

**CITY OF ELGIN, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**For the Year Ended September 30, 2010**

***GEORGE CHESTER DRAPER III***

Certified Public Accountant

**CITY OF ELGIN, TEXAS**

**ANNUAL FINANCIAL REPORT  
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Year Ended September 30, 2010

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# GEORGE CHESTER DRAPER III

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CERTIFIED PUBLIC ACCOUNTANT

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## Independent Auditor's Report

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

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Elgin, Texas, as of and for the year ended September 30, 2010, 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.

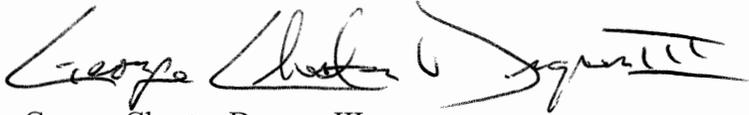
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform 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, 2010, 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 January 25, 2011, 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, appearing to read "George Chester Draper, III". The signature is fluid and cursive, with a large initial "G" and "D".

George Chester Draper, III  
January 25, 2011

# CITY OF ELGIN, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2010

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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, 2010. 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 assets exceeded the City's total liabilities at the close of the fiscal year by \$14,810,256 (net assets). Of this amount \$4,043,143 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$137,000 during 2010, or roughly broke even.
- As of September 30, 2010, the City of Elgin's governmental funds reported combined ending fund balances of \$1,417,118. Of the ending fund balance, \$473,453 is restricted under laws external to the City for specific purposes (e.g., debt service, capital projects, municipal court, hotel/motel tax purposes, cable channel 10 restrictions); \$349,589 is designated by the City for specific purposes; (e.g., Morris Building Fund, Library books, Elgin Main Street); \$550,405 is unassigned fund balance and is available to meet the government's ongoing obligations.
- The City, like most governments, has been impacted by the current economic downturn. The City not seeing any new growth and having concerns with the trend of declining sales tax through out the state has moved to aggressively control spending.

### **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)

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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 unused 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 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

As noted earlier, net assets and especially net assets by category may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$14,810,256 as of September 30, 2010.

The largest portion of the City's net assets \$9,951,293 (67.19%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. It should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot generate revenues to liquidate these liabilities.

An additional portion of the City's net assets \$815,820 (5.51%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$4,043,143 (27.30%) may be used to meet the government's ongoing obligations to citizens and creditors.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 2,271,984	2,095,628	3,678,504	4,444,905	5,950,488	6,540,533
Capital assets	9,065,136	9,360,368	16,930,624	17,280,641	25,995,760	26,641,009
Total assets	<u>11,337,120</u>	<u>11,455,996</u>	<u>20,609,128</u>	<u>21,725,546</u>	<u>31,946,248</u>	<u>33,181,542</u>
Long-term liabilities	(9,069,131)	(9,660,867)	(7,336,774)	(7,468,028)	(16,405,905)	(17,128,895)
Other liabilities	(396,273)	(408,629)	(333,814)	(696,789)	(730,087)	(1,105,418)
Total liabilities	<u>(9,465,404)</u>	<u>(10,069,496)</u>	<u>(7,670,588)</u>	<u>(8,164,817)</u>	<u>(17,135,992)</u>	<u>(18,234,313)</u>
Net assets:						
Invested in capital assets, net of debt	319,669	12,059	9,631,624	9,837,641	9,951,293	9,849,700
Restricted	410,354	374,538	405,466	682,284	815,820	1,056,822
Unrestricted	1,141,693	999,903	2,901,450	3,040,804	4,043,143	4,040,707
Total net assets	<u>\$ 1,871,716</u>	<u>1,386,500</u>	<u>12,938,540</u>	<u>13,560,729</u>	<u>14,810,256</u>	<u>14,947,229</u>

As of September 30, 2010, the City has positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

**CITY OF ELGIN, TEXAS**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

(Continued)

**Government-wide changes in net assets**

The following table provides a summary of the City’s operations for the year ended September 30, 2010. The City’s net assets decreased by \$136,973. The Governmental activities increased the City’s net assets by \$485,216 and the Business-type activities decreased the City’s net assets by \$622,189. The most significant increase in the governmental activities is primarily due to the transfer in from the business type activities of \$579,219, of which \$49,219 went toward debt service fund. The business-type activities decrease includes \$451,000 of depreciation expense that, while decreasing the reported balance of capital assets, did not require the use of cash or other current assets.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
	Change in net assets					
Total revenues	\$ 5,564,760	5,433,327	3,233,125	3,715,836	8,797,885	9,149,163
Total expenses	(5,625,515)	(5,528,585)	(3,309,343)	(3,286,291)	(8,934,858)	(8,814,876)
Change before transfers	(60,755)	(95,258)	(76,218)	429,545	(136,973)	334,287
Transfers	545,971	(153,643)	(545,971)	153,643	-0-	-0-
Change in net assets	485,216	(248,901)	(622,189)	583,188	(136,973)	334,287
Net assets - beginning	1,386,500	1,635,401	13,560,729	12,977,541	14,947,229	14,612,942
Net assets - ending	\$ 1,871,716	1,386,500	12,938,540	13,560,729	14,810,256	14,947,229

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
	Revenues					
Program revenues:						
Charges for services	\$ 1,361,964	1,177,867	3,162,383	3,343,778	4,524,347	4,521,645
Operating grants and contributions	282,674	420,202	-0-	27,170	282,674	447,372
Capital grants and contributions	-0-	-0-	65,628	337,038	65,628	337,038
General revenues:						
Property taxes	2,646,125	2,549,050	-0-	-0-	2,646,125	2,549,050
Sales tax	766,951	764,700	-0-	-0-	766,951	764,700
Franchise and other taxes	424,865	432,844	-0-	-0-	424,865	432,844
Investment earnings	9,626	20,483	5,114	7,850	14,740	28,333
Miscellaneous	72,555	68,181	-0-	-0-	72,555	68,181
Total revenues	\$ 5,564,760	5,433,327	3,233,125	3,715,836	8,797,885	9,149,163

**CITY OF ELGIN, TEXAS**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

(Continued)

A rate increase in sanitation fees accounts for \$70,000 of the increase in charges for services; an increase in the collection of fines accounts for \$23,000; and a larger increase in the estimated net collectible portion of old fines receivable than was made in the prior year accounts for an \$85,000 increase (which is deferred in the fund statements and does not effect fund basis revenues).

The extremely hot and dry conditions which existed during 2009 resulted in higher than normal consumption during that year. With no increase in water or sewer rates and a return to more normal usage levels, utility system charges for services have returned to the same levels as 2008.

The prior year included a one-time receipt of \$95,000 from Heritage Lakes MUD, \$32,000 more in Channel 10 and police special revenue receipts than were received in the current year, \$22,000 more in Elgin Main Street revenues and contributions, and \$16,000 more in management fees from the EEDC. Offsetting those decreases, intergovernmental revenues from EISD were up \$24,000.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Expenses						
General government	\$ 1,897,604	1,947,485	-0-	-0-	1,897,604	1,947,485
Public safety	1,859,014	1,631,070	-0-	-0-	1,859,014	1,631,070
Public works	1,070,781	1,112,623	-0-	-0-	1,070,781	1,112,623
Parks and recreation	248,498	269,452	-0-	-0-	248,498	269,452
Other current	87,836	94,093	-0-	-0-	87,836	94,093
Interest on long-term debt	461,782	473,862	-0-	-0-	461,782	473,862
Utility system	-0-	-0-	3,309,343	3,286,291	3,309,343	3,286,291
Total expenses	\$ 5,625,515	5,528,585	3,309,343	3,286,291	8,934,858	8,814,876

Governmental expenses increased overall \$96,930, while public safety increased approximately \$228,000 from the prior year. The increases were due to filling the vacant positions (\$133,000) including the Police Chief which in turn increased the patrol hours on the street and vehicle fuel (\$12,000). In addition, a lightning strike occurred and the department incurred cost to replace equipment (\$19,000).

**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.

At the end of the current fiscal year, the City’s governmental funds reported combined ending fund balances of \$1,417,118. Approximately 38.8% of this total amount, \$550,405 is unassigned fund balance. The remainder of the fund balance \$866, 713 is unspendable, restricted, or committed.

## CITY OF ELGIN, TEXAS

### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

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The General Fund reported an increase in fund balance of \$65,000. At the end of the year, the general fund had an unassigned fund balance of \$550,405. That amount represents between 1 and 2 months in terms of the general fund's annual expenditures. The Debt Service Fund has a fund balance of \$130,000, which is approximately 10% of the annual debt service requirement of that fund. The 2009 Certificates of Obligation Construction Fund for Street and Drainage Improvements has a fund balance of \$169,000. The Morris Park Building Fund which was created with a transfer of \$323,000 from the General Fund in the prior year still has a fund balance of \$306,000.

The utility fund has net assets of \$12,938,000 at the end of the year. However, \$9,632,000 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 \$179,000. The amount of unrestricted net assets of \$2,901,000 includes \$2,091,000 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 \$810,000. That amount represents between 2 and 3 months in terms of the utility fund's annual expenses including interest and transfers out.

#### **General Fund Budgetary Highlights**

The City made revisions to the original appropriations approved by the City Council. These changes resulted in an increase in budgeted expenditures from the original budget of \$ 139,000 or 3%. The primary differences were in direct correlation to revenues increasing as follows:

- \$16,781 in contributions/grants.
- \$23,367 for inter-local agreement with EISD.
- \$9,862 in seizure funds.
- \$22,965 in insurance proceeds.
- \$34,413 in designated/restricted fund balance.
- \$40,949 reduction from unreserved fund balance.

#### **Capital Asset and Debt Administration**

##### **Capital assets**

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2010, amounts to \$25,995,760 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, and infrastructure and construction in progress. Major capital asset events occurring during the current fiscal year included the following:

**CITY OF ELGIN, TEXAS**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

(Continued)

- Purchased Police Vehicles (3), Animal Control Truck, and Code Enforcement Truck for approximately \$128,000.
- Purchased ticket writers for Municipal Court for approximately \$27,000.
- Purchased various pieces of equipment in the public works department for approximately \$25,000.
- Purchased Trucks (2) in the Utility Fund for approximately \$33,000.
- Completed construction on 18” Water Main project and Elgin Oaks Elevated Tank project with current costs of approximately \$68,000 and prior year cost of \$2,204,788.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Land	\$ 25,972	25,972	191,176	191,176	217,148	217,148
Construction in progress	-0-	-0-	6,500	2,211,289	6,500	2,211,289
Distribution and collection systems	-0-	-0-	15,785,968	13,878,148	15,785,968	13,878,148
Buildings and improvements	2,477,185	2,576,778	89,432	95,178	2,566,617	2,671,956
Equipment	366,093	249,191	857,548	904,850	1,223,641	1,154,041
Infrastructure	<u>6,195,886</u>	<u>6,508,427</u>	<u>-0-</u>	<u>-0-</u>	<u>6,195,886</u>	<u>6,508,427</u>
Totals at historical cost	\$ <u>9,065,136</u>	<u>9,360,368</u>	<u>16,930,624</u>	<u>17,280,641</u>	<u>25,995,760</u>	<u>26,641,009</u>

More detailed information can be found in the notes to the financial statements.

**Debt**

At the end of the current fiscal year, the City had a total bonded debt of \$16,280,582.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Bonds and certificates of obligation	\$ 8,180,000	8,760,000	7,299,000	7,443,000	15,479,000	16,203,000
Notes	2,965	4,406	-0-	-0-	2,965	4,406
Capital leases payable	<u>798,617</u>	<u>908,626</u>	<u>-0-</u>	<u>-0-</u>	<u>798,617</u>	<u>908,626</u>
Totals	\$ <u>8,981,582</u>	<u>9,673,032</u>	<u>7,299,000</u>	<u>7,443,000</u>	<u>16,280,582</u>	<u>17,116,032</u>

During the 2010 fiscal year, the City issued \$180,000 in public property finance contractual obligations, which was offset by \$1,015,450 in existing debt retirements.

## **CITY OF ELGIN, TEXAS**

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

(Continued)

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The City's general obligation bond rating was upgraded in 2010 to "A1" 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.

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

In this coming fiscal year, the City Council and Management will continue to monitor the budget closely for any signs of possible impact from the still very volatile economic times.

In the fiscal year 2011 Budget, General Fund revenues are budgeted to decrease by .73% from the fiscal year 2010 final budget. Although there is a budget decrease, Property taxes which are about 32.72% of general fund revenues, are budgeted at a 12.47% increase compared to the 2009 budget. This increase reflects an increase in the total tax rate of .0188 per \$100. The proposed tax rate of \$.7776 per \$100 valuation is broken down by M&O \$ .461657 and I&S \$ .315943. In addition a decrease of \$134,485 was made to the transfer in from the Utility Fund. Two vacant Public Works positions were placed on hold for the first two quarters.

The 2011 budget does not include any cost of living or step increase for any employees. A substantial increase in the cost of health insurance rates initiated an increase in the deductible and a phase out of the City's current policy to supplement \$175 towards dependent coverage.

The Utility Fund revenues are budgeted to decrease by 3.85% from fiscal year 2010. A rate increase was implemented on both the water and sewer base in order to cover the reduction of the transfer in from impact fees and an increase of 8.9% for the wastewater management fees paid to LCRA. The water and sewer increase for a base bill was approximately 32%.

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. Currently the City has begun to see a small increase in requests for plat reviews.

#### **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, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Cash and cash equivalents (note 2)	\$ 919,184	431,222	1,350,406	196,603
Investments (note 2)	470,860	345,788	816,648	340,089
Receivables (net, where applicable, of allowances for uncollectibles):				
Accounts receivable	181,974	387,267	569,241	500
Property taxes	226,108	-0-	226,108	-0-
Sales tax receivable	123,672	-0-	123,672	61,836
Fines receivable	200,000	-0-	200,000	-0-
Prepaid expenses	43,671	-0-	43,671	-0-
Restricted cash and investments (note 2)	-0-	405,466	405,466	33,685
Prepaid service costs (note 5)	-0-	2,091,058	2,091,058	-0-
Deferred bond issue costs	106,515	17,703	124,218	19,869
Capital assets (note 6):				
Land	25,972	191,176	217,148	737,845
Construction in progress	-0-	6,500	6,500	-0-
Other capital assets, net of depreciation	9,039,164	16,732,948	25,772,112	-0-
<b>Total assets</b>	<u>11,337,120</u>	<u>20,609,128</u>	<u>31,946,248</u>	<u>1,390,427</u>
<b>LIABILITIES</b>				
Accounts payable	258,549	36,104	294,653	18,605
Accrued liabilities	137,724	78,903	216,627	13,515
Customer deposits	-0-	218,807	218,807	-0-
Noncurrent liabilities (note 9):				
Due within one year	900,966	166,426	1,067,392	95,000
Due in more than one year	8,168,165	7,170,348	15,338,513	1,076,951
<b>Total liabilities</b>	<u>9,465,404</u>	<u>7,670,588</u>	<u>17,135,992</u>	<u>1,204,071</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	319,669	9,631,624	9,951,293	-0-
Restricted for:				
Debt service	236,115	226,493	462,608	33,685
Capital improvements	-0-	178,973	178,973	-0-
Municipal court	62,391	-0-	62,391	-0-
Other purposes	111,848	-0-	111,848	-0-
Unrestricted (deficit)	1,141,693	2,901,450	4,043,143	152,671
<b>Total net assets</b>	<u>\$ 1,871,716</u>	<u>12,938,540</u>	<u>14,810,256</u>	<u>186,356</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, 2010

<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	\$ 1,897,604	932,582	116,760	-0-
Public safety	1,859,014	342,406	108,669	-0-
Public works	1,070,781	66,215	-0-	-0-
Parks and recreation	248,498	20,761	-0-	-0-
Other current	87,836	-0-	57,245	-0-
Interest on long-term debt (excluding \$2,316 of capital lease interest recorded in public safety)	461,782	-0-	-0-	-0-
Total governmental activities	<u>5,625,515</u>	<u>1,361,964</u>	<u>282,674</u>	<u>-0-</u>
Business-type activities:				
Utility system	<u>3,309,343</u>	<u>3,162,383</u>	<u>-0-</u>	<u>65,628</u>
Total primary government	<u>\$ 8,934,858</u>	<u>4,524,347</u>	<u>282,674</u>	<u>65,628</u>
Component unit:				
Elgin Economic Develop. Corp.	<u>\$ 262,883</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
General revenues:				
Property taxes levied for general purposes				
Property taxes levied for debt service				
Sales tax				
Franchise and other taxes				
Investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

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

Net (Expense) Revenue and  
Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
(848,262)	-0-	(848,262)	-0-
(1,407,939)	-0-	(1,407,939)	-0-
(1,004,566)	-0-	(1,004,566)	-0-
(227,737)	-0-	(227,737)	-0-
(30,591)	-0-	(30,591)	-0-
<u>(461,782)</u>	<u>-0-</u>	<u>(461,782)</u>	<u>-0-</u>
<u>(3,980,877)</u>	<u>-0-</u>	<u>(3,980,877)</u>	<u>-0-</u>
<u>-0-</u>	<u>(81,332)</u>	<u>(81,332)</u>	<u>-0-</u>
<u>(3,980,877)</u>	<u>(81,332)</u>	<u>(4,062,209)</u>	<u>-0-</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(262,883)</u>
\$ 1,424,535	-0-	1,424,535	-0-
1,221,590	-0-	1,221,590	-0-
766,951	-0-	766,951	383,465
424,865	-0-	424,865	-0-
9,626	5,114	14,740	2,345
72,555	-0-	72,555	115
545,971	(545,971)	-0-	-0-
<u>4,466,093</u>	<u>(540,857)</u>	<u>3,925,236</u>	<u>385,925</u>
485,216	(622,189)	(136,973)	123,042
<u>1,386,500</u>	<u>13,560,729</u>	<u>14,947,229</u>	<u>63,314</u>
<u>\$ 1,871,716</u>	<u>12,938,540</u>	<u>14,810,256</u>	<u>186,356</u>

**CITY OF ELGIN, TEXAS**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

September 30, 2010

	<u>General</u>	<u>Debt Service</u>	<u>2009 CO Construction</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 380,766	79,987	-0-
Investments	238,319	54,695	177,029
Receivables (net, where applicable, of allowances for uncollectibles):			
Accounts receivable	181,974	-0-	-0-
Property taxes	120,048	106,060	-0-
Sales tax receivable	123,672	-0-	-0-
Fines receivable	200,000	-0-	-0-
Due from other funds	7,870	-0-	-0-
Prepaid expenses	43,671	-0-	-0-
<b>Total assets</b>	<b>\$ 1,296,320</b>	<b>240,742</b>	<b>177,029</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 249,333	4,627	-0-
Accrued liabilities	63,694	-0-	-0-
Due to other funds	-0-	-0-	7,870
Deferred revenue	320,048	106,060	-0-
<b>Total liabilities</b>	<b>633,075</b>	<b>110,687</b>	<b>7,870</b>
Fund Balances			
Nonspendable:			
Prepaid expenses	43,671	-0-	-0-
Restricted for:			
Debt service	-0-	130,055	-0-
Capital projects	-0-	-0-	169,159
Municipal court	62,391	-0-	-0-
Other purposes (note 11)	4,329	-0-	-0-
Committed to:			
Morris Park	-0-	-0-	-0-
Other purposes (note 11)	2,449	-0-	-0-
Unassigned	550,405	-0-	-0-
<b>Total fund balances</b>	<b>663,245</b>	<b>130,055</b>	<b>169,159</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,296,320</b>	<b>240,742</b>	<b>177,029</b>

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

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

<u>Morris Park Bldg Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
306,019	152,412	919,184
-0-	817	470,860
-0-	-0-	181,974
-0-	-0-	226,108
-0-	-0-	123,672
-0-	-0-	200,000
-0-	-0-	7,870
-0-	-0-	43,671
<u>306,019</u>	<u>153,229</u>	<u>2,173,339</u>
-0-	4,589	258,549
-0-	-0-	63,694
-0-	-0-	7,870
-0-	-0-	426,108
<u>-0-</u>	<u>4,589</u>	<u>756,221</u>
-0-	-0-	43,671
-0-	-0-	130,055
-0-	-0-	169,159
-0-	-0-	62,391
-0-	107,519	111,848
306,019	-0-	306,019
-0-	41,121	43,570
-0-	-0-	550,405
<u>306,019</u>	<u>148,640</u>	<u>1,417,118</u>
<u>306,019</u>	<u>153,229</u>	<u>2,173,339</u>
		\$ 1,417,118
		426,108
		9,065,136
		106,515
		(9,069,131)
		(74,030)
		<u>\$ 1,871,716</u>

**CITY OF ELGIN, TEXAS**

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

For the Year Ended September 30, 2010

	<u>General</u>	<u>Debt Service</u>	<u>2009 CO Construction</u>
<b>REVENUES</b>			
Property taxes	\$ 1,413,580	1,212,874	-0-
Sales tax	766,951	-0-	-0-
Franchise and other taxes	377,480	-0-	-0-
Licenses and permits	66,215	-0-	-0-
Fines	242,406	-0-	-0-
Intergovernmental	201,379	-0-	-0-
Charges for services	953,343	-0-	-0-
Investment earnings	3,305	3,446	445
Miscellaneous	72,555	-0-	-0-
Total revenues	<u>4,097,214</u>	<u>1,216,320</u>	<u>445</u>
<b>EXPENDITURES</b>			
Current:			
General government	1,815,961	-0-	-0-
Public safety	1,863,491	-0-	-0-
Public works	786,678	-0-	-0-
Parks and recreation	230,736	-0-	-0-
Other current	-0-	-0-	-0-
Debt service:			
Principal	-0-	857,458	-0-
Interest and other charges	-0-	450,163	-0-
Debt issuance costs	12,410	-0-	-0-
Total expenditures	<u>4,709,276</u>	<u>1,307,621</u>	<u>-0-</u>
Excess (deficiency) of revenues over expenditures	<u>(612,062)</u>	<u>(91,301)</u>	<u>445</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from issue of debt	180,000	-0-	-0-
Transfers in	530,000	115,644	-0-
Transfers out	(33,248)	-0-	(66,425)
Total other financing sources (uses)	<u>676,752</u>	<u>115,644</u>	<u>(66,425)</u>
Net change in fund balances	64,690	24,343	(65,980)
Fund balances - beginning	<u>598,555</u>	<u>105,712</u>	<u>235,139</u>
Fund balances - ending	<u>\$ 663,245</u>	<u>130,055</u>	<u>169,159</u>

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

<u>Morris Park Bldg Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
-0-	-0-	2,626,454
-0-	-0-	766,951
-0-	47,385	424,865
-0-	-0-	66,215
-0-	-0-	242,406
-0-	-0-	201,379
-0-	-0-	953,343
1,720	710	9,626
-0-	81,295	153,850
<u>1,720</u>	<u>129,390</u>	<u>5,445,089</u>
-0-	-0-	1,815,961
-0-	20,705	1,884,196
-0-	-0-	786,678
-0-	-0-	230,736
-0-	87,836	87,836
-0-	-0-	857,458
-0-	-0-	450,163
-0-	-0-	12,410
<u>-0-</u>	<u>108,541</u>	<u>6,125,438</u>
<u>1,720</u>	<u>20,849</u>	<u>(680,349)</u>
-0-	-0-	180,000
-0-	-0-	645,644
-0-	-0-	(99,673)
<u>-0-</u>	<u>-0-</u>	<u>725,971</u>
1,720	20,849	45,622
<u>304,299</u>	<u>127,791</u>	<u>1,371,496</u>
<u>306,019</u>	<u>148,640</u>	<u>1,417,118</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, 2010

Net change in fund balances - total governmental funds	\$ 45,622
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.	179,495
Subtract depreciation expense.	(474,727)
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.	226,108
Subtract deferred property tax revenues at the beginning of the year.	(206,437)
Fine revenues:	
Add noncurrent receivables at the end of the year.	200,000
Subtract noncurrent receivables at the beginning of the year.	(100,000)
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.	(180,000)
Add back current period debt issue costs and discount or (premium).	12,410
Add back principal payments on long-term debt.	871,450
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.	(19,275)
Subtract amortization of deferred amount on refunding	(22,628)
Subtract unmatured accrued interest at the end of the year.	(74,030)
Add unmatured accrued interest at the beginning of the year.	104,314
Compensated absences:	
Subtract noncurrent liability at the end of the year.	(89,436)
Add noncurrent liability at the beginning of the year.	77,419
Net pension obligation:	
Subtract noncurrent liability at the end of the year.	(65,069)
Change in net assets of governmental activities	\$ <u><u>485,216</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, 2010

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 1,393,636	1,393,636	1,413,580	19,944
Sales tax	765,000	765,000	766,951	1,951
Franchise and other taxes	368,980	368,980	377,480	8,500
Licenses and permits	62,340	62,340	66,215	3,875
Fines	219,025	247,438	242,406	(5,032)
Intergovernmental	235,140	260,552	201,379	(59,173)
Charges for services	919,660	923,413	953,343	29,930
Investment earnings	8,000	3,500	3,305	(195)
Miscellaneous	21,700	66,705	72,555	5,850
Total revenues	<u>3,993,481</u>	<u>4,091,564</u>	<u>4,097,214</u>	<u>5,650</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,844,610	1,897,908	1,815,961	81,947
Public safety	1,617,050	1,686,819	1,863,491	(176,672)
Public works	802,421	813,076	786,678	26,398
Parks and recreation	269,400	274,710	230,736	43,974
Debt issuance costs	-0-	-0-	12,410	(12,410)
Total expenditures	<u>4,533,481</u>	<u>4,672,513</u>	<u>4,709,276</u>	<u>(36,763)</u>
Excess (deficiency) of revenues over expenditures	<u>(540,000)</u>	<u>(580,949)</u>	<u>(612,062)</u>	<u>(31,113)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from issue of debt	-0-	-0-	180,000	180,000
Transfers in	540,000	540,000	530,000	(10,000)
Transfers out	-0-	-0-	(33,248)	(33,248)
Total other financing sources (uses)	<u>540,000</u>	<u>540,000</u>	<u>676,752</u>	<u>136,752</u>
Net change in fund balances	-0-	(40,949)	64,690	105,639
Fund balances - beginning	<u>598,555</u>	<u>598,555</u>	<u>598,555</u>	<u>-0-</u>
Fund balances - ending	<u>\$ 598,555</u>	<u>557,606</u>	<u>663,245</u>	<u>105,639</u>

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

**CITY OF ELGIN, TEXAS**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS**

September 30, 2010

	<u>Business-type Activities Enterprise Funds</u>
	<u>Utility Fund</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 431,222
Investments	345,788
Receivables (net, where applicable, of allowances for uncollectibles):	
Accounts receivable	387,267
Total current assets	<u>1,164,277</u>
Noncurrent assets:	
Restricted cash and investments	405,466
Prepaid service costs	2,091,058
Deferred bond issue costs	17,703
Capital assets:	
Land	191,176
Construction in progress	6,500
Other capital assets, net of depreciation	16,732,948
Total noncurrent assets	<u>19,444,851</u>
<b>Total assets</b>	<u><u>20,609,128</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	36,104
Accrued liabilities	78,903
Customer deposits	218,807
Current portion of long-term debt	145,000
Total current liabilities	<u>478,814</u>
Noncurrent liabilities:	
Accrued vacation	24,482
Long-term debt, excluding current portion	7,167,292
Total noncurrent liabilities	<u>7,191,774</u>
<b>Total liabilities</b>	<u><u>7,670,588</u></u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	9,631,624
Restricted for debt service	226,493
Restricted for capital projects	178,973
Unrestricted (deficit)	2,901,450
<b>Total net assets</b>	\$ <u><u>12,938,540</u></u>

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

**CITY OF ELGIN, TEXAS**

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

For the Year Ended September 30, 2010

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	<u>Business-type Activities Enterprise Funds</u>
	<u>Utility Fund</u>
<b>OPERATING REVENUES</b>	
Charges for services (pledged to secure debt)	\$ <u>3,162,383</u>
<b>OPERATING EXPENSES</b>	
Cost of sewer services	1,392,269
Personnel services	605,073
Materials and supplies	69,501
Maintenance	86,574
Contractual services	386,662
Depreciation	451,074
Total operating expenses	<u>2,991,153</u>
Operating income (loss)	<u>171,230</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment earnings	5,114
Interest expense	(318,190)
Total nonoperating revenues (expenses)	<u>(313,076)</u>
Net income (loss) before contributions and transfers	(141,846)
Capital contributions - impact fees	65,628
Transfers in	33,248
Transfers out	<u>(579,219)</u>
Change in net assets	(622,189)
Net assets - beginning	<u>13,560,729</u>
Net assets - ending	\$ <u><u>12,938,540</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, 2010

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	<u>Business-type Activities Enterprise Funds</u>
	<u>Utility Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 3,155,513
Payments to suppliers	(2,065,391)
Payments to employees	(590,559)
Net cash provided (used) by operating activities	<u>499,563</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Operating transfers from other funds	33,248
Operating transfers to other funds	(579,219)
Net cash provided (used) by noncapital financing activities	<u>(545,971)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital contributions	65,628
Proceeds from capital debt	424,000
Purchases of capital assets	(101,057)
Interest payments on outstanding debt	(312,638)
Principal payments on outstanding debt	(144,000)
Net cash provided (used) by capital and related financing activities	<u>(68,067)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Liquidation of investments	396,787
Investment earnings	5,114
Net cash provided (used) by investing activities	<u>401,901</u>
Net increase (decrease) in cash and cash equivalents	287,426
Balances - beginning of the year	<u>143,796</u>
Balances - end of the year	<u>\$ 431,222</u>

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

**CITY OF ELGIN, TEXAS**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS**

(Continued)

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	<u>Business-type Activities Enterprise Funds</u>
	<u>Utility Fund</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ 171,230
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	451,074
Bad debt expense	24,000
Changes in assets and liabilities:	
Accounts receivable	(11,165)
Prepaid service costs	219,689
Accounts payable	(374,074)
Accrued liabilities	1,768
Customer deposits	4,295
Accrued vacation	(546)
Net pension obligation	<u>13,292</u>
Net cash provided (used) by operating activities	\$ <u><u>499,563</u></u>

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

# CITY OF ELGIN, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2010

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### 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

#### A. GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

#### B. SCOPE OF THE REPORTING ENTITY

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

(Continued)

# CITY OF ELGIN, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

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

#### C. FUND FINANCIAL STATEMENTS

Fund financial statements are used to present more detailed information about the City's most significant funds. Separate fund financial statements are prepared for governmental funds, 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.

**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.

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

(Continued)

# CITY OF ELGIN, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

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)

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### 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)

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**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)

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### **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. Additionally, all full-time employees receive one day of personal holiday per year which does not carry over from one year to the next. Employees are not paid for accumulated sick leave or personal holiday time; 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. COMMITTED FUND BALANCE**

The government's highest level of decision-making authority is the City Council, and a formal resolution of the City Council is required to establish or rescind a fund balance commitment.

#### **L. USE OF RESTRICTED RESOURCES**

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

(Continued)

# CITY OF ELGIN, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

#### M. PROGRAM REVENUES AND INDIRECT EXPENSES

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

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

#### N. 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.

#### O. 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 \$1,637,189 at year end and the bank balance was \$1,844,258. Of the bank balance, \$296,849 was insured by federal depository insurance and the remaining \$1,547,409 was collateralized with securities held by the City's agent (safekeeping bank) in the City's name.

(Continued)

**CITY OF ELGIN, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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**2 DEPOSITS AND INVESTMENTS (Continued)**

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.

<u>Investment</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity</u>	<u>Fair Value</u>
City of Elgin:			
TexPool local government investment pool	AAAm	34 days	\$ <u>986,025</u>
TexSTAR local government investment pool	AAAm	47 days	\$ <u>177,029</u>
Elgin Economic Development Corp.:			
TexPool local government investment pool	AAAm	34 days	\$ <u>340,089</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)

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**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, 2009 levy was based upon 100 percent of the assessed market value of \$343,727,596. 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, 2009 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 for	Net
	Receivables	Uncollectibles	Receivables
General Fund			
Property taxes receivable	\$ 141,233	(21,185)	120,048
Fines receivable	2,284,961	(2,084,961)	200,000
Debt Service Fund			
Property taxes receivable	124,777	(18,717)	106,060
Utility Fund			
Utility accounts receivable	611,267	(224,000)	387,267

(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, 2010, is \$2,091,058.

**6 CAPITAL ASSETS**

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Governmental activities:				
Land	\$ 25,972	-0-	-0-	25,972
Construction in progress	-0-	-0-	-0-	-0-
Total undepreciated assets	<u>25,972</u>	<u>-0-</u>	<u>-0-</u>	<u>25,972</u>
Other capital assets:				
Buildings and improvements	3,681,245	-0-	-0-	3,681,245
Equipment	2,464,870	179,495	-0-	2,644,365
Infrastructure	9,884,008	-0-	-0-	9,884,008
Total other capital assets at historical cost	<u>16,030,123</u>	<u>179,495</u>	<u>-0-</u>	<u>16,209,618</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,104,467)	(99,593)	-0-	(1,204,060)
Equipment	(2,215,679)	(62,593)	-0-	(2,278,272)
Infrastructure	(3,375,581)	(312,541)	-0-	(3,688,122)
Total accumulated depreciation	<u>(6,695,727)</u>	<u>(474,727)</u>	<u>-0-</u>	<u>(7,170,454)</u>
Other capital assets, net	<u>9,334,396</u>	<u>(295,232)</u>	<u>-0-</u>	<u>9,039,164</u>
Governmental activities capital assets, net	<u>\$ 9,360,368</u>	<u>(295,232)</u>	<u>-0-</u>	<u>9,065,136</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 90,219
Public safety	55,342
Public works	313,695
Parks and recreation	15,471
	<u>\$ 474,727</u>

(Continued)



**CITY OF ELGIN, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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**7 INTERFUND RECEIVABLES AND PAYABLES**

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

Due to general fund from:

2009 CO construction fund	\$	<u>7,870</u>
Total governmental funds	\$	<u>7,870</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.

**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:

Utility fund	\$	530,000
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Transfers to debt service fund from:

2009 CO construction fund		66,425
Utility fund		<u>49,219</u>
Total transfers to governmental funds	\$	<u>645,644</u>

Transfers to utility fund from:

General fund	\$	<u>33,248</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. A portion of the current debt service obligation was covered with a transfer of excess funds remaining in the 2009 CO construction fund. A portion of the proceeds of \$180,000 of public property finance contractual obligations recorded in the general fund was used for utility fund vehicles, and is reported as a transfer from the general fund to the utility fund.

(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, 2010.

	<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	\$ 8,760,000	180,000	(760,000)	8,180,000	740,000
Notes payable	4,406	-0-	(1,441)	2,965	1,470
Capital leases payable	908,626	-0-	(110,009)	798,617	84,569
	<u>9,673,032</u>	<u>180,000</u>	<u>(871,450)</u>	<u>8,981,582</u>	<u>826,039</u>
Less deferred amount on refunding	(89,584)	-0-	22,628	(66,956)	-0-
Total bonds, notes and leases payable	<u>9,583,448</u>	<u>180,000</u>	<u>(848,822)</u>	<u>8,914,626</u>	<u>826,039</u>
Other liabilities:					
Accrued vacation	77,419	86,944	(74,927)	89,436	74,927
Net pension obligation	-0-	65,069	-0-	65,069	-0-
Total other liabilities	<u>77,419</u>	<u>152,013</u>	<u>(74,927)</u>	<u>154,505</u>	<u>74,927</u>
Governmental activities					
long-term liabilities	<u>\$ 9,660,867</u>	<u>332,013</u>	<u>(923,749)</u>	<u>9,069,131</u>	<u>900,966</u>
Business-type activities					
Bonds and leases payable:					
Bonds and certificates of obligation	\$ 7,443,000	-0-	(144,000)	7,299,000	145,000
Other liabilities:					
Accrued vacation	25,028	20,880	(21,426)	24,482	21,426
Net pension obligation	-0-	13,292	-0-	13,292	-0-
Total other liabilities	<u>25,028</u>	<u>34,172</u>	<u>(21,426)</u>	<u>37,774</u>	<u>21,426</u>
Business-type activities					
long-term liabilities	<u>\$ 7,468,028</u>	<u>34,172</u>	<u>(165,426)</u>	<u>7,336,774</u>	<u>166,426</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	\$ 1,270,000	-0-	(70,000)	1,200,000	95,000
Less deferred amount on refunding	(31,011)	-0-	2,962	(28,049)	-0-
Component unit activities					
long-term liabilities	<u>\$ 1,238,989</u>	<u>-0-</u>	<u>(67,038)</u>	<u>1,171,951</u>	<u>95,000</u>

(Continued)

**CITY OF ELGIN, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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

Long-term debt at September 30, 2010, is composed of the following items:

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

\$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 \$345,000 through July 15, 2016; interest at 3.30 percent to 3.70 percent; outstanding bonds may be redeemed on or after July 15, 2015 at par plus accrued interest	1,895,000
Less deferred amount on refunding	(66,956)
\$2,000,000 Series 2007 combination tax and revenue certificates of obligation due in annual installments of \$75,000 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	1,815,000
\$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
\$180,000 Series 2010 public property finance contractual obligations due in annual installments of \$45,000 through July 15, 2014; interest at 2.86 percent to 3.31 percent	180,000

(Continued)

**CITY OF ELGIN, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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**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	2,965
Capital leases payable from the debt service fund (Note 10)	798,617
Accrued vacation related to governmental fund employees	89,436
Net pension obligation related to governmental fund employees	<u>65,069</u>
Total governmental activities long-term debt	\$ <u>9,069,131</u>

Payable out of the Utility Fund through revenues:

\$4,307,000 Series 2005 combination tax and limited surplus revenue certificates of obligation due in annual installments of \$110,000 to \$115,000 through July 15, 2045; interest at 4.375 percent; outstanding bonds may be redeemed at any time at par plus accrued interest	\$ 3,977,000
\$2,556,000 Series 2008 combination tax and limited surplus revenue certificates of obligation due in annual installments of \$27,000 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	2,530,000
\$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	792,000
Accrued vacation related to utility fund employees	24,482
Net pension obligation related to utility fund employees	<u>13,292</u>
Total business-type activities long-term debt	\$ <u>7,336,774</u>

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

\$700,000 Series 1999 sales tax revenue bonds due in annual installments of \$30,000 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	\$ 135,000
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(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 550,000  
 Less deferred amount on refunding (28,049)

\$680,000 Series 2007 sales tax revenue bonds due in annual installments of \$60,000 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 515,000

Total component unit long-term debt \$ 1,171,951

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
2011	\$ 741,470	354,236	145,000	312,662	95,000	64,589
2012	706,495	324,233	147,000	306,338	105,000	58,522
2013	730,000	296,641	148,000	299,953	110,000	51,786
2014	760,000	267,450	150,000	293,502	115,000	44,919
2015	750,000	237,113	152,000	286,967	120,000	38,008
2016 - 2020	2,495,000	777,285	795,000	1,333,885	415,000	100,338
2021 - 2025	1,440,000	306,210	871,000	1,154,206	240,000	26,474
2026 - 2030	560,000	47,202	942,000	959,164	0	0
2031 - 2035	0	0	1,032,000	747,338	0	0
2036 - 2040	0	0	1,141,000	514,629	0	0
2041 - 2045	0	0	1,274,000	256,371	0	0
2046 - 2050	0	0	502,000	32,438	0	0
	\$ <u>8,182,965</u>	<u>2,610,370</u>	<u>7,299,000</u>	<u>6,497,453</u>	<u>1,200,000</u>	<u>384,636</u>

(Continued)

**CITY OF ELGIN, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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

The City is not in compliance with all significant limitations and restrictions contained in the City's debt agreements. Certain of the City's debt agreements contain a covenant that the City will establish and maintain an interest and sinking fund at the City's official depository bank, and that the interest and sinking fund will be kept separate and apart from all other funds and accounts of the City, and will be used only for paying the interest and principal of the applicable obligations. The City consolidated most of its bank accounts during the fiscal year, and now the interest and sinking fund is not maintained in a separate account at the depository bank as required in those debt covenants.

The Economic Development Corporation Series 1999 bonds contain a covenant that the EDC shall make a monthly transfer of 1/60<sup>th</sup> of the required reserve amount into a reserve fund until the required reserve has been met. The balance in the reserve account at September 30, 2010, was \$33,685, which meets the reserve requirement.

**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 \$1,176,865. Accumulated depreciation of \$371,300 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, 2010, are composed of the following:

Governmental activities debt payable out of the debt service fund:

\$998,002 lease payable to Government Capital Corporation for RF meter system and various equipment; monthly installments of \$7,846 including principal and interest through September 1, 2019; interest at 4.91 percent	\$ 678,719
\$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	54,393
\$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>65,505</u>
Governmental activities capital leases payable	\$ <u>798,617</u>

(Continued)

**CITY OF ELGIN, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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**10 CAPITAL LEASES PAYABLE (Continued)**

Future minimum lease payments under capital leases are as follows:

<u>Fiscal Year</u>	<u>Governmental</u>
2011	\$ 118,756
2012	129,553
2013	117,986
2014	101,793
2015	101,793
2016-2020	<u>407,173</u>
	977,054
Less amount representing interest	<u>(178,437)</u>
Present value of minimum lease payments	\$ <u>798,617</u>

**11 FUND BALANCE RESTRICTED FOR OR COMMITTED TO OTHER PURPOSES**

Some fund balance restrictions and commitments have been grouped together under the heading of other purposes. Those amounts are detailed below.

Restricted for other purposes:

General fund:

Blue Santa \$ 4,329

Nonmajor governmental funds:

Hotel Motel Tax purposes 76,253

Channel 10 public safety purposes 31,266

Total restricted for other purposes \$ 111,848

Committed to other purposes:

General fund:

Library books \$ 2,449

Nonmajor governmental funds:

Elgin Main Street 41,121

Total committed for other purposes \$ 43,570

(Continued)

# CITY OF ELGIN, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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### 12 CAPITAL CONTRIBUTIONS

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

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

### 13 PENSION PLAN

#### Plan description

The City provides pension benefits for all of its 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](http://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 2009	Plan Year 2010
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

(Continued)

**CITY OF ELGIN, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**13 PENSION PLAN (Continued)**

**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.

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)	236,268
2. Interest on Net Pension Obligation	2,384
3. Adjustment to the ARC	( 1,941)
4. Annual Pension Cost (APC)	236,711
5. Contributions Made	<u>190,134</u>
6. Increase (decrease) in net pension obligation	46,577
7. Net Pension Obligation/(Asset), beginning of year	<u>31,784</u>
8. Net Pension Obligation/(Asset), end of year	<u>78,361</u>

**Trend Information  
Annual Pension Cost**

Accounting Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
9/30/08	\$150,963	\$150,963	100.0%	\$0
9/30/09	\$193,008	\$161,224	83.5%	\$31,784
9/30/10	\$236,711	\$190,134	80.3%	\$78,361

(Continued)

**CITY OF ELGIN, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**13 PENSION PLAN (Continued)**

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

Valuation Date	12/31/07	12/31/08	12/31/09
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	30 years; closed period	29 years; closed period	28 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	Amortized Cost	Amortized Cost	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.5%	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%	3.00%	3.00%
	2.1%	2.1%	2.1%

(Continued)

**CITY OF ELGIN, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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**13 PENSION PLAN (Continued)**

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

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability (AAL) ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Annual Covered Payroll <sup>1</sup> ( c )	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/07	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%
12/31/09	3,179,337	4,183,587	1,004,250	76.0%	2,520,082	39.8%

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

**14 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.

(Continued)

**CITY OF ELGIN, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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**14 SUPPLEMENTAL DEATH BENEFITS FUND (Continued)**

**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 2010, 2009 and 2008 were \$5,700, \$6,046 and \$5,976, 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>
2008	.03%	.03%	100.0%
2009	.02%	.02%	100.0%
2010	.02%	.02%	100.0%

**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 \$539,647. Utility customer deposits held at year end totaled \$218,807.

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## **CITY OF ELGIN, TEXAS**

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

(Continued)

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#### **17 SIGNIFICANT BUDGET VARIANCES**

The City issued public property finance contractual obligations in the amount of \$180,000 during the year for the purchase of equipment. Neither the proceeds from the issue of that debt or the capital outlay expenditure were included in the budget. That transaction accounts for capital outlay line item budget variances of \$91,000 for public safety, \$40,000 for public works, and \$33,000 for the transfer out of utility fund capital expenditures, the debt issuance costs budget variance of \$12,000, and for the positive budget variance of \$180,000 reflected under other financing sources.

The public works capital outlay line item variance was offset by positive variances of \$38,000 for personnel costs and \$20,000 for street repairs, resulting in an overall positive budget variance, with total actual expenditures being less than budgeted expenditures.

The police department reported additional line item overages of \$56,000 in personnel costs, \$9,000 in vehicle fuel costs, and \$18,000 in computer costs which, together with the \$91,000 capital outlay overage discussed above, account for the bulk of the total unfavorable budget variance of \$177,000.

The City also reported a significant unfavorable budget variance in the revenue category of intergovernmental revenues. \$34,000 represents budgeted revenues from Bastrop-Travis ESD #1 which were not received, and \$27,000 arises from a difference between budgeted and actual management fees from the Elgin Economic Development Corporation.

#### **18 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 currently in negotiations with LCRA to assume ownership and operations of the wastewater treatment plant. A debt issue will need to occur for this transaction with a possible purchase date within the last quarter of the 2011 fiscal year/first quarter of the 2012 fiscal year.

On December 5, 2000, the City of Elgin approved a Development Agreement with Novinger Resources, Inc., for the creation of Travis County MUD # 14. That agreement is for a 15 year term with the option of three 5 year extensions. The first 15 year term expires December 5, 2015.

**CITY OF ELGIN, TEXAS**

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS

September 30, 2010

	Hotel Motel Tax	Elgin Main Street Board	Police/ Channel 10 Special Revenue	Section 125 Fund
<b>ASSETS</b>				
Cash and cash equivalents	\$ 76,648	41,205	31,266	3,293
Investments	-0-	817	-0-	-0-
Other receivables	-0-	-0-	-0-	-0-
<b>Total assets</b>	<u>\$ 76,648</u>	<u>42,022</u>	<u>31,266</u>	<u>3,293</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accounts payable	\$ 395	901	-0-	3,293
Due to other funds	-0-	-0-	-0-	-0-
<b>Total liabilities</b>	<u>395</u>	<u>901</u>	<u>-0-</u>	<u>3,293</u>
Fund Balances				
Restricted for:				
Other purposes	76,253	-0-	31,266	-0-
Committed to:				
Other purposes	-0-	41,121	-0-	-0-
<b>Total fund balances</b>	<u>76,253</u>	<u>41,121</u>	<u>31,266</u>	<u>-0-</u>
<b>Total liabilities and fund balances</b>	<u>\$ 76,648</u>	<u>42,022</u>	<u>31,266</u>	<u>3,293</u>

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Total  
Nonmajor  
Governmental  
Funds

152,412  
817  
-0-  
153,229

4,589  
-0-  
4,589

107,519  
41,121  
148,640  
153,229

**CITY OF ELGIN, TEXAS**

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

For the Year Ended September 30, 2010

	Hotel Motel Tax	Elgin Main Street Board	Police/ Channel 10 Special Revenue	Section 125 Fund
<b>REVENUES</b>				
Other taxes	\$ 47,385	-0-	-0-	-0-
Investment earnings	441	269	-0-	-0-
Miscellaneous	-0-	57,245	24,050	-0-
Total revenues	<u>47,826</u>	<u>57,514</u>	<u>24,050</u>	<u>-0-</u>
<b>EXPENDITURES</b>				
Current:				
Public safety	-0-	-0-	20,705	-0-
Other current	32,187	55,649	-0-	-0-
Total expenditures	<u>32,187</u>	<u>55,649</u>	<u>20,705</u>	<u>-0-</u>
Excess (deficiency) of revenues over expenditures	15,639	1,865	3,345	-0-
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net change in fund balances	15,639	1,865	3,345	-0-
Fund balances - beginning	<u>60,614</u>	<u>39,256</u>	<u>27,921</u>	<u>-0-</u>
Fund balances - ending	<u>\$ 76,253</u>	<u>41,121</u>	<u>31,266</u>	<u>-0-</u>

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Total  
Nonmajor  
Governmental  
Funds

47,385  
710  
81,295  
129,390

20,705  
87,836  
108,541

20,849

-0-

20,849  
127,791  
148,640

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