2008	\$ 631,385	373,922	115,000	188,431	152,494	66,498
2009	711,413	348,752	115,000	183,619	150,203	73,210
2010	761,441	319,089	110,000	178,806	70,000	68,899
2011	651,470	286,472	110,000	173,994	95,000	64,589
2012	616,495	259,946	110,000	169,181	105,000	58,522
2013 - 2017	3,115,000	913,249	550,000	773,719	610,000	190,783
2018 - 2022	1,720,000	376,673	565,000	652,750	265,000	62,713
2023 - 2027	650,000	87,720	575,000	527,625	125,000	8,029
2028 - 2032	0	0	575,000	401,844	0	0
2033 - 2037	0	0	575,000	276,062	0	0
2038 - 2042	0	0	575,000	150,281	0	0
2043 - 2047	0	0	342,000	29,794	0	0
	<u>\$ 8,857,204</u>	<u>2,965,823</u>	<u>4,317,000</u>	<u>3,706,106</u>	<u>1,572,697</u>	<u>593,243</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 \$1,683,700. Accumulated depreciation has been recorded against the assets under capital lease. The leases are payable out of the debt service fund.

Capital lease obligations at September 30, 2007, are composed of the following:

Governmental activities debt payable out of the debt service fund:

\$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	\$ 3,842
\$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	95,916

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

10 CAPITAL LEASES PAYABLE (Continued)

\$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 852,412

\$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 68,034

Governmental activities capital leases payable \$ 1,020,204

Future minimum lease payments under capital leases are as follows:

<u>Fiscal Year</u>	<u>Governmental</u>
2008	\$ 143,728
2009	139,877
2010	130,356
2011	101,793
2012	101,793
2013-2017	508,966
2018-2022	<u>203,586</u>
	1,330,099
Less amount representing interest	<u>(309,895)</u>
Present value of minimum lease payments	\$ <u>1,020,204</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	\$ 54,846
Library books	11,002
Blue Santa	<u>3,606</u>
	\$ <u>69,454</u>

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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.

Developers pay for the costs of construction of utility system extensions and street and drainage systems in new subdivisions. Once construction by the developer has been completed and accepted by the City, the City takes over ownership as well as the maintenance and repair of the system. Those additions are reported as capital contributions at the time of acceptance by the City.

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 821 currently 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 12/31/06 valuations are contained in the 2006 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.

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

13 PENSION PLAN (Continued)

Members can retire at ages 60 and above with 5 or more years of service or with 20 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 6.77% for the months in 2006 and 6.77% for the months in 2007. 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.

Annual pension cost

The City's annual pension cost for the fiscal year ended September 30, 2007, was \$141,092, and the actual contributions were \$141,092. 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>
9/30/05	\$125,443	100.0%	\$0
9/30/06	\$129,020	100.0%	\$0
9/30/07	\$141,092	100.0%	\$0

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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 ¹ (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
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%
12/31/06	2,483,916	2,758,812	274,896	90.0%	1,924,748	14.3%

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

14 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.

15 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 \$477,599. Utility customer deposits held at year end totaled \$208,891.

16 COMMITMENTS

The City is committed under one open construction contract at year end. The contract has been awarded in the amount of \$146,000 and no costs had been incurred as of September 30. While no additional contracts had yet been awarded as of the end of the fiscal year, various construction projects are expected to be undertaken with regards to the use of the proceeds from the 2007 certificates of obligation.

CITY OF ELGIN, TEXAS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

September 30, 2007

	Hotel Motel Tax	Elgin Main Street Board	2002 Capital Improvement Bonds	Capital Equipment Replacement Fund
ASSETS				
Cash and cash equivalents	\$ 18,054	38,423	43,219	20,294
Total assets	\$ 18,054	38,423	43,219	20,294
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 7,328	-0-	-0-	-0-
Total liabilities	7,328	-0-	-0-	-0-
Fund Balances				
Unreserved (special revenue)	10,726	38,423	-0-	-0-
Unreserved (capital projects)	-0-	-0-	43,219	20,294
Total fund balances	10,726	38,423	43,219	20,294
Total liabilities and fund balances	\$ 18,054	38,423	43,219	20,294

Total
Nonmajor
Governmental
Funds

119,990
119,990

7,328
7,328

49,149
63,513
112,662

119,990

CITY OF ELGIN, TEXAS

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

For the Year Ended September 30, 2007

	Hotel Motel Tax	Elgin Main Street Board	2002 Capital Improvement Bonds	Capital Equipment Replacement Fund
REVENUES				
Other taxes	\$ 36,311	-0-	-0-	-0-
Investment earnings	719	1,197	2,690	1,530
Miscellaneous	-0-	70,233	-0-	-0-
Total revenues	<u>37,030</u>	<u>71,430</u>	<u>2,690</u>	<u>1,530</u>
EXPENDITURES				
Current:				
Other current	<u>26,304</u>	<u>53,039</u>	<u>-0-</u>	<u>-0-</u>
Excess (deficiency) of revenues over expenditures	10,726	18,391	2,690	1,530
OTHER FINANCING SOURCES (USES)				
Operating transfers out	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(9,795)</u>
Net change in fund balances	10,726	18,391	2,690	(8,265)
Fund balances - beginning	<u>-0-</u>	<u>20,032</u>	<u>40,529</u>	<u>28,559</u>
Fund balances - ending	<u>\$ 10,726</u>	<u>38,423</u>	<u>43,219</u>	<u>20,294</u>

Total
Nonmajor
Governmental
Funds

36,311

6,136

70,233

112,680

79,343

33,337

(9,795)

23,542

89,120

112,662

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