

CITY OF ELGIN, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2012

GEORGE CHESTER DRAPER III

Certified Public Accountant

CITY OF ELGIN, TEXAS

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GEORGE CHESTER DRAPER III

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Independent Auditor's Report

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

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Elgin, Texas, as of and for the year ended September 30, 2012, 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.

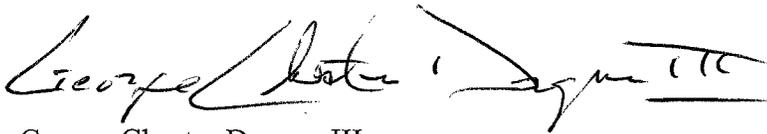
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Elgin, Texas, as of September 30, 2012, 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 15, 2013, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of

management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

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 accompanying combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the accompanying combining statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

George Chester Draper, III
February 15, 2013

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2012

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, 2012. 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 \$15,903,357 (net assets). Of this amount \$2,928,504 (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 \$626,997 during 2012.
- As of September 30, 2012, the City of Elgin's governmental funds reported combined ending fund balances of \$2,157,556. Of the ending fund balance, \$1,002,947 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); \$288,676 is committed by the City for specific purposes (e.g., Morris Building Fund, Elgin Main Street, capital equipment replacement, and the local portion of the water line and sidewalk grants); \$853,961 is unassigned fund balance and is available to meet the government's ongoing obligations.
- Sales tax has been relatively stable over the last several years. Property tax values have changed only minimally also.

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 (of which the City has none), 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.

CITY OF ELGIN, TEXAS

MANAGEMENT’S DISCUSSION AND ANALYSIS

(Continued)

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.

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 \$15,903,357 as of September 30, 2012.

The largest portion of the City’s net assets \$11,830,512 (74.4%) 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 \$1,144,341 (7.2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$2,928,504 (18.4%) may be used to meet the government’s ongoing obligations to citizens and creditors.

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 3,356,485	3,661,976	3,251,698	5,415,240	6,608,183	9,077,216
Capital assets	8,956,675	8,647,143	25,420,631	23,512,474	34,377,306	32,159,617
Total assets	<u>12,313,160</u>	<u>12,309,119</u>	<u>28,672,329</u>	<u>28,927,714</u>	<u>40,985,489</u>	<u>41,236,833</u>
Long-term liabilities	(8,568,848)	(9,487,077)	(15,088,531)	(15,470,517)	(23,657,379)	(24,957,594)
Other liabilities	(523,829)	(448,036)	(900,924)	(554,843)	(1,424,753)	(1,002,879)
Total liabilities	<u>(9,092,677)</u>	<u>(9,935,113)</u>	<u>(15,989,455)</u>	<u>(16,025,360)</u>	<u>(25,082,132)</u>	<u>(25,960,473)</u>
Net assets:						
Invested in capital assets, net of debt	1,115,948	619,991	10,714,564	10,899,284	11,830,512	11,519,275
Restricted	608,553	393,963	535,788	500,575	1,144,341	894,538
Unrestricted	1,495,982	1,360,052	1,432,522	1,502,495	2,928,504	2,862,547
Total net assets	<u>\$ 3,220,483</u>	<u>2,374,006</u>	<u>12,682,874</u>	<u>12,902,354</u>	<u>15,903,357</u>	<u>15,276,360</u>

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, 2012. The City’s net assets increased by \$626,997. The Governmental activities increased the City’s net assets by \$846,477 and the Business-type activities decreased the City’s net assets by \$(219,480). Details of those changes are discussed below.

	Activities		Activities		Primary Government	
	2012	2011	2012	2011	2012	2011
Change in net assets						
Total revenues	\$ 6,090,173	5,724,678	4,058,187	4,003,340	10,148,360	9,728,018
Total expenses	(6,249,262)	(5,653,770)	(3,272,101)	(3,634,169)	(9,521,363)	(9,287,939)
Change before transfers	(159,089)	70,908	786,086	369,171	626,997	440,079
Transfers	1,005,566	459,515	(1,005,566)	(459,515)	-0-	-0-
Change in net assets	846,477	530,423	(219,480)	(90,344)	626,997	440,079
Net assets - beginning	2,374,006	1,843,583	12,902,354	12,992,698	15,276,360	14,836,281
Net assets - ending	\$ 3,220,483	2,374,006	12,682,874	12,902,354	15,903,357	15,276,360

The table above shows significant changes in both the revenues and expenses of Governmental activities and significant changes in expenses of the Business-type activities. Details of those changes are shown in the tables below.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues:						
Charges for services	\$ 1,854,104	1,422,940	3,989,000	3,891,255	5,843,104	5,314,195
Operating grants and contributions	381,883	315,696	-0-	-0-	381,883	315,696
Capital grants and contributions	37,050	-0-	55,450	94,200	92,500	94,200
General revenues:						
Property taxes	2,556,237	2,690,033	-0-	-0-	2,556,237	2,690,033
Sales tax	826,385	797,817	-0-	-0-	826,385	797,817
Franchise and other taxes	417,381	404,110	-0-	-0-	417,381	404,110
Investment earnings	7,935	9,262	8,387	5,463	16,322	14,725
Miscellaneous	9,198	84,820	5,350	12,422	14,548	97,242
Total revenues	\$ 6,090,173	5,724,678	4,058,187	4,003,340	10,148,360	9,728,018

CITY OF ELGIN, TEXAS

MANAGEMENT’S DISCUSSION AND ANALYSIS

(Continued)

The council approved a decrease in property tax rates from \$.7776 for the 2010-11 fiscal year to \$.7539 for the 2011-12 fiscal year with the expectation that the utility fund will be picking up a larger share of the debt service burden than in the past. Combined with a slight decrease in the assessed valuation of property, that resulted in a decrease of \$(135,000) in property tax revenues. Miscellaneous revenues of the Governmental activities also decreased significantly from the prior year, but that was due to the prior year reflecting about \$60,000 of one-time revenues including the sale of assets, insurance proceeds, and a payment related to the trash contract. Those decreases were offset by a very large increase in charges for services reported by the Governmental activities, \$400,000 of which arose from the addition of red light cameras during 2012. Charges for services also increased by \$60,000 in building permits, as Austin Community College obtained building permits during 2012. Grants and contributions were up with the beginning stages of two new grants, and from an increase in the contribution from the Elgin Economic Development Corporation to cover administrative costs paid by the City.

Water sales in the previous year were up substantially due to the extreme drought that existed during 2011 which resulted in higher than normal consumption during that year. Water sales in 2012 were down \$(120,000) from the levels of 2011. But, with the purchase of the sewer system in 2011, the City now has an agreement with Travis Co. Mud 14 for the treatment of sewer for the homes located in their district. A full year of providing those sewer services in 2012 gave rise to an increase in revenues of \$235,000.

The table below provides a comparison of expenses for 2012 and 2011.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Expenses						
General government	\$ 2,054,577	1,896,361	-0-	-0-	2,054,577	1,896,361
Public safety	2,116,420	1,857,251	-0-	-0-	2,116,420	1,857,251
Public works	1,190,259	1,081,701	-0-	-0-	1,190,259	1,081,701
Parks and recreation	301,856	283,529	-0-	-0-	301,856	283,529
Other current	149,078	96,939	-0-	-0-	149,078	96,939
Interest on long-term debt	437,072	437,989	-0-	-0-	437,072	437,989
Utility system	-0-	-0-	3,272,101	3,634,169	3,272,101	3,634,169
Total expenses	\$ 6,249,262	5,653,770	3,272,101	3,634,169	9,521,363	9,287,939

The largest individual line item increases in general government expenditures for 2012 in comparison to the prior year related to three things. The City authorized a 3% pay increase for all personnel, the position of director of the EDC was vacant for half of 2011 but was filled for all of 2012, and in 2012 the City hired a consultant for city council ward redistricting.

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

The pay increase raised costs for public safety by around \$30,000, but the largest part of the increase in public safety expenses was \$170,000 related to the new red light cameras (which, as seen above, brought in \$400,000 of new revenues). Additionally, 911 fees accounted for \$23,000 of the increase in public safety costs.

Public works expenses were impacted by the beginning of two new grants, the CDBG grant which incurred \$60,000 of expenditures and the sidewalk grant which incurred \$14,000 of expenditures. Costs were affected as well by the additional \$10,000 related to pay increases.

Parks and recreation expenses were affected by the one-time sustainable communities grant, and to a lesser degree by the 3% pay raises. Other current expenses include costs incurred in the hotel/motel fund for Nofsinger house maintenance in 2012, which amounted to \$50,000.

Utility system expenses reflected an additional \$33,000 related to the Aqua Water Supply litigation, but saw the greatest change due to the prior year's purchase of the sewer plant from LCRA. With the purchase of the plant at the end of the prior year, the current year reflected an increase of \$188,000 in depreciation expense, an increase in interest expense of \$223,000 for the debt issued to purchase the plant, an increase in overall expenses of the wastewater treatment department of \$379,000, and a reduction in fees paid to LCRA of \$(1,163,000), for a net decrease in utility system expenses related to the sewer plant of around \$(373,000).

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 \$2,157,556. Approximately 40% of this total amount, \$853,961 is unassigned fund balance. The remainder of the fund balance \$1,303,595 is un-spendable, restricted, or committed.

The General Fund reported an increase in unassigned fund balance of \$77,643. At the end of the year, the general fund had an unassigned fund balance of \$877,664. That amount represents around 2 months in terms of the general fund's annual expenditures.

The 2011-2012 fiscal year had minor increases in revenues from the previous year in the General Fund. The largest expenditure increases included health insurance premiums, State of Texas costs transferred to the city for the operation of our E-911 system, vehicle fuel, and initiation of the Capital Equipment Replacement Fund.

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

The Debt Service Fund has a fund balance of \$119,248, which is only 9% of the annual debt service requirement of that fund.

The City has several governmental capital projects funds with balances available for future capital expenditures. The 2009 Certificates of Obligation Construction Fund for Street and Drainage Improvements has a remaining fund balance of \$54,984. The 2011 CO construction fund has a remaining fund balance of \$444,278. The Morris Park Building Fund has a remaining fund balance of \$191,064. Additionally, the City has set aside \$34,282 for capital equipment replacement.

The utility fund has net assets of \$12,682,874 at the end of the year. However, \$10,714,564 is invested in capital assets, net of related debt. The total also includes amounts restricted for debt service of \$240,712 and restricted for capital projects of \$295,076. The remaining \$1,432,522 represents 4 months of utility fund expenses including interest and transfers out.

The Utility fund for that period primarily exhibited changes due to the first full year of operating the wastewater collection and treatment system and the proper allocation of water and wastewater debt service. Capital investment included repairs and renovation of two water wells and expansion of the west side wastewater collection system.

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 \$267,910 or 5.6%.

The City reported significant unfavorable budget variances in the revenue categories of property taxes and licenses and permits. Budgeted property tax revenues were based on values which included properties still under ARB review and which were later adjusted downwards. The budget for licenses and permits included the anticipation that Austin Community College and Wal-Mart would be obtaining their permits in this fiscal year, but they did not. The City reported an unfavorable budget variance in the expenditure category of public safety. The one-time 3% pay adjustment at the end of the year caused salary expense to exceed the budget in this category.

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, 2012, amounts to \$34,377,306 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, and infrastructure and construction in progress. Major capital asset events occurring during the current fiscal year included the following:

CITY OF ELGIN, TEXAS

MANAGEMENT’S DISCUSSION AND ANALYSIS

(Continued)

- Costs related to construction of a Public Works Facility of \$360,546
- Costs related to the Morris Building of \$62,117
- Purchase of two vehicles for the police department and one for public works for \$98,233
- Purchase of Union Pacific property for \$206,648
- Construction in progress for Lift Station and Force Main, Sewer Plant improvements in the Utility Fund for approximately \$2,439,298
- Major well repairs in the amount of \$192,369
- Purchase of two vehicles for the utility fund for \$69,246

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2012	2011	2012	2011	2012	2011
Land	\$ 232,620	25,972	191,176	191,176	423,796	217,148
Construction in progress	565,764	83,157	2,506,314	38,465	3,072,078	121,622
Distribution and collection systems	-0-	-0-	21,699,086	22,206,332	21,699,086	22,206,332
Buildings and improvements	2,277,999	2,377,592	77,940	83,686	2,355,939	2,461,278
Equipment	306,858	275,762	946,115	992,815	1,252,973	1,268,577
Infrastructure	5,573,434	5,884,660	-0-	-0-	5,573,434	5,884,660
Totals at historical cost	\$ <u>8,956,675</u>	<u>8,647,143</u>	<u>25,420,631</u>	<u>23,512,474</u>	<u>34,377,306</u>	<u>32,159,617</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 \$23,201,173.

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2012	2011	2012	2011	2012	2011
Bonds and certificates of obligation	\$ 7,738,980	8,597,278	14,853,020	15,231,722	22,592,000	23,829,000
Notes	-0-	1,495	-0-	-0-	-0-	1,495
Capital leases payable	609,173	706,173	-0-	-0-	609,173	706,173
Totals	\$ <u>8,348,153</u>	<u>9,304,946</u>	<u>14,853,020</u>	<u>15,231,722</u>	<u>23,201,173</u>	<u>24,536,668</u>

The City did not issue any new debt during the 2012 fiscal year, and made principal payments of \$1,335,495 to reduce outstanding debt.

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

The City's general obligation bond rating was upgraded in 2010 to "A1" as assigned by the national rating agency Moody's Investors Service. There is no direct debt limitation under state law. The Texas Constitution does limit the maximum tax rate for all City purposes to \$2.50 per \$100 of assessed valuation, and administratively, the Attorney General will permit allocation of \$1.50 of the \$2.50 maximum tax rate to the payment of debt service. The actual amount of debt the City might be able to fund with that tax rate depends on the term over which the debt is to be repaid, the interest rate on the debt, and the amount of taxes which are not collected. The City's current debt service tax rate of \$0.251985 is approximately 17% of the maximum debt service tax rate.

Economic Factors and Next Year's Budgets and Rates

The 2012-2013 Budget was a very austere budget. Revenues and Expenditures generally changed minimally with any larger dollar changes being accompanied by an offsetting revenue. Utility and tax rates remained unchanged. It is anticipated that a General Fund Certificate of Obligation will be issued in the summer of 2013 for about \$2,000,000, along with a refunding issuance. It is estimated in combination these will bring the tax rate up about 2.5 to 3.5 cents for the 2013-2014 fiscal year. This is slightly above the 2010 tax rate.

While no substantial impacts to the City's finances are occurring now, several positive actions are in place and underway. HEB is constructing a \$ 9 million dollar expansion at US Highway 290 and 11th Street. Construction for the new Austin Community College campus and first building is underway and classes are expected to begin with this Fall semester. Walmart is expected to begin construction around May of 2013 on their new store. In cooperation with Bastrop County, the City has created a TIRZ to build and connect 11th Street to the street adjacent to the new Walmart. This action creates about 4,000 linear feet of new commercial road frontage between what will be two of the strongest economic engines in Elgin, HEB and Walmart.

The Utility Fund showed no anticipated regular revenue or expenditure changes. Also, no major changes are expected in the next 12 months. The summer of 2012 was wetter than the 2011 summer.

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, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents (note 2)	\$ 1,025,444	301,924	1,327,368	359,241
Investments (note 2)	1,282,491	996,873	2,279,364	340,911
Receivables (net, where applicable, of allowances for uncollectibles):				
Accounts receivable	141,898	514,187	656,085	500
Property taxes	254,365	-0-	254,365	-0-
Sales tax receivable	149,858	-0-	149,858	74,929
Fines receivable	400,000	-0-	400,000	-0-
Prepaid expenses	11,972	2,400	14,372	-0-
Restricted cash and investments (note 2)	-0-	1,249,099	1,249,099	-0-
Deferred bond issue costs	90,457	187,215	277,672	13,278
Capital assets (note 7):				
Land	232,620	191,176	423,796	737,845
Construction in progress	565,764	2,506,314	3,072,078	-0-
Other capital assets, net of depreciation	8,158,291	22,723,141	30,881,432	-0-
Total assets	<u>12,313,160</u>	<u>28,672,329</u>	<u>40,985,489</u>	<u>1,526,704</u>
LIABILITIES				
Accounts payable	388,806	516,254	905,060	2,676
Accrued liabilities	135,023	154,468	289,491	10,836
Customer deposits	-0-	230,202	230,202	-0-
Noncurrent liabilities (note 8):				
Due within one year	827,082	397,375	1,224,457	110,000
Due in more than one year	7,741,766	14,691,156	22,432,922	867,796
Total liabilities	<u>9,092,677</u>	<u>15,989,455</u>	<u>25,082,132</u>	<u>991,308</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,115,948	10,714,564	11,830,512	-0-
Restricted for:				
Debt service	224,116	240,712	464,828	-0-
Capital improvements	-0-	295,076	295,076	-0-
Other purposes (note 10)	384,437	-0-	384,437	-0-
Unrestricted (deficit)	1,495,982	1,432,522	2,928,504	535,396
Total net assets	<u>\$ 3,220,483</u>	<u>12,682,874</u>	<u>15,903,357</u>	<u>535,396</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, 2012

<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	\$ 2,054,577	859,017	181,470	-0-
Public safety	2,116,420	771,047	121,758	-0-
Public works	1,190,259	138,548	-0-	37,050
Parks and recreation	301,856	32,270	10,000	-0-
Other current	149,078	53,222	68,655	-0-
Interest on long-term debt	437,072	-0-	-0-	-0-
Total governmental activities	<u>6,249,262</u>	<u>1,854,104</u>	<u>381,883</u>	<u>37,050</u>
Business-type activities:				
Utility system	<u>3,272,101</u>	<u>3,989,000</u>	<u>-0-</u>	<u>55,450</u>
Total primary government	<u>\$ 9,521,363</u>	<u>5,843,104</u>	<u>381,883</u>	<u>92,500</u>
Component unit:				
Elgin Economic Develop. Corp.	<u>\$ 266,677</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
General revenues:				
Property taxes levied for general purposes				
Property taxes levied for debt service				
Sales tax				
Franchise and other taxes				
Investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

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

Net (Expense) Revenue and
Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
(1,014,090)	-0-	(1,014,090)	-0-
(1,223,615)	-0-	(1,223,615)	-0-
(1,014,661)	-0-	(1,014,661)	-0-
(259,586)	-0-	(259,586)	-0-
(27,201)	-0-	(27,201)	-0-
(437,072)	-0-	(437,072)	-0-
<u>(3,976,225)</u>	<u>-0-</u>	<u>(3,976,225)</u>	<u>-0-</u>
<u>-0-</u>	<u>772,349</u>	<u>772,349</u>	<u>-0-</u>
<u>(3,976,225)</u>	<u>772,349</u>	<u>(3,203,876)</u>	<u>-0-</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(266,677)</u>
\$ 1,698,566	-0-	1,698,566	-0-
857,671	-0-	857,671	-0-
826,385	-0-	826,385	413,192
417,381	-0-	417,381	-0-
7,935	8,387	16,322	2,069
9,198	5,350	14,548	100
1,005,566	(1,005,566)	-0-	-0-
<u>4,822,702</u>	<u>(991,829)</u>	<u>3,830,873</u>	<u>415,361</u>
846,477	(219,480)	626,997	148,684
<u>2,374,006</u>	<u>12,902,354</u>	<u>15,276,360</u>	<u>386,712</u>
<u>\$ 3,220,483</u>	<u>12,682,874</u>	<u>15,903,357</u>	<u>535,396</u>

CITY OF ELGIN, TEXAS

**BALANCE SHEET
GOVERNMENTAL FUNDS**

September 30, 2012

	<u>General</u>	<u>Debt Service</u>	<u>2011 CO Construction</u>
ASSETS			
Cash and cash equivalents	\$ 225,862	66,734	44,669
Investments	741,910	54,827	430,770
Receivables (net, where applicable, of allowances for uncollectibles):			
Accounts receivable	119,848	-0-	-0-
Property taxes	149,497	104,868	-0-
Sales tax receivable	149,858	-0-	-0-
Fines receivable	400,000	-0-	-0-
Due from other funds	46,029	-0-	-0-
Prepaid expenses	11,972	-0-	-0-
Total assets	<u><u>\$ 1,844,976</u></u>	<u><u>226,429</u></u>	<u><u>475,439</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 295,445	2,313	31,161
Accrued liabilities	65,301	-0-	-0-
Due to other funds	-0-	-0-	-0-
Deferred revenue	549,497	104,868	-0-
Total liabilities	<u><u>910,243</u></u>	<u><u>107,181</u></u>	<u><u>31,161</u></u>
Fund Balances			
Nonspendable:			
Prepaid expenses	11,972	-0-	-0-
Restricted for:			
Debt service	-0-	119,248	-0-
Capital projects	-0-	-0-	444,278
Other purposes (note 10)	38,559	-0-	-0-
Committed to:			
Various purposes (note 10)	6,538	-0-	-0-
Unassigned	877,664	-0-	-0-
Total fund balances	<u><u>934,733</u></u>	<u><u>119,248</u></u>	<u><u>444,278</u></u>
Total liabilities and fund balances	<u><u>\$ 1,844,976</u></u>	<u><u>226,429</u></u>	<u><u>475,439</u></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
--------------------------------	--------------------------------

688,179	1,025,444
54,984	1,282,491

22,050	141,898
-0-	254,365
-0-	149,858
-0-	400,000
-0-	46,029
-0-	11,972

<u>765,213</u>	<u>3,312,057</u>
----------------	------------------

59,887	388,806
-0-	65,301
46,029	46,029
-0-	654,365

<u>105,916</u>	<u>1,154,501</u>
----------------	------------------

-0-	11,972
-----	--------

-0-	119,248
54,984	499,262
345,878	384,437

282,138	288,676
(23,703)	853,961

<u>659,297</u>	<u>2,157,556</u>
<u>765,213</u>	<u>3,312,057</u>

\$	2,157,556
	654,365
	8,956,675
	90,457
	(8,568,848)
	(69,722)
\$	<u>3,220,483</u>

CITY OF ELGIN, TEXAS

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

For the Year Ended September 30, 2012

	<u>General</u>	<u>Debt Service</u>	<u>2011 CO Construction</u>
REVENUES			
Property taxes	\$ 1,681,004	859,625	-0-
Sales tax	826,385	-0-	-0-
Franchise and other taxes	417,381	-0-	-0-
Licenses and permits	116,190	-0-	-0-
Fines	275,078	-0-	-0-
Intergovernmental	292,502	-0-	-0-
Charges for services	880,854	-0-	-0-
Investment earnings	3,562	1,366	1,016
Miscellaneous	45,962	-0-	-0-
Total revenues	<u>4,538,918</u>	<u>860,991</u>	<u>1,016</u>
EXPENDITURES			
Current:			
General government	1,948,936	-0-	-0-
Public safety	1,874,914	-0-	-0-
Public works	785,780	-0-	335
Parks and recreation	280,533	-0-	-0-
Other current	-0-	-0-	-0-
Capital outlay	-0-	-0-	687,912
Debt service:			
Principal	-0-	956,793	-0-
Interest and other charges	-0-	412,361	-0-
Total expenditures	<u>4,890,163</u>	<u>1,369,154</u>	<u>688,247</u>
Excess (deficiency) of revenues over expenditures	<u>(351,245)</u>	<u>(508,163)</u>	<u>(687,231)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	446,405	549,551	-0-
Transfers out	(49,247)	-0-	-0-
Total other financing sources (uses)	<u>397,158</u>	<u>549,551</u>	<u>-0-</u>
Net change in fund balances	45,913	41,388	(687,231)
Fund balances - beginning	<u>888,820</u>	<u>77,860</u>	<u>1,131,509</u>
Fund balances - ending	<u>\$ 934,733</u>	<u>119,248</u>	<u>444,278</u>

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

Other Governmental Funds	Total Governmental Funds
-0-	2,540,629
-0-	826,385
53,222	470,603
-0-	116,190
391,996	667,074
22,050	314,552
-0-	880,854
1,991	7,935
104,381	150,343
<u>573,640</u>	<u>5,974,565</u>
-0-	1,948,936
172,485	2,047,399
74,869	860,984
-0-	280,533
149,078	149,078
122,061	809,973
-0-	956,793
-0-	412,361
<u>518,493</u>	<u>7,466,057</u>
<u>55,147</u>	<u>(1,491,492)</u>
109,747	1,105,703
(50,890)	(100,137)
<u>58,857</u>	<u>1,005,566</u>
114,004	(485,926)
<u>545,293</u>	<u>2,643,482</u>
<u>659,297</u>	<u>2,157,556</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, 2012

Net change in fund balances - total governmental funds	\$ (485,926)
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.	809,973
Subtract depreciation expense.	(500,441)
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.	254,365
Subtract deferred property tax revenues at the beginning of the year.	(238,757)
Fine revenues:	
Add noncurrent receivables at the end of the year.	400,000
Subtract noncurrent receivables at the beginning of the year.	(300,000)
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.	
Add back principal payments on long-term debt.	956,793
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Interest expense:	
Subtract amortization of debt issue costs.	(19,936)
Add amortization of bond premium	1,887
Subtract amortization of deferred amount on refunding	(15,631)
Subtract unmatured accrued interest at the end of the year.	(69,722)
Add unmatured accrued interest at the beginning of the year.	78,692
Compensated absences:	
Subtract noncurrent liability at the end of the year.	(98,368)
Add noncurrent liability at the beginning of the year.	101,046
Net pension obligation:	
Subtract noncurrent liability at the end of the year.	(130,491)
Add noncurrent liability at the beginning of the year.	102,993
Change in net assets of governmental activities	\$ <u><u>846,477</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, 2012

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 1,714,305	1,714,305	1,681,004	(33,301)
Sales tax	765,000	800,000	826,385	26,385
Franchise and other taxes	385,000	413,000	417,381	4,381
Licenses and permits	145,200	147,510	116,190	(31,320)
Fines	228,400	263,400	275,078	11,678
Intergovernmental	266,459	293,619	292,502	(1,117)
Charges for services	857,960	870,038	880,854	10,816
Investment earnings	4,000	4,000	3,562	(438)
Miscellaneous	20,400	32,458	45,962	13,504
Total revenues	<u>4,386,724</u>	<u>4,538,330</u>	<u>4,538,918</u>	<u>588</u>
EXPENDITURES				
Current:				
General government	1,904,853	2,062,479	1,948,936	113,543
Public safety	1,794,047	1,861,402	1,874,914	(13,512)
Public works	834,652	861,725	785,780	75,945
Parks and recreation	282,672	298,528	280,533	17,995
Total expenditures	<u>4,816,224</u>	<u>5,084,134</u>	<u>4,890,163</u>	<u>193,971</u>
Excess (deficiency) of revenues over expenditures	(429,500)	(545,804)	(351,245)	194,559
OTHER FINANCING SOURCES (USES)				
Transfers in	445,515	445,965	446,405	440
Transfers out	(34,247)	(49,247)	(49,247)	-0-
Total other financing sources (uses)	<u>411,268</u>	<u>396,718</u>	<u>397,158</u>	<u>440</u>
Net change in fund balances	(18,232)	(149,086)	45,913	194,999
Fund balances - beginning	<u>888,820</u>	<u>888,820</u>	<u>888,820</u>	<u>-0-</u>
Fund balances - ending	<u>\$ 870,588</u>	<u>739,734</u>	<u>934,733</u>	<u>194,999</u>

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

CITY OF ELGIN, TEXAS

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

September 30, 2012

	<u>Business-type Activities Enterprise Funds</u>
	<u>Utility Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 301,924
Investments	996,873
Receivables (net, where applicable, of allowances for uncollectibles):	
Accounts receivable	514,187
Prepaid expenses	2,400
Total current assets	<u>1,815,384</u>
Noncurrent assets:	
Restricted cash and investments	1,249,099
Deferred bond issue costs	187,215
Capital assets:	
Land	191,176
Construction in progress	2,506,314
Other capital assets, net of depreciation	<u>22,723,141</u>
Total noncurrent assets	<u>26,856,945</u>
Total assets	<u><u>28,672,329</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	516,254
Accrued liabilities	154,468
Customer deposits	230,202
Current portion of long-term debt	397,375
Total current liabilities	<u>1,298,299</u>
Noncurrent liabilities:	
Accrued vacation	31,367
Long-term debt, excluding current portion	<u>14,659,789</u>
Total noncurrent liabilities	<u>14,691,156</u>
Total liabilities	<u><u>15,989,455</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	10,714,564
Restricted for debt service	240,712
Restricted for capital projects	295,076
Unrestricted (deficit)	<u>1,432,522</u>
Total net assets	<u><u>\$ 12,682,874</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, 2012

	<u>Business-type Activities Enterprise Funds</u>
	<u>Utility Fund</u>
OPERATING REVENUES	
Charges for services (pledged to secure debt)	\$ 3,989,000
OPERATING EXPENSES	
Personnel services	850,696
Materials and supplies	41,974
Maintenance	298,144
Contractual services	634,908
Depreciation	832,802
Total operating expenses	<u>2,658,524</u>
Operating income (loss)	<u>1,330,476</u>
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	8,387
Other nonoperating revenues	5,350
Interest expense	(613,577)
Total nonoperating revenues (expenses)	<u>(599,840)</u>
Net income (loss) before contributions and transfers	730,636
Capital contributions - impact fees	20,400
Capital contributions - other governments	35,050
Transfers out	<u>(1,005,566)</u>
Change in net assets	(219,480)
Net assets - beginning	<u>12,902,354</u>
Net assets - ending	\$ <u><u>12,682,874</u></u>

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

CITY OF ELGIN, TEXAS

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

For the Year Ended September 30, 2012

	<u>Business-type Activities Enterprise Funds</u>
	<u>Utility Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 4,004,982
Payments to suppliers	(897,307)
Payments to employees	(841,703)
Net cash provided (used) by operating activities	<u>2,265,972</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating transfers to other funds	<u>(1,005,566)</u>
Net cash provided (used) by noncapital financing activities	<u>(1,005,566)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	55,450
Purchases of capital assets	(2,442,763)
Interest payments on outstanding debt	(620,220)
Principal payments on outstanding debt	(378,702)
Net cash provided (used) by capital and related financing activities	<u>(3,386,235)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(650,642)
Liquidation of investments	2,071,801
Investment earnings	8,387
Net cash provided (used) by investing activities	<u>1,429,546</u>
Net increase (decrease) in cash and cash equivalents	(696,283)
Balances - beginning of the year	<u>998,207</u>
Balances - end of the year	<u>\$ 301,924</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)	\$ 1,330,476
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	832,802
Bad debt expense	21,000
Other nonoperating revenues	5,350
Changes in assets and liabilities:	
Accounts receivable	7,955
Prepaid expenses	3,423
Accounts payable	53,296
Accrued liabilities	(933)
Customer deposits	2,677
Accrued vacation	2,181
Net pension obligation	7,745
Net cash provided (used) by operating activities	\$ <u><u>2,265,972</u></u>

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

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CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2012

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Elgin, Texas (the 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 AND COMMITTED 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 \$1,872,657 at year end and the bank balance was \$2,304,056. Of the bank balance, \$324,138 was insured by federal depository insurance and the remaining \$1,979,918 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	41 days	\$ <u>988,407</u>
TexSTAR local government investment pool	AAAm	46 days	\$ <u>2,351,512</u>
Elgin Economic Development Corp.:			
TexPool local government investment pool	AAAm	41 days	\$ <u>340,911</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 City’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, 2011 levy was based upon 100 percent of the assessed market value of \$336,780,299. 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, 2011 levy was \$.7539. If the effective tax rate, excluding tax rates for bonds and other contractual obligations and adjusted for new improvements, exceeds the rate for the previous year by more than 8 percent, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8 percent above the tax rate of the previous year.

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

4 RECEIVABLES

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

	Gross	Allowance	Net
	Receivables	for	Receivables
		Uncollectibles	
General Fund			
Sanitation accounts receivable	\$ 189,113	(72,000)	117,113
Property taxes receivable	175,879	(26,382)	149,497
Fines receivable	2,137,520	(1,737,520)	400,000
Debt Service Fund			
Property taxes receivable	123,374	(18,506)	104,868
Utility Fund			
Utility accounts receivable	722,187	(208,000)	514,187

(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:

Nonmajor governmental funds	\$	<u>46,029</u>
Total governmental funds	\$	<u>46,029</u>

The general fund's receivables from the other governmental funds primarily represent the use of the consolidated cash account to make expenditures by those other funds prior to transferring cash into the consolidated cash account by the other governmental funds.

6 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	\$	445,515
Nonmajor governmental funds		890

Transfers to debt service fund from:

Utility fund		504,551
Nonmajor governmental funds		45,000

Transfers to nonmajor governmental funds from:

General fund		49,247
Utility fund		55,500
Nonmajor governmental funds		<u>5,000</u>

Total transfers to governmental funds \$ 1,105,703

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.

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

7 CAPITAL ASSETS

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Land	\$ 25,972	206,648	-0-	232,620
Construction in progress	83,157	482,607	-0-	565,764
Total undepreciated assets	<u>109,129</u>	<u>689,255</u>	<u>-0-</u>	<u>798,384</u>
Other capital assets:				
Buildings and improvements	3,681,245	-0-	-0-	3,681,245
Equipment	2,483,993	120,718	-0-	2,604,711
Infrastructure	9,884,008	-0-	-0-	9,884,008
Total other capital assets at historical cost	<u>16,049,246</u>	<u>120,718</u>	<u>-0-</u>	<u>16,169,964</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,303,653)	(99,593)	-0-	(1,403,246)
Equipment	(2,208,231)	(89,622)	-0-	(2,297,853)
Infrastructure	(3,999,348)	(311,226)	-0-	(4,310,574)
Total accumulated depreciation	<u>(7,511,232)</u>	<u>(500,441)</u>	<u>-0-</u>	<u>(8,011,673)</u>
Other capital assets, net	<u>8,538,014</u>	<u>(379,723)</u>	<u>-0-</u>	<u>8,158,291</u>
Governmental activities capital assets, net	<u>\$ 8,647,143</u>	<u>309,532</u>	<u>-0-</u>	<u>8,956,675</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 91,947
Public safety	64,239
Public works	325,317
Parks and recreation	18,938
	<u>\$ 500,441</u>

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

8 LONG-TERM DEBT (Continued)

\$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 3.86 percent to 4.59 percent; outstanding bonds may be redeemed on or after July 15, 2012, at par plus accrued interest	330,000
\$2,250,000 Series 2002 general obligation bonds due in annual installments of \$130,000 to \$200,000 through July 15, 2022; interest at 4.40 percent to 5.00 percent; outstanding bonds may be redeemed on or after July 15, 2011, at par plus accrued interest	1,630,000
\$3,860,000 Series 2005 general obligation refunding bonds due in annual installments of \$305,000 to \$345,000 through July 15, 2016; interest at 3.50 percent to 3.70 percent; outstanding bonds may be redeemed on or after July 15, 2015 at par plus accrued interest	1,300,000
Less deferred amount on refunding	(33,023)
\$2,000,000 Series 2007 combination tax and revenue certificates of obligation due in annual installments of \$80,000 to \$140,000 through July 15, 2027; interest at 4.10 percent to 4.75 percent; outstanding bonds may be redeemed on or after July 15, 2017, at par plus accrued interest	1,610,000
\$1,250,000 Series 2009 combination tax and revenue certificates of obligation due in annual installments of \$50,000 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	1,160,000
\$180,000 Series 2010 public property finance contractual obligations due in annual installments of \$45,000 through July 15, 2014; interest at 3.07 percent to 3.31 percent	90,000
\$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 \$35,625 to \$77,278 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	1,123,980
Unamortized premium on the Series 2011 certificates of obligation	24,859

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

8 LONG-TERM DEBT (Continued)

Capital leases payable from the debt service fund (Note 9)	609,173
Accrued vacation related to governmental fund employees	98,368
Net pension obligation related to governmental fund employees	<u>130,491</u>
Total governmental activities long-term debt	\$ <u>8,568,848</u>

Payable out of the Utility Fund through revenues:

\$4,307,000 Series 2005 combination tax and limited surplus revenue certificates of obligation due in annual installments of \$110,000 to \$115,000 through July 15, 2045; interest at 4.375 percent; outstanding certificates may be redeemed at any time at par plus accrued interest	\$ 3,757,000
\$2,556,000 Series 2008 combination tax and limited surplus revenue certificates of obligation due in annual installments of \$29,000 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	2,475,000
\$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	775,000
\$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 \$249,375 to \$517,722 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	7,846,020
Unamortized premium on the Series 2011 certificates of obligation	174,011
Accrued vacation related to utility fund employees	31,367
Net pension obligation related to utility fund employees	<u>30,133</u>
Total business-type activities long-term debt	\$ <u>15,088,531</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 6.75 percent; there is no early redemption option for this remaining undefeased debt	\$ 70,000
\$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	540,000
Less deferred amount on refunding	(22,204)
\$680,000 Series 2007 sales tax revenue bonds due in annual installments of \$70,000 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>390,000</u>
Total component unit long-term debt	\$ <u>977,796</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, 2012, was \$33,989, which meets the reserve requirement.

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

8 LONG-TERM DEBT (Continued)

The following is a summary of long-term debt activity for September 30, 2012.

	<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	\$ 8,597,278	-0-	(858,298)	7,738,980	745,625
Notes payable	1,495	-0-	(1,495)	-0-	-0-
Capital leases payable	706,173	-0-	(97,000)	609,173	81,457
	<u>9,304,946</u>	<u>-0-</u>	<u>(956,793)</u>	<u>8,348,153</u>	<u>827,082</u>
Add unamortized bond premium	26,746	-0-	(1,887)	24,859	-0-
Less deferred amount on refunding	(48,654)	-0-	15,631	(33,023)	-0-
Total bonds, notes and leases payable	<u>9,283,038</u>	<u>-0-</u>	<u>(943,049)</u>	<u>8,339,989</u>	<u>827,082</u>
Other liabilities:					
Accrued vacation	101,046	87,976	(90,654)	98,368	-0-
Net pension obligation	102,993	27,498	-0-	130,491	-0-
Total other liabilities	<u>204,039</u>	<u>115,474</u>	<u>(90,654)</u>	<u>228,859</u>	<u>-0-</u>
Governmental activities					
long-term liabilities	<u>\$ 9,487,077</u>	<u>115,474</u>	<u>(1,033,703)</u>	<u>8,568,848</u>	<u>827,082</u>
Business-type activities					
Bonds and leases payable:					
Bonds and certificates of obligation	\$ 15,231,722	-0-	(378,702)	14,853,020	397,375
Add unamortized bond premium	187,221	-0-	(13,210)	174,011	-0-
Total bonds and leases payable	<u>15,418,943</u>	<u>-0-</u>	<u>(391,912)</u>	<u>15,027,031</u>	<u>397,375</u>
Other liabilities:					
Accrued vacation	29,186	18,999	(16,818)	31,367	-0-
Net pension obligation	22,388	7,745	-0-	30,133	-0-
Total other liabilities	<u>51,574</u>	<u>26,744</u>	<u>(16,818)</u>	<u>61,500</u>	<u>-0-</u>
Business-type activities					
long-term liabilities	<u>\$ 15,470,517</u>	<u>26,744</u>	<u>(408,730)</u>	<u>15,088,531</u>	<u>397,375</u>

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

8 LONG-TERM DEBT (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Component unit activities					
Revenue bonds payable	\$ 1,105,000	-0-	(105,000)	1,000,000	110,000
Less deferred amount on refunding	<u>(25,113)</u>	<u>-0-</u>	<u>2,909</u>	<u>(22,204)</u>	<u>-0-</u>
Component unit activities long-term liabilities	<u>\$ 1,079,887</u>	<u>-0-</u>	<u>(102,091)</u>	<u>977,796</u>	<u>110,000</u>

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	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 745,625	333,219	397,375	593,594	110,000	51,786
2014	776,250	304,197	403,750	582,156	115,000	44,919
2015	766,875	274,024	410,125	570,546	120,000	38,008
2016	798,125	243,372	420,875	558,765	125,000	31,462
2017	473,750	210,659	427,250	544,057	140,000	24,608
2018 - 2022	2,264,375	738,045	2,326,625	2,479,598	265,000	62,713
2023 - 2027	1,350,000	308,809	2,718,000	1,977,656	125,000	8,029
2028 - 2032	415,625	77,265	3,184,375	1,382,569	0	0
2033 - 2037	148,355	9,680	2,089,472	724,758	0	0
2038 - 2042	0	0	1,192,000	414,706	0	0
2043 - 2047	0	0	1,106,000	149,913	0	0
2048 - 2052	0	0	177,173	3,745	0	0
	<u>\$ 7,738,980</u>	<u>2,499,270</u>	<u>14,853,020</u>	<u>9,982,063</u>	<u>1,000,000</u>	<u>261,525</u>

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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 \$507,744 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, 2012, 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 \$ 551,179

\$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 44,295

\$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 13,699

Governmental activities capital leases payable \$ 609,173

Future minimum lease payments under capital leases are as follows:

<u>Fiscal Year</u>	<u>Governmental</u>
2013	\$ 115,036
2014	101,793
2015	101,793
2016	101,793
2017	101,793
2018-2019	<u>203,586</u>
	725,794
Less amount representing interest	<u>(116,621)</u>
Present value of minimum lease payments	\$ <u>609,173</u>

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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:

Municipal court	\$ 37,223
Seizure funds	1,336

Nonmajor governmental funds:

Hotel Motel Tax purposes	55,840
Channel 10 public safety purposes	68,870
Police/Red light camera purposes	<u>221,168</u>

Total restricted for other purposes \$ 384,437

Committed to other purposes:

General fund:

Sidewalk project	\$ 6,538
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Nonmajor governmental funds:

CDBG water line grant	9,681
Elgin Main street	30,836
TCF sidewalk grant	16,275
Capital equipment replacement	34,282
Morris Park building	<u>191,064</u>

Total committed for other purposes \$ 288,676

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.

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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:

	Plan Year 2011	Plan Year 2012
Employee deposit rate	6.00%	6.00%
Employer phase-in pension rate paid	8.29%	9.12%
Employer actuarially determined pension rate	9.83%	10.35%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

12 PENSION PLAN (Continued)

Contributions

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

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

1. Annual Required Contribution (ARC)	286,533
2. Interest on Net Pension Obligation	8,575
3. Adjustment to the ARC	(7,371)
4. Annual Pension Cost (APC)	287,737
5. Contributions Made	<u>249,609</u>
6. Increase (decrease) in net pension obligation	38,128
7. Net Pension Obligation/(Asset), beginning of year	<u>122,496</u>
8. Net Pension Obligation/(Asset), end of year	<u>160,624</u>

**Trend Information
Annual Pension Cost**

Accounting Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
9/30/10	\$236,711	\$190,134	80.3%	\$78,361
9/30/11	\$264,887	\$217,867	82.2%	\$122,496
9/30/12	\$287,737	\$249,609	86.7%	\$160,624

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

12 PENSION PLAN (Continued)

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

Valuation Date	12/31/09	12/31/10	12/31/11
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	28.2 years; closed period	27.4 years; closed period	26.8 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.5%	7.0%	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% 2.1%	3.00% 2.1%	3.00% 2.1%

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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)
12/31/09	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%
12/31/11	4,882,894	6,147,239	1,264,345	79.4%	2,742,621	46.1%

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

12 PENSION PLAN (Continued)

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.

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

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

13 SUPPLEMENTAL DEATH BENEFITS FUND (Continued)

Contributions

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

The City's contributions to the TMRS SDBF for the years ended 2012, 2011, and 2010 were \$5,797, \$6,444, and \$5,700, 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>
2010	.02%	.02%	100.0%
2011	.02%	.02%	100.0%
2012	.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.

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 \$604,976. Utility customer deposits held at year end totaled \$230,202.

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

16 SIGNIFICANT BUDGET VARIANCES

The City reported significant unfavorable budget variances in the revenue categories of property taxes and licenses and permits. Budgeted property tax revenues were based on values which included properties still under ARB review and which were later adjusted downwards. The budget for licenses and permits included the anticipation that Austin Community College and Wal-Mart would be starting construction in this fiscal year, but they did not. The City reported an unfavorable budget variance in the expenditure category of public safety. The one-time 3% pay adjustment at the end of the year caused salary expense to exceed the budget in this category.

17 CONTINGENCIES

The dispute with Aqua has been resolved. Both parties swapped a limited number of customers. Elgin added over 1,000 acres to its CCN. We understand Aqua is continuing the lawsuit against the Texas Commission on Environmental Quality, but the City of Elgin and Austin Community College settled in 2012.

18 COMMITMENTS

The City is committed at year end under an ongoing construction contract for the Elm Creek project. An additional \$190,000 is expected to be spent under that contract in the next year.

19 DEFICIT FUND BALANCES

The TxDOT Centers Grant recorded a payable at the very end of the year and the City had not yet transferred the local share of revenues needed to cover that expense. This resulted in the reporting of a deficit fund balance of \$(23,703) at year end for that fund.

CITY OF ELGIN, TEXAS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

September 30, 2012

	Hotel Motel Tax	CDBG Water Line Grant	Elgin Main Street Board	Police/ Channel 10 Special Revenue
ASSETS				
Cash and cash equivalents	\$ 73,047	-0-	39,006	68,870
Investments	-0-	-0-	-0-	-0-
Other receivables	-0-	15,050	-0-	-0-
Total assets	<u>\$ 73,047</u>	<u>15,050</u>	<u>39,006</u>	<u>68,870</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 17,207	2,043	8,170	-0-
Due to other funds	-0-	3,326	-0-	-0-
Total liabilities	<u>17,207</u>	<u>5,369</u>	<u>8,170</u>	<u>-0-</u>
Fund Balances				
Restricted for:				
Capital projects	-0-	-0-	-0-	-0-
Police/Red Light Camera	-0-	-0-	-0-	-0-
Other purposes	55,840	-0-	-0-	68,870
Committed to:				
Morris Park	-0-	-0-	-0-	-0-
Grant projects	-0-	9,681	-0-	-0-
Capital equipment replacement	-0-	-0-	-0-	-0-
Other purposes	-0-	-0-	30,836	-0-
Unassigned	-0-	-0-	-0-	-0-
Total fund balances	<u>55,840</u>	<u>9,681</u>	<u>30,836</u>	<u>68,870</u>
Total liabilities and fund balances	<u>\$ 73,047</u>	<u>15,050</u>	<u>39,006</u>	<u>68,870</u>

<u>Red Light Camera</u>	<u>Section 125 Fund</u>	<u>TCF Sidewalk Grant</u>	<u>TxDOT Centers Grant</u>	<u>Capital Equipment Replacement</u>	<u>2009 CO Construction</u>
259,168	6,249	16,300	-0-	34,282	-0-
-0-	-0-	-0-	-0-	-0-	54,984
-0-	-0-	7,000	-0-	-0-	-0-
<u>259,168</u>	<u>6,249</u>	<u>23,300</u>	<u>-0-</u>	<u>34,282</u>	<u>54,984</u>
19,000	6,249	7,025	-0-	-0-	-0-
19,000	-0-	-0-	23,703	-0-	-0-
<u>38,000</u>	<u>6,249</u>	<u>7,025</u>	<u>23,703</u>	<u>-0-</u>	<u>-0-</u>
-0-	-0-	-0-	-0-	-0-	54,984
221,168	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	16,275	-0-	-0-	-0-
-0-	-0-	-0-	-0-	34,282	-0-
-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	(23,703)	-0-	-0-
<u>221,168</u>	<u>-0-</u>	<u>16,275</u>	<u>(23,703)</u>	<u>34,282</u>	<u>54,984</u>
<u>259,168</u>	<u>6,249</u>	<u>23,300</u>	<u>-0-</u>	<u>34,282</u>	<u>54,984</u>

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CITY OF ELGIN, TEXAS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

September 30, 2012

	<u>Morris Park Bldg Fund</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS		
Cash and cash equivalents	\$ 191,257	688,179
Investments	-0-	54,984
Other receivables	-0-	22,050
Total assets	<u>\$ 191,257</u>	<u>765,213</u>
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 193	59,887
Due to other funds	-0-	46,029
Total liabilities	<u>193</u>	<u>105,916</u>
Fund Balances		
Restricted for:		
Capital projects	-0-	54,984
Police/Red Light Camera	-0-	221,168
Other purposes	-0-	124,710
Committed to:		
Morris Park	191,064	191,064
Grant projects	-0-	25,956
Capital equipment replacement	-0-	34,282
Other purposes	-0-	30,836
Unassigned	-0-	(23,703)
Total fund balances	<u>191,064</u>	<u>659,297</u>
Total liabilities and fund balances	<u>\$ 191,257</u>	<u>765,213</u>

CITY OF ELGIN, TEXAS

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

For the Year Ended September 30, 2012

	Hotel Motel Tax	CDBG Water Line Grant	Elgin Main Street Board	Police/ Channel 10 Special Revenue
REVENUES				
Other taxes	\$ 53,222	-0-	-0-	-0-
Fines	-0-	-0-	-0-	-0-
Intergovernmental	-0-	15,050	-0-	-0-
Investment earnings	429	-0-	130	-0-
Miscellaneous	-0-	-0-	68,655	20,726
Total revenues	<u>53,651</u>	<u>15,050</u>	<u>68,785</u>	<u>20,726</u>
EXPENDITURES				
Current:				
Public safety	-0-	-0-	-0-	1,410
Public works	-0-	60,869	-0-	-0-
Other current	86,929	-0-	62,149	-0-
Capital outlay	-0-	-0-	-0-	-0-
Total expenditures	<u>86,929</u>	<u>60,869</u>	<u>62,149</u>	<u>1,410</u>
Excess (deficiency) of revenues over expenditures	<u>(33,278)</u>	<u>(45,819)</u>	<u>6,636</u>	<u>19,316</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-0-	55,500	-0-	-0-
Transfers out	-0-	-0-	(5,000)	(890)
Total other financing sources (uses)	<u>-0-</u>	<u>55,500</u>	<u>(5,000)</u>	<u>(890)</u>
Net change in fund balances	(33,278)	9,681	1,636	18,426
Fund balances - beginning	<u>89,118</u>	<u>-0-</u>	<u>29,200</u>	<u>50,444</u>
Fund balances - ending	<u>\$ 55,840</u>	<u>9,681</u>	<u>30,836</u>	<u>68,870</u>

<u>Red Light Camera</u>	<u>Section 125 Fund</u>	<u>TCF Sidewalk Grant</u>	<u>TxDOT Centers Grant</u>	<u>Capital Equipment Replacement</u>	<u>2009 CO Construction</u>
-0-	-0-	-0-	-0-	-0-	-0-
391,996	-0-	-0-	-0-	-0-	-0-
-0-	-0-	7,000	-0-	-0-	-0-
247	-0-	-0-	-0-	35	123
-0-	-0-	15,000	-0-	-0-	-0-
<u>392,243</u>	<u>-0-</u>	<u>22,000</u>	<u>-0-</u>	<u>35</u>	<u>123</u>
171,075	-0-	-0-	-0-	-0-	-0-
-0-	-0-	14,000	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	11,725	23,703	-0-	24,516
<u>171,075</u>	<u>-0-</u>	<u>25,725</u>	<u>23,703</u>	<u>-0-</u>	<u>24,516</u>
221,168	-0-	(3,725)	(23,703)	35	(24,393)
-0-	-0-	20,000	-0-	34,247	-0-
-0-	-0-	-0-	-0-	-0-	(45,000)
-0-	-0-	20,000	-0-	34,247	(45,000)
221,168	-0-	16,275	(23,703)	34,282	(69,393)
-0-	-0-	-0-	-0-	-0-	124,377
<u>221,168</u>	<u>-0-</u>	<u>16,275</u>	<u>(23,703)</u>	<u>34,282</u>	<u>54,984</u>

CITY OF ELGIN, TEXAS

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

For the Year Ended September 30, 2012

	Morris Park Bldg Fund	Total Nonmajor Governmental Funds
REVENUES		
Other taxes	\$ -0-	53,222
Fines	-0-	391,996
Intergovernmental	-0-	22,050
Investment earnings	1,027	1,991
Miscellaneous	-0-	104,381
Total revenues	<u>1,027</u>	<u>573,640</u>
EXPENDITURES		
Current:		
Public safety	-0-	172,485
Public works	-0-	74,869
Other current	-0-	149,078
Capital outlay	62,117	122,061
Total expenditures	<u>62,117</u>	<u>518,493</u>
Excess (deficiency) of revenues over expenditures	<u>(61,090)</u>	<u>55,147</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	-0-	109,747
Transfers out	-0-	(50,890)
Total other financing sources (uses)	<u>-0-</u>	<u>58,857</u>
Net change in fund balances	(61,090)	114,004
Fund balances - beginning	<u>252,154</u>	<u>545,293</u>
Fund balances - ending	<u>\$ 191,064</u>	<u>659,297</u>