

CITY OF ELGIN, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2009

GEORGE CHESTER DRAPER III

Certified Public Accountant

CITY OF ELGIN, TEXAS

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GEORGE CHESTER DRAPER III

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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, 2009, 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.

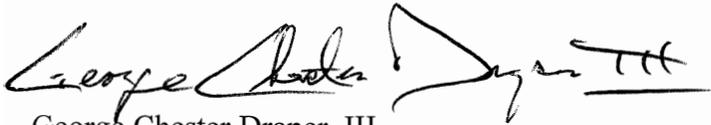
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform 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 the 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, 2009, 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 July 13, 2010, 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 3-10 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 black ink, reading "George Chester Draper, III". The signature is written in a cursive style with a horizontal line underneath the name.

George Chester Draper, III
July 13, 2010

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2009

As Management of the City of Elgin, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2009. This information is not intended to be a complete statement of the City's financial condition. We recommend and encourage readers to consider the information presented here in conjunction with the basic financial statements.

Financial Highlights

- The City's total net assets increased by \$334,000 or 2% during 2009.
- The cash position of the utility fund improved significantly from the previous year as a \$1,209,000 of construction costs previously paid out of cash on hand were reimbursed with the issuance of debt.
- The City issued \$1,250,000 in governmental debt and \$3,356,000 in debt of the utility system during the fiscal year. That money, along with the remaining proceeds of the 2007 certificates of obligation was used to fund \$4,423,000 of construction costs incurred during the year.
- As of September 30, 2009, the City of Elgin's governmental funds reported combined ending fund balances of \$1,371,496. Of the ending fund balance, \$423,798 is restricted under laws external to the City for specific purposes (e.g., capital projects, municipal court, debt service); \$444,868 is designated by the City for specific purposes; (e.g., Morris Building Fund, Library books, Non-Major Governmental Funds); \$502,830 is unreserved fund balance and is available to meet the government's ongoing obligations.

Overview of the Financial Statements

The management discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with at broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. This statement combines and consolidates governmental funds current financial resources (short-term spendable resources) with capital assets and long-term obligations. Other non-financial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. roads, drainage improvements, storm sewer and water lines, etc.) to assess the overall financial condition of the City.

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but not used compensated absences). Both the statement of net assets and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in the fund financial statements.

In the Statement of Net Assets and the Statement of Activities, the City is divided between three kinds of activities:

- **Governmental activities:** Most of the City's basic services are reported here, including the police, animal control, library, community development, public works, parks, pool, municipal court, and general administration. Property taxes, sales taxes, and franchise fees primarily finance these activities.
- **Business-type activities:** The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and wastewater system are reported here.
- **Component Unit:** The City includes activities for the Elgin Economic Development Corporation here.

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	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 2,095,628	3,469,776	4,444,905	3,021,402	6,540,533	6,491,178
Capital assets	9,360,368	8,343,474	17,280,641	14,602,319	26,641,009	22,945,793
Total assets	<u>11,455,996</u>	<u>11,813,250</u>	<u>21,725,546</u>	<u>17,623,721</u>	<u>33,181,542</u>	<u>29,436,971</u>
Long-term liabilities	(9,660,867)	(9,112,683)	(7,468,028)	(4,231,700)	(17,128,895)	(13,344,383)
Other liabilities	(408,629)	(1,065,166)	(696,789)	(414,480)	(1,105,418)	(1,479,646)
Total liabilities	<u>(10,069,496)</u>	<u>(10,177,849)</u>	<u>(8,164,817)</u>	<u>(4,646,180)</u>	<u>(18,234,313)</u>	<u>(14,824,029)</u>
Net assets:						
Invested in capital assets, net of debt	12,059	375,588	9,837,641	10,400,319	9,849,700	10,775,907
Restricted	286,003	285,784	682,284	263,134	968,287	548,918
Unrestricted	1,088,438	974,029	3,040,804	2,314,088	4,129,242	3,288,117
Total net assets	<u>\$ 1,386,500</u>	<u>1,635,401</u>	<u>13,560,729</u>	<u>12,977,541</u>	<u>14,947,229</u>	<u>14,612,942</u>

There were several events during the past fiscal year which significantly affected the balance sheet of the City, as reflected in the above table. The City issued \$1,250,000 in governmental debt, and used that money along with money already on hand in the previous debt financed construction fund to pay for prior year construction payables of \$590,000 and for current construction expenditures of \$2,070,000. Additionally, the City entered into a new capital lease in the amount of \$101,000 for new police cars. Those two things explain the decrease in governmental activities current and other assets of \$1,374,000, the increase in capital assets of \$1,017,000 (net of depreciation of \$466,000 and the use of \$705,000 of the construction funds for utility system improvements), the increase in long-term liabilities of \$548,000 (net of principal payments on outstanding debt of \$800,000), and most of the reduction in other liabilities of \$657,000.

The City issued \$3,356,000 in debt for improvements to the utility system, a business-type activity. \$1,209,000 was used to replenish cash spent in the prior year before the debt was issued. \$1,683,000 was used to pay for construction costs, and \$464,000 was either in the bank or in escrow ready to be drawn down. Capitalized construction costs also included the \$705,000 paid from the 2007 Certificates of Obligation construction fund, \$292,000 paid for from LCRA participation in that project, \$110,000 paid from cash on hand, and \$230,000 in construction payables at year end. The issuance of utility fund debt and payment of construction costs explain the most significant portions of the increase in business-type activities current and other assets of \$1,424,000, the increase in capital assets of \$2,678,000 (which is the net increase after the deduction of \$409,000 for depreciation), the increase in long-term liabilities of

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

\$3,236,000 (which is net after reflecting principal payments on outstanding debt of \$115,000), and the increase in other liabilities of \$282,000.

Net assets of the City as a whole increased by \$334,000. Details of the components of those changes in net assets are shown below.

Government-wide changes in net assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Change in net assets						
Total revenues	\$ 5,433,327	5,383,779	3,715,836	3,669,602	9,149,163	9,053,381
Total expenses	(5,528,585)	(5,307,029)	(3,286,291)	(3,244,059)	(8,814,876)	(8,551,088)
Change before transfers	(95,258)	76,750	429,545	425,543	334,287	502,293
Transfers	(153,643)	374,067	153,643	(374,067)	-0-	-0-
Change in net assets	(248,901)	450,817	583,188	51,476	334,287	502,293
Net assets - beginning	1,635,401	1,184,584	12,977,541	12,926,065	14,612,942	14,110,649
Net assets - ending	\$ 1,386,500	1,635,401	13,560,729	12,977,541	14,947,229	14,612,942

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues:						
Charges for services	\$ 1,218,928	1,112,745	3,343,778	3,140,562	4,562,706	4,253,307
Operating grants and contributions	379,141	248,348	27,170	-0-	406,311	248,348
Capital grants and contributions	-0-	-0-	337,038	490,891	337,038	490,891
General revenues:						
Property taxes	2,549,050	2,334,530	-0-	-0-	2,549,050	2,334,530
Sales tax	764,700	797,620	-0-	-0-	764,700	797,620
Franchise and other taxes	432,844	392,624	-0-	-0-	432,844	392,624
Investment earnings	20,483	100,745	7,850	38,149	28,333	138,894
Miscellaneous	68,181	73,888	-0-	-0-	68,181	73,888
Proceeds from sale of land	-0-	323,279	-0-	-0-	-0-	323,279
Total revenues	\$ 5,433,327	5,383,779	3,715,836	3,669,602	9,149,163	9,053,381

A rate increase for sanitation services provided the bulk of the increase in charges for services for governmental activities, but it was increased usage due to the hot dry weather which gave rise to the increase in charges for services of the business-type activities. The receipt of \$95,000 related to a contract with Heritage Lakes MUD is the primary factor in the increase in operating grants and

CITY OF ELGIN, TEXAS

MANAGEMENT’S DISCUSSION AND ANALYSIS

(Continued)

contributions for the year. Capital grants in both the prior and current year related to LCRA participation in certain construction contracts, and are not a regular recurring amount. The 9% increase in property tax revenues reflects moderate increases in both the assessed valuation and the property tax rate. Lastly, the sale of land in the prior year was a one-time event and not a regular recurring part of the governmental activities revenue stream.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Expenses						
General government	\$ 1,947,485	1,907,537	-0-	-0-	1,947,485	1,907,537
Public safety	1,631,070	1,489,703	-0-	-0-	1,631,070	1,489,703
Public works	1,112,623	1,070,911	-0-	-0-	1,112,623	1,070,911
Parks and recreation	269,452	277,881	-0-	-0-	269,452	277,881
Other current	94,093	87,225	-0-	-0-	94,093	87,225
Interest on long-term debt	473,862	473,772	-0-	-0-	473,862	473,772
Utility system	-0-	-0-	3,286,291	3,244,059	3,286,291	3,244,059
Total expenses	\$ 5,528,585	5,307,029	3,286,291	3,244,059	8,814,876	8,551,088

The most significant change in expenses of the governmental activities was the \$141,000 increase in public safety costs. That increase was the result of both additional staff and pay raises. Additionally, public works expenses were up as a result of spending \$39,000 on the roof of the annex building.

The utility system overall reported a small increase in total costs, but there were some fairly significant changes in several of the expense categories. The cost of sewer services was up \$30,000, personnel services were up \$63,000 driven by increases in group insurance costs and cost of living pay increases, and depreciation expense increased by \$47,000 as completed projects from construction during the past couple of years have been added to the depreciation schedule. Those increases in comparison to the prior year were offset to some degree by a decrease in the cost of contractual services, with the prior year including significant costs related to the City's comprehensive plan.

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 reported a positive change in fund balances of \$217,000 in the prior year partially as a result of reporting \$323,000 in proceeds from a sale of land. Partly as a result of transferring that money out to a new capital projects fund during this year, the general fund is reporting a decrease in fund balance

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

of \$164,000. At the end of the year, the general fund had an undesignated fund balance of \$473,336. That amount represents just over 1 month in terms of the general fund's annual expenditures. The debt service fund has a fund balance of \$105,712, which is less than 10% of the annual debt service requirement of that fund. The 2007 certificate of obligation construction fund was created in a prior year to account for the net proceeds from the issuance of debt. Its fund balance of \$1,065,000 from the prior year was completely spent on construction during the current year, and a new construction fund was created to account for the proceeds of the 2009 certificates of obligation issued for street and drainage improvements. The new fund reflected the issuance of \$1,250,000 in debt and the payment of \$1,000,000 in construction costs.

The utility fund has net assets of \$13,561,000 at the end of the year. However, \$9,838,000 is invested in capital assets, net of related debt. The total also includes amounts restricted for debt service of \$226,000 and restricted for capital projects of \$456,000. The amount of unrestricted net assets of \$3,041,000 includes \$2,311,000 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 \$730,000. This is a significant improvement over the negative \$107,000 from the prior year. The utility fund's cash position turned positive in November 2008 as the City received financing from the USDA in the amount of \$2,556,000 for reimbursement of capital expenditures which had already been incurred for various water system improvements as well as new construction.

General Fund Budgetary Highlights

The City Council approved various amendments to the original budget through the year, authorizing an additional \$453,256 in expenditures for the general fund. The bulk of that increase, \$313,756, was budgeted to come out of existing fund balance, and \$323,280 represented a transfer out of the general fund to create a new capital projects fund. The City's actual expenditures for the general fund were more than the amended budget by \$19,076. Revenues and other financing sources exceeded the budget by \$190,693.

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.

CITY OF ELGIN, TEXAS

MANAGEMENT’S DISCUSSION AND ANALYSIS

(Continued)

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2009	2008	2009	2008	2009	2008
Land	\$ 25,972	25,972	191,176	191,176	217,148	217,148
Construction in progress	-0-	671,984	2,211,289	1,909,911	2,211,289	2,581,895
Distribution and collection systems	-0-	-0-	13,878,148	11,442,285	13,878,148	11,442,285
Buildings and improvements	2,576,778	2,656,441	95,178	100,924	2,671,956	2,757,365
Equipment	249,191	228,635	904,850	958,023	1,154,041	1,186,658
Infrastructure	6,508,427	4,760,442	-0-	-0-	6,508,427	4,760,442
Totals at historical cost	\$ <u>9,360,368</u>	<u>8,343,474</u>	<u>17,280,641</u>	<u>14,602,319</u>	<u>26,641,009</u>	<u>22,945,793</u>

Major additions to capital assets during the year included the following: \$1,363,000 of street and drainage construction costs, \$669,000 of water system improvements, and \$329,000 of sewer system costs paid out of the remaining 2007 certificates of obligation and the new 2009 certificates of obligation; and \$619,000 for construction on the elevated water tank project, and \$1,443,000 for construction on the 18" water main project paid out of the new RDA debt.

Debt

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2009	2008	2009	2008	2009	2008
Bonds and certificates of obligation	\$ 8,760,000	8,220,000	7,443,000	4,197,000	16,203,000	12,417,000
Notes	4,406	5,819	-0-	5,000	4,406	10,819
Capital leases payable	908,626	923,974	-0-	-0-	908,626	923,974
Totals	\$ <u>9,673,032</u>	<u>9,149,793</u>	<u>7,443,000</u>	<u>4,202,000</u>	<u>17,116,032</u>	<u>13,351,793</u>

The change in debt balances reflects not only the scheduled principal payments of \$943,000 made during the year, but also the issuance of \$4,707,000 in new debt during the year. The debt proceeds were being used for the projects mentioned in the discussion of capital assets above.

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 \$0.3508 is approximately 23% of the maximum debt service tax rate.

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

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. The fiscal year 2009-2010 budget incorporates no increase in the property tax rate. It remains at \$0.7588 per \$100 valuation. However an additional transfer-in of \$93,894 is included in the debt services fund to help offset debt payments.

The General fund revenues were increased in property taxes, municipal court fines, as well as 5% garbage fees increase. In addition the Police Department secured an agreement from Bastrop Travis Counties ESD#1 to fund the costs of an additional dispatch position.

Austin Community College has begun the process of placing under contract property to locate a satellite facility in the Elgin area. The recognition of how important the City of Elgin is in the overall growth of Central Texas is firmly demonstrated by ACC's announcement to locate in the area. The expected impact of such a facility will bring new retail, medical facilities, and restaurants.

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, P.O. Box 591, 310 N. Main Street, Elgin, Texas, 78621.

CITY OF ELGIN, TEXAS

STATEMENT OF NET ASSETS

September 30, 2009

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents (note 2)	\$ 558,131	143,796	701,927	150,499
Investments (note 2)	765,956	441,098	1,207,054	339,425
Receivables (net, where applicable, of allowances for uncollectibles):				
Accounts receivable	170,673	400,102	570,775	-0-
Property taxes	206,437	-0-	206,437	-0-
Sales tax receivable	130,739	-0-	130,739	65,369
Fines receivable	100,000	-0-	100,000	-0-
Other receivables	8,040	424,000	432,040	-0-
Inventories and prepaid expenses	42,272	-0-	42,272	-0-
Restricted cash and investments (note 2)	-0-	706,943	706,943	-0-
Prepaid service costs (note 5)	-0-	2,310,747	2,310,747	-0-
Deferred bond issue costs	113,380	18,219	131,599	23,582
Capital assets (note 6):				
Land	25,972	191,176	217,148	737,845
Construction in progress	-0-	2,211,289	2,211,289	-0-
Other capital assets, net of depreciation	9,334,396	14,878,176	24,212,572	-0-
Total assets	<u>11,455,996</u>	<u>21,725,546</u>	<u>33,181,542</u>	<u>1,316,720</u>
LIABILITIES				
Accounts payable	245,794	410,178	655,972	-0-
Accrued liabilities	162,835	72,099	234,934	14,417
Customer deposits	-0-	214,512	214,512	-0-
Noncurrent liabilities (note 9):				
Due within one year	893,409	151,347	1,044,756	70,000
Due in more than one year	8,767,458	7,316,681	16,084,139	1,168,989
Total liabilities	<u>10,069,496</u>	<u>8,164,817</u>	<u>18,234,313</u>	<u>1,253,406</u>
NET ASSETS				
Invested in capital assets, net of related debt	12,059	9,837,641	9,849,700	-0-
Restricted for:				
Municipal court	82,947	-0-	82,947	-0-
Debt service	203,056	225,945	429,001	-0-
Capital improvements	-0-	456,339	456,339	-0-
Unrestricted (deficit)	1,088,438	3,040,804	4,129,242	63,314
Total net assets	<u>\$ 1,386,500</u>	<u>13,560,729</u>	<u>14,947,229</u>	<u>63,314</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, 2009

<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	\$ 1,947,485	860,746	224,591	-0-
Public safety	1,631,070	275,151	75,727	-0-
Public works	1,112,623	62,233	-0-	-0-
Parks and recreation	269,452	20,798	-0-	-0-
Other current	94,093	-0-	78,823	-0-
Interest on long-term debt	473,862	-0-	-0-	-0-
Total governmental activities	<u>5,528,585</u>	<u>1,218,928</u>	<u>379,141</u>	<u>-0-</u>
Business-type activities:				
Utility system	<u>3,286,291</u>	<u>3,343,778</u>	<u>27,170</u>	<u>337,038</u>
Total primary government	<u>\$ 8,814,876</u>	<u>4,562,706</u>	<u>406,311</u>	<u>337,038</u>
Component unit:				
Elgin Economic Develop. Corp.	<u>\$ 271,742</u>	<u>1,145</u>	<u>6,000</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
(862,148)	-0-	(862,148)	-0-
(1,280,192)	-0-	(1,280,192)	-0-
(1,050,390)	-0-	(1,050,390)	-0-
(248,654)	-0-	(248,654)	-0-
(15,270)	-0-	(15,270)	-0-
(473,862)	-0-	(473,862)	-0-
<u>(3,930,516)</u>	<u>-0-</u>	<u>(3,930,516)</u>	<u>-0-</u>
<u>-0-</u>	<u>421,695</u>	<u>421,695</u>	<u>-0-</u>
<u>(3,930,516)</u>	<u>421,695</u>	<u>(3,508,821)</u>	<u>-0-</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(264,597)</u>
\$ 1,373,631	-0-	1,373,631	-0-
1,175,419	-0-	1,175,419	-0-
764,700	-0-	764,700	382,278
432,844	-0-	432,844	-0-
20,483	7,850	28,333	4,823
68,181	-0-	68,181	-0-
(153,643)	153,643	-0-	-0-
<u>3,681,615</u>	<u>161,493</u>	<u>3,843,108</u>	<u>387,101</u>
(248,901)	583,188	334,287	122,504
<u>1,635,401</u>	<u>12,977,541</u>	<u>14,612,942</u>	<u>(59,190)</u>
<u>\$ 1,386,500</u>	<u>13,560,729</u>	<u>14,947,229</u>	<u>63,314</u>

CITY OF ELGIN, TEXAS

**BALANCE SHEET
GOVERNMENTAL FUNDS**

September 30, 2009

	<u>General</u>	<u>Debt Service</u>	<u>2007 CO Construction</u>
ASSETS			
Cash and cash equivalents	\$ 95,740	18,144	-0-
Investments	437,584	84,547	-0-
Receivables (net, where applicable, of allowances for uncollectibles):			
Accounts receivable	170,673	-0-	-0-
Property taxes	109,093	97,344	-0-
Sales tax receivable	130,739	-0-	-0-
Fines receivable	100,000	-0-	-0-
Other receivables	7,800	-0-	-0-
Due from other funds	9,823	4,626	-0-
Inventories and prepaid expenses	42,272	-0-	-0-
Total assets	\$ 1,103,724	204,661	-0-
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 237,555	-0-	-0-
Accrued liabilities	58,521	-0-	-0-
Due to other funds	-0-	1,605	-0-
Deferred revenue	209,093	97,344	-0-
Total liabilities	505,169	98,949	-0-
Fund Balances			
Reserved for debt service	-0-	105,712	-0-
Reserved for municipal court	82,947	-0-	-0-
Reserved for prepaid expenses	42,272	-0-	-0-
Unreserved	473,336	-0-	-0-
Unreserved, reported in nonmajor:			
Special revenue funds	-0-	-0-	-0-
Total fund balances	598,555	105,712	-0-
Total liabilities and fund balances	\$ 1,103,724	204,661	-0-

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.

<u>2009 CO Construction</u>	<u>Morris Park Bldg Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
-0-	304,299	139,948	558,131
243,009	-0-	816	765,956
-0-	-0-	-0-	170,673
-0-	-0-	-0-	206,437
-0-	-0-	-0-	130,739
-0-	-0-	-0-	100,000
-0-	-0-	240	8,040
-0-	-0-	-0-	14,449
-0-	-0-	-0-	42,272
<u>243,009</u>	<u>304,299</u>	<u>141,004</u>	<u>1,996,697</u>
-0-	-0-	8,239	245,794
-0-	-0-	-0-	58,521
7,870	-0-	4,974	14,449
-0-	-0-	-0-	306,437
<u>7,870</u>	<u>-0-</u>	<u>13,213</u>	<u>625,201</u>
-0-	-0-	-0-	105,712
-0-	-0-	-0-	82,947
-0-	-0-	-0-	42,272
235,139	304,299	-0-	1,012,774
-0-	-0-	127,791	127,791
<u>235,139</u>	<u>304,299</u>	<u>127,791</u>	<u>1,371,496</u>
<u>243,009</u>	<u>304,299</u>	<u>141,004</u>	<u>1,996,697</u>

\$ 1,371,496
 306,437
 9,360,368
 113,380
 (9,660,867)
 (104,314)
\$ 1,386,500

CITY OF ELGIN, TEXAS

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

For the Year Ended September 30, 2009

	<u>General</u>	<u>Debt Service</u>	<u>2007 CO Construction</u>
REVENUES			
Property taxes	\$ 1,377,851	1,178,050	-0-
Sales tax	764,700	-0-	-0-
Franchise and other taxes	385,014	-0-	-0-
Licenses and permits	62,233	-0-	-0-
Fines	219,090	-0-	-0-
Intergovernmental	285,514	-0-	-0-
Charges for services	881,544	-0-	-0-
Investment earnings	10,880	3,871	3,343
Miscellaneous	68,181	-0-	-0-
Total revenues	<u>4,055,007</u>	<u>1,181,921</u>	<u>3,343</u>
EXPENDITURES			
Current:			
General government	1,858,592	-0-	-0-
Public safety	1,665,867	-0-	-0-
Public works	810,853	-0-	-0-
Parks and recreation	246,098	-0-	-0-
Other current	-0-	-0-	72
Capital outlay	-0-	-0-	362,634
Debt service:			
Principal	-0-	816,469	-0-
Interest and other charges	-0-	397,494	-0-
Debt issuance costs	-0-	-0-	-0-
Total expenditures	<u>4,581,410</u>	<u>1,213,963</u>	<u>362,706</u>
Excess (deficiency) of revenues over expenditures	<u>(526,403)</u>	<u>(32,042)</u>	<u>(359,363)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from issue of debt	101,000	-0-	-0-
Transfers in	584,901	21,750	-0-
Transfers out	(323,280)	-0-	(705,393)
Total other financing sources (uses)	<u>362,621</u>	<u>21,750</u>	<u>(705,393)</u>
Net change in fund balances	(163,782)	(10,292)	(1,064,756)
Fund balances - beginning	<u>762,337</u>	<u>116,004</u>	<u>1,064,756</u>
Fund balances - ending	<u>\$ 598,555</u>	<u>105,712</u>	<u>-0-</u>

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

<u>2009 CO Construction</u>	<u>Morris Park Bldg Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
-0-	-0-	-0-	2,555,901
-0-	-0-	-0-	764,700
-0-	-0-	47,830	432,844
-0-	-0-	-0-	62,233
-0-	-0-	-0-	219,090
-0-	-0-	14,804	300,318
-0-	-0-	-0-	881,544
2,013	-0-	376	20,483
-0-	-0-	119,884	188,065
<u>2,013</u>	<u>-0-</u>	<u>182,894</u>	<u>5,425,178</u>
-0-	-0-	-0-	1,858,592
-0-	-0-	27,944	1,693,811
-0-	-0-	-0-	810,853
-0-	-0-	-0-	246,098
-0-	-0-	94,021	94,093
1,000,470	18,981	-0-	1,382,085
-0-	-0-	-0-	816,469
-0-	-0-	-0-	397,494
16,404	-0-	-0-	16,404
<u>1,016,874</u>	<u>18,981</u>	<u>121,965</u>	<u>7,315,899</u>
<u>(1,014,861)</u>	<u>(18,981)</u>	<u>60,929</u>	<u>(1,890,721)</u>
1,250,000	-0-	-0-	1,351,000
-0-	323,280	-0-	929,931
-0-	-0-	(54,901)	(1,083,574)
<u>1,250,000</u>	<u>323,280</u>	<u>(54,901)</u>	<u>1,197,357</u>
235,139	304,299	6,028	(693,364)
-0-	-0-	121,763	2,064,860
<u>235,139</u>	<u>304,299</u>	<u>127,791</u>	<u>1,371,496</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, 2009

Net change in fund balances - total governmental funds	\$ (693,364)
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.	1,483,085
Subtract depreciation expense.	(466,191)
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.	206,437
Subtract deferred property tax revenues at the beginning of the year.	(213,288)
Fine revenues:	
Add noncurrent receivables at the end of the year.	100,000
Subtract noncurrent receivables at the beginning of the year.	(85,000)
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.	(1,351,000)
Add back current period debt issue costs and discount or (premium).	16,404
Add back principal payments on long-term debt.	827,761
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.	(20,264)
Subtract amortization of deferred amount on refunding	(27,567)
Subtract unmatured accrued interest at the end of the year.	(104,314)
Add unmatured accrued interest at the beginning of the year.	75,778
Compensated absences:	
Subtract noncurrent liability at the end of the year.	(77,419)
Add noncurrent liability at the beginning of the year.	80,041
Change in net assets of governmental activities	\$ <u><u>(248,901)</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, 2009

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 1,347,217	1,347,217	1,377,851	30,634
Sales tax	790,020	790,020	764,700	(25,320)
Franchise and other taxes	345,480	345,480	385,014	39,534
Licenses and permits	62,340	62,340	62,233	(107)
Fines	205,200	205,200	219,090	13,890
Intergovernmental	188,658	283,658	285,514	1,856
Charges for services	877,250	877,250	881,544	4,294
Investment earnings	13,000	13,000	10,880	(2,120)
Miscellaneous	41,550	41,550	68,181	26,631
Total revenues	<u>3,870,715</u>	<u>3,965,715</u>	<u>4,055,007</u>	<u>89,292</u>
EXPENDITURES				
Current:				
General government	1,811,897	1,839,947	1,858,592	(18,645)
Public safety	1,497,312	1,554,738	1,665,867	(111,129)
Public works	839,188	883,688	810,853	72,835
Parks and recreation	262,318	262,318	246,098	16,220
Total expenditures	<u>4,410,715</u>	<u>4,540,691</u>	<u>4,581,410</u>	<u>(40,719)</u>
Excess (deficiency) of revenues over expenditures	<u>(540,000)</u>	<u>(574,976)</u>	<u>(526,403)</u>	<u>48,573</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from issue of debt	-0-	-0-	101,000	101,000
Transfers in	540,000	584,500	584,901	401
Transfers out	-0-	(323,280)	(323,280)	-0-
Total other financing sources (uses)	<u>540,000</u>	<u>261,220</u>	<u>362,621</u>	<u>101,401</u>
Net change in fund balances	-0-	(313,756)	(163,782)	149,974
Fund balances - beginning	<u>762,337</u>	<u>762,337</u>	<u>762,337</u>	<u>-0-</u>
Fund balances - ending	<u>\$ 762,337</u>	<u>448,581</u>	<u>598,555</u>	<u>149,974</u>

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

CITY OF ELGIN, TEXAS

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

September 30, 2009

	<u>Business-type Activities Enterprise Funds</u>
	<u>Utility Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 143,796
Investments	441,098
Receivables (net, where applicable, of allowances for uncollectibles):	
Accounts receivable	400,102
Other receivables	424,000
Total current assets	<u>1,408,996</u>
Noncurrent assets:	
Restricted cash and investments	706,943
Prepaid service costs	2,310,747
Deferred bond issue costs	18,219
Capital assets:	
Land	191,176
Construction in progress	2,211,289
Other capital assets, net of depreciation	14,878,176
Total noncurrent assets	<u>20,316,550</u>
Total assets	<u>21,725,546</u>
LIABILITIES	
Current liabilities:	
Accounts payable	410,178
Accrued liabilities	72,099
Customer deposits	214,512
Current portion of long-term debt	144,000
Total current liabilities	<u>840,789</u>
Noncurrent liabilities:	
Accrued vacation	25,028
Long-term debt, excluding current portion	7,299,000
Total noncurrent liabilities	<u>7,324,028</u>
Total liabilities	<u>8,164,817</u>
NET ASSETS	
Invested in capital assets, net of related debt	9,837,641
Restricted for debt service	225,945
Restricted for capital projects	456,339
Unrestricted (deficit)	3,040,804
Total net assets	<u>\$ 13,560,729</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, 2009

	<u>Business-type Activities Enterprise Funds</u>
	<u>Utility Fund</u>
OPERATING REVENUES	
Charges for services (pledged to secure debt)	\$ 3,343,778
OPERATING EXPENSES	
Cost of sewer services	1,272,584
Personnel services	646,946
Materials and supplies	84,935
Maintenance	111,766
Contractual services	505,094
Depreciation	409,467
Total operating expenses	<u>3,030,792</u>
Operating income (loss)	<u>312,986</u>
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	7,850
Grant revenues	27,170
Interest expense	(255,499)
Total nonoperating revenues (expenses)	<u>(220,479)</u>
Net income (loss) before contributions and transfers	92,507
Capital contributions - impact fees	13,590
Capital contributions - other governments	323,448
Transfers in	705,393
Transfers out	<u>(551,750)</u>
Change in net assets	583,188
Net assets - beginning	<u>12,977,541</u>
Net assets - ending	\$ <u><u>13,560,729</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, 2009

	Business-type Activities Enterprise Funds
	<u>Utility Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 3,333,724
Payments to suppliers	(1,988,235)
Payments to employees	(629,188)
Net cash provided (used) by operating activities	<u>716,301</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating transfers from other funds	705,393
Operating transfers to other funds	(551,750)
Net cash provided (used) by noncapital financing activities	<u>153,643</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	337,038
Proceeds from capital debt	2,932,000
Payment of bond issue costs	(18,219)
Purchases of capital assets	(3,087,789)
Interest payments on outstanding debt	(255,499)
Principal payments on outstanding debt	(115,000)
Net cash provided (used) by capital and related financing activities	<u>(207,469)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(527,475)
Investment earnings	7,850
Net cash provided (used) by investing activities	<u>(519,625)</u>
Net increase (decrease) in cash and cash equivalents	142,850
Balances - beginning of the year	<u>946</u>
Balances - end of the year	<u><u>\$ 143,796</u></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>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 312,986
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	409,467
Bad debt expense	53,000
Operating grants	27,170
Changes in assets and liabilities:	
Accounts receivable	(36,939)
Prepaid service costs	110,564
Accounts payable	260,164
Accrued liabilities	22,430
Due to other funds	(437,584)
Customer deposits	(285)
Accrued vacation	(4,672)
Net cash provided (used) by operating activities	\$ <u><u>716,301</u></u>

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

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CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2009

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.

2009 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 and improving city streets, bridges and intersections, including utility relocation, sidewalks, drainage and other related costs.

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Morris Park Building Fund – This fund accounts for money set aside to be used for capital improvement projects.

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.

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.

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 \$907,720 at year end and the bank balance was \$1,075,600. Of the bank balance, \$318,286 was insured by federal depository insurance and the remaining \$757,314 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 or TexSTAR and are carried at fair value.

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2 DEPOSITS AND INVESTMENTS (Continued)

<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	43 days	\$ <u>1,613,227</u>
TexSTAR local government investment pool	AAAm	46 days	\$ <u>243,009</u>
Elgin Economic Development Corp.:			
TexPool local government investment pool	AAAm	43 days	\$ <u>339,425</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 and TexSTAR were both rated AAAM by Standard & Poor’s at year end.

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

Both TexPool and TexSTAR are local government investment pools created under the Interlocal Cooperation Act of the Texas Government Code, and invest all pooled funds in accordance with the Public Funds Investment Act of the Texas Government Code. The fair value of the position in the pool is the same as the value of the pool shares. The State Comptroller of Public Accounts oversees TexPool. TexSTAR is governed by a five member board composed of three government officials or employees and a member each from First Southwest Company and JPMorgan Chase. First Southwest and JPMorgan serve as co-administrators for TexSTAR.

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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, 2008 levy was based upon 100 percent of the assessed market value of \$325,095,282. 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, 2008 levy was \$.7588. 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 RECEIVABLES

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

	Gross	Allowance	Net
	Receivables	for	Receivables
		Uncollectibles	
General Fund			
Property taxes receivable	\$ 128,345	(19,252)	109,093
Fines receivable	2,073,536	(1,973,536)	100,000
Debt Service Fund			
Property taxes receivable	114,523	(17,179)	97,344
Utility Fund			
Utility accounts receivable	600,102	(200,000)	400,102

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

5 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, 2009, is \$2,310,747.

6 CAPITAL ASSETS

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Governmental activities:				
Land	\$ 25,972	-0-	-0-	25,972
Construction in progress	671,984	1,363,104	(2,035,088)	-0-
Total undepreciated assets	<u>697,956</u>	<u>1,363,104</u>	<u>(2,035,088)</u>	<u>25,972</u>
Other capital assets:				
Buildings and improvements	3,662,264	18,981	-0-	3,681,245
Equipment	2,363,870	101,000	-0-	2,464,870
Infrastructure	7,848,920	-0-	2,035,088	9,884,008
Total other capital assets at historical cost	<u>13,875,054</u>	<u>119,981</u>	<u>2,035,088</u>	<u>16,030,123</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,005,823)	(98,644)	-0-	(1,104,467)
Equipment	(2,135,235)	(80,444)	-0-	(2,215,679)
Infrastructure	(3,088,478)	(287,103)	-0-	(3,375,581)
Total accumulated depreciation	<u>(6,229,536)</u>	<u>(466,191)</u>	<u>-0-</u>	<u>(6,695,727)</u>
Other capital assets, net	<u>7,645,518</u>	<u>(346,210)</u>	<u>2,035,088</u>	<u>9,334,396</u>
Governmental activities capital assets, net	<u>\$ 8,343,474</u>	<u>1,016,894</u>	<u>-0-</u>	<u>9,360,368</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 87,534
Public safety	56,565
Public works	298,936
Parks and recreation	23,156
	<u>\$ 466,191</u>

(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	\$	1,605
2009 CO construction fund		7,870
Nonmajor governmental funds		<u>348</u>
Total due to general fund		<u>9,823</u>

Due to debt service fund from:

Nonmajor governmental funds		<u>4,626</u>
Total governmental funds	\$	<u>14,449</u>

The general fund's receivables from the other governmental 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. The debt service fund's receivable is from a special revenue fund which will be making a portion of the debt service payments on a capital lease of police vehicles.

8 INTERFUND TRANSFERS

The following is a summary of 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	\$	54,901
Utility fund		530,000

Transfers to debt service fund from:

Utility fund		21,750
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Transfers to Morris Park bldg fund from:

General fund		<u>323,280</u>
Total transfers to governmental funds	\$	<u>929,931</u>

Transfers to utility fund from:

2007 CO construction fund	\$	<u>705,393</u>
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The utility fund provides annual support to the general fund and to a lesser extent to the debt service fund. An old capital projects fund was closed out with a transfer to the general fund, and a new capital projects fund was created with a transfer from the general fund. The 2007 CO construction fund received the proceeds of bonds which were intended to be used for both street and drainage improvements and for utility system improvements. Improvements to the utility system during the year were transferred.

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

9 LONG-TERM DEBT

The following is a summary of long-term debt activity for September 30, 2009.

	<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	\$ 8,220,000	1,250,000	(710,000)	8,760,000	760,000
Notes payable	5,819	-0-	(1,413)	4,406	1,441
Capital leases payable	923,974	101,000	(116,348)	908,626	102,504
	<u>9,149,793</u>	<u>1,351,000</u>	<u>(827,761)</u>	<u>9,673,032</u>	<u>863,945</u>
Less deferred amount on refunding	(117,151)	-0-	27,567	(89,584)	-0-
Total bonds, notes and leases payable	<u>9,032,642</u>	<u>1,351,000</u>	<u>(800,194)</u>	<u>9,583,448</u>	<u>863,945</u>
Other liabilities:					
Accrued vacation	80,041	26,842	(29,464)	77,419	29,464
Governmental activities					
long-term liabilities	<u>\$ 9,112,683</u>	<u>1,377,842</u>	<u>(829,658)</u>	<u>9,660,867</u>	<u>893,409</u>
Business-type activities					
Bonds and leases payable:					
Bonds and certificates of obligation	\$ 4,197,000	3,356,000	(110,000)	7,443,000	144,000
Notes payable	5,000	-0-	(5,000)	-0-	-0-
Total bonds and leases payable	<u>4,202,000</u>	<u>3,356,000</u>	<u>(115,000)</u>	<u>7,443,000</u>	<u>144,000</u>
Other liabilities:					
Accrued vacation	29,700	2,675	(7,347)	25,028	7,347
Business-type activities					
long-term liabilities	<u>\$ 4,231,700</u>	<u>3,358,675</u>	<u>(122,347)</u>	<u>7,468,028</u>	<u>151,347</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Component unit activities					
Revenue bonds payable	\$ 1,340,000	-0-	(70,000)	1,270,000	70,000
Notes payable	80,203	-0-	(80,203)	-0-	-0-
	<u>1,420,203</u>	<u>-0-</u>	<u>(150,203)</u>	<u>1,270,000</u>	<u>70,000</u>
Less deferred amount on refunding	(34,000)	-0-	2,989	(31,011)	-0-
Component unit activities	<u>\$ 1,386,203</u>	<u>-0-</u>	<u>(147,214)</u>	<u>1,238,989</u>	<u>70,000</u>

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

9 LONG-TERM DEBT (Continued)

Long-term debt at September 30, 2009, 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 \$80,000 to \$115,000 through July 15, 2018; interest at 4.2 percent to 4.50 percent; outstanding bonds may be redeemed on or after July 15, 2008, at par plus accrued interest	780,000
\$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 3.61 percent to 4.59 percent; outstanding bonds may be redeemed on or after July 15, 2012, at par plus accrued interest	385,000
\$2,250,000 Series 2002 general obligation bonds due in annual installments of \$120,000 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	1,875,000
\$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 3.70 percent; outstanding bonds may be redeemed on or after July 15, 2015 at par plus accrued interest	2,380,000
Less deferred amount on refunding	(89,584)
\$2,000,000 Series 2007 combination tax and revenue certificates of obligation due in annual installments of \$70,000 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	1,885,000
\$1,250,000 Series 2009 combination tax and revenue certificates of obligation due in annual installments of \$45,000 to \$100,000 through July 15, 2028; interest at 4.99 percent; outstanding bonds may be redeemed on or after July 15, 2019, at par plus accrued interest	1,250,000

(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 4,406

Capital leases payable from the debt service fund (Note 10) 908,626

Accrued vacation related to governmental fund employees 77,419

Total governmental activities long-term debt \$ 9,660,867

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 \$ 4,087,000

\$2,556,000 Series 2008 combination tax and limited surplus revenue certificates of obligation due in annual installments of \$26,000 to \$135,000 through January 15, 2048; interest at 4.375 percent; outstanding bonds may be redeemed at any time at par plus accrued interest 2,556,000

\$800,000 Series 2009 combination tax and limited surplus revenue certificates of obligation due in annual installments of \$8,000 to \$42,000 through January 15, 2048; interest at 3.625 percent; outstanding bonds may be redeemed at any time at par plus accrued interest 800,000

Accrued vacation related to utility fund employees 25,028

Total business-type activities long-term debt \$ 7,468,028

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 \$10,000 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 \$ 145,000

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

9 LONG-TERM DEBT (Continued)

\$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 555,000
 Less deferred amount on refunding (31,011)

\$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 570,000

Total component unit long-term debt \$ 1,238,989

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
2010	\$ 761,441	375,746	144,000	312,574	70,000	68,899
2011	696,470	348,847	145,000	312,656	95,000	64,589
2012	661,495	320,076	147,000	306,332	105,000	58,522
2013	685,000	293,769	148,000	299,946	110,000	51,786
2014	715,000	265,961	150,000	293,495	115,000	44,919
2015 - 2019	2,845,000	901,273	780,000	1,367,775	485,000	125,760
2020 - 2024	1,620,000	382,835	859,000	1,191,485	290,000	39,060
2025 - 2029	780,000	83,702	926,000	999,325	0	0
2030 - 2034	0	0	1,012,000	791,166	0	0
2035 - 2039	0	0	1,118,000	562,953	0	0
2040 - 2044	0	0	1,247,000	310,225	0	0
2045 - 2049	0	0	767,000	61,522	0	0
	<u>\$ 8,764,406</u>	<u>2,972,209</u>	<u>7,443,000</u>	<u>6,809,454</u>	<u>1,270,000</u>	<u>453,535</u>

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

9 LONG-TERM DEBT (Continued)

The City is in compliance with all significant limitations and restrictions contained in the City's debt agreements. The Economic Development Corporation Series 1999 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, 2009, was \$33,448, which meets the reserve requirement.

In a prior year, the Elgin Economic Development Corporation (a component unit of the City) defeased \$515,000 of outstanding 1999 Series bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. Until those defeased bonds can be called on January 15, 2010, \$515,000 of bonds outstanding are considered to be defeased.

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 \$1,784,700. 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, 2009, are composed of the following:

Governmental activities debt payable out of the debt service fund:

\$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	\$ 21,907
\$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	737,951
\$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	59,060
\$101,000 lease payable to Suntrust Leasing for various equipment, monthly installments of \$2,313 including principal and interest through April 15, 2013; interest at 4.519 percent	<u>89,708</u>
Governmental activities capital leases payable	\$ <u>908,626</u>

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

10 CAPITAL LEASES PAYABLE (Continued)

Future minimum lease payments under capital leases are as follows:

<u>Fiscal Year</u>	<u>Governmental</u>
2010	\$ 140,971
2011	129,553
2012	129,552
2013	117,987
2014	101,793
2015-2019	<u>508,966</u>
	1,128,822
Less amount representing interest	<u>(220,196)</u>
Present value of minimum lease payments	\$ <u>908,626</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.

Library books	\$ 8,449
Blue Santa	<u>4,329</u>
	\$ <u>12,778</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.

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.

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

13 PENSION PLAN

Plan description

The City provides pension benefits for all of its eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX, 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

The plan provisions for the City are adopted by the governing body of the City from the options available in the state statutes governing TMRS. Because the TMRS plan year is a calendar year and the City fiscal year ends on September 30, each fiscal year includes two different TMRS plan years. Plan provisions for the City were as follows:

	Plan Year 2008	Plan Year 2009
Employee deposit rate	6.0%	6.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

13 PENSION PLAN (Continued)

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

1. Annual Required Contribution (ARC)	193,008
2. Interest on Net Pension Obligation	0
3. Adjustment to the ARC	(0)
4. Annual Pension Cost (APC)	193,008
5. Contributions Made	<u>161,224</u>
6. Increase (decrease) in net pension obligation	31,784
7. Net Pension Obligation/(Asset), beginning of year	<u>0</u>
8. Net Pension Obligation/(Asset), end of year	<u>31,784</u>

**Trend Information
Annual Pension Cost**

Accounting Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
9/30/07	\$141,092	\$141,092	100.0%	\$0
9/30/08	\$150,963	\$150,963	100.0%	\$0
9/30/09	\$193,008	\$161,224	83.5%	\$31,784

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

13 PENSION PLAN (Continued)

The required contribution rates for fiscal year 2009 were determined as part of the December 31, 2006 and 2007 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2008, also follows:

Valuation Date	12/31/06	12/31/07	12/31/08
Actuarial Cost Method	Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	25 years; open period	30 years; closed period	29 years; closed period
Asset Valuation Method	Amortized Cost	Amortized Cost	Amortized Cost
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.0%	7.5%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at Cost-of-Living Adjustments	3.00% N/A	3.00% 2.1%	3.00% 2.1%

**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)
12/31/06	2,483,916	2,758,812	274,896	90.0%	1,924,748	14.3%
12/31/07	2,791,016	3,487,136	696,120	80.0%	2,207,866	31.5%
12/31/08	3,127,159	4,033,809	906,650	77.5%	2,491,018	36.4%

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

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

14 SUPPLEMENTAL DEATH BENEFITS FUND

Plan description

The City participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2009, 2008 and 2007 were \$883, \$747, and \$749, respectively, which equaled the required contributions each year.

**Schedule of Contribution Rates
(Retiree-only portion of the rate)**

<u>Plan/ Calendar Year</u>	<u>Annual Required Contribution Rate</u>	<u>Actual Contribution Made (Rate)</u>	<u>Percentage of ARC Contributed</u>
2007	.04%	.04%	100.0%
2008	.03%	.03%	100.0%
2009	.03%	.03%	100.0%

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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.

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 \$539,357. Utility customer deposits held at year end totaled \$214,512.

17 COMMITMENTS

The City is committed under one open construction contract at year end. The contract amount is \$668,200 and through the end of the year, \$608,033 of construction work has been completed. The city is committed for an additional \$60,167 of costs to be incurred.

18 SIGNIFICANT BUDGET VARIANCES

The City entered into a lease purchase transaction for the purchase of police vehicles during the year. Neither the proceeds from the issue of that debt or the capital outlay expenditure were included in the budget. That transaction accounts for \$101,000 of the negative budget variance for public safety and for the positive budget variance reflected under other financing sources.

19 SUBSEQUENT EVENTS

Currently the City of Elgin Utility Fund contracts with Lower Colorado River Authority for the operation of the wastewater treatment plant. The City is investigating the possibilities of assuming the ownership and operations of the wastewater treatment plant. Discussions are underway with LCRA, the cities engineering firm, and financial advisors to ascertain the economic feasibility and financial impact of issuing debt in order for the City to assume the plant from LCRA.

CITY OF ELGIN, TEXAS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

September 30, 2009

	Hotel Motel Tax	Elgin Main Street Board	2002 Capital Improvement Bonds	Capital Equipment Replacement Fund
ASSETS				
Cash and cash equivalents	\$ 60,738	39,503	-0-	-0-
Investments	-0-	816	-0-	-0-
Other receivables	-0-	240	-0-	-0-
Total assets	<u>\$ 60,738</u>	<u>40,559</u>	<u>-0-</u>	<u>-0-</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 124	1,303	-0-	-0-
Due to other funds	-0-	-0-	-0-	-0-
Total liabilities	<u>124</u>	<u>1,303</u>	<u>-0-</u>	<u>-0-</u>
Fund Balances				
Unreserved (special revenue)	60,614	39,256	-0-	-0-
Unreserved (capital projects)	-0-	-0-	-0-	-0-
Total fund balances	<u>60,614</u>	<u>39,256</u>	<u>-0-</u>	<u>-0-</u>
Total liabilities and fund balances	<u>\$ 60,738</u>	<u>40,559</u>	<u>-0-</u>	<u>-0-</u>

Police/ Channel 10 Special Revenue	Section 125 Fund	Total Nonmajor Governmental Funds
37,642	2,065	139,948
-0-	-0-	816
-0-	-0-	240
<u>37,642</u>	<u>2,065</u>	<u>141,004</u>
5,095	1,717	8,239
4,626	348	4,974
<u>9,721</u>	<u>2,065</u>	<u>13,213</u>
27,921	-0-	127,791
-0-	-0-	-0-
<u>27,921</u>	<u>-0-</u>	<u>127,791</u>
<u>37,642</u>	<u>2,065</u>	<u>141,004</u>

CITY OF ELGIN, TEXAS

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

For the Year Ended September 30, 2009

	Hotel Motel Tax	Elgin Main Street Board	2002 Capital Improvement Bonds	Capital Equipment Replacement Fund
REVENUES				
Other taxes	\$ 47,830	-0-	-0-	-0-
Intergovernmental	-0-	-0-	-0-	-0-
Investment earnings	-0-	366	3	7
Miscellaneous	-0-	78,823	-0-	-0-
Total revenues	<u>47,830</u>	<u>79,189</u>	<u>3</u>	<u>7</u>
EXPENDITURES				
Current:				
Public safety	-0-	-0-	-0-	-0-
Other current	14,988	79,033	-0-	-0-
Total expenditures	<u>14,988</u>	<u>79,033</u>	<u>-0-</u>	<u>-0-</u>
Excess (deficiency) of revenues over expenditures	32,842	156	3	7
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(10,000)</u>	<u>-0-</u>	<u>(44,362)</u>	<u>(539)</u>
Net change in fund balances	22,842	156	(44,359)	(532)
Fund balances - beginning	<u>37,772</u>	<u>39,100</u>	<u>44,359</u>	<u>532</u>
Fund balances - ending	<u>\$ 60,614</u>	<u>39,256</u>	<u>-0-</u>	<u>-0-</u>

Police/ Channel 10 Special Revenue	Section 125 Fund	Total Nonmajor Governmental Funds
-0-	-0-	47,830
14,804	-0-	14,804
-0-	-0-	376
41,061	-0-	119,884
<u>55,865</u>	<u>-0-</u>	<u>182,894</u>
27,944	-0-	27,944
-0-	-0-	94,021
<u>27,944</u>	<u>-0-</u>	<u>121,965</u>
27,921	-0-	60,929
<u>-0-</u>	<u>-0-</u>	<u>(54,901)</u>
27,921	-0-	6,028
<u>-0-</u>	<u>-0-</u>	<u>121,763</u>
<u>27,921</u>	<u>-0-</u>	<u>127,791</u>

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