

CITY OF ELGIN, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2011

GEORGE CHESTER DRAPER III

Certified Public Accountant

CITY OF ELGIN, TEXAS

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GEORGE CHESTER DRAPER III

CERTIFIED PUBLIC ACCOUNTANT

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Independent Auditor's Report

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

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Elgin, Texas, as of and for the year ended September 30, 2011, 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.

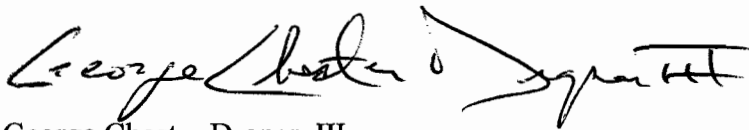
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform 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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated February 7, 2012, 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 3-11 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 written in a cursive style with a large, sweeping initial "G".

George Chester Draper, III
February 7, 2012

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2011

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, 2011. 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 \$15,276,360 (net assets). Of this amount \$2,862,547 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$440,079 during 2011.
- As of September 30, 2011, the City of Elgin's governmental funds reported combined ending fund balances of \$2,643,482. Of the ending fund balance, \$1,543,027 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); \$287,892 is committed by the City for specific purposes; (e.g., Morris Building Fund, Library books, Elgin Main Street); \$800,021 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, still not seeing any new growth and having concerns with the trend of declining sales tax throughout the state, continues 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 a broad overview of the City's finances, in a manner similar to a private-sector business.

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

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but 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 \$15,276,360 as of September 30, 2011.

The largest portion of the City’s net assets \$11,519,275 (75.4%) 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 \$894,538 (5.86%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$2,862,547 (18.74%) may be used to meet the government’s ongoing obligations to citizens and creditors.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010*	2011	2010*	2011	2010*
Current and other assets	\$ 3,661,976	2,243,851	5,415,240	3,732,662	9,077,216	5,976,513
Capital assets	8,647,143	9,065,136	23,512,474	16,930,624	32,159,617	25,995,760
Total assets	<u>12,309,119</u>	<u>11,308,987</u>	<u>28,927,714</u>	<u>20,663,286</u>	<u>41,236,833</u>	<u>31,972,273</u>
Long-term liabilities	(9,487,077)	(9,069,131)	(15,470,517)	(7,336,774)	(24,957,594)	(16,405,905)
Other liabilities	(448,036)	(396,273)	(554,843)	(333,814)	(1,002,879)	(730,087)
Total liabilities	<u>(9,935,113)</u>	<u>(9,465,404)</u>	<u>(16,025,360)</u>	<u>(7,670,588)</u>	<u>(25,960,473)</u>	<u>(17,135,992)</u>
Net assets:						
Invested in capital assets, net of debt	619,991	319,669	10,899,284	9,631,624	11,519,275	9,951,293
Restricted	393,963	410,354	500,575	405,466	894,538	815,820
Unrestricted	1,360,052	1,113,560	1,502,495	2,955,608	2,862,547	4,069,168
Total net assets	<u>\$ 2,374,006</u>	<u>1,843,583</u>	<u>12,902,354</u>	<u>12,992,698</u>	<u>15,276,360</u>	<u>14,836,281</u>

* Restated for the effects of a prior period adjustment

As of September 30, 2011, both for the government as a whole, as well as for its separate governmental and business-type activities, the City reported no negative balances (deficiencies) in net assets. 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, 2011. The City’s net assets increased by \$440,079. The Governmental activities increased the City’s net assets by \$530,423 and the Business-type activities decreased the City’s net assets by \$ 90,344. The most significant increase in the governmental activities is primarily due to the increase in revenues discussed below while expenditures remained relatively constant from prior year. The business-type activities reflected significant increases in both revenues and expenses, but the increase in revenues far exceeded the increase in expenses. Details of those changes are discussed below.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010*	2011	2010*	2011	2010*
Change in net assets						
Total revenues	\$ 5,724,678	5,590,785	4,003,340	3,233,125	9,728,018	8,823,910
Total expenses	(5,653,770)	(5,625,515)	(3,634,169)	(3,309,343)	(9,287,939)	(8,934,858)
Change before transfers	70,908	(34,730)	369,171	(76,218)	440,079	(110,948)
Transfers	459,515	545,971	(459,515)	(545,971)	-0-	-0-
Change in net assets	530,423	511,241	(90,344)	(622,189)	440,079	(110,948)
Net assets - beginning	1,843,583	1,332,342	12,992,698	13,614,887	14,836,281	14,947,229
Net assets - ending	\$ 2,374,006	1,843,583	12,902,354	12,992,698	15,276,360	14,836,281

* Restated for the effects of a prior period adjustment

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010*	2011	2010	2011	2010*
Revenues						
Program revenues:						
Charges for services	\$ 1,327,663	1,361,964	3,891,255	3,162,383	5,218,918	4,524,347
Operating grants and contributions	315,696	308,699	-0-	-0-	315,696	308,699
Capital grants and contributions	-0-	-0-	94,200	65,628	94,200	65,628
General revenues:						
Property taxes	2,690,033	2,646,125	-0-	-0-	2,690,033	2,646,125
Sales tax	797,817	766,951	-0-	-0-	797,817	766,951
Franchise and other taxes	453,855	424,865	-0-	-0-	453,855	424,865
Investment earnings	9,262	9,626	5,463	5,114	14,725	14,740
Miscellaneous	130,352	72,555	12,422	-0-	142,774	72,555
Total revenues	\$ 5,724,678	5,590,785	4,003,340	3,233,125	9,728,018	8,823,910

* Restated for the effects of a prior period adjustment

CITY OF ELGIN, TEXAS

MANAGEMENT’S DISCUSSION AND ANALYSIS

(Continued)

Property tax rates increased slightly by 2.4% for an increase of \$43,908. Sales tax increased by \$30,866 after a small growth in new business. Franchise fee’s increased by \$28,990 after changes occurred to electric rates by Oncor.

Charges for services in the Utility fund increased due to the extreme drought that existed during 2011 which resulted in higher than normal consumption during that year. In addition with the purchase of the sewer system the City now has an agreement with Travis Co. Mud 14 for the treatment of sewer for the homes located in their district. These factors combined with an increase in the base rate for water and sewer services account for the significant increase in revenues for the 2011 budget year.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Expenses						
General government	\$ 1,896,361	1,897,604	-0-	-0-	1,896,361	1,897,604
Public safety	1,857,251	1,859,014	-0-	-0-	1,857,251	1,859,014
Public works	1,081,701	1,070,781	-0-	-0-	1,081,701	1,070,781
Parks and recreation	283,529	248,498	-0-	-0-	283,529	248,498
Other current	96,939	87,836	-0-	-0-	96,939	87,836
Interest on long-term debt	437,989	461,782	-0-	-0-	437,989	461,782
Utility system	-0-	-0-	3,634,169	3,309,343	3,634,169	3,309,343
Total expenses	\$ 5,653,770	5,625,515	3,634,169	3,309,343	9,287,939	8,934,858

Governmental expenses increased overall by only \$28,255, while utility system expenses increased by approximately \$325,000. Adding the sewer plant to the City’s depreciation schedule was the primary factor in an increase of depreciation expense of almost \$200,000. The accrual of interest expense on the new debt issued resulted in an increase of interest expense by approximately \$70,000.

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 \$2,643,482. Approximately 30.26% of this total amount, \$800,021 is unassigned fund balance. The remainder of the fund balance \$1,843,461 is un-spendable, restricted, or committed.

The General Fund reported an increase in unassigned fund balance of \$249,616. At the end of the year, the general fund had an unassigned fund balance of \$800,021. That amount represents around 2 months in terms of the general fund’s annual expenditures. The Debt Service Fund has a fund balance of

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

\$77,860, which is only 6% 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 \$124,377. The Morris Park Building Fund has a fund balance of \$252,154.

2011 CO construction fund has a fund balance of \$1,131,509 after the issue of Certificates of Obligation for the construction of a new public works facility, future park and recreation improvements, purchase of land for park and recreation improvements, equipment for public works, park and recreation, public safety, court and general administration. As of September 30, 2011 funds expended were for construction in progress.

The utility fund has net assets of \$12,902,354 at the end of the year. However, \$10,899,284 is invested in capital assets, net of related debt. The total also includes amounts restricted for debt service of \$226,676 and restricted for capital projects of \$273,899. The remaining \$1,502,495 represents a little over 4 months of utility fund 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 \$ 168,025 or 3.654%. The primary differences were in direct correlation to revenues increasing as follows :

- \$25,285 in current property taxes.
- \$20,000 refuse contract award.
- \$30,000 equipment auction proceeds.
- \$17,000 equity return.
- \$ 8,857 licenses/permit fees.

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, 2011, amounts to \$32,159,617 (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:

- Construction in progress for a Public Works Facility, Park and Recreational Improvements both in the Governmental Fund for approximately \$ 83,157.
- Construction in progress for Lift Station and Force Main, Sewer Plant improvements in the Utility Fund for approximately \$31,965
- Purchased various pieces of equipment in the utility fund for approximately \$209,144.

CITY OF ELGIN, TEXAS

MANAGEMENT’S DISCUSSION AND ANALYSIS

(Continued)

- Purchased Trucks (1) in the Utility Fund for approximately \$19,774.
- Re-Purchased the Sewer Plant Facility and wastewater lines in the Utility Fund for \$6,966,182.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Land	\$ 25,972	25,972	191,176	191,176	217,148	217,148
Construction in progress	83,157	-0-	38,465	6,500	121,622	6,500
Distribution and collection systems	-0-	-0-	22,206,332	15,785,968	22,206,332	15,785,968
Buildings and improvements	2,377,592	2,477,185	83,686	89,432	2,461,278	2,566,617
Equipment	275,762	366,093	992,815	857,548	1,268,577	1,223,641
Infrastructure	5,884,660	6,195,886	-0-	-0-	5,884,660	6,195,886
Totals at historical cost	\$ <u>8,647,143</u>	<u>9,065,136</u>	<u>23,512,474</u>	<u>16,930,624</u>	<u>32,159,617</u>	<u>25,995,760</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 \$24,536,668.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Bonds and certificates of obligation	\$ 8,597,278	8,180,000	15,231,722	7,299,000	23,829,000	15,479,000
Notes	1,495	2,965	-0-	-0-	1,495	2,965
Capital leases payable	706,173	798,617	-0-	-0-	706,173	798,617
Totals	\$ <u>9,304,946</u>	<u>8,981,582</u>	<u>15,231,722</u>	<u>7,299,000</u>	<u>24,536,668</u>	<u>16,280,582</u>

During the 2011 fiscal year, the City issued \$9,235,000 in certificates of obligations, which was offset by \$978,914 in existing debt retirements.

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

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

debt, and the amount of taxes which are not collected. The City's current debt service tax rate of \$0.315943 is approximately 21% 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 uncertain economic times.

In the fiscal year 2012 Budget, the adopted 2011 tax rate of \$.753900 per \$100 valuation is broken down by Maintenance & Operation (M&O) \$.501915 and Interest & Sinking (I&S) \$.251985. This is an overall decrease of the total prior 2010 tax rate by 3.0478%. The breakdown however for 2011 tax rate is an increase to M&O by 8.7203% and a decrease to I&S by 20.2435%. During the 2011 budget year the City re-purchased the sewer plant facility and wastewater lines from Lower Colorado River Authority (LCRA). Debt was issued for the repurchase of the facility & lines as well as new construction projects, equipment, and land purchases for both General Fund and Utility Fund. The elimination of costs paid to LCRA versus costs for the City to operate the plant, allowed for the utility fund to transfer additional funds to pay for outstanding I&S debt that was issued in the past for wastewater operations. These circumstances allowed for the City to increase the M&O side while still lowering the overall tax rate.

General Fund revenues are budgeted to increase by 1.53% from the fiscal year 2011 final budget. The majority of the new revenues are from property tax revenue and building permit fees associated with the Austin Community College campus construction. Although there is a budget increase on the Maintenance and Operation side of the tax rate, as noted above the overall tax rate was decreased. Most of the permit fees associated with ACC are offset with an expense in building and inspection services.

The Utility Fund revenues are budgeted with no increase from fiscal year 2011 budget. Although the actual revenues in 2011 were significantly larger than the 2011 budgeted numbers, this was representative of the extreme drought for the state. There is no rate increase in either water or wastewater for the upcoming budget.

The 2012 budget also begins a "pay as you go" Capital Replacement Fund for future capital expenditures.

The 2012 budget does not include any cost of living or step increase for any employees for a third year in a row. It does include a smaller increase in the cost of health insurance rates compared to the prior year and a continuation of the phase out of the City's current policy to supplement \$175 towards dependent coverage.

Austin Community College completed the purchase of property in Elgin and is now in construction phase for a 95 acre campus. 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

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

impact of such a facility will bring new retail, medical facilities, and restaurants. Currently the City has continued 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.

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CITY OF ELGIN, TEXAS

STATEMENT OF NET ASSETS

September 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents (note 2)	\$ 1,070,494	998,207	2,068,701	312,993
Investments (note 2)	1,630,706	346,231	1,976,937	340,523
Receivables (net, where applicable, of allowances for uncollectibles):				
Accounts receivable	157,711	543,142	700,853	500
Property taxes	238,757	-0-	238,757	-0-
Sales tax receivable	141,373	-0-	141,373	70,686
Fines receivable	300,000	-0-	300,000	-0-
Prepaid expenses	12,542	5,823	18,365	-0-
Restricted cash and investments (note 2)	-0-	3,320,900	3,320,900	-0-
Deferred bond issue costs	110,393	200,937	311,330	16,413
Capital assets (note 6):				
Land	25,972	191,176	217,148	737,845
Construction in progress	83,157	38,465	121,622	-0-
Other capital assets, net of depreciation	8,538,014	23,282,833	31,820,847	-0-
Total assets	<u>12,309,119</u>	<u>28,927,714</u>	<u>41,236,833</u>	<u>1,478,960</u>
LIABILITIES				
Accounts payable	291,163	164,762	455,925	116
Accrued liabilities	156,873	162,556	319,429	12,245
Customer deposits	-0-	227,525	227,525	-0-
Noncurrent liabilities (note 8):				
Due within one year	906,610	395,875	1,302,485	105,000
Due in more than one year	8,580,467	15,074,642	23,655,109	974,887
Total liabilities	<u>9,935,113</u>	<u>16,025,360</u>	<u>25,960,473</u>	<u>1,092,248</u>
NET ASSETS				
Invested in capital assets, net of related debt	619,991	10,899,284	11,519,275	-0-
Restricted for:				
Debt service	184,682	226,676	411,358	-0-
Capital improvements	-0-	273,899	273,899	-0-
Municipal court	56,198	-0-	56,198	-0-
Other purposes	153,083	-0-	153,083	-0-
Unrestricted (deficit)	1,360,052	1,502,495	2,862,547	386,712
Total net assets	<u>\$ 2,374,006</u>	<u>12,902,354</u>	<u>15,276,360</u>	<u>386,712</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, 2011

<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	\$ 1,896,361	871,722	139,964	-0-
Public safety	1,857,251	356,290	128,245	-0-
Public works	1,081,701	75,355	-0-	-0-
Parks and recreation	283,529	24,296	-0-	-0-
Other current	96,939		47,487	-0-
Interest on long-term debt	437,989	-0-	-0-	-0-
Total governmental activities	<u>5,653,770</u>	<u>1,327,663</u>	<u>315,696</u>	<u>-0-</u>
Business-type activities:				
Utility system	<u>3,634,169</u>	<u>3,891,255</u>	<u>-0-</u>	<u>94,200</u>
Total primary government	<u>\$ 9,287,939</u>	<u>5,218,918</u>	<u>315,696</u>	<u>94,200</u>
Component unit:				
Elgin Economic Develop. Corp.	<u>\$ 200,789</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				
Gain on sale of equipment				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Prior period adjustment (note 18)				
Net assets - ending				

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
(884,675)	-0-	(884,675)	-0-
(1,372,716)	-0-	(1,372,716)	-0-
(1,006,346)	-0-	(1,006,346)	-0-
(259,233)	-0-	(259,233)	-0-
(49,452)	-0-	(49,452)	-0-
(437,989)	-0-	(437,989)	-0-
<u>(4,010,411)</u>	<u>-0-</u>	<u>(4,010,411)</u>	<u>-0-</u>
<u>-0-</u>	<u>351,286</u>	<u>351,286</u>	<u>-0-</u>
<u>(4,010,411)</u>	<u>351,286</u>	<u>(3,659,125)</u>	<u>-0-</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(200,789)</u>
\$ 1,611,048	-0-	1,611,048	-0-
1,078,985	-0-	1,078,985	-0-
797,817	-0-	797,817	398,909
453,855	-0-	453,855	-0-
9,262	5,463	14,725	2,136
130,352	-0-	130,352	100
-0-	12,422	12,422	-0-
459,515	(459,515)	-0-	-0-
<u>4,540,834</u>	<u>(441,630)</u>	<u>4,099,204</u>	<u>401,145</u>
530,423	(90,344)	440,079	200,356
1,871,716	12,938,540	14,810,256	186,356
<u>(28,133)</u>	<u>54,158</u>	<u>26,025</u>	<u>-0-</u>
<u>\$ 2,374,006</u>	<u>12,902,354</u>	<u>15,276,360</u>	<u>386,712</u>

CITY OF ELGIN, TEXAS

**BALANCE SHEET
GOVERNMENTAL FUNDS**

September 30, 2011

	<u>General</u>	<u>Debt Service</u>	<u>2011 CO Construction</u>
ASSETS			
Cash and cash equivalents	\$ 601,386	24,624	-0-
Investments	291,506	54,765	1,159,241
Receivables (net, where applicable, of allowances for uncollectibles):			
Accounts receivable	157,711	-0-	-0-
Property taxes	131,935	106,822	-0-
Sales tax receivable	141,373	-0-	-0-
Fines receivable	300,000	-0-	-0-
Due from other funds	1,481	-0-	-0-
Prepaid expenses	12,542	-0-	-0-
Total assets	<u>\$ 1,637,934</u>	<u>186,211</u>	<u>1,159,241</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 238,998	1,529	26,251
Accrued liabilities	78,181	-0-	-0-
Due to other funds	-0-	-0-	1,481
Deferred revenue	431,935	106,822	-0-
Total liabilities	<u>749,114</u>	<u>108,351</u>	<u>27,732</u>
Fund Balances			
Nonspendable:			
Prepaid expenses	12,542	-0-	-0-
Restricted for:			
Debt service	-0-	77,860	-0-
Capital projects	-0-	-0-	1,131,509
Municipal court	56,198	-0-	-0-
Other purposes (note 10)	13,521	-0-	-0-
Committed to:			
Morris Park	-0-	-0-	-0-
Other purposes (note 10)	6,538	-0-	-0-
Unassigned	800,021	-0-	-0-
Total fund balances	<u>888,820</u>	<u>77,860</u>	<u>1,131,509</u>
Total liabilities and fund balances	<u>\$ 1,637,934</u>	<u>186,211</u>	<u>1,159,241</u>

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

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

Other Governmental Funds	Total Governmental Funds
--------------------------------	--------------------------------

444,484	1,070,494
125,194	1,630,706

-0-	157,711
-0-	238,757
-0-	141,373
-0-	300,000
-0-	1,481
-0-	12,542

<u>569,678</u>	<u>3,553,064</u>
----------------	------------------

24,385	291,163
-0-	78,181
-0-	1,481
-0-	538,757

<u>24,385</u>	<u>909,582</u>
---------------	----------------

-0-	12,542
-----	--------

-0-	77,860
124,377	1,255,886
-0-	56,198
139,562	153,083

252,154	252,154
29,200	35,738
-0-	800,021

<u>545,293</u>	<u>2,643,482</u>
----------------	------------------

<u>569,678</u>	<u>3,553,064</u>
----------------	------------------

\$ 2,643,482
538,757
8,647,143
110,393
(9,487,077)
(78,692)
<u>\$ 2,374,006</u>

CITY OF ELGIN, TEXAS

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

For the Year Ended September 30, 2011

	<u>General</u>	<u>Debt Service</u>	<u>2011 CO Construction</u>
REVENUES			
Property taxes	\$ 1,599,161	1,078,223	-0-
Sales tax	797,817	-0-	-0-
Franchise and other taxes	404,110	-0-	-0-
Licenses and permits	75,355	-0-	-0-
Fines	256,290	-0-	-0-
Intergovernmental	245,671	-0-	-0-
Charges for services	896,018	-0-	-0-
Investment earnings	4,216	2,376	241
Miscellaneous	130,352	-0-	-0-
Total revenues	<u>4,408,990</u>	<u>1,080,599</u>	<u>241</u>
EXPENDITURES			
Current:			
General government	1,790,909	-0-	-0-
Public safety	1,765,519	-0-	-0-
Public works	753,679	-0-	-0-
Parks and recreation	255,817	-0-	-0-
Other current	-0-	-0-	-0-
Capital outlay	-0-	-0-	27,732
Debt service:			
Principal	-0-	833,914	-0-
Interest and other charges	-0-	393,880	-0-
Debt issuance costs	-0-	-0-	25,024
Total expenditures	<u>4,565,924</u>	<u>1,227,794</u>	<u>52,756</u>
Excess (deficiency) of revenues over expenditures	<u>(156,934)</u>	<u>(147,195)</u>	<u>(52,515)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from issue of debt	-0-	-0-	1,157,278
Premium on debt issue	-0-	-0-	26,746
Transfers in	410,642	95,000	-0-
Transfers out	-0-	-0-	-0-
Total other financing sources (uses)	<u>410,642</u>	<u>95,000</u>	<u>1,184,024</u>
Net change in fund balances	253,708	(52,195)	1,131,509
Fund balances - beginning	663,245	130,055	-0-
Prior period adjustment (note 18)	(28,133)	-0-	-0-
Fund balances - ending	<u>\$ 888,820</u>	<u>77,860</u>	<u>1,131,509</u>

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

Other Governmental Funds	Total Governmental Funds
-0-	2,677,384
-0-	797,817
49,745	453,855
-0-	75,355
-0-	256,290
-0-	245,671
-0-	896,018
2,429	9,262
70,025	200,377
<u>122,199</u>	<u>5,612,029</u>
-0-	1,790,909
2,233	1,767,752
-0-	753,679
-0-	255,817
96,939	96,939
55,425	83,157
-0-	833,914
-0-	393,880
-0-	25,024
<u>154,597</u>	<u>6,001,071</u>
<u>(32,398)</u>	<u>(389,042)</u>
-0-	1,157,278
-0-	26,746
-0-	505,642
<u>(46,127)</u>	<u>(46,127)</u>
<u>(46,127)</u>	<u>1,643,539</u>
(78,525)	1,254,497
623,818	1,417,118
-0-	(28,133)
<u>545,293</u>	<u>2,643,482</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, 2011

Net change in fund balances - total governmental funds	\$ 1,254,497
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.	83,157
Subtract depreciation expense.	(501,150)
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.	238,757
Subtract deferred property tax revenues at the beginning of the year.	(226,108)
Fine revenues:	
Add noncurrent receivables at the end of the year.	300,000
Subtract noncurrent receivables at the beginning of the year.	(200,000)
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Subtract current period debt issued.	(1,157,278)
Add back current period debt issue costs and discount or (premium).	(1,722)
Add back principal payments on long-term debt.	833,914
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.	(21,146)
Subtract amortization of deferred amount on refunding	(18,302)
Subtract unmatured accrued interest at the end of the year.	(78,692)
Add unmatured accrued interest at the beginning of the year.	74,030
Compensated absences:	
Subtract noncurrent liability at the end of the year.	(101,046)
Add noncurrent liability at the beginning of the year.	89,436
Net pension obligation:	
Subtract noncurrent liability at the end of the year.	(102,993)
Add noncurrent liability at the beginning of the year.	65,069
Change in net assets of governmental activities	\$ <u><u>530,423</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, 2011

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 1,562,015	1,587,300	1,599,161	11,861
Sales tax	765,000	765,000	797,817	32,817
Franchise and other taxes	385,000	385,000	404,110	19,110
Licenses and permits	64,340	73,197	75,355	2,158
Fines	215,200	215,200	256,290	41,090
Intergovernmental	247,312	273,861	245,671	(28,190)
Charges for services	916,050	899,555	896,018	(3,537)
Investment earnings	3,500	4,100	4,216	116
Miscellaneous	43,978	138,399	130,352	(8,047)
Total revenues	<u>4,202,395</u>	<u>4,341,612</u>	<u>4,408,990</u>	<u>67,378</u>
EXPENDITURES				
Current:				
General government	1,867,360	1,931,725	1,790,909	140,816
Public safety	1,693,561	1,771,024	1,765,519	5,505
Public works	770,803	791,601	753,679	37,922
Parks and recreation	266,186	271,585	255,817	15,768
Total expenditures	<u>4,597,910</u>	<u>4,765,935</u>	<u>4,565,924</u>	<u>200,011</u>
Excess (deficiency) of revenues over expenditures	(395,515)	(424,323)	(156,934)	267,389
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>395,515</u>	<u>409,515</u>	<u>410,642</u>	<u>1,127</u>
Net change in fund balances	-0-	(14,808)	253,708	268,516
Fund balances - beginning	663,245	663,245	663,245	-0-
Prior period adjustment (note 18)	<u>-0-</u>	<u>26,025</u>	<u>(28,133)</u>	<u>(54,158)</u>
Fund balances - ending	<u>\$ 663,245</u>	<u>674,462</u>	<u>888,820</u>	<u>214,358</u>

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

CITY OF ELGIN, TEXAS

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

September 30, 2011

	<u>Business-type Activities Enterprise Funds</u>
	<u>Utility Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 998,207
Investments	346,231
Receivables (net, where applicable, of allowances for uncollectibles):	
Accounts receivable	543,142
Prepaid expenses	5,823
Total current assets	<u>1,893,403</u>
Noncurrent assets:	
Restricted cash and investments	3,320,900
Deferred bond issue costs	200,937
Capital assets:	
Land	191,176
Construction in progress	38,465
Other capital assets, net of depreciation	<u>23,282,833</u>
Total noncurrent assets	<u>27,034,311</u>
Total assets	<u><u>28,927,714</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	164,762
Accrued liabilities	162,556
Customer deposits	227,525
Current portion of long-term debt	378,875
Total current liabilities	<u>933,718</u>
Noncurrent liabilities:	
Accrued vacation	29,186
Long-term debt, excluding current portion	<u>15,062,456</u>
Total noncurrent liabilities	<u>15,091,642</u>
Total liabilities	<u><u>16,025,360</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	10,899,284
Restricted for debt service	226,676
Restricted for capital projects	273,899
Unrestricted (deficit)	<u>1,502,495</u>
Total net assets	<u><u>\$ 12,902,354</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, 2011

	<u>Business-type Activities Enterprise Funds</u>
	<u>Utility Fund</u>
OPERATING REVENUES	
Charges for services (pledged to secure debt)	\$ 3,891,255
OPERATING EXPENSES	
Cost of sewer services	1,163,040
Personnel services	725,469
Materials and supplies	61,611
Maintenance	163,741
Contractual services	485,094
Depreciation	645,284
Total operating expenses	<u>3,244,239</u>
Operating income (loss)	<u>647,016</u>
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	5,463
Gain on sale of equipment	12,422
Interest expense	(389,930)
Total nonoperating revenues (expenses)	<u>(372,045)</u>
Net income (loss) before contributions and transfers	274,971
Capital contributions - impact fees	94,200
Transfers out	<u>(459,515)</u>
Change in net assets	(90,344)
Net assets - beginning	12,938,540
Prior period adjustment (note 18)	<u>54,158</u>
Net assets - ending	<u>\$ 12,902,354</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, 2011

	<u>Business-type Activities Enterprise Funds</u>
	<u>Utility Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 3,781,098
Payments to suppliers	(1,571,042)
Payments to employees	(702,504)
Net cash provided (used) by operating activities	<u>1,507,552</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating transfers to other funds	(459,515)
Net cash provided (used) by noncapital financing activities	<u>(459,515)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	94,200
Proceeds from capital debt	8,264,943
Payment of bond issue costs	(184,272)
Purchases of capital assets	(5,300,269)
Proceeds from sale of capital assets	12,422
Interest payments on outstanding debt	(312,662)
Principal payments on outstanding debt	(145,000)
Net cash provided (used) by capital and related financing activities	<u>2,429,362</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(8,176,887)
Liquidation of investments	5,261,010
Investment earnings	5,463
Net cash provided (used) by investing activities	<u>(2,910,414)</u>
Net increase (decrease) in cash and cash equivalents	566,985
Balances - beginning of the year	<u>431,222</u>
Balances - end of the year	<u>\$ 998,207</u>

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

CITY OF ELGIN, TEXAS

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

(Continued)

	<u>Business-type Activities Enterprise Funds</u>
	<u>Utility Fund</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 647,016
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	645,284
Bad debt expense	17,158
Changes in assets and liabilities:	
Accounts receivable	(118,875)
Prepaid expenses	(5,823)
Prepaid service costs	164,193
Accounts payable	128,658
Accrued liabilities	7,423
Customer deposits	8,718
Accrued vacation	4,704
Net pension obligation	9,096
Net cash provided (used) by operating activities	\$ <u><u>1,507,552</u></u>

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

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2011

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

B. SCOPE OF THE REPORTING ENTITY

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

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

C. FUND FINANCIAL STATEMENTS

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

The City has reported the following major governmental funds.

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

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

2011 Certificates of Obligation Governmental Construction Fund – This fund accounts for the portion of the proceeds from the issuance of certificates of obligation to be used for the purpose of renovating and improving City administrative facilities, public works department facilities, and facilities for park and recreation purposes, including engineering and other related costs, and for the acquisition of equipment for general governmental purposes.

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Fund financial statements – proprietary funds

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

E. CASH AND CASH EQUIVALENTS

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

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. INVESTMENTS

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

G. RECEIVABLES

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

H. CAPITAL ASSETS

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

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

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

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. ACCUMULATED UNPAID VACATION AND SICK PAY AMOUNTS

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

Sick leave credits accrue to all full-time employees at the rate of 12 days per year. 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)

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 \$2,592,323 at year end and the bank balance was \$2,684,329. Of the bank balance, \$293,520 was insured by federal depository insurance and the remaining \$2,390,809 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)

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	44 days	\$ <u>987,285</u>
TexSTAR local government investment pool	AAAm	47 days	\$ <u>4,097,405</u>
Elgin Economic Development Corp.:			
TexPool local government investment pool	AAAm	44 days	\$ <u>340,523</u>

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

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

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

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

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

3 AD VALOREM PROPERTY TAXES

Property taxes are levied on October 1 on assessed values as of January 1 for all real and personal property located in the City. Taxes are due in January of the following year and become delinquent on February 1. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The October 1, 2010 levy was based upon 100 percent of the assessed market value of \$339,778,895. 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, 2010 levy was \$.7776. 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			
Sanitation accounts receivable	\$ 179,793	(63,000)	116,793
Property taxes receivable	155,217	(23,282)	131,935
Fines receivable	2,374,141	(2,074,141)	300,000
Debt Service Fund			
Property taxes receivable	125,673	(18,851)	106,822
Utility Fund			
Utility accounts receivable	704,559	(187,000)	517,559

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

5 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:

2011 CO construction fund	\$	<u>1,481</u>
Total governmental funds	\$	<u>1,481</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.

6 CAPITAL ASSETS

	Primary Government			
	Beginning Balance	Additions	Retirements	
Governmental activities:				
Land	\$ 25,972	-0-	-0-	25,972
Construction in progress	-0-	83,157	-0-	83,157
Total undepreciated assets	<u>25,972</u>	<u>83,157</u>	<u>-0-</u>	<u>109,129</u>
Other capital assets:				
Buildings and improvements	3,681,245	-0-	-0-	3,681,245
Equipment	2,644,365	-0-	(160,372)	2,483,993
Infrastructure	9,884,008	-0-	-0-	9,884,008
Total other capital assets at historical cost	<u>16,209,618</u>	<u>-0-</u>	<u>(160,372)</u>	<u>16,049,246</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,204,060)	(99,593)	-0-	(1,303,653)
Equipment	(2,278,272)	(90,331)	160,372	(2,208,231)
Infrastructure	(3,688,122)	(311,226)	-0-	(3,999,348)
Total accumulated depreciation	<u>(7,170,454)</u>	<u>(501,150)</u>	<u>160,372</u>	<u>(7,511,232)</u>
Other capital assets, net	<u>9,039,164</u>	<u>(501,150)</u>	<u>-0-</u>	<u>8,538,014</u>
Governmental activities capital assets, net	<u>\$ 9,065,136</u>	<u>(417,993)</u>	<u>-0-</u>	<u>8,647,143</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 92,485
Public safety	66,906
Public works	322,396
Parks and recreation	19,363
	<u>\$ 501,150</u>

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

6 CAPITAL ASSETS (Continued)

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Business-type activities:				
Land	\$ 191,176	-0-	-0-	191,176
Construction in progress	6,500	31,965	-0-	38,465
Total undepreciated assets	<u>197,676</u>	<u>31,965</u>	<u>-0-</u>	<u>229,641</u>
Other capital assets:				
Distribution and collection systems	19,375,192	6,966,182	-0-	26,341,374
Buildings and improvements	143,650	-0-	-0-	143,650
Equipment	1,872,570	228,987	(95,797)	2,005,760
Total other capital assets at historical cost	<u>21,391,412</u>	<u>7,195,169</u>	<u>(95,797)</u>	<u>28,490,784</u>
Less accumulated depreciation for:				
Distribution and collection systems	(3,589,224)	(545,818)	-0-	(4,135,042)
Buildings and improvements	(54,218)	(5,746)	-0-	(59,964)
Equipment	(1,015,022)	(93,720)	95,797	(1,012,945)
Total accumulated depreciation	<u>(4,658,464)</u>	<u>(645,284)</u>	<u>95,797</u>	<u>(5,207,951)</u>
Other capital assets, net	16,732,948	6,549,885	-0-	23,282,833
Business-type activities capital assets, net	<u>\$ 16,930,624</u>	<u>6,581,850</u>	<u>-0-</u>	<u>23,512,474</u>
	Component Unit			Ending Balance
	Beginning Balance	Additions	Retirements	Ending Balance
Component unit activities:				
Land	\$ 737,845	-0-	-0-	737,845

7 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	\$ 409,515
Nonmajor governmental funds	1,127
Transfers to debt service fund from:	
Utility fund	50,000
Nonmajor governmental funds	<u>45,000</u>
Total transfers to governmental funds	\$ <u>505,642</u>

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

7 INTERFUND TRANSFERS (Continued)

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.

8 LONG-TERM DEBT

The following is a summary of long-term debt activity for September 30, 2011.

	<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	\$ 8,180,000	1,157,278	(740,000)	8,597,278	738,125
Notes payable	2,965	-0-	(1,470)	1,495	1,495
Capital leases payable	798,617	-0-	(92,444)	706,173	90,990
	<u>8,981,582</u>	<u>1,157,278</u>	<u>(833,914)</u>	<u>9,304,946</u>	<u>830,610</u>
Add unamortized bond premium	-0-	26,746	-0-	26,746	-0-
Less deferred amount on refunding	(66,956)	-0-	18,302	(48,654)	-0-
Total bonds, notes and leases payable	<u>8,914,626</u>	<u>1,184,024</u>	<u>(815,612)</u>	<u>9,283,038</u>	<u>830,610</u>
Other liabilities:					
Accrued vacation	89,436	87,976	(76,366)	101,046	76,000
Net pension obligation	65,069	37,924	-0-	102,993	-0-
Total other liabilities	<u>154,505</u>	<u>125,900</u>	<u>(76,366)</u>	<u>204,039</u>	<u>76,000</u>
Governmental activities long-term liabilities	<u>\$ 9,069,131</u>	<u>1,309,924</u>	<u>(891,978)</u>	<u>9,487,077</u>	<u>906,610</u>
Business-type activities					
Bonds and leases payable:					
Bonds and certificates of obligation	\$ 7,299,000	8,077,722	(145,000)	15,231,722	378,875
Add unamortized bond premium	-0-	187,221	-0-	187,221	-0-
Total bonds and leases payable	<u>7,299,000</u>	<u>8,264,943</u>	<u>(145,000)</u>	<u>15,418,943</u>	<u>378,875</u>
Other liabilities:					
Accrued vacation	24,482	21,522	(16,818)	29,186	17,000
Net pension obligation	13,292	9,096	-0-	22,388	-0-
Total other liabilities	<u>37,774</u>	<u>30,618</u>	<u>(16,818)</u>	<u>51,574</u>	<u>17,000</u>
Business-type activities long-term liabilities	<u>\$ 7,336,774</u>	<u>8,295,561</u>	<u>(161,818)</u>	<u>15,470,517</u>	<u>395,875</u>

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

8 LONG-TERM DEBT (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Component unit activities					
Revenue bonds payable	\$ 1,200,000	-0-	(95,000)	1,105,000	105,000
Less deferred amount on refunding	(28,049)	-0-	2,936	(25,113)	-0-
Component unit activities					
long-term liabilities	<u>\$ 1,171,951</u>	<u>-0-</u>	<u>2,936</u>	<u>1,079,887</u>	<u>105,000</u>

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 \$85,000 to \$115,000 through July 15, 2018; interest at 4.3 percent to 4.50 percent; outstanding bonds may be redeemed at any time, at par plus accrued interest	\$ 700,000
\$500,000 Series 2002 combination tax and revenue certificates of obligation due in annual installments of \$30,000 to \$45,000 through July 15, 2021; interest at 3.71 percent to 4.59 percent; outstanding bonds may be redeemed on or after July 15, 2012, at par plus accrued interest	360,000
\$2,250,000 Series 2002 general obligation bonds due in annual installments of \$125,000 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	1,755,000
\$3,860,000 Series 2005 general obligation refunding bonds due in annual installments of \$300,000 to \$345,000 through July 15, 2016; interest at 3.40 percent to 3.70 percent; outstanding bonds may be redeemed on or after July 15, 2015 at par plus accrued interest	1,600,000
Less deferred amount on refunding	(48,654)

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

8 LONG-TERM DEBT (Continued)

\$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	1,685,000
\$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	1,205,000
\$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	135,000
\$9,235,000 (\$1,157,278 for the general governmental portion) Series 2011 combination tax and revenue certificates of obligation due in annual installments of \$33,125 to \$74,375 through July 15, 2034; interest at 2.0 percent to 4.4 percent; outstanding certificates may be redeemed on July 15, 2021, at par plus accrued interest	1,157,278
Unamortized premium on the Series 2011 certificates of obligation	26,746
\$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	1,495
Capital leases payable from the debt service fund (Note 9)	706,173
Accrued vacation related to governmental fund employees	101,046
Net pension obligation related to governmental fund employees	<u>102,993</u>
Total governmental activities long-term debt	\$ <u>9,487,077</u>

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

8 LONG-TERM DEBT (Continued)

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 certificates may be redeemed at any time at par plus accrued interest	\$ 3,867,000
\$2,556,000 Series 2008 combination tax and limited surplus revenue certificates of obligation due in annual installments of \$28,000 to \$135,000 through January 15, 2048; interest at 4.375 percent; outstanding certificates may be redeemed at any time at par plus accrued interest	2,503,000
\$800,000 Series 2009 combination tax and limited surplus revenue certificates of obligation due in annual installments of \$9,000 to \$42,000 through January 15, 2048; interest at 3.625 percent; outstanding certificates may be redeemed at any time at par plus accrued interest	784,000
\$9,235,000 (\$8,077,722 for the utility fund portion) Series 2011 combination tax and revenue certificates of obligation due in annual installments of \$231,875 to \$520,625 through July 15, 2034; interest at 2.0 percent to 4.4 percent; outstanding certificates may be redeemed on July 15, 2021, at par plus accrued interest	8,077,722
Unamortized premium on the Series 2011 certificates of obligation	187,221
Accrued vacation related to utility fund employees	29,186
Net pension obligation related to utility fund employees	<u>22,388</u>
Total business-type activities long-term debt	\$ <u>15,470,517</u>

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

8 LONG-TERM DEBT (Continued)

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

\$700,000 Series 1999 sales tax revenue bonds due in annual installments of \$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	\$ 105,000
\$565,000 Series 2007 sales tax revenue refunding bonds due in annual installments of \$5,000 to \$65,000 through July 15, 2024; interest at 4.34 percent; the bonds may be redeemed at any time prior to their scheduled maturities at par plus accrued interest plus a prepayment fee	545,000
Less deferred amount on refunding	(25,113)
\$680,000 Series 2007 sales tax revenue bonds due in annual installments of \$65,000 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	<u>455,000</u>
Total component unit long-term debt	\$ <u>1,079,887</u>

The City is in compliance with all significant limitations and restrictions contained in the City's debt agreements.

The Economic Development Corporation Series 1999 bonds contain a covenant that the EDC shall make a monthly transfer of 1/60th of the required reserve amount into a reserve fund until the required reserve has been met. The balance in the reserve account at September 30, 2011, was \$33,854, which meets the reserve requirement.

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

8 LONG-TERM DEBT (Continued)

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

Year Ended September 30	Governmental Activities Bonds and Notes		Business-Type Activities Bonds, CO's and Notes		Component Unit Bonds and Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 739,620	368,736	378,875	617,861	105,000	58,522
2013	765,625	338,589	397,375	593,594	110,000	51,786
2014	796,250	308,687	403,750	582,156	115,000	44,919
2015	786,875	277,624	410,125	570,546	120,000	38,008
2016	818,125	246,072	420,875	558,765	125,000	31,462
2017 - 2021	2,341,875	845,800	2,259,125	2,564,371	345,000	79,292
2022 - 2026	1,495,000	376,969	2,633,000	2,086,051	185,000	16,058
2027 - 2031	638,750	105,305	3,085,250	1,509,225	0	0
2032 - 2036	216,653	19,085	2,545,347	836,193	0	0
2037 - 2041	0	0	1,166,000	465,202	0	0
2042 - 2046	0	0	1,189,000	201,276	0	0
2047 - 2051	0	0	343,000	14,684	0	0
	<u>\$ 8,598,773</u>	<u>2,886,867</u>	<u>15,231,722</u>	<u>10,599,924</u>	<u>1,105,000</u>	<u>320,047</u>

9 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 \$439,522 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, 2011, 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 \$ 616,511

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

9 CAPITAL LEASES PAYABLE (Continued)

\$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 49,476

\$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 40,186

Governmental activities capital leases payable \$ 706,173

Future minimum lease payments under capital leases are as follows:

<u>Fiscal Year</u>	<u>Governmental</u>
2012	\$ 121,070
2013	115,673
2014	101,793
2015	101,793
2016	101,793
2017-2019	<u>305,380</u>
	847,502
Less amount representing interest	<u>(141,329)</u>
Present value of minimum lease payments	\$ <u>706,173</u>

10 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 \$ 2,257
Seizure funds 11,264

Nonmajor governmental funds:

Hotel Motel Tax purposes 89,118
Channel 10 public safety purposes 50,444

Total restricted for other purposes \$ 153,083

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

10 FUND BALANCE RESTRICTED FOR OR COMMITTED TO OTHER PURPOSES

Committed to other purposes:

General fund:

Sidewalk project	\$ 6,538
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Nonmajor governmental funds:

Elgin Main Street	<u>29,200</u>
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Total committed for other purposes	\$ <u>35,738</u>
------------------------------------	------------------

11 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.

12 PENSION PLAN

Plan description

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

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

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

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

12 PENSION PLAN (Continued)

	Plan Year 2010	Plan Year 2011
Employee deposit rate	6.0%	6.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions

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

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)	260,979
2. Interest on Net Pension Obligation	5,877
3. Adjustment to the ARC	<u>(1,969)</u>
4. Annual Pension Cost (APC)	264,887
5. Contributions Made	<u>217,867</u>
6. Increase (decrease) in net pension obligation	47,020
7. Net Pension Obligation/(Asset), beginning of year	<u>78,361</u>
8. Net Pension Obligation/(Asset), end of year	<u>125,381</u>

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

12 PENSION PLAN (Continued)

**Trend Information
Annual Pension Cost**

Accounting Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
9/30/09	\$193,008	\$161,224	83.5%	\$31,784
9/30/10	\$236,711	\$190,134	80.3%	\$78,361
9/30/11	\$264,887	\$217,867	82.2%	\$125,381

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

Valuation Date	12/31/08	12/31/09	12/31/10
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	29 years; closed period	28.2 years; closed period	27.4 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	Amortized Cost	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.5%	7.5%	7.0%
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)

12 PENSION PLAN (Continued)

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll ¹ (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/08	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%
12/31/10	4,307,845	5,399,950	1,092,105	79.8%	2,491,040	43.8%

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

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

13 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.

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

13 SUPPLEMENTAL DEATH BENEFITS FUND (Continued)

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

Contributions

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

The City's contributions to the TMRS SDBF for the years ended 2011, 2010 and 2009 were \$6,444, \$5,700, and \$6,046, 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>
2009	.02%	.02%	100.0%
2010	.02%	.02%	100.0%
2011	.02%	.02%	100.0%

14 RISK MANAGEMENT

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

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

15 CONCENTRATIONS OF CREDIT RISK

Utility accounts receivable are concentrated within the geographic service area of the utility system, which is within the City of Elgin. Those receivables are not concentrated within any individually significant customers. The City requires a deposit from each utility customer prior to establishing service. The net amount of utility accounts receivable at year end after reducing receivables for the allowance for doubtful accounts and after including estimated amounts for service provided but not yet billed at year end was \$634,351. Utility customer deposits held at year end totaled \$227,525.

16 SIGNIFICANT BUDGET VARIANCES

The City reported a significant unfavorable budget variance in the revenue category of intergovernmental revenues. \$31,000 arises from a difference between budgeted and actual management fees from the Elgin Economic Development Corporation. Since the payment made by the EEDC is directly related to actual expenditures incurred by the City, that unfavorable variance in revenue is offset by a similar, but favorable, variance in general government expenditures.

17 CONTINGENCIES

The City is involved in a dispute over a portion of the service area in which it provides water utility services. No prediction can be made at this time regarding the ultimate outcome of the dispute. The City is vigorously defending its position, but, there is the possibility that an unfavorable resolution could have a significant impact on the City's utility system operations.

18 PRIOR PERIOD ADJUSTMENT

There were two prior period adjustments recorded during the year to reflect corrections of errors in the previous year financial statements. The entire balance of the allowance for uncollectable utility system receivables has previously been recorded on the books of the utility fund, but the sanitation portion of the receivables is recorded on the books of the general fund. A prior period adjustment has been recorded to move an applicable portion of the allowance for uncollectable receivables from the books of the utility fund to the books of the general fund. This correction had the effect of increasing the balance of accounts receivable and net assets of the utility fund by \$54,158 for the prior year, and decreasing the balance of accounts receivable and fund balance of the general fund by the same amount.

In the prior year, the City entered into an agreement with Bastrop-Travis ESD #1 for the payment by them of a portion of dispatch services. Subsequent to the end of the previous fiscal year, the City received a payment of \$26,025 for that prior fiscal year. A receivable and revenue should have been recorded in the prior year. The effect of the prior period adjustment is to increase prior year receivables, prior year intergovernmental revenues, and ending fund balance for the prior year by \$26,025 for the general fund.

CITY OF ELGIN, TEXAS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

September 30, 2011

	Hotel Motel Tax	Elgin Main Street Board	Police/ Channel 10 Special Revenue	Section 125 Fund
ASSETS				
Cash and cash equivalents	\$ 89,843	40,113	51,299	3,950
Investments	-0-	817	-0-	-0-
Other receivables	-0-	-0-	-0-	-0-
Total assets	<u>\$ 89,843</u>	<u>40,930</u>	<u>51,299</u>	<u>3,950</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 725	11,730	855	3,950
Due to other funds	-0-	-0-	-0-	-0-
Total liabilities	<u>725</u>	<u>11,730</u>	<u>855</u>	<u>3,950</u>
Fund Balances				
Restricted for:				
Capital projects	-0-	-0-	-0-	-0-
Other purposes	89,118	-0-	50,444	-0-
Committed to:				
Morris Park	-0-	-0-	-0-	-0-
Other purposes	-0-	29,200	-0-	-0-
Total fund balances	<u>89,118</u>	<u>29,200</u>	<u>50,444</u>	<u>-0-</u>
Total liabilities and fund balances	<u>\$ 89,843</u>	<u>40,930</u>	<u>51,299</u>	<u>3,950</u>

<u>2009 CO Construction</u>	<u>Morris Park Bldg Fund</u>	<u>Total Nonmajor Governmental Funds</u>
-0-	259,279	444,484
124,377	-0-	125,194
-0-	-0-	-0-
<u>124,377</u>	<u>259,279</u>	<u>569,678</u>
-0-	7,125	24,385
-0-	-0-	-0-
<u>-0-</u>	<u>7,125</u>	<u>24,385</u>
124,377	-0-	124,377
-0-	-0-	139,562
-0-	252,154	252,154
-0-	-0-	29,200
<u>124,377</u>	<u>252,154</u>	<u>545,293</u>
<u>124,377</u>	<u>259,279</u>	<u>569,678</u>

CITY OF ELGIN, TEXAS

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

For the Year Ended September 30, 2011

	Hotel Motel Tax	Elgin Main Street Board	Police/ Channel 10 Special Revenue	Section 125 Fund
REVENUES				
Other taxes	\$ 49,745	-0-	-0-	-0-
Investment earnings	476	175	-0-	-0-
Miscellaneous	-0-	47,487	22,538	-0-
Total revenues	<u>50,221</u>	<u>47,662</u>	<u>22,538</u>	<u>-0-</u>
EXPENDITURES				
Current:				
Public safety	-0-	-0-	2,233	-0-
Other current	37,356	59,583	-0-	-0-
Capital outlay	-0-	-0-	-0-	-0-
Total expenditures	<u>37,356</u>	<u>59,583</u>	<u>2,233</u>	<u>-0-</u>
Excess (deficiency) of revenues over expenditures	12,865	(11,921)	20,305	-0-
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>-0-</u>	<u>-0-</u>	<u>(1,127)</u>	<u>-0-</u>
Net change in fund balances	12,865	(11,921)	19,178	-0-
Fund balances - beginning	<u>76,253</u>	<u>41,121</u>	<u>31,266</u>	<u>-0-</u>
Fund balances - ending	<u>\$ 89,118</u>	<u>29,200</u>	<u>50,444</u>	<u>-0-</u>

<u>2009 CO Construction</u>	<u>Morris Park Bldg Fund</u>	<u>Total Nonmajor Governmental Funds</u>
-0-	-0-	49,745
218	1,560	2,429
-0-	-0-	70,025
<u>218</u>	<u>1,560</u>	<u>122,199</u>
-0-	-0-	2,233
-0-	-0-	96,939
-0-	55,425	55,425
<u>-0-</u>	<u>55,425</u>	<u>154,597</u>
218	(53,865)	(32,398)
<u>(45,000)</u>	<u>-0-</u>	<u>(46,127)</u>
(44,782)	(53,865)	(78,525)
<u>169,159</u>	<u>306,019</u>	<u>623,818</u>
<u>124,377</u>	<u>252,154</u>	<u>545,293</u>