

CITY OF ELMENDORF, TEXAS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

**WAYNE R. BEYER**  
CERTIFIED PUBLIC ACCOUNTANT

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442 WEST OAKLAWN  
P.O. BOX 366 830/569-8781 FAX 830 569-6776  
PLEASANTON, TEXAS 78064

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111 NORTH ODEN  
830/569-8781 FAX 830 569-6776  
SINTON, TEXAS 78387

**BEYER & Co.**  
CERTIFIED PUBLIC ACCOUNTANTS

Wayne R. Beyer, C.P.A.

P.O. Box 366 / 442 West Oaklawn  
Pleasanton, Texas 78064  
Phone: (830) 569-8781 ~ Fax: (830) 569-6776

111 North Odem  
Sinton, Texas 78387  
Phone: (830) 569-8781 ~ Fax: (830) 569-6776

Honorable Mayor  
and City Council  
City of Elmendorf  
Elmendorf, Texas

As a result of our observations concerning the accounting and financial aspects of the records of the City of Elmendorf, Texas, during our audit for the year ended September 30, 2011, we submit the following recommendations for your consideration:

**Administrative:**

*Finding:*

1. We noted that the bank depository contract has no termination date, and has not been reviewed by Council in five (5) years since adoption in 2007.

*Recommendation:*

We recommend the City review and update the bank depository contract to include a termination date.

**Revenue/Receivables:**

*Finding:*

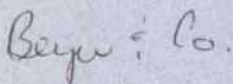
1. We noted that the City has now assigned codes to the Transaction List indicating reasons for adjustments to the utility bills, however, a supervisor is not signing off on the adjustments to indicate approval.

*Recommendation:*

We recommend the City have a supervisor sign off on all adjustments.

These comments and recommendations are made in a constructive spirit and in the best interest of the City of Elmendorf, Texas. We will be glad to review and discuss them in more detail with the City personnel at your request.

Sincerely,



BEYER & CO.  
Certified Public Accountants  
June 14, 2012



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To the City Council  
City of Elmendorf, Texas

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Elmendorf, Texas as of and for the year ended September 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Elmendorf, Texas's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Elmendorf, Texas's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Elmendorf, Texas's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

1. Segregation of Duties - due to the limited number of people working in the office, many critical duties are combined and given to the available employees. During the time under audit, a single individual was responsible for preparing checks, reconciling bank accounts, municipal court activities, and maintaining the general ledger. To the extent possible, duties should be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system as possible.
2. We also recommend that various documents be reviewed by another individual and after the document is reviewed the document be both initialed and dated by the reviewer. Such documents could include bank reconciliations, upkeep of the general ledger, and payroll.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

1. Financial Statement Preparation - Recently issued auditing standards have clarified that the components of internal controls are the same for all entities, regardless of their size or other challenges that are present accordingly, auditors are not allowed to give exemptions or special relief to smaller entities when evaluating effective internal control. Certain internal controls that have often been overlooked by small businesses relate to the annual financial reporting process. Annual financial reporting control objectives address the preparation of accurate annual financial statements and related note disclosures in accordance with generally accepted accounting principles. That is to say, the system of internal control over financial reporting does not stop at the City's general ledger. It includes controls over the actual financial statement preparation, including note disclosures.

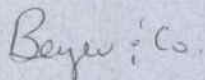


We have drafted the financial statements and related note disclosures at the City's request. This was done because, due to its limited resources, the City decided to focus their financial accounting resources in other areas and utilize auditors to provide the draft financial statements in accordance with the highly technical pronouncements and requirements of generally accepted accounting principles. While we are not questioning the City's abilities to understand, analyze and accept the final financial statements, we cannot be considered part of the City's internal controls. Consequently, the initial preparation of the financial statements and related notes by the auditors is considered a control deficiency. The fact that we prepare the financial statements may give users more confidence that the financial statements are correct; however, it does not eliminate the control deficiency.

It is our responsibility to report this deficiency to increase your awareness of the accounting and auditing regulations; however, management can continue to make a conscious decision to continue to allow the auditors to assist in the drafting of the financial statements. To remedy the control deficiency related to the preparation of the annual financial statements, the City needs to ensure that appropriate personnel are in place and that they have the appropriate knowledge and tools to be an effective element of the internal control process either through training or addition of in-house personnel or through the use of outside consultants other than your auditors. Our responsibility under professional standards includes communicating deficiencies, regardless of management's decisions, as long as the deficiency exists.

This communication is intended solely for the information and use of management, the City Council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



BEYER & CO.  
Certified Public Accountants  
June 14, 2012

CITY OF ELMENDORF, TEXAS

ANNUAL FINANCIAL REPORT  
For the Fiscal Year Ended  
SEPTEMBER 30, 2011

CITY OF ELMENDORF, TEXAS  
Annual Financial Report  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

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**FINANCIAL SECTION**

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2010-2011

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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Elmendorf, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elmendorf, Texas, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statement as listed in the table of contents. These financial statements are the responsibility of the City of Elmendorf, Texas's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our 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, each major fund, and the aggregate remaining fund information of the City of Elmendorf, Texas, as of September 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress for the Public Employees Retirement System on pages 3 through 12, and page 43 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. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,

*Beyer & Co.*

BEYER & CO.  
Certified Public Accountants  
June 14, 2012

## Management's Discussion and Analysis

As management of the City of Elmendorf, Texas, we offer readers of the City of Elmendorf, Texas's financial statements this narrative overview and analysis of the financial activities of the City of Elmendorf, Texas for the fiscal year ended September 30, 2011.

### Financial Highlights

- The assets of the City of Elmendorf, Texas, exceeded its liabilities at the close of the most recent fiscal year by \$534,440 (net assets). Of this amount, \$228,994 or 43% (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$18,145. This increase is mainly attributable to an increase in fines of \$40,719 and in utility fees of \$58,277.
- At the end of the current fiscal year, unassigned fund balance for the general fund was a negative \$2,093, or 00 percent of total general fund expenditures.
- The City of Elmendorf, Texas had no restricted net assets at September 30, 2011.
- The City of Elmendorf, Texas's total debt decreased by \$13,138 (58%) during the current fiscal year. The key factor in this decrease was the payment of \$13,152 on capital leases during the current year.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Elmendorf, Texas's basic financial statements. The City of Elmendorf, Texas'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 themselves.

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

The *statement of net assets* presents information on all of the City of Elmendorf, Texas's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Elmendorf, Texas is improving or deteriorating.



