

CITY OF ELMENDORF, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2007

WAYNE R. BEYER
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Honorable Mayor
and City Council
City of Elmendorf
Elmendorf, Texas

As a result of my observations concerning the accounting and financial aspects of the records of the City of Elmendorf, Texas, during my audit for the year ended September 30, 2007, I submit the following recommendations for your consideration:

Cash

Finding:

1. The City did not have a depository contract until June 15, 2007.

Recommendation:

I recommend that the City ensure that its depository contract is always current.

Finding:

2. The City did not have an investment policy until March 8, 2007.

Recommendation:

I recommend that the City ensure that its investment policy is always current.

Finding:

3. The City does not have a certified investment officer.

Recommendation:

I recommend that the City appoint an investment officer and the investment officer attend the needed courses to comply with the Public Investment Act.

Accounts Receivable/Revenues

Finding:

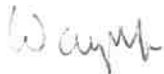
1. The billing stubs are not being broken out by deposit, a tape is not being run on the billing stubs to reconcile back to the daily receipts report, and a copy of the receipt being written is not being retained for any utility payments that are brought in without a billing stub.

Recommendation:

I recommend that the City post a sign explaining that the customers bring in their billing stub when paying their utility bill. I also recommend that billing stubs be broken out by deposit, a tape be run on the billing stubs to reconcile back to the daily receipts report, and a copy of the receipt being written be retained for any utility payments that are brought in without a billing stub.

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

Sincerely,



Wayne R. Beyer
Certified Public Accountant
February 7, 2009

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To the City Council
City of Elmendorf, Texas

In planning and performing my audit of the financial statements of the governmental 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, 2007, in accordance with auditing standards generally accepted in the United States of America, I considered the City of Elmendorf, Texas's internal control over financial reporting (internal control) as a basis for designing my auditing procedures 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 of Elmendorf, Texas's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of Elmendorf, Texas's internal control.

My 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, I identified certain deficiencies in internal control that I consider to be significant deficiencies and other deficiencies that I 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. I 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, 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. Anti-Fraud Policy - the City did not have an anti- fraud policy.

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. I 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.

I 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 I am 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 my 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 auditor. My responsibility under professional standards includes communicating deficiencies, regardless of management's decisions, as long as the deficiency exists.

2. Accounts Receivable/Revenues – I noted the following during the test month: (1) there were three (3) credit card payments that did not get to the bank and the credit cards are not being reconciled to the bank statement, (2) there was one (1) daily receipts report that I could not reconcile back to the deposits totaling \$2,944.09.

I believe that these constitute a severe defect in the control system and that procedures should be implemented so to ensure that the Accounts Receivable/Billing function runs smoothly and that any possibility of theft of financial statement error will be eliminated.

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,



Wayne R. Beyer
Certified Public Accountant
Pleasanton, Texas
February 7, 2009

CITY OF ELMENDORF, TEXAS

ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended
SEPTEMBER 30, 2007

CITY OF ELMENDORF, TEXAS
Annual Financial Report
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Elmendorf, Texas

I 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, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Elmendorf, Texas's management. My responsibility is to express an opinion 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

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, each major fund, and the aggregate remaining fund information of the City of Elmendorf, Texas, as of September 30, 2007, and the respective changes in financial position and, where applicable, cash flows, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and the analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Respectfully submitted,



Wayne R. Beyer
Certified Public Accountant
Pleasanton, Texas
February 7, 2009

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, 2007.

Financial Highlights

- . The assets of the City of Elmendorf, Texas, exceeded its liabilities at the close of the most recent fiscal year by \$422,201 (net assets). Of this amount, \$208,728 or 49% (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 \$154,242. This increase is mainly attributable to an increase in charges for services of \$35,088 and an increase in ad valorem taxes of \$29,213. The total expenses remained approximately the same.
- . The City of Elmendorf, Texas had no restricted net assets at September 30, 2007.
- . The City of Elmendorf, Texas's total debt increased by \$25,946 (27 percent) during the current fiscal year. The key factor in this increase was the issuance of new capital leases of \$59,974.

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.

The *statement for activities presents* information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. 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 vacation leave). Both of the government-wide financial statements distinguish functions of the City of Elmendorf, Texas that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Elmendorf, Texas include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City of Elmendorf, Texas include a Water and Sewer System.

The government-wide financial statements include only the City of Elmendorf, Texas itself (known as the *primary government*.)

The government-wide financial statements can be found on pages 13-14 for this report.

Fund financial statements: A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Elmendorf, Texas, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All other funds of the City of Elmendorf, Texas can be divided into two categories: governmental funds and proprietary funds.

Governmental funds: *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Elmendorf, Texas maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund. The City of Elmendorf, Texas adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 15-19 of this report.

