

CITY OF ELGIN, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2014

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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

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, 2014, 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 accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

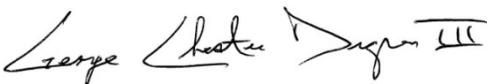
Supplementary and Other Information

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 Schedule of Expenditures of Federal Awards on page 56 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The supplementary information combining statements on pages 50-53 are also presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards and the combining statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated March 26, 2015, on my consideration of the City of Elgin'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 in considering the City of Elgin's internal control over financial reporting and compliance.



George Chester Draper, III
Austin, Texas
March 26, 2015

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2014

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, 2014. 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 and deferred outflows of resources exceeded the City's total liabilities at the close of the fiscal year by \$18,426,904 (net position). Of this amount \$3,004,135 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$2,235,919 during 2014.
- As of September 30, 2014, the City of Elgin's governmental funds reported combined ending fund balances of \$3,129,060. Of the ending fund balance, \$1,646,464 is restricted under laws external to the City for specific purposes (e.g., debt service, capital projects, municipal court, red light camera purposes, hotel/motel tax purposes, cable channel 10 restrictions); \$49,923 is committed by the City for specific purposes (e.g., Elgin Main Street, and the local portion of the sidewalk grants); \$1,426,104 is unassigned fund balance and is available to meet the government's ongoing obligations.
- A grant totaling over \$1,900,000 from the Department of Transportation for the Centers project accounted for the largest single difference in revenues reported during 2014 versus 2013. That grant along with money from the 2013 bond issue was used to fund engineering and construction costs related to the TxDOT Centers project of \$2,509,000 during the fiscal year.
- The prior year bond issue was also used for engineering and construction costs of \$312,000 related to booster station upgrades, \$89,000 related to water tank repainting, and \$22,000 related to lift station and force main improvements, along with the purchase of two police vehicles, a public works truck, a dump truck, and a double drum roller

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.

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

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 Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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.

The Statement of Activities presents information showing how the City's net position 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 position 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 Position 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.

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

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 fund balance, and change in fund balance reported in the governmental fund financial statements and the net position, and change in net position reported in the governmental activities column of the government-wide financial statements.

Notes to the financial statements

The notes provide additional information that is essential to a complete understanding of the information provided in the government-wide and fund financial statements.

Condensed Financial Information

Government-wide net position

As noted earlier, net position and especially net position by category may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities by \$18,426,904 as of September 30, 2014.

The largest portion of the City's net position \$13,506,649 (73.3%) 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 position \$1,916,120 (10.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$3,004,135 (16.3%) may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF ELGIN, TEXAS

MANAGEMENT’S DISCUSSION AND ANALYSIS

(Continued)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013*	2014	2013*	2014	2013*
	Current and other assets	\$ 4,290,963	4,246,343	3,359,244	4,258,888	7,650,207
Capital assets	<u>11,387,685</u>	<u>9,626,537</u>	<u>24,900,477</u>	<u>24,827,692</u>	<u>36,288,162</u>	<u>34,454,229</u>
Total assets	<u>15,678,648</u>	<u>13,872,880</u>	<u>28,259,721</u>	<u>29,086,580</u>	<u>43,938,369</u>	<u>42,959,460</u>
Deferred outflows of resources	<u>14,866</u>	<u>25,832</u>	<u>2,213</u>	<u>2,726</u>	<u>17,079</u>	<u>28,558</u>
Long-term liabilities	<u>(8,243,189)</u>	<u>(9,113,651)</u>	<u>(15,975,438)</u>	<u>(16,514,398)</u>	<u>(24,218,627)</u>	<u>(25,628,049)</u>
Other liabilities	<u>(746,887)</u>	<u>(523,474)</u>	<u>(563,030)</u>	<u>(645,510)</u>	<u>(1,309,917)</u>	<u>(1,168,984)</u>
Total liabilities	<u>(8,990,076)</u>	<u>(9,637,125)</u>	<u>(16,538,468)</u>	<u>(17,159,908)</u>	<u>(25,528,544)</u>	<u>(26,797,033)</u>
Net position:						
Net investment in capital assets	3,983,878	2,247,471	9,522,771	9,472,877	13,506,649	11,720,348
Restricted	1,140,034	580,039	776,086	613,514	1,916,120	1,193,553
Unrestricted	<u>1,579,526</u>	<u>1,434,077</u>	<u>1,424,609</u>	<u>1,843,007</u>	<u>3,004,135</u>	<u>3,277,084</u>
Total net position	\$ <u>6,703,438</u>	<u>4,261,587</u>	<u>11,723,466</u>	<u>11,929,398</u>	<u>18,426,904</u>	<u>16,190,985</u>

* as restated for the effects of prior period adjustment

Government-wide changes in net position

The following table provides a summary of the City’s operations for the year ended September 30, 2014. The City’s net position increased by \$2,235,919. The Governmental activities increased the City’s net position by \$2,441,851 and the Business-type activities decreased the City’s net position by \$(205,932). Details of those changes are discussed below.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013*	2014	2013*	2014	2013*
	Change in net position					
Total revenues	\$ 8,303,330	6,614,368	4,457,217	4,338,094	12,760,547	10,952,462
Total expenses	<u>(6,841,399)</u>	<u>(6,724,685)</u>	<u>(3,683,229)</u>	<u>(3,182,569)</u>	<u>(10,524,628)</u>	<u>(9,907,254)</u>
Change before transfers	1,461,931	(110,317)	773,988	1,155,525	2,235,919	1,045,208
Transfers	<u>979,920</u>	<u>1,363,053</u>	<u>(979,920)</u>	<u>(1,363,053)</u>	-0-	-0-
Change in net position	2,441,851	1,252,736	(205,932)	(207,528)	2,235,919	1,045,208
Net position - beginning	<u>4,261,587</u>	<u>3,008,851</u>	<u>11,929,398</u>	<u>12,136,926</u>	<u>16,190,985</u>	<u>15,145,777</u>
Net position - ending	\$ <u>6,703,438</u>	<u>4,261,587</u>	<u>11,723,466</u>	<u>11,929,398</u>	<u>18,426,904</u>	<u>16,190,985</u>

* As restated for the effects of prior period adjustment

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

CITY OF ELGIN, TEXAS

MANAGEMENT’S DISCUSSION AND ANALYSIS

(Continued)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for services	\$ 2,152,694	1,836,678	3,891,714	3,951,277	6,044,408	5,787,955
Operating grants and contributions	426,006	341,246	-0-	-0-	426,006	341,246
Capital grants and contributions	1,528,525	395,584	554,916	382,936	2,083,441	778,520
General revenues:						
Property taxes	2,679,810	2,664,788	-0-	-0-	2,679,810	2,664,788
Sales tax	1,072,642	916,876	-0-	-0-	1,072,642	916,876
Franchise and other taxes	433,707	420,099	-0-	-0-	433,707	420,099
Investment earnings	7,838	5,460	2,515	3,881	10,353	9,341
Miscellaneous	2,108	33,637	8,072	-0-	10,180	33,637
Total revenues	\$ 8,303,330	6,614,368	4,457,217	4,338,094	12,760,547	10,952,462

A grant totaling over \$1,900,000 from the Department of Transportation for the Centers project accounted for the largest single difference in revenues reported during 2014 versus 2013. Fine revenue (which is included in the classification of charges for services in the table above) reflected an increase of \$260,000. Part of that is due to the prior year change in the estimate of net collectible fines receivable which reduced revenues in that year, and part of the increase is due to the continued increase in fines from the red light cameras. Growth and expansion account for sales tax revenue increases totaling around \$156,000.

The table below provides a comparison of expenses for 2014 and 2013.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Expenses						
General government	\$ 2,264,872	2,054,981	-0-	-0-	2,264,872	2,054,981
Public safety	2,489,994	2,296,063	-0-	-0-	2,489,994	2,296,063
Public works	1,258,155	1,523,535	-0-	-0-	1,258,155	1,523,535
Parks and recreation	349,168	303,851	-0-	-0-	349,168	303,851
Other current	156,420	182,862	-0-	-0-	156,420	182,862
Interest on long-term debt	322,790	363,393	-0-	-0-	322,790	363,393
Utility system	-0-	-0-	3,683,229	3,182,569	3,683,229	3,182,569
Total expenses	\$ 6,841,399	6,724,685	3,683,229	3,182,569	10,524,628	9,907,254

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

General government expenses included almost \$100,000 related to computer upgrades in 2014, and sanitation costs were up \$25,000. General government expenses also reflected a net increase of approximately \$40,000 in the categories of salaries and professional contracted services as new personnel who were hired towards the end of 2013 were in place for all of 2014.

Operating expenses in the red light camera fund were up around \$60,000 (corresponding to the revenue increase of about \$110,000). Personnel expenses were up \$63,000 for public safety with the bulk of that being the cost of living increase.

The public works department reported expenses of \$310,000 in the prior year related to the CDBG grant which did not continue into 2014, accounting for the decrease on that line.

Repair and maintenance expenses were up \$300,000 in the utility fund with a large portion of that being payments for water well maintenance. Interest expense was up \$34,000 as a result of the new debt added during the previous year. A new meter reader position was added which increase salaries for the utility fund and a new temporary position increased contract costs. Additionally, many more customers began using credit cards to pay their utility bills which resulted in higher fees to the City and which prompted the addition of a service charge to customers when using a credit card.

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 \$3,129,060. Approximately 46% of this total amount, \$1,426,104 is unassigned fund balance. The remainder of the fund balance \$1,702,956 is un-spendable, restricted, or committed.

The General Fund reported an increase in unassigned fund balance of \$157,911. At the end of the year, the general fund had an unassigned fund balance of \$1,426,104. That amount represents a little over 3 months in terms of the general fund's annual expenditures.

Total revenues of the General Fund showed a bit of a decline as the overall property tax rate was allocated more to debt service and less to general operations for fiscal year 2014. Total expenditures of the General Fund showed about a 6% increase.

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

The Debt Service Fund has a fund balance of \$343,732, which is 29% of the annual debt service requirement of that fund. Debt service fund balance is up \$206,000 as a result of allocating a larger portion of the total tax rate to debt service.

A significant portion of the total fund balance of the 2013 certificates of obligation construction fund was spent down during fiscal 2014 as the City's portion of the Centers project. The remaining monies are restricted for use on capital projects.

The utility fund has a net position of \$11,723,466 at the end of the year. However, \$9,522,771 is invested in capital assets, net of related debt. The total also includes amounts restricted for debt service of \$235,955 and restricted for capital projects of \$540,131. The remaining \$1,424,609 represents 3.6 months of utility fund expenses including interest and recurring transfers out.

General Fund Budgetary Highlights

The City did not make any significant revisions to the original appropriations approved by the City Council. The City did report a significant unfavorable budget variance in the general fund in the revenue category of property taxes. A significant budget variance was also reported on the line item for transfers out for the general fund. Overall, though, the City did not expend more than the total budget for the general fund and the actual increase in fund balance of the general fund exceeded the budget by a positive variance of \$203,000.

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, 2014, amounts to \$36,288,162 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, improvements, and infrastructure and construction in progress. Major capital asset events occurring during the current fiscal year included the following:

- Engineering and construction costs related to the TxDOT Centers project of \$2,509,000 (\$1,915,000 of which was grant funded)
- Engineering and construction costs of \$312,000 related to booster station upgrades, \$89,000 related to water tank repainting, and \$22,000 related to lift station and force main improvements
- Purchase of two police vehicles, a public works truck, a dump truck, and a double drum roller

CITY OF ELGIN, TEXAS

MANAGEMENT’S DISCUSSION AND ANALYSIS

(Continued)

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2014	2013	2014	2013	2014	2013
Land	\$ 232,620	232,620	191,176	191,176	423,796	423,796
Construction in progress	27,326	1,075,619	-0-	2,763,215	27,326	3,838,834
Distribution and collection systems	-0-	-0-	23,989,396	21,036,075	23,989,396	21,036,075
Buildings and improvements	3,375,532	2,561,581	-0-	-0-	3,375,532	2,561,581
Equipment	442,613	327,335	719,905	837,226	1,162,518	1,164,561
Infrastructure	7,309,594	5,429,382	-0-	-0-	7,309,594	5,429,382
Totals at historical cost	\$ <u>11,387,685</u>	<u>9,626,537</u>	<u>24,900,477</u>	<u>24,827,692</u>	<u>36,288,162</u>	<u>34,454,229</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 total bonded debt and capital leases of \$23,554,897.

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2014	2013	2014	2013	2014	2013
Bonds and certificates of obligation	\$ 7,407,030	8,192,827	15,696,970	16,221,174	23,104,000	24,414,001
Capital leases payable	450,897	521,404	-0-	-0-	450,897	521,404
Totals	\$ <u>7,857,927</u>	<u>8,714,231</u>	<u>15,696,970</u>	<u>16,221,174</u>	<u>23,554,897</u>	<u>24,935,405</u>

The City did not issue any new debt in fiscal year 2014. The City did make scheduled principal payments of \$1,380,508 on outstanding debt.

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 \$0.35619 is approximately 24% of the maximum debt service tax rate.

CITY OF ELGIN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Economic Factors and Next Year's Budgets and Rates

Elgin continues to show good growth and prosperity as evidenced by new buildings being constructed such as: Large climate-controlled warehouse storage, a Mexican meat market downtown and a new gasoline station in front of the new Walmart SuperCenter.

The historic downtown area has also seen several buildings being purchased and remodeled into retail space and upscale apartments. More are under contract.

Housing subdivisions are being replatted for expected growth coming our way and one homebuilder (DR Horton) has purchased all the remaining lots in an older subdivision and is quickly selling all the homes under construction.

Another good measure of growth is percentage of sales tax increases as compared to the month a year ago. For instance, March 2015 was up 18.49% over March of 2014; Feb. '15 up 37.2%; Jan. '15 up 20.74%; Dec. '14 up 15.49%; Nov. '14 up 8.66%; Oct. '14 up 22.87%; Sept. '14 up 25.62% and Aug. '14 was up 15.94% over Aug. 2013.

Recently CapMetro announced they are seeking bids for someone to lay fiber optic lines along their rail lines. The proposed fiber will include their rail going from Austin to Elgin. This will greatly enhance our telecommunication capabilities and spur even more growth.

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 POSITION

September 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents (note 2)	\$ 2,143,573	496,119	2,639,692	438,530
Investments (note 2)	772,415	999,142	1,771,557	441,854
Receivables (net, where applicable, of allowances for uncollectibles):				
Accounts receivable	134,388	490,780	625,168	500
Property taxes	185,696	-0-	185,696	-0-
Sales tax receivable	197,960	-0-	197,960	98,980
Fines receivable	288,267	-0-	288,267	-0-
Other receivables	562,095	945	563,040	-0-
Prepaid expenses	6,569	2,400	8,969	-0-
Restricted cash and investments (note 2)	-0-	1,369,858	1,369,858	-0-
Capital assets (note 6):				
Land	232,620	191,176	423,796	737,845
Construction in progress	27,326	-0-	27,326	-0-
Other capital assets, net of depreciation	11,127,739	24,709,301	35,837,040	-0-
Total assets	<u>15,678,648</u>	<u>28,259,721</u>	<u>43,938,369</u>	<u>1,717,709</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amount on refunding	14,866	2,213	17,079	16,466
LIABILITIES				
Accounts payable	674,569	181,046	855,615	82
Accrued liabilities	72,318	134,902	207,220	7,953
Customer deposits	-0-	247,082	247,082	-0-
Noncurrent liabilities (note 8):				
Due within one year	848,327	540,075	1,388,402	120,000
Due in more than one year	7,394,862	15,435,363	22,830,225	655,000
Total liabilities	<u>8,990,076</u>	<u>16,538,468</u>	<u>25,528,544</u>	<u>783,035</u>
NET POSITION				
Net investment in capital assets	3,983,878	9,522,771	13,506,649	-0-
Restricted for:				
Debt service	422,671	235,955	658,626	34,148
Capital improvements	-0-	540,131	540,131	-0-
Other purposes (note 10)	717,363	-0-	717,363	-0-
Unrestricted (deficit)	1,579,526	1,424,609	3,004,135	916,992
Total net position	<u>\$ 6,703,438</u>	<u>11,723,466</u>	<u>18,426,904</u>	<u>951,140</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, 2014

<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	\$ 2,264,872	907,436	163,152	-0-
Public safety	2,489,994	1,021,630	149,336	-0-
Public works	1,258,155	145,044	30,124	1,528,525
Parks and recreation	349,168	24,314	-0-	-0-
Other current	156,420	54,270	83,394	-0-
Interest on long-term debt	322,790	-0-	-0-	-0-
Total governmental activities	<u>6,841,399</u>	<u>2,152,694</u>	<u>426,006</u>	<u>1,528,525</u>
Business-type activities:				
Utility system	<u>3,683,229</u>	<u>3,891,714</u>	<u>-0-</u>	<u>554,916</u>
Total primary government	<u>\$ 10,524,628</u>	<u>6,044,408</u>	<u>426,006</u>	<u>2,083,441</u>
Component unit:				
Elgin Economic Develop. Corp.	<u>\$ 265,974</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 position				
Net position - beginning				
Prior period adjustment (note 16)				
Net position - ending				

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
(1,194,284)	-0-	(1,194,284)	-0-
(1,319,028)	-0-	(1,319,028)	-0-
445,538	-0-	445,538	-0-
(324,854)	-0-	(324,854)	-0-
(18,756)	-0-	(18,756)	-0-
(322,790)	-0-	(322,790)	-0-
<u>(2,734,174)</u>	<u>-0-</u>	<u>(2,734,174)</u>	<u>-0-</u>
<u>-0-</u>	<u>763,401</u>	<u>763,401</u>	<u>-0-</u>
<u>(2,734,174)</u>	<u>763,401</u>	<u>(1,970,773)</u>	<u>-0-</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(265,974)</u>
\$ 1,419,376	-0-	1,419,376	-0-
1,260,434	-0-	1,260,434	-0-
1,072,642	-0-	1,072,642	531,645
433,707	-0-	433,707	-0-
7,838	2,515	10,353	2,577
2,108	8,072	10,180	100
979,920	(979,920)	-0-	-0-
<u>5,176,025</u>	<u>(969,333)</u>	<u>4,206,692</u>	<u>534,322</u>
2,441,851	(205,932)	2,235,919	268,348
4,275,576	12,288,131	16,563,707	682,792
<u>(13,989)</u>	<u>(358,733)</u>	<u>(372,722)</u>	<u>-0-</u>
<u>\$ 6,703,438</u>	<u>11,723,466</u>	<u>18,426,904</u>	<u>951,140</u>

CITY OF ELGIN, TEXAS

**BALANCE SHEET
GOVERNMENTAL FUNDS**

September 30, 2014

	<u>General</u>	<u>Red Light Camera Special Rev</u>	<u>2013 CO Construction</u>
ASSETS			
Cash and cash equivalents	\$ 706,674	770,846	47,310
Investments	576,007	-0-	141,510
Receivables (net, where applicable, of allowances for uncollectibles):			
Accounts receivable	134,388	-0-	-0-
Property taxes	106,757	-0-	-0-
Sales tax receivable	197,960	-0-	-0-
Fines receivable	288,267	-0-	-0-
Other receivables	-0-	-0-	553,591
Due from other funds	99,737	-0-	-0-
Prepaid expenses	6,569	-0-	-0-
Total assets	\$ 2,116,359	770,846	742,411
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 270,990	234,909	157,042
Accrued liabilities	13,371	-0-	-0-
Due to other funds	-0-	99,737	-0-
Total liabilities	<u>284,361</u>	<u>334,646</u>	<u>157,042</u>
Deferred Inflows of Resources			
Deferred property tax revenue	106,757	-0-	-0-
Deferred fine revenue	288,267	-0-	-0-
Total deferred inflows of resources	<u>395,024</u>	<u>-0-</u>	<u>-0-</u>
Fund Balances			
Nonspendable:			
Prepaid expenses	6,569	-0-	-0-
Restricted for:			
Debt service	-0-	-0-	-0-
Capital projects	-0-	-0-	585,369
Other purposes (note 10)	4,301	436,200	-0-
Committed to:			
Various purposes (note 10)	-0-	-0-	-0-
Unassigned	1,426,104	-0-	-0-
Total fund balances	<u>1,436,974</u>	<u>436,200</u>	<u>585,369</u>
Total liabilities, deferred inflows of resources, and fund balances	\$ 2,116,359	770,846	742,411

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 deferred amount on refunding not reported under the modified accrual basis above
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 position of governmental activities as reported on the Statement of Net Position

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

<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
289,084	329,659	2,143,573
54,898	-0-	772,415
-0-	-0-	134,388
78,939	-0-	185,696
-0-	-0-	197,960
-0-	-0-	288,267
-0-	8,504	562,095
-0-	-0-	99,737
-0-	-0-	6,569
<u>422,921</u>	<u>338,163</u>	<u>4,390,700</u>

250	11,378	674,569
-0-	-0-	13,371
-0-	-0-	99,737
<u>250</u>	<u>11,378</u>	<u>787,677</u>

78,939	-0-	185,696
-0-	-0-	288,267
<u>78,939</u>	<u>-0-</u>	<u>473,963</u>

-0-	-0-	6,569
343,732	-0-	343,732
-0-	-0-	585,369
-0-	276,862	717,363
-0-	49,923	49,923
-0-	-0-	1,426,104
<u>343,732</u>	<u>326,785</u>	<u>3,129,060</u>

<u>422,921</u>	<u>338,163</u>	<u>4,390,700</u>
----------------	----------------	------------------

\$ 3,129,060
473,963
11,387,685
14,866
(8,243,189)
(58,947)
<u>\$ 6,703,438</u>

CITY OF ELGIN, TEXAS

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

For the Year Ended September 30, 2014

	<u>General</u>	<u>Red Light Camera Special Rev</u>	<u>2013 CO Construction</u>
REVENUES			
Property taxes	\$ 1,441,983	-0-	-0-
Sales tax	1,072,642	-0-	-0-
Franchise and other taxes	433,707	-0-	-0-
Licenses and permits	130,099	-0-	-0-
Fines	255,127	715,149	-0-
Intergovernmental	273,858	-0-	1,528,525
Charges for services	926,348	-0-	-0-
Investment earnings	4,616	1,842	825
Miscellaneous	24,995	-0-	-0-
Total revenues	<u>4,563,375</u>	<u>716,991</u>	<u>1,529,350</u>
EXPENDITURES			
Current:			
General government	2,183,799	-0-	-0-
Public safety	1,884,956	500,166	-0-
Public works	854,725	-0-	-0-
Parks and recreation	311,327	-0-	-0-
Other current	-0-	-0-	37,781
Capital outlay	-0-	-0-	2,355,501
Debt service:			
Principal	-0-	-0-	-0-
Interest and other charges	-0-	-0-	-0-
Total expenditures	<u>5,234,807</u>	<u>500,166</u>	<u>2,393,282</u>
Excess (deficiency) of revenues over expenditures	<u>(671,432)</u>	<u>216,825</u>	<u>(863,932)</u>
OTHER FINANCING SOURCES (USES)			
Insurance proceeds on vehicle	27,723	-0-	-0-
Transfers in	863,484	-0-	-0-
Transfers out	(98,683)	-0-	(7,896)
Total other financing sources (uses)	<u>792,524</u>	<u>-0-</u>	<u>(7,896)</u>
Net change in fund balances	121,092	216,825	(871,828)
Fund balances - beginning	<u>1,315,882</u>	<u>219,375</u>	<u>1,457,197</u>
Fund balances - ending	<u>\$ 1,436,974</u>	<u>436,200</u>	<u>585,369</u>

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

<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
1,265,101	-0-	2,707,084
-0-	-0-	1,072,642
-0-	54,270	487,977
-0-	-0-	130,099
-0-	10,636	980,912
-0-	34,625	1,837,008
-0-	-0-	926,348
485	70	7,838
22	89,800	114,817
<u>1,265,608</u>	<u>189,401</u>	<u>8,264,725</u>
-0-	-0-	2,183,799
-0-	7,482	2,392,604
-0-	30,460	885,185
-0-	-0-	311,327
-0-	118,639	156,420
-0-	-0-	2,355,501
856,304	-0-	856,304
327,242	-0-	327,242
<u>1,183,546</u>	<u>156,581</u>	<u>9,468,382</u>
<u>82,062</u>	<u>32,820</u>	<u>(1,203,657)</u>
-0-	-0-	27,723
123,971	106,579	1,094,034
-0-	-0-	(106,579)
<u>123,971</u>	<u>106,579</u>	<u>1,015,178</u>
206,033	139,399	(188,479)
<u>137,699</u>	<u>187,386</u>	<u>3,317,539</u>
<u>343,732</u>	<u>326,785</u>	<u>3,129,060</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, 2014

Net change in fund balances - total governmental funds	\$ (188,479)
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.	2,355,501
Subtract depreciation expense.	(551,413)
Offset book value of wrecked vehicle against insurance proceeds	(35,405)
Include transfer of the book value of vehicle from governmental to utility	(7,535)
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.	185,696
Subtract deferred property tax revenues at the beginning of the year.	(212,970)
Fine revenues:	
Add noncurrent receivables at the end of the year.	288,267
Subtract noncurrent receivables at the beginning of the year.	(250,111)
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Add back principal payments on long-term debt.	856,304
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:	
Add amortization of bond premium	16,615
Subtract amortization of deferred amount on refunding	(10,966)
Subtract unmatured accrued interest at the end of the year.	(58,947)
Add unmatured accrued interest at the beginning of the year.	57,751
Compensated absences:	
Subtract noncurrent liability at the end of the year.	(104,968)
Add noncurrent liability at the beginning of the year.	100,178
Net pension obligation:	
Subtract noncurrent liability at the end of the year.	(149,045)
Add noncurrent liability at the beginning of the year.	151,378
Change in net position of governmental activities	\$ <u><u>2,441,851</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, 2014

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 1,639,298	1,639,298	1,441,983	(197,315)
Sales tax	1,000,000	1,000,000	1,072,642	72,642
Franchise and other taxes	400,000	400,000	433,707	33,707
Licenses and permits	93,585	93,585	130,099	36,514
Fines	270,000	270,000	255,127	(14,873)
Intergovernmental	265,418	265,418	273,858	8,440
Charges for services	879,760	879,760	926,348	46,588
Investment earnings	4,000	4,000	4,616	616
Miscellaneous	23,200	23,200	24,995	1,795
Total revenues	<u>4,575,261</u>	<u>4,575,261</u>	<u>4,563,375</u>	<u>(11,886)</u>
EXPENDITURES				
Current:				
General government	2,289,505	2,293,723	2,183,799	109,924
Public safety	1,940,828	1,940,828	1,884,956	55,872
Public works	891,150	891,150	854,725	36,425
Parks and recreation	329,016	329,016	311,327	17,689
Total expenditures	<u>5,450,499</u>	<u>5,454,717</u>	<u>5,234,807</u>	<u>219,910</u>
Excess (deficiency) of revenues over expenditures	(875,238)	(879,456)	(671,432)	208,024
OTHER FINANCING SOURCES (USES)				
Insurance proceeds on vehicle	-0-	-0-	27,723	27,723
Transfers in	797,527	797,527	863,484	65,957
Transfers out	-0-	-0-	(98,683)	(98,683)
Total other financing sources (uses)	<u>797,527</u>	<u>797,527</u>	<u>792,524</u>	<u>(5,003)</u>
Net change in fund balances	(77,711)	(81,929)	121,092	203,021
Fund balances - beginning	<u>1,315,882</u>	<u>1,315,882</u>	<u>1,315,882</u>	<u>-0-</u>
Fund balances - ending	<u>\$ 1,238,171</u>	<u>1,233,953</u>	<u>1,436,974</u>	<u>203,021</u>

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

CITY OF ELGIN, TEXAS

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

September 30, 2014

	<u>Business-type Activities Enterprise Funds</u>
	<u>Utility Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 496,119
Investments	999,142
Receivables (net, where applicable, of allowances for uncollectibles):	
Accounts receivable	490,780
Other receivables	945
Prepaid expenses	2,400
Total current assets	<u>1,989,386</u>
Noncurrent assets:	
Restricted cash and investments	1,369,858
Capital assets:	
Land	191,176
Other capital assets, net of depreciation	<u>24,709,301</u>
Total noncurrent assets	<u>26,270,335</u>
Total assets	<u><u>28,259,721</u></u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amount on refunding	<u>2,213</u>
LIABILITIES	
Current liabilities:	
Accounts payable	181,046
Accrued liabilities	134,902
Customer deposits	247,082
Current portion of long-term debt	540,075
Total current liabilities	<u>1,103,105</u>
Noncurrent liabilities:	
Accrued vacation	36,252
Long-term debt, excluding current portion	<u>15,399,111</u>
Total noncurrent liabilities	<u>15,435,363</u>
Total liabilities	<u><u>16,538,468</u></u>
NET POSITION	
Net investment in capital assets	9,522,771
Restricted for debt service	235,955
Restricted for capital projects	540,131
Unrestricted (deficit)	1,424,609
Total net position	<u><u>\$ 11,723,466</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 POSITION
PROPRIETARY FUNDS**

For the Year Ended September 30, 2014

	<u>Business-type Activities Enterprise Funds</u>
	<u>Utility Fund</u>
OPERATING REVENUES	
Charges for services (pledged to secure debt)	\$ 3,891,714
OPERATING EXPENSES	
Personnel services	945,207
Materials and supplies	44,817
Maintenance	564,005
Contractual services	669,412
Depreciation	843,391
Total operating expenses	<u>3,066,832</u>
Operating income (loss)	<u>824,882</u>
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	2,515
Other nonoperating revenues	8,072
Interest expense	(616,397)
Total nonoperating revenues (expenses)	<u>(605,810)</u>
Net income (loss) before contributions and transfers	219,072
Capital contributions - impact fees	166,949
Capital contributions - other governments	387,967
Transfers in	7,535
Transfers out	(987,455)
Change in net position	(205,932)
Net position - beginning	12,288,131
Prior period adjustment (note 16)	<u>(358,733)</u>
Net position - ending	\$ <u><u>11,723,466</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, 2014

	<u>Business-type Activities Enterprise Funds</u>
	<u>Utility Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 3,896,273
Payments to suppliers	(1,339,207)
Payments to employees	(935,692)
Net cash provided (used) by operating activities	<u>1,621,374</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating transfers to other funds	(987,455)
Net cash provided (used) by noncapital financing activities	<u>(987,455)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	554,916
Purchases of capital assets	(908,641)
Interest payments on outstanding debt	(635,558)
Principal payments on outstanding debt	(524,204)
Net cash provided (used) by capital and related financing activities	<u>(1,513,487)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(2,515)
Liquidation of investments	535,156
Investment earnings	2,515
Net cash provided (used) by investing activities	<u>535,156</u>
Net increase (decrease) in cash and cash equivalents	(344,412)
Balances - beginning of the year	<u>840,531</u>
Balances - end of the year	<u>\$ 496,119</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)	\$ 824,882
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	843,391
Bad debt expense	35,754
Other nonoperating revenues	8,072
Changes in assets and liabilities:	
Accounts receivable	(12,218)
Other receivables	(945)
Accounts payable	(96,727)
Accrued liabilities	4,534
Customer deposits	9,650
Accrued vacation	5,681
Net pension obligation	(700)
Net cash provided (used) by operating activities	\$ <u><u>1,621,374</u></u>

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

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

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). The following is a summary of the significant policies.

A. GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position 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 position 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 as amended by GASB 61 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.

Red Light Camera Special Revenue Fund – This fund accounts for revenues received from red light camera fines, expenditures to operate the system, and the use of those funds for allowable purposes.

2013 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 repairing, improving, upgrading, and equipping City buildings, City streets and drainage, and City parks, including engineering and other related costs, and for the acquisition of equipment for general governmental purposes.

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.

(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 are deferred and amortized over the life of the bonds as an adjustment to interest expense. Bond issuance costs are reported as expenses when incurred.

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 position and unrestricted fund balance or net position 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 \$4,040,209 at year end and the bank balance was \$4,264,010. Of the bank balance, \$298,498 was insured by federal depository insurance and the remaining \$3,965,512 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	48 days	\$ <u>1,236,817</u>
TexSTAR local government investment pool	AAAm	51 days	\$ <u>1,043,118</u>
Elgin Economic Development Corp.:			
TexPool local government investment pool	AAAm	48 days	\$ <u>341,349</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 Investment Management. First Southwest and JPMorgan Investment Management 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, 2013 levy was based upon 100 percent of the assessed market value of \$344,009,555. 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, 2013 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	\$ 208,900	(75,197)	133,703
Property taxes receivable	125,597	(18,840)	106,757
Fines receivable	443,488	(155,221)	288,267
Debt Service Fund			
Property taxes receivable	92,869	(13,930)	78,939
Utility Fund			
Utility accounts receivable	727,928	(262,723)	465,205

(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:

Red Light Camera special revenue fund	\$	<u>99,737</u>
Total governmental funds	\$	<u>99,737</u>

The general fund’s receivable from the Red Light Camera special revenue fund represents the use of the consolidated cash account to make expenditures by the Red Light Camera special revenue fund prior to transferring cash into the consolidated cash account out of that fund’s other bank account.

6 CAPITAL ASSETS

	Primary Government			
	Beginning Balance*	Additions	Transfers/ Retirements	Ending Balance
Governmental activities:				
Land	\$ 232,620	-0-	-0-	232,620
Construction in progress	1,075,619	2,103,692	(3,151,985)	27,326
Total undepreciated assets	<u>1,308,239</u>	<u>2,103,692</u>	<u>(3,151,985)</u>	<u>259,946</u>
Other capital assets:				
Buildings and improvements	4,050,498	-0-	933,632	4,984,130
Equipment	774,094	251,809	(53,710)	972,193
Infrastructure	10,053,245	-0-	2,218,353	12,271,598
Total other capital assets at historical cost	<u>14,877,837</u>	<u>251,809</u>	<u>3,098,275</u>	<u>18,227,921</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,488,917)	(119,681)	-0-	(1,608,598)
Equipment	(446,759)	(93,591)	10,770	(529,580)
Infrastructure	(4,623,863)	(338,141)	-0-	(4,962,004)
Total accumulated depreciation	<u>(6,559,539)</u>	<u>(551,413)</u>	<u>10,770</u>	<u>(7,100,182)</u>
Other capital assets, net	<u>8,318,298</u>	<u>(299,604)</u>	<u>3,109,045</u>	<u>11,127,739</u>
Governmental activities capital assets, net	<u>\$ 9,626,537</u>	<u>1,804,088</u>	<u>(42,940)</u>	<u>11,387,685</u>

* Restated for prior period adjustment

Depreciation expense was charged to governmental functions as follows:

General government	\$ 83,068
Public safety	58,426
Public works	373,465
Parks and recreation	36,454
	<u>\$ 551,413</u>

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

6 CAPITAL ASSETS (Continued)

	Primary Government			
	Beginning Balance*	Additions	Transfers/Retirements	Ending Balance
Business-type activities:				
Land	\$ 191,176	-0-	-0-	191,176
Construction in progress	2,763,215	423,682	(3,186,897)	-0-
Total undepreciated assets	<u>2,954,391</u>	<u>423,682</u>	<u>(3,186,897)</u>	<u>191,176</u>
Other capital assets:				
Distribution and collection systems	25,156,193	484,959	3,186,897	28,828,049
Buildings and improvements	-0-	-0-	-0-	-0-
Equipment	1,690,352	-0-	15,071	1,705,423
Total other capital assets at historical cost	<u>26,846,545</u>	<u>484,959</u>	<u>3,201,968</u>	<u>30,533,472</u>
Less accumulated depreciation for:				
Distribution and collection systems	(4,120,118)	(718,535)	-0-	(4,838,653)
Buildings and improvements	-0-	-0-	-0-	-0-
Equipment	(853,126)	(124,856)	(7,536)	(985,518)
Total accumulated depreciation	<u>(4,973,244)</u>	<u>(843,391)</u>	<u>(7,536)</u>	<u>(5,824,171)</u>
Other capital assets, net	<u>21,873,301</u>	<u>(358,432)</u>	<u>3,194,432</u>	<u>24,709,301</u>
Business-type activities capital assets, net	<u>\$ 24,827,692</u>	<u>65,250</u>	<u>7,535</u>	<u>24,900,477</u>
* Restated for prior period adjustment				

	Component Unit			
	Beginning Balance	Additions	Retirements	Ending Balance
Component unit activities:				
Land	\$ 737,845	-0-	-0-	737,845

7 INTERFUND TRANSFERS

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

Transfers to general fund from:

Utility fund \$ 863,484

Transfers to debt service fund from:

Utility fund 123,971

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

7 INTERFUND TRANSFERS (Continued)

Transfers to nonmajor governmental funds from:

General fund	98,683
2013 CO construction fund	<u>7,896</u>
Total transfers to governmental funds	\$ <u><u>1,094,034</u></u>

Transfers to utility fund from:

Governmental activities	\$ <u><u>7,535</u></u>
-------------------------	------------------------

The utility fund provides annual support to the general fund and to a lesser extent to the debt service fund.

The general fund provides local funding to various special revenue funds included in the nonmajor governmental funds, and the 2013 CO construction fund paid for some local funding to close out the TCF sidewalk project.

A vehicle with a book value of \$7,535 was transferred from governmental activities capital assets to the utility fund.

8 LONG-TERM DEBT

The following is a summary of long-term debt activity for September 30, 2014.

	<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	\$ 8,192,827	-0-	(785,797)	7,407,030	766,925
Capital leases payable	521,404	-0-	(70,507)	450,897	81,402
	<u>8,714,231</u>	<u>-0-</u>	<u>(856,304)</u>	<u>7,857,927</u>	<u>848,327</u>
Add unamortized bond premium	147,864	-0-	(16,615)	131,249	-0-
Total bonds, notes and leases payable	<u>8,862,095</u>	<u>-0-</u>	<u>(872,919)</u>	<u>7,989,176</u>	<u>848,327</u>
Other liabilities:					
Accrued vacation	100,178	4,790	-0-	104,968	-0-
Net pension obligation	151,378	-0-	(2,333)	149,045	-0-
Total other liabilities	<u>251,556</u>	<u>4,790</u>	<u>(2,333)</u>	<u>254,013</u>	<u>-0-</u>
Governmental activities					
long-term liabilities	\$ <u>9,113,651</u>	<u>4,790</u>	<u>(875,252)</u>	<u>8,243,189</u>	<u>848,327</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>
Business-type activities					
Bonds and leases payable:					
Bonds and certificates of obligation	\$ 16,221,174	-0-	(524,204)	15,696,970	540,075
Add unamortized bond premium	226,145	-0-	(19,737)	206,408	-0-
Total bonds and leases payable	<u>16,447,319</u>	<u>-0-</u>	<u>(543,941)</u>	<u>15,903,378</u>	<u>540,075</u>
Other liabilities:					
Accrued vacation	30,571	5,681	-0-	36,252	-0-
Net pension obligation	36,508	-0-	(700)	35,808	-0-
Total other liabilities	<u>67,079</u>	<u>5,681</u>	<u>(700)</u>	<u>72,060</u>	<u>-0-</u>
Business-type activities long-term liabilities	<u>\$ 16,514,398</u>	<u>5,681</u>	<u>(544,641)</u>	<u>15,975,438</u>	<u>540,075</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Component unit activities					
Revenue bonds payable	<u>\$ 890,000</u>	<u>-0-</u>	<u>(115,000)</u>	<u>775,000</u>	<u>120,000</u>

Long-term debt at September 30, 2014, is composed of the following items:

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

\$3,860,000 Series 2005 general obligation refunding bonds due in annual installments of \$330,000 to \$345,000 through July 15, 2016; interest at 3.625 percent to 3.70 percent; outstanding bonds may be redeemed on or after July 15, 2015 at par plus accrued interest	\$ 675,000
\$2,000,000 Series 2007 combination tax and revenue certificates of obligation due in annual installments of \$85,000 to \$140,000 through July 15, 2027; interest at 4.10 percent to 4.40 percent; outstanding bonds may be redeemed on or after July 15, 2017, at par plus accrued interest	1,445,000

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

8 LONG-TERM DEBT (Continued)

\$1,250,000 Series 2009 combination tax and revenue certificates of obligation due in annual installments of \$55,000 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	1,060,000
\$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 \$36,875 to \$74,375 through July 15, 2034; interest at 2.0 percent to 4.4 percent; outstanding certificates may be redeemed on July 15, 2021, at par plus accrued interest	1,049,375
Unamortized premium on the Series 2011 certificates of obligation	21,332
\$2,210,000 (\$1,489,888 for the general governmental portion) Series 2013 limited tax refunding bonds due in annual installments of \$117,978 to \$202,247 through July 15, 2022; interest at 2.0 percent to 3.0 percent	1,311,236
Unamortized premium on the Series 2013 refunding bonds	40,474
\$2,980,000 (\$1,934,584 for the general governmental portion) Series 2013 combination tax and revenue certificates of obligation due in annual installments of \$74,657 to \$136,328 through July 15, 2033; interest at 2.0 percent to 4.5 percent; outstanding certificates may be redeemed on July 15, 2023, at par plus accrued interest	1,866,419
Unamortized premium on the Series 2013 certificates of obligation	69,443
Capital leases payable from the debt service fund (Note 9)	450,897
Accrued vacation related to governmental fund employees	104,968
Net pension obligation related to governmental fund employees	<u>149,045</u>
Total governmental activities long-term debt	\$ <u>8,243,189</u>

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

8 LONG-TERM DEBT (Continued)

Payable out of the Utility Fund through revenues:

\$4,307,000 Series 2005 combination tax and limited surplus revenue certificates of obligation due in annual installments of \$110,000 to \$115,000 through July 15, 2045; interest at 4.375 percent; outstanding certificates may be redeemed at any time at par plus accrued interest	\$ 3,537,000
\$2,556,000 Series 2008 combination tax and limited surplus revenue certificates of obligation due in annual installments of \$32,000 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	2,415,000
\$800,000 Series 2009 combination tax and limited surplus revenue certificates of obligation due in annual installments of \$10,000 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	757,000
\$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 \$258,125 to \$520,625 through July 15, 2034; interest at 2.0 percent to 4.4 percent; outstanding certificates may be redeemed on July 15, 2021, at par plus accrued interest	7,345,625
Unamortized premium on the Series 2011 certificates of obligation	149,319
\$2,210,000 (\$720,112 for the utility fund portion) Series 2013 limited tax refunding bonds due in annual installments of \$57,022 to \$97,753 through July 15, 2022; interest at 2.0 percent to 3.0 percent	633,764
Unamortized premium on the Series 2013 refunding bonds	19,563
\$2,980,000 (\$1,045,416 for the utility fund portion) Series 2013 combination tax and revenue certificates of obligation due in annual installments of \$40,343 to \$73,672 through July 15, 2033; interest at 2.0 percent to 4.5 percent; outstanding certificates may be redeemed on July 15, 2023, at par plus accrued interest	1,008,581
Unamortized premium on the Series 2013 certificates of obligation	37,526

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

8 LONG-TERM DEBT (Continued)

Accrued vacation related to utility fund employees	36,252
Net pension obligation related to utility fund employees	<u>35,808</u>
Total business-type activities long-term debt	<u>\$ 15,975,438</u>

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

\$565,000 Series 2007 sales tax revenue refunding bonds due in annual installments of \$45,000 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

	\$ 530,000
--	------------

\$680,000 Series 2007 sales tax revenue bonds due in annual installments of \$75,000 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>245,000</u>
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Total component unit long-term debt	\$ <u>775,000</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, 2014, was \$34,148, which meets the reserve requirement.

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

8 LONG-TERM DEBT (Continued)

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

Year Ended September 30	Governmental Activities Bonds and Notes		Business-Type Activities Bonds, CO's and Notes		Component Unit Bonds and Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 766,925	281,719	540,075	623,571	120,000	38,008
2016	791,546	257,589	552,454	609,191	125,000	31,462
2017	463,788	231,976	562,212	591,852	140,000	24,608
2018	480,150	217,175	577,850	573,553	50,000	16,926
2019	425,601	201,689	559,399	554,789	50,000	14,756
2020 - 2024	2,037,195	767,100	2,911,805	2,449,281	290,000	39,060
2025 - 2029	1,589,713	370,868	3,176,287	1,847,845	0	0
2030 - 2034	852,112	104,244	3,684,888	1,142,582	0	0
2035 - 2039	0	0	1,118,000	563,047	0	0
2040 - 2044	0	0	1,247,000	310,341	0	0
2045 - 2049	0	0	767,000	61,635	0	0
	<u>\$ 7,407,030</u>	<u>2,432,360</u>	<u>15,696,970</u>	<u>9,327,687</u>	<u>775,000</u>	<u>164,820</u>

9 CAPITAL LEASES PAYABLE

The City is obligated under certain lease agreements which have been classified as capital leases. Property under capital lease consists of equipment totaling \$1,075,865. The annual amortization has been included in depreciation expense and a total accumulated depreciation of \$564,830 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, 2014, 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	\$ 417,320
\$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	<u>33,577</u>
Governmental activities capital leases payable	\$ <u>450,897</u>

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

9 CAPITAL LEASES PAYABLE (Continued)

Future minimum lease payments under capital leases are as follows:

<u>Fiscal Year</u>	<u>Governmental</u>
2015	\$ 101,793
2016	101,793
2017	101,793
2018	101,793
2019	<u>101,793</u>
	508,965
Less amount representing interest	<u>(58,068)</u>
Present value of minimum lease payments	\$ <u>450,897</u>

10 FUND BALANCE RESTRICTED FOR OR COMMITTED TO OTHER PURPOSES

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

Restricted for other purposes:

General fund:

Blue Santa program	\$ 1,189
Seizure funds	3,112

Red light camera fund:

Police/Red light camera purposes	436,200
----------------------------------	---------

Nonmajor governmental funds:

Hotel Motel Tax purposes	76,715
Municipal court	41,106
Frontier Crossing 380	59,911
Channel 10 public safety purposes	<u>99,130</u>
Total restricted for other purposes	\$ <u>717,363</u>

Committed to other purposes:

Nonmajor governmental funds:

Elgin Main street	49,098
TCF sidewalk grant	<u>825</u>
Total committed for other purposes	\$ <u>49,923</u>

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

11 CAPITAL CONTRIBUTIONS

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

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

12 PENSION PLAN

Plan description

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from 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 2013	Plan Year 2014
Employee deposit rate	6.00%	6.00%
Employer phase-in pension rate paid	11.33%	11.33%
Employer actuarially determined pension rate	10.78%	11.33%
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 Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). 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 for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. 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)	325,772
2. Interest on Net Pension Obligation	13,152
3. Adjustment to the ARC	(11,826)
4. Annual Pension Cost (APC)	327,098
5. Contributions Made	<u>330,131</u>
6. Increase (decrease) in net pension obligation	(3,033)
7. Net Pension Obligation/(Asset), beginning of year	<u>187,887</u>
8. Net Pension Obligation/(Asset), end of year	<u>184,854</u>

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

12 PENSION PLAN (Continued)

**Trend Information
Annual Pension Cost**

Accounting Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
9/30/12	\$287,737	\$249,609	86.7%	\$160,624
9/30/13	\$276,227	\$248,964	90.1%	\$187,887
9/30/14	\$327,098	\$330,131	100.9%	\$184,854

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation Date	12/31/11	12/31/12	12/31/13
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	26.8 years; closed period	25.8 years; closed period	27.0 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*	7.0%	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%	3.00%	3.00%
	2.1%	2.1%	2.1%

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

12 PENSION PLAN (Continued)

Funded Status and Funding Progress

In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of the Annuity Purchase Rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report (CAFR).

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll ¹ (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/11	4,882,894	6,147,239	1,264,345	79.4%	2,742,621	46.1%
12/31/12	5,557,447	6,734,639	1,177,192	82.5%	2,738,688	43.0%
12/31/13	6,256,609	7,836,755	1,580,146	79.8%	2,662,963	59.3%

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.

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

13 SUPPLEMENTAL DEATH BENEFITS FUND

Plan description

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

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

Contributions

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

The City's contributions to the TMRS SDBF for the years ended 2014, 2013, and 2012 were \$6,410, \$5,280, and \$5,797, 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>
2012	.02%	.02%	100.0%
2013	.02%	.02%	100.0%
2014	.03%	.03%	100.0%

(Continued)

CITY OF ELGIN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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 \$598,908. Utility customer deposits held at year end totaled \$247,082.

16 PRIOR PERIOD ADJUSTMENTS

The City's depreciation schedule did not previously have sufficient detail to adequately identify and inventory the City's capital assets. Existing assets were inventoried and the listing of property, plant and equipment was corrected to agree to the revised inventory of capital assets. The effect of this correction was to reduce beginning balances of capital assets and net position of the City's Governmental Activities by \$13,989, and to reduce beginning balances of capital assets and net position of the City's Business-Type Activities and the Utility Fund by \$358,733.

17 SIGNIFICANT BUDGET VARIANCES

The City reported a significant unfavorable budget variance in the general fund in the revenue category of property taxes. A significant budget variance was also reported on the line item for transfers out for the general fund. Overall, though, the City did not expend more than the total budget for the general fund and the actual increase in fund balance of the general fund exceeded the budget by a positive variance of \$203,000.

CITY OF ELGIN, TEXAS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

September 30, 2014

	Hotel Motel Tax	Restricted Municipal Court Revenues	Elgin Main Street Board	TX Book Festival Literacy Grant
ASSETS				
Cash and cash equivalents	\$ 70,320	41,106	49,406	1,804
Investments	-0-	-0-	-0-	-0-
Other receivables	7,079	-0-	600	-0-
Total assets	<u>\$ 77,399</u>	<u>41,106</u>	<u>50,006</u>	<u>1,804</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 684	-0-	908	1,804
Due to other funds	-0-	-0-	-0-	-0-
Total liabilities	<u>684</u>	<u>-0-</u>	<u>908</u>	<u>1,804</u>
Fund Balances				
Restricted for:				
Other purposes	76,715	41,106	-0-	-0-
Committed to:				
Other purposes	-0-	-0-	49,098	-0-
Unassigned	-0-	-0-	-0-	-0-
Total fund balances	<u>76,715</u>	<u>41,106</u>	<u>49,098</u>	<u>-0-</u>
Total liabilities and fund balances	<u>\$ 77,399</u>	<u>41,106</u>	<u>50,006</u>	<u>1,804</u>

Frontier Crossing 380	Police/ Channel 10 Special Revenue	Section 125 Fund	TCF Sidewalk Grant	Total Nonmajor Governmental Funds
59,911	99,130	7,982	-0-	329,659
-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	825	8,504
<u>59,911</u>	<u>99,130</u>	<u>7,982</u>	<u>825</u>	<u>338,163</u>
-0-	-0-	7,982	-0-	11,378
-0-	-0-	-0-	-0-	-0-
<u>-0-</u>	<u>-0-</u>	<u>7,982</u>	<u>-0-</u>	<u>11,378</u>
59,911	99,130	-0-	-0-	276,862
-0-	-0-	-0-	825	49,923
-0-	-0-	-0-	-0-	-0-
<u>59,911</u>	<u>99,130</u>	<u>-0-</u>	<u>825</u>	<u>326,785</u>
<u>59,911</u>	<u>99,130</u>	<u>7,982</u>	<u>825</u>	<u>338,163</u>

CITY OF ELGIN, TEXAS

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

For the Year Ended September 30, 2013

	Hotel Motel Tax	Restricted Municipal Court Revenues	Elgin Main Street Board	TX Book Festival Literacy Grant
REVENUES				
Other taxes	\$ 54,270	-0-	-0-	-0-
Fines	-0-	10,636	-0-	-0-
Intergovernmental	-0-	-0-	-0-	4,501
Investment earnings	-0-	70	-0-	-0-
Miscellaneous	-0-	-0-	78,893	-0-
Total revenues	<u>54,270</u>	<u>10,706</u>	<u>78,893</u>	<u>4,501</u>
EXPENDITURES				
Current:				
Public safety	-0-	7,482	-0-	-0-
Public works	-0-	-0-	-0-	-0-
Other current	45,484	-0-	59,708	5,376
Capital outlay	-0-	-0-	-0-	-0-
Total expenditures	<u>45,484</u>	<u>7,482</u>	<u>59,708</u>	<u>5,376</u>
Excess (deficiency) of revenues over expenditures	<u>8,786</u>	<u>3,224</u>	<u>19,185</u>	<u>(875)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-0-	37,561	-0-	875
Transfers out	-0-	-0-	-0-	-0-
Total other financing sources (uses)	<u>-0-</u>	<u>37,561</u>	<u>-0-</u>	<u>875</u>
Net change in fund balances	8,786	40,785	19,185	-0-
Fund balances - beginning	<u>67,929</u>	<u>321</u>	<u>29,913</u>	<u>-0-</u>
Fund balances - ending	<u>\$ 76,715</u>	<u>41,106</u>	<u>49,098</u>	<u>-0-</u>

Frontier Crossing 380	Police/ Channel 10 Special Revenue	Section 125 Fund	TCF Sidewalk Grant	Total Nonmajor Governmental Funds
-0-	-0-	-0-	-0-	54,270
-0-	-0-	-0-	-0-	10,636
30,124	-0-	-0-	-0-	34,625
-0-	-0-	-0-	-0-	70
-0-	10,907	-0-	-0-	89,800
<u>30,124</u>	<u>10,907</u>	<u>-0-</u>	<u>-0-</u>	<u>189,401</u>
-0-	-0-	-0-	-0-	7,482
30,460	-0-	-0-	-0-	30,460
-0-	-0-	-0-	8,071	118,639
-0-	-0-	-0-	-0-	-0-
<u>30,460</u>	<u>-0-</u>	<u>-0-</u>	<u>8,071</u>	<u>156,581</u>
<u>(336)</u>	<u>10,907</u>	<u>-0-</u>	<u>(8,071)</u>	<u>32,820</u>
60,247	-0-	-0-	7,896	106,579
-0-	-0-	-0-	-0-	-0-
<u>60,247</u>	<u>-0-</u>	<u>-0-</u>	<u>7,896</u>	<u>106,579</u>
59,911	10,907	-0-	(175)	139,399
-0-	88,223	-0-	1,000	187,386
<u>59,911</u>	<u>99,130</u>	<u>-0-</u>	<u>825</u>	<u>326,785</u>

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GEORGE CHESTER DRAPER III

CERTIFIED PUBLIC ACCOUNTANT

8900 Shattuck Cove
Austin, Texas 78717-2905

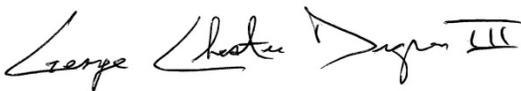
Telephone: (512) 244-6478

Independent Auditor's Report on Supplementary Information - Schedule of Expenditures of Federal Awards

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

I have audited the 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. I have issued my report thereon dated March 26, 2015, which contained unmodified opinions on those financial statements.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



George Chester Draper, III
Austin, Texas
March 26, 2015

CITY OF ELGIN, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2014

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
U.S. Department of Transportation: Passed through Texas Department of Transportation: Highway Planning and Construction	20.205*	CSJ#0914-18-094	<u>1,914,584</u>
Total Federal Awards			<u><u>1,914,584</u></u>

* Denotes major program

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF ELGIN, TEXAS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2014

1. General - The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal assistance programs of the City of Elgin, Texas (the City). The City's reporting entity is defined in note 1 to the financial statements. Federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the schedule.

2. Basis of Accounting - The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in note 1 to the City's financial statements.

3. Relationship to Financial Statements - Federal award revenues are reported in the City's statement of revenues, expenditures and changes in fund balances of governmental funds as intergovernmental revenues and the statement of revenues, expenses and changes in net position of proprietary funds as capital contributions from other governments.

4. Relationship to Federal Financial Reports - Amounts reported in the accompanying schedule may differ with the amounts reported in the related federal financial reports due to additional accruals or adjustments posted to the books after the submission of the original reports. Additionally, federal reports may include cumulative balances which include expenditures incurred in a prior fiscal year.

CITY OF ELGIN, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended September 30, 2014

Finding - 13-1

Internal Controls and the Assessment of Control Risks

In the fiscal 2013 audit I wrote up a fairly broad and generic finding relating to control procedures falling out of practice during a time of such extensive turnover in the accounting department as the City experienced during 2012 and 2013.

For the fiscal 2014 audit I found the bank reconciliation problems to have been resolved and found the staff to have put substantial time and effort into preparing and posting year-end adjustments. In discussions with the City's staff about the flow charts of processes and procedures, I also felt that staff members seem to have bought into the ownership of the assessment of risks and the identification of control procedures related to their particular areas of responsibility.

There were, however, several new and different errors which were detected during the audit process that had not been detected and corrected by City staff prior to the audit. I feel in general that this finding is primarily a continuation of the problems that arise when there has been a significant turnover of personnel, and I have updated and continued the finding related to the identifying of risks and establishment of control procedures in the current year as finding 2014-001.

Finding - 13-2

Property, plant and equipment detail

The City's depreciation schedule did not previously have sufficient detail to adequately identify and inventory the City's capital assets. Existing assets were inventoried and the listing of property, plant and equipment was corrected to agree to the revised inventory of capital assets.

GEORGE CHESTER DRAPER III

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Telephone: (512) 244-6478

Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards

Independent Auditor's Report

City Council
City of Elgin, Texas

I have audited 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, the 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued my report thereon dated March 26, 2015.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I do not express an opinion on the effectiveness of the City's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, I identified certain deficiencies in internal control that I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying schedule of findings and questioned costs as finding 2014-001 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The City's Response to Findings

The City's responses to the findings identified in my audit have been included in the accompanying schedule of findings and questioned costs. The responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



George Chester Draper III
Austin, Texas
March 26, 2015

GEORGE CHESTER DRAPER III

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Report on Compliance for Each Major Federal Program; and Report on Internal Control Over Compliance in Accordance with OMB Circular A-133

Independent Auditor's Report

City Council
City of Elgin, Texas

Report on Compliance for Each Major Federal Program

I have audited the compliance of the City of Elgin, Texas, with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the City's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of City of Elgin, Texas, compliance.

(Continued)

Opinion on Each Major Federal Program

In my opinion, the City of Elgin, Texas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Report on Internal Control Over Compliance

The management of the City of Elgin, Texas, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City of Elgin, Texas, internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



George Chester Draper, III
Austin, Texas
March 26, 2015

CITY OF ELGIN, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2014

1. Summary of the Auditor's Results

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:
Material weakness(es) identified? yes no
Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:
Material weakness(es) identified? yes no
Significant deficiency(ies) identified? yes none reported

Type of auditor's report issued on compliance for major programs:

All major programs unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes no

Identification of major programs:
20.205 Highway Planning and Construction

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified under OMB Circular A-133 as a low-risk auditee? yes no

(Continued)

CITY OF ELGIN, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

2. Findings Relating to the Financial Statements

Finding - 2014-001

CFDA # - None

Questioned Costs - \$-0-

Internal Controls and the Assessment of Control Risks

In the fiscal 2013 audit I wrote up a fairly broad and generic finding relating to control procedures falling out of practice during a time of such extensive turnover in the accounting department as the City experienced during 2012 and 2013. I didn't list out specific concerns in that 2013 finding, but a couple of my primary concerns at that time involved delays and problems with getting the consolidated cash bank account reconciled and the preparation and posting of year-end adjustments for things such as accruals and depreciation.

For the fiscal 2014 audit I found the bank reconciliation problems to have been resolved and found the staff to have put substantial time and effort into preparing and posting year-end adjustments. In discussions with the City's staff about the flow charts of processes and procedures, I also felt that staff members seem to have bought into the ownership of the assessment of risks and the identification of control procedures related to their particular areas of responsibility.

There were, however, several new and different errors which were detected during the audit process that had not been detected and corrected by City staff prior to the audit. Some of those errors included a mistake in the way sales tax being collected in the utility fund was being reported and remitted to the State, a mistake in the method of processing vacation time used by salaried employees, an accounts payable reversing entry posted in error to the revenue account in the red light camera fund and resulting in an overstatement in the amount of revenue reported to the State, and the delegation of preparing draws on a grant project to a third party who was not reporting and claiming all of the expenditures which were eligible for reimbursement and which could have resulted in leaving a significant amount of grant funding on the table if it had not been detected.

In each of these cases, the staff member has received guidance on how to correct the procedures that they are using.

I feel in general that this finding is primarily a continuation of the problems that arise when there has been a significant turnover of personnel, and that my advice is basically the same as that of the prior year. I would remind everyone that internal control procedures aren't something that you set and forget, and I would suggest that each staff member periodically review the flowcharts of the processes in which they are involved with an eye to seeing not just the generic descriptions of the risks and control procedures, but to associating those

(Continued)

CITY OF ELGIN, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

generic descriptions with actual day to day problems they might encounter. And when errors are made, continue to try to use those as a training tool to help each employee gain more knowledge and experience in how to prevent the error from happening, or to detect and correct errors that have happened.

Management Response:

The errors which were detected during the FY14 audit included sales tax being reported and remitted to the State, vacation time overpayment paid to two exempt employees, overstatement in the amount of revenue reported to the Red Light Camera Fund, as well as the delegation of preparing draws on a grant project to a third party.

All discoveries pertaining to internal controls and control risks issues are a direct result of new personnel, and due to employee turnover and/or reassignment of duties within the Finance Department.

The significant employee turnovers from both 2012 and 2013 resulted in a large backlog of duties. As a result of the backlog additional staffing was required as well as the reassignment of various duties. This allowed the Finance Department to just complete the reconciliation of consolidated cash checking by September 2014 as well as begin year-end adjustments.

During the audit it was discovered a mistake in the way sales tax was being reported and remitted to the State. The error was a result of improper training during the reassignment of duties. Upon discovery of the error the corrected sales tax was immediately remitted to the State. Additional training was given to employees, as well as reporting validation from STW, the Utility Billing and Finance application software.

Also discovered during the audit was an overpayment of vacation time to two exempt employees. The processing error occurred while training new staff. The error occurred when an hourly vacation pay code was used to apply vacation hours to exempt associates which resulted in the overpayment. The overpayment was recouped from both employees in FY15. Processes have been modified to prevent any additional payroll errors. The new process involves one employee being responsible for processing payroll and a separate employee must then validate the process prior to the completion of each payroll.

An overstatement in the amount of revenue reported to the State for the Red Light Camera Fund was due to an erroneous Journal Entry. The employee who processed the original erroneous entry has since been removed from the Finance application of STW. Monthly financial audits are now being performed to account for all revenue reported.

(Continued)

CITY OF ELGIN, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

Prior grant management was being performed by non-financial personnel resulting in an eligible reimbursement not being submitted in a timely manner. Effective FY15 the Finance Department has taken over all financial aspects of grant management.

FY14 the Finance Department was unable to perform internal audit functions due to the lack of staffing during the allotted time. FY15 internal audit functions have already begun. This will allow the Finance Department ample time to identify and correct any discrepancies such as the ones noted above.

3. Findings and Questioned Costs for Federal Awards

None