

CITY OF ELMENDORF, TEXAS

ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended
SEPTEMBER 30, 2010

CITY OF ELMENDORF, TEXAS
Annual Financial Report
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

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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, 2010, 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, 2010, 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.

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 42, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elmendorf, Texas's financial statements as a whole. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,

Wayne R. Beyer
Certified Public Accountant
Pleasanton, Texas
July 14, 2011

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, 2010.

Financial Highlights

- . The assets of the City of Elmendorf, Texas, exceeded its liabilities at the close of the most recent fiscal year by \$516,295 (net assets). Of this amount, \$268,609 or 52% (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 \$70,157. This increase is mainly attributable to a decrease in utility expenses of \$38,906 and an increase in utility charges for services of \$35,134.
- . The City of Elmendorf, Texas had no restricted net assets at September 30, 2010.
- . The City of Elmendorf, Texas's total debt decreased by \$17,767 (44%) during the current fiscal year. The key factor in this decrease was the payment of \$18,006 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.

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.

Proprietary funds: The City of Elmendorf, Texas maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Elmendorf, Texas uses enterprise funds to account for its Water and Sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer operations, which is considered to be a major fund of the City of Elmendorf, Texas. The basic proprietary fund financial statements can be found on pages 20-24 of this report.

Notes to the financial statements: The notes provided additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-41 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Elmendorf, Texas, assets exceeded liabilities by \$516,295 at the close of the most recent fiscal year.

A portion of the City of Elmendorf, Texas's net assets (48 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The City of Elmendorf, Texas uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Elmendorf, Texas's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF ELMENDORF, TEXAS
NET ASSETS**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and Other Assets	\$67,004	\$118,384	\$254,009	\$142,045	\$321,013	\$260,429
Capital Assets:	168,593	127,416	101,113	139,580	269,706	266,996
Total Assets	235,597	245,800	355,122	281,625	590,719	527,425
Long-Term Liabilities	20,358	32,751	2,479	7,853	22,837	40,604
Other Liabilities (Payable from Restricted Assets)	0	0	5,785	5,850	5,785	5,850
Other Liabilities	17,727	15,423	28,075	19,410	45,802	34,833
Total Liabilities	38,085	48,174	36,339	33,113	74,424	81,287
Invested in Capital Assets, Net of Related Debt	148,522	95,061	99,164	131,909	247,686	226,970
Unrestricted	48,990	102,565	219,619	116,603	268,609	219,168
Total Net Assets	\$197,512	\$197,626	\$318,783	\$248,512	\$516,295	\$446,138

The remaining balance of *unrestricted net assets* (\$268,609) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Elmendorf, Texas is able to report positive balances in two categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's total net assets increased by \$70,157. This increase is mainly attributable to a decrease in utility expenses of \$38,906 and an increase in utility charges for services of \$35,134.

Governmental activities: Governmental activities decreased the City of Elmendorf, Texas's net assets by \$114 which accounted for 00 percent of the total growth in the net assets of the City of Elmendorf, Texas. Key elements of this decrease are as follows: This decrease is immaterial Overall the total revenues decreased by \$19,005 while the total expenses decreased by \$33,291. General administration decreased by \$66,170 while both public facilities and public safety increased by \$15,229 and 17,326, respectively. The capital grants decreased by \$28,957 while ad valorem taxes increased by \$11,352.

**CITY OF ELMENDORF, TEXAS
CHANGE IN NET ASSETS**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues:						
Charges for Services	\$2,410	\$8,829	\$639,859	\$604,725	\$642,269	\$613,554
Capital Grants and Contributions	0	28,957	0	0	0	28,957
General Revenues:						
Maintenance and Operations Taxes	107,049	95,697			107,049	95,697
Sales Taxes	44,422	41,975			44,422	41,975
Franchise Taxes	33,402	28,889			33,402	28,889
Licenses and Permits	7,573	7,491			7,573	7,491
Unrestricted Investment Earnings	0	0			0	0
Grants and Contributions Not Restricted to Specific Programs	0	0			0	0
Miscellaneous	3,930	5,953			3,930	5,953
Total Revenue	198,786	217,791	639,859	604,725	838,645	822,516
Expenses:						
General Administration	121,689	187,859			121,689	187,859
Public Safety	134,021	116,695			134,021	116,695
Public Facilities	18,148	2,919			18,148	2,919
Public Transportation	53,276	52,142			53,276	52,142
Interest and Fiscal Charges	1,835	2,645			1,835	2,645
Utility			439,519	478,425	439,519	478,425
Total Expenses	328,969	362,260	439,519	478,425	768,488	840,685
Increase in Net Assets Before Transfers and Special Items	(130,183)	(144,469)	200,340	126,300	70,157	(18,169)
Transfers	130,069	113,007	(130,069)	(113,007)	0	0
Increase in Net Assets	(114)	(31,462)	70,271	13,293	70,157	(18,169)
Net Assets at 09/30/2009	197,626	229,088	248,512	235,219	446,138	464,307
Net Assets at 09/30/2010	\$197,512	\$197,626	\$318,783	\$248,512	\$516,295	\$446,138

Expenses and Program Revenues - Governmental Activities

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary Government			
Government Activities:			
General Administration	\$121,689	\$1,500	\$0
Public Safety	134,021	910	
Public Facilities	18,148		
Public Transportation	53,276		
Interest and Fiscal Charges	1,835		
Total Government Activities	\$328,969	\$2,410	\$0

Revenues by Source - Governmental Activities

	<u>REVENUES</u>	<u>%</u>
Charges for Services	\$2,410	1%
Maintenance and Operations Taxes	107,049	54%
Sales Taxes	44,422	22%
Franchise Taxes	33,402	17%
Licenses and Permits	7,573	4%
Miscellaneous	3,930	2%
	<u>\$198,786</u>	<u>100%</u>

For the most part, increases and decreases in expenses closely paralleled inflation and growth/decline in the demand for services.

Business-type activities: Business-type activities increased the City of Elmendorf, Texas's net assets by \$70,271, accounting for 100 percent of the total growth in the government's net assets. Key elements of this increase are as follows: Increase in charges for services of \$35,134 coupled with a decrease in expenses of \$38,906.

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary government			
Business-Type Activities:			
Utility	\$439,519	\$639,859	\$0
Total Business-Type Activities	\$439,519	\$639,859	\$0

Financial Analysis of the Government's Funds

As noted earlier, the City of Elmendorf, Texas uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental fund: The focus of the City of Elmendorf, Texas's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Elmendorf, Texas's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Elmendorf, Texas's governmental funds reported combined ending fund balances of a negative \$335, a decrease of \$32,981 in comparison with the prior year. Approximately 0% of this total amount \$0 constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. There is no fund balance that is *reserved or designated*.

The general fund is the chief operating fund of the City of Elmendorf, Texas. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was a negative \$335 while total fund balance reached a negative \$335. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 00 percent of total general fund expenditures, while total fund balance represents 00 percent of that same amount.

The fund balance of the City of Elmendorf, Texas's general fund decreased by \$32,981 during the current fiscal year. Key factor in this decrease is as follows: 1) an increase in expenditures of \$30,955 and a decrease in revenues of \$12,4296 The transfers in from the utility fund increased by \$17,062. The major decrease in revenues was in intergovernmental which decreased by \$28,957. The major increase in expenditures was in the streets department which increased by \$57,153. The expenditures in the non departmental department decreased by \$46,153.

Proprietary funds: The City of Elmendorf, Texas's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Utility fund at the end of the year amounted to \$219,619. The total increase in net assets for the Utility fund was \$70,271. Key factors in this overall increase are as follows:

1. This increase represents an increase in Charges for Services of \$35,134. The total expenses decreased by \$38,906. The transfers to the general fund increased by \$17,062.

General Fund Budgetary Highlights

During the year there was no increase or decrease in appropriations between the original and final amended budget for the general fund. The municipal court department actual expenditures exceeded the final budgeted amount by \$8,662. Some of the debt service (\$14,119) was also not budgeted. Overall, the total actual expenditures of \$329,020 were under the budgeted amount of \$350,692 by \$21,672.

Capital Asset and Debt Administration

Capital assets: The City of Elmendorf, Texas's investment in capital assets for its governmental and business-type activities as of September 30, 2010, amounts to \$269,706 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total decrease in the City of Elmendorf, Texas's investment in capital assets for the current fiscal year was 1 percent (a 32 percent increase for governmental activities and a 28 percent decrease for business-type activities).

Major capital asset events during the current fiscal year included the following: The City did street renovations and has an ongoing municipal building project.

CITY OF ELMENDORF, TEXAS CAPITAL ASSETS (Net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$21,100	\$20,600	\$30	\$30	\$21,130	\$20,630
Construction in Progress	78,342	8,000	0	20,000	78,342	28,000
Building and Improvements	16,240	16,820	22,420	23,230	38,660	40,050
Machinery and Equipment	24,859	47,688	78,663	96,320	103,522	144,008
Intangible	4,291	9,359			4,291	9,359
Infrastructure	23,761	24,949			23,761	24,949
Distribution System			0	0	0	0
Total	\$168,593	\$127,416	\$101,113	\$139,580	\$269,706	\$266,996

Additional information of the City of Elmendorf, Texas's capital assets can be found in note IV.C on pages 35-36 of this report.

Long-term debt: At the end of the current fiscal year, the City of Elmendorf, Texas had no bonded debt outstanding.

Additional information on the City of Elmendorf, Texas's long-term debt can be found in note IV.F on page 37-38 of this report.

Economic Factors: The City procured a CDBG block grant from Bexar County to design and reconstruct city streets. The grant is not to exceed \$150,000. The City also procured a USDA loan (not to exceed \$900,000) and grant (not to exceed \$709,000) to build a new municipal building.

Requests for Information

This financial report is designed to provide a general overview of the City of Elmendorf, Texas's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Department, P.O. Box 247, Elmendorf, Texas, 78112.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF ELMENDORF, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$16,061	\$175,144	\$191,205
Receivables (net of allowance for uncollectibles)	50,943	78,865	129,808
Capital assets not being depreciated:			
Land	21,100	30	21,130
Construction in Progress	78,342		78,342
Total Capital Assets being depreciated, net			
Building and Improvements	16,240	22,420	38,660
Machinery and Equipment	24,859	78,663	103,522
Intangible	4,291		4,291
Infrastructure	23,761		23,761
Total Assets	<u>\$235,597</u>	<u>\$355,122</u>	<u>\$590,719</u>
LIABILITIES:			
Accounts Payable	\$12,312	\$27,077	\$39,389
Accrued Wages	5,415	998	6,413
Consumer Meter Deposit		5,785	5,785
Noncurrent Liabilities:			
Due within one year	13,440	2,479	15,919
Due in more than one year	6,918	0	6,918
Total Liabilities	<u>38,085</u>	<u>36,339</u>	<u>74,424</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	148,522	99,164	247,686
Unrestricted	48,990	219,619	268,609
Total Net Assets	<u>\$197,512</u>	<u>\$318,783</u>	<u>\$516,295</u>

The accompanying notes are an integral part of this statement.

CITY OF ELMENDORF, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2010

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in		Net (Expense) Revenue and Changes in Total
		Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary government						
Government Activities:						
General Administration	\$121,689	\$1,500	\$0	(\$120,189)		(\$120,189)
Public Safety	134,021	910		(133,111)		(133,111)
Public Facilities	18,148			(18,148)		(18,148)
Public Transportation	53,276			(53,276)		(53,276)
Interest and Fiscal Charges	1,835			(1,835)		(1,835)
Total Government Activities	<u>328,969</u>	<u>2,410</u>	<u>0</u>	<u>(326,559)</u>	<u>0</u>	<u>(326,559)</u>
Business-Type Activities:						
Utility (Water, Garbage, and Sewer)	439,519	639,859			200,340	200,340
Total Business-Type Activities	<u>439,519</u>	<u>639,859</u>	<u>0</u>	<u>0</u>	<u>200,340</u>	<u>200,340</u>
Total Primary Government	<u>\$768,488</u>	<u>\$642,269</u>	<u>\$0</u>	<u>(326,559)</u>	<u>200,340</u>	<u>(126,219)</u>
General Revenues						
Property Taxes, Levies for General Purposes				107,049		107,049
Sales Taxes				44,422		44,422
Franchise Taxes				33,402		33,402
Licenses and Permits				7,573		7,573
Unrestricted Investment Earnings						0
Miscellaneous				3,930		3,930
Transfers				130,069	(130,069)	0
Total General Revenues and Transfers				<u>326,445</u>	<u>(130,069)</u>	<u>196,376</u>
Change in Net assets				(114)	70,271	70,157
Net Assets - Beginning				197,626	248,512	446,138
Net Assets - Ending				<u>\$197,512</u>	<u>\$318,783</u>	<u>\$516,295</u>

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

CITY OF ELMENDORF, TEXAS
 BALANCE SHEET - GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2010

	General Fund	Total Governmental Funds
ASSETS		
Cash and Cash Equivalents	\$16,061	\$16,061
Receivables (net of allowance for uncollectibles)	18,685	18,685
Due from Other Funds		0
Total Assets	\$34,746	\$34,746
LIABILITIES AND FUND BALANCES:		
Accounts Payable	\$12,312	\$12,312
Accrued Wages	5,415	5,415
Unearned Revenues	17,354	17,354
Total Liabilities	35,081	35,081
Fund Balances:		
Unreserved, Reported in General Fund	(335)	(335)
Total Fund Balance	(335)	(335)
Total Liabilities and Fund Balances	\$34,746	\$34,746

The accompanying notes are an integral part of this statement.

CITY OF ELMENDORF, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

Total Fund Balances - governmental funds balance sheet (335)

Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:

Capital assets used in governmental activities are not reported in the funds. 168,593

Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles). 17,354

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 32,258

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (20,358)

Net assets of governmental activities - statement of net assets \$197,512

The accompanying notes are an integral part of this statement.

CITY OF ELMENDORF, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2010

	General Fund	Total Governmental Funds
<i>REVENUES</i>		
Taxes		
Property	\$108,399	\$108,399
Sales	44,422	44,422
Franchise	33,402	33,402
Licenses and Permits	7,573	7,573
Charges for Services	1,500	1,500
Fines and Forfeitures	20,263	20,263
Miscellaneous	3,930	3,930
Total Revenues	<u>219,489</u>	<u>219,489</u>
<i>EXPENDITURES</i>		
Current:		
General Administration	138,541	138,541
Public Safety	114,454	114,454
Public Facilities	18,148	18,148
Public Transportation	97,277	97,277
Debt Service		
Principal Retirement	12,284	12,284
Interest Retirement	1,835	1,835
Total Expenditures	<u>382,539</u>	<u>382,539</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(163,050)</u>	<u>(163,050)</u>
<i>OTHER FINANCING SOURCES (USES):</i>		
Operating Transfers In	130,069	130,069
Total Other Financing Sources (Uses)	<u>130,069</u>	<u>130,069</u>
Net Changes in Fund Balances	<u>(32,981)</u>	<u>(32,981)</u>
Fund Balances - Beginning	32,646	32,646
Fund Balances - Ending	<u>(\$335)</u>	<u>(\$335)</u>

The accompanying notes are an integral part of this statement.

CITY OF ELMENDORF, TEXAS
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 SEPTEMBER 30, 2010

Net Changes in Fund Balances - total governmental funds	(\$32,981)
Amounts reported for governmental activities in the statement of net assets ("SNA") 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 and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	41,177
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. This is the change in these amounts this year.	(19,353)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(1,350)
(Increase) decrease in compensated absences from beginning of period to end of period.	109
Repayment of loan principal is an expenditure in the funds but not an expense in the SOA.	12,284
Change in net assets of governmental activities - statement of activities	<u>(\$114)</u>

The accompanying notes are an integral part of this statement.

CITY OF ELMENDORF, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - (BUDGETARY BASIS) - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Budgetary Basis	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES				
Taxes				
Property	\$96,000	\$96,000	\$108,399	\$12,399
Sales	40,000	40,000	44,422	4,422
Franchise	26,700	26,700	33,402	6,702
Licenses and Permits	8,500	8,500	7,573	(927)
Charges for Services	1,500	1,500	1,500	0
Fines and Forfeitures	80,600	80,600	20,263	(60,337)
Miscellaneous	3,695	3,695	3,930	235
Total Revenues	<u>256,995</u>	<u>256,995</u>	<u>219,489</u>	<u>(37,506)</u>

EXPENDITURES

Current:

General Administration				
General administration	82,239	82,239	76,200	6,039
Insurance	6,650	6,650	8,259	(1,609)
Operations	9,900	9,900	4,127	5,773
Miscellaneous	11,390	11,390	3,838	7,552
Non Departmental	63,430	63,430	46,117	17,313
Public Safety				
Police	104,485	104,485	99,392	5,093
Jail	1,308	1,308	0	1,308
Municipal Court	6,400	6,400	15,062	(8,662)
Public Facilities				
Building	16,450	16,450	18,148	(1,698)
Public Transportation				
Streets	16,600	16,600	10,386	6,214
Public Transportation	31,840	31,840	33,372	(1,532)
Debt Service				
Principal Retirement	0	0	12,284	(12,284)
Interest Retirement	0	0	1,835	(1,835)
Total Expenditures	<u>350,692</u>	<u>350,692</u>	<u>329,020</u>	<u>21,672</u>

Excess (Deficiency) of Revenues Over (Under)

Expenditures	<u>(93,697)</u>	<u>(93,697)</u>	<u>(109,531)</u>	<u>(15,834)</u>
--------------	-----------------	-----------------	------------------	-----------------

OTHER FINANCING SOURCES (USES):

Operating Transfers In	93,697	93,697	130,069	36,372
Total Other Financing Sources (Uses)	<u>93,697</u>	<u>93,697</u>	<u>130,069</u>	<u>36,372</u>
Net Changes in Fund Balances - Budgetary Basis	<u>0</u>	<u>0</u>	<u>20,538</u>	<u>20,538</u>

Reconciliation from Budgetary Basis to Modified Accrual:

Street Improvements		<u>(53,519)</u>
Net Changes in Fund Balances - Modified Accrual Basis		<u>(32,981)</u>
Fund Balances - Beginning		<u>32,646</u>
Fund Balances - Ending		<u>(\$335)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ELMENDORF, TEXAS
 STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 SEPTEMBER 30, 2010

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$175,144	\$85,995	\$175,144
Accounts Receivables (net of allowance for uncollectibles)	78,865	56,050	78,865
Total Current Assets	254,009	142,045	254,009
Capital Assets			
Land	30	30	30
Construction in Progress	0	20,000	0
Buildings and Improvements	40,500	40,500	40,500
Machinery and Equipment	192,000	192,000	192,000
Infrastructure	0	0	0
Total Capital Assets	232,530	252,530	232,530
Less Accumulated Depreciation	(131,417)	(112,950)	(131,417)
Total Capital Assets (net of accumulated depreciation)	101,113	139,580	101,113
Total Noncurrent Assets	101,113	139,580	101,113
TOTAL ASSETS	\$355,122	\$281,625	\$355,122

(continued)

(continued)

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
Liabilities			
Current Liabilities (Payable from Current Assets)			
Accounts Payable	\$27,077	\$16,823	\$27,077
Accrued Wages	998	2,587	998
Compensated Absences	530	182	530
Capital Lease and Notes Payable - Current	1,949	5,722	1,949
Total Current Liabilities (Payable from Current Assets)	<u>30,554</u>	<u>25,314</u>	<u>30,554</u>
Current Liabilities (Payable from Restricted Assets)			
Consumer Meter Deposits	5,785	5,850	5,785
Total Current Liabilities Payable from Restricted Assets	<u>5,785</u>	<u>5,850</u>	<u>5,785</u>
Noncurrent Liabilities			
Capital Lease and Notes Payable	0	1,949	0
Total Noncurrent Liabilities	<u>0</u>	<u>1,949</u>	<u>0</u>
Total Liabilities	<u>36,339</u>	<u>33,113</u>	<u>36,339</u>
Invested in Capital Assets, Net of Related Debt	99,164	131,909	99,164
Unrestricted	219,619	116,603	219,619
Total Net Assets	<u>\$318,783</u>	<u>\$248,512</u>	<u>\$318,783</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ELMENDORF, TEXAS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
OPERATING REVENUES:			
Charges for Services (Water, Sewer, and Garbage)	\$636,242	\$603,104	\$636,242
Miscellaneous	3,617	1,621	3,617
Total Operating Revenues	639,859	604,725	639,859
OPERATING EXPENSES:			
Personal Services	104,625	112,290	104,625
Supplies	7,418	5,536	7,418
Other Services and Charges	308,848	341,792	308,848
Depreciation	18,467	18,467	18,467
Total Operating Expenses	439,358	478,085	439,358
 Operating Income (Loss)	 200,501	 126,640	 200,501
NON-OPERATING REVENUES (EXPENSES):			
Interest and Fiscal Charges	(161)	(340)	(161)
Federal Grants and Contributions			0
Total Non-Operating Revenues (Expenses)	(161)	(340)	(161)
 Income Before Transfers	 200,340	 126,300	 200,340
Transfers In (Out) - Net	(130,069)	(113,007)	(130,069)
 Change in Net Assets	 70,271	 13,293	 70,271
Total Net Assets - Beginning	248,512	235,219	248,512
Total Net Assets - Ending	\$318,783	\$248,512	\$318,783

The notes to the financial statements are an integral part of this statement.

CITY OF ELMENDORF, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

BUSINESS TYPE ACTIVITIES
- ENTERPRISE FUNDS

	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
Cash Flows from Operating Activities			
Receipts from Customers and Users	\$616,979	\$598,626	\$616,979
Payments to Suppliers	(306,012)	(365,050)	(306,012)
Payments to Employees	(105,866)	(112,053)	(105,866)
Net Cash Provided (Used) By Operating Activities	205,101	121,523	205,101
Cash Flows from Non-Capital and Related Financing Activities			
Transfers In (Out)	(130,069)	(113,007)	(130,069)
Federal Grants and Contributions	0	0	0
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	(130,069)	(113,007)	(130,069)
Cash Flows from Capital and Related Financing Activities			
Interest and Fiscal Charges	(161)	(340)	(161)
Purchases of Capital Assets	20,000	(10,000)	20,000
Principal Payment on Revenue Bonds, Notes and Capital Leases	(5,722)	(30,544)	(5,722)
Net Cash Provided (Used) By Capital and Related Financing Activities	14,117	(40,884)	14,117
Net Increase (Decrease) in Cash Equivalents	89,149	(32,368)	89,149
Cash and Cash Equivalents at Beginning of Year	85,995	118,363	85,995
Cash and Cash Equivalents at End of Year	\$175,144	\$85,995	\$175,144

(continued)

(continued)

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating Income (Loss)	\$200,501	\$126,640	\$200,501
Adjustments to Reconcile to Net Cash Flow			
Non-Cash Items Included in Net Income			
Depreciation	18,467	18,467	18,467
Changes in Current Items			
(Increase) Decrease in Accounts Receivable	(22,815)	(6,099)	(22,815)
Increase (Decrease) in Accounts Payable	10,254	(17,722)	10,254
Increase (Decrease) in Accrued Wages	(1,589)	55	(1,589)
Increase (Decrease) in Compensated Absences	348	182	348
Increase (Decrease) in Due to Other Funds	0	0	0
Increase (Decrease) in Consumer Meter Deposits	(65)	0	(65)
Net Cash Provided (Used)			
By Operating Activities	<u>\$205,101</u>	<u>\$121,523</u>	<u>\$205,101</u>
Noncash Investing, Capital, and Financing Activities:			
None			

Note: The above funds are all Enterprise Funds.

The notes to the financial statements are an integral part of this statement.

CITY OF ELMENDORF, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

I. Summary of significant accounting policies

A. Reporting entity

The City of Elmendorf, Texas, was incorporated by an election. The City operates under a General Law type of government and provides the following services: public safety (fire, ambulance, and law enforcement), public transportation (streets), health, culture, recreation, public facilities, legal, election functions, and general administrative services. The accounting policies of the City of Elmendorf, Texas, (the City) conform to generally accepted accounting principles generally accepted in the United States of America. The City also applies all relevant Government Accounting Standards Board (GASB) pronouncements. The following is a summary of the more significant policies.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and the proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The government reports the following major proprietary funds:

The utility fund accounts for the activities of the government's water, sewer and garbage operations.

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Under the full accrual method of accounting revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City applies all Financial Accounting Standards Board (FASB) pronouncements in accounting and reporting that were issued on or before November 30, 1989, for its proprietary operations except for those that conflict with GASB pronouncements.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. The current trade accounts receivable allowance is equal to 1 percent, the trade accounts receivable allowance in excess of 30 days is equal to 5 percent of outstanding trade accounts receivable at September 30, 2010, the trade accounts receivable allowance in excess of 60 days is equal to 10 percent of outstanding trade accounts receivable at September 30, 2010, the trade accounts receivable allowance in excess of 90 days is equal to 25 percent of outstanding trade accounts receivable at September 30, 2010, and the trade accounts receivable allowance in excess of 120 days is equal to 75 percent of outstanding trade accounts receivable at September 30, 2010. The property tax receivable allowance is equal to 1 percent of current outstanding property taxes at September 30, 2010, and 10 percent of delinquent outstanding property taxes at September 30, 2010.

Property is appraised and a lien on such property becomes enforceable as of January 1, subject to certain procedures for rendition, appraisal, appraisal review and judicial review. Traditionally, property taxes are levied October 1, of the year in which assessed or as soon thereafter as practicable. Taxes are due and payable when levied since that is when the City bills the taxpayers. The City begins to collect the taxes as soon as the taxpayers are billed.

3. Inventories and prepaid items

Inventories are considered immaterial and, therefore, there were no inventory items at September 30, 2010.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. There were no prepaid items at September 30, 2010.

4. **Restricted assets**

Certain assets are classified as restricted assets because their use is restricted by applicable contract covenants.

The restricted assets consist of the following: None

5. **Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The City did street renovations and has an ongoing municipal building project.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<i>Assets</i>	<i>Years</i>
Buildings	50
Building improvements	20
Public domain infrastructure	50
System infrastructure	30
Vehicles	5
Office equipment	5
Computer equipment	5

6. **Compensated absences**

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds.

7. Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$20,358 difference are as follows:

Lease Purchases	\$20,071
Compensated Absences	<u>287</u>
	<u>\$20,358</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.)" The details of this \$17,354 difference are as follows:

Property Taxes Receivable	\$18,442
Allowance for Doubtful Accounts	<u>(1,088)</u>
Net	<u>\$17,354</u>

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "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 and reported as depreciation expense." The details of this \$168,593 difference are as follows:

Capital Assets Not Being Depreciated	\$99,442
Capital Assets Being Depreciated	245,845
Depreciation Expense	(176,694)
Net Adjustment to Increase Net Changes in Fund Balances - Total Governmental Funds to Arrive at Changes in Net Assets of Governmental Activities	<u>\$168,593</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Municipal fines and fees receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.*)" The details of this \$32,258 difference are as follows:

Fines and Fees Receivable	\$136,747
Allowance for Doubtful Accounts	<u>(104,489)</u>
Net	<u>\$32,258</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that 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 and reported as depreciation expense. The details of this \$41,177 difference are as follows:

Capital Outlay - Additions	\$70,842
Depreciation Expense	(29,665)
Net Adjustment to Increase Net Changes in Fund Balances - Total Governmental Funds to Arrive at Changes in Net Assets of Governmental Activities	<u>\$41,177</u>

III. Stewardship, compliance, and accountability

A. Budgetary information

The Mayor has been authorized by the council to prepare the budget. He is assisted by the City Administrator. The budget is adopted on budgetary basis in conformity with generally accepted accounting principles. After the budget is prepared, it is reviewed by the City Council. The budget is adjusted by the City Council if desired. Then a final budget is prepared by the City Administrator. A public hearing is held on the budget by the City Council. Department heads may appear. Before determining the final budget, the City Council may increase or decrease the amounts requested by the various departments or citizens. Amounts finally budgeted may not exceed the estimate of revenues and available cash. Appropriations lapse at year end.

When the budget is adopted by the City Council, the City Administrator responsible for monitoring the expenditures of the various departments of the City to prevent expenditures from exceeding budgeted appropriations and for keeping the members of the City Council advised of the conditions of the various funds and accounts. The level of control is the fund. Expenditures can exceed appropriations as long as they do not exceed available revenues and cash balances. The legal level of control (the level on which the City Council must approve over expenditures) is on an object class basis.

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the council. The legal level of budgetary control (IE. the level at which expenditures may not legally exceed appropriations) is the department level.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year. There were no outstanding encumbrances at September 30, 2010.

B. Excess of expenditures over appropriations

During the year there was no increase or decrease in appropriations between the original and final amended budget for the general fund. The municipal court department actual expenditures exceeded the final budgeted amounts by \$8,662. The debt service (\$14,119) was also not budgeted. Overall, the total actual expenditures of \$329,020 were under the budgeted amount of \$350,692 by \$21,672.

C. Deficit fund equity

The general fund had a deficit fund balance of \$335 as of September 30, 2010. This deficit is expected to be liquidated by future resources of this fund.

IV. Detailed notes on all funds

A. Deposits and investments

Legal and Contractual Provisions Governing Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in compliance with the requirements of the Act.

Policies Governing Deposits and Investments

The City has adopted a deposit and investment policy. That City does address the following risks:

Custodial Credit Risk - Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City is not exposed to custodial credit risk because during the year the City was fully covered by either depository insurance and/or was fully collateralized by pledged securities in the City's depository in the City's name. The total amount of cash in the bank at September 30, 2010 is \$193,083 while the total pledged securities are \$108,524 and the FDIC insurance coverage is \$250,000. Thus the city was fully covered by depository insurance and pledged securities at September 30, 2010. The book amount of cash is \$191,205.

As of September 30, 2010, the City had no investments.

B. Receivables

Receivables as of year end for the government's individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Utility</u>	<u>Total</u>
<u>Receivables</u>			
Taxes	\$18,442		\$18,442
Accounts		69,962	69,962
Fines	136,747		136,747
Other	1,331	22,065	23,396
Gross Receivables	156,520	92,027	248,547
Less: Allowance for Uncollectibles	105,577	13,162	118,739
Net Total Receivables	<u>\$50,943</u>	<u>\$78,865</u>	<u>\$129,808</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>
Delinquent property taxes receivable (General fund)	<u>\$17,354</u>
Total deferred/unearned revenue for governmental funds	<u>\$17,354</u>

C. Capital assets

Capital asset activity for the year ended September 30, 2010 was as follows:

Primary Government

Governmental Activities:	Beginning			Ending
	Balances	Increases	Decreases	Balances
Capital Assets Not Being Depreciated:				
Land	\$20,600	\$500	\$0	\$21,100
Construction in Progress	8,000	70,342	0	78,342
Total Capital Assets Not Being Depreciated	28,600	70,842	0	99,442
Capital Assets Being Depreciated:				
Building and Improvements	29,000	0	0	29,000
Intangible	25,338	0	0	25,338
Machinery and Equipment	119,147	0	0	119,147
Infrastructure	72,360	0	0	72,360
Total Capital Assets Being Depreciated	245,845	0	0	245,845
Less Accumulated Depreciation for:				
Building and Improvements	12,180	580	0	12,760
Machinery and Equipment	71,459	22,829	0	94,288
Intangible	15,979	5,068	0	21,047
Infrastructure	47,411	1,188	0	48,599
Total Accumulated Depreciation	147,029	29,665	0	176,694
Total Capital Assets Being Depreciated, Net	98,816	(29,665)	0	69,151
Governmental Activities Capital Assets, Net	\$127,416	\$41,177	\$0	\$168,593

Business-Type Activities:	Beginning			Ending
	Balances	Increases	Decreases	Balances
Capital Assets Not Being Depreciated:				
Land	\$30			\$30
Construction in Progress	20,000	0	20,000	0
Total Capital Assets Not Being Depreciated	20,030	0	20,000	30
Capital Assets Being Depreciated:				
Building and Improvements	40,500			40,500
Machinery and Equipment	192,000			192,000
Distribution System	0			0
Total Capital Assets Being Depreciated	232,500	0	0	232,500
Less Accumulated Depreciation for:				
Building and Improvements	17,270	810		18,080
Machinery and Equipment	95,680	17,657		113,337
Distribution System	0	0		0
Total Accumulated Depreciation	112,950	18,467	0	131,417
Total Capital Assets Being Depreciated, Net	119,550	(18,467)	0	101,083
Business-Type Activities Capital Assets, Net	\$139,580	(\$18,467)	\$20,000	\$101,113

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities	
General Administration	\$580
Public Safety	19,567
Public Transportation	9,518
Total Depreciation Expense - Governmental Activities	<u>\$29,665</u>
Business-Type Activities	
Utility	\$18,467
Total Depreciation Expense - Business-Type Activities	<u>\$18,467</u>

Construction commitments

The government had started a municipal building project as of September 30, 2010.

Discretely presented component units

The City had no discretely presented component units as of September 30, 2010.

D. Interfund receivables, payables, and transfers

There are no due to or from at September 30, 2010.

The intrafund and interfund fund transfers for the year ended September 30, 2010 are as follows:

<u>PRIMARY GOVERNMENT</u>		
<u>ACCOUNT</u>	<u>AMOUNT</u>	<u>REASON</u>
<u>GENERAL FUND</u>		
TRANSFER FROM UTILITY FUND	\$130,069	GENERAL OPERATIONS - RECURRING
	<u>\$130,069</u>	

E. Leases

Operating Leases

The government leases equipment under noncancellable operating leases. Total costs for such leases were \$1,692 for the year ended September 30, 2010. The future minimum lease payments for these leases are as follows:

None

F. Long-term debt

Capital Leases

The government has entered into a capital lease agreement as lessee for financing the acquisition of three Police Vehicles with 60 monthly payments of \$1,176.63 at 6.85%. The general fund is used to service this capital lease. The amount outstanding at September 30, 2010 is \$20,071.

The government has also entered into a capital lease agreement as lessee for financing the acquisition of a Skid Loader with monthly payments of \$490.28 at 3.18%. The utility fund is used to service this capital lease. The amount outstanding at September 30, 2010 is \$1,949.

These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of their inception date.

ASSET	Governmental	Business-Type	TOTAL
	Activities	Activities	
	POLICE	SKID	
	VEHICLES	LOADER	
COST	\$59,624	\$27,165	\$86,789
ACCUMULATED DEPRECIATION	(47,699)	(27,082)	(74,781)
NET ASSET	\$11,925	\$83	\$12,008

The following for the above debt is a schedule of the future minimum lease payments and the present value of net minimum lease payments at September 30, 2010.

YEAR	Governmental	Business-Type	TOTAL
	Activities	Activities	
	AMOUNT	AMOUNT	
2011	\$14,120	\$2,451	\$16,571
2012	7,060		7,060
Total Minimum Lease Payments	21,180	2,451	23,631
Less: Amount Representing Interest	1,109	502	1,611
Present Value of Net Minimum Lease Payments	\$20,071	\$1,949	\$22,020

Changes in long-term liabilities are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>	<u>Due After One Year</u>
<u>Governmental Activities:</u>						
Lease Purchases	\$32,355	\$0	\$12,284	\$20,071	\$13,153	\$6,918
Compensated Absences	396	287	396	287	287	0
	<u>32,751</u>	<u>287</u>	<u>12,680</u>	<u>20,358</u>	<u>13,440</u>	<u>6,918</u>
<u>Business-Type activities:</u>						
Lease Purchases	7,671		5,722	1,949	1,949	0
Compensated Absences	182	530	182	530	530	0
	<u>7,853</u>	<u>530</u>	<u>5,904</u>	<u>2,479</u>	<u>2,479</u>	<u>0</u>
 Grand Total	 <u>\$40,604</u>	 <u>\$817</u>	 <u>\$18,584</u>	 <u>\$22,837</u>	 <u>\$15,919</u>	 <u>\$6,918</u>

Interest expense of \$1,996 on long-term debt has been shown separately on the government-wide statement of activities. There was no interest expense capitalized into the capital assets. The government-wide statement of activities includes \$15,919 as "noncurrent liabilities, due within one year".

The current amount of compensated absences at September 30, 2010 is \$817.

V. Other information

A. Risk management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate.

Changes in the balances of claims liabilities during the past two years are as follows:

	Year ended <u>09/30/10</u>	Year ended <u>09/30/09</u>
Unpaid claims, beginning of fiscal year	\$ -0-	\$ -0-
Incurred claims (including IBNRs)		
Claim payments	<u>-0-</u>	<u>-0-</u>
Unpaid claims, end of fiscal year	<u>\$ -0-</u>	<u>\$ -0-</u>

B. Related party transaction

There were no related party transactions during the year.

C. Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

The government is not a defendant in any lawsuit. The City had no other contingent liabilities at September 30, 2010.

D. Subsequent Events

The City procured a CDBG block grant from Bexar County to design and reconstruct city streets. The grant is not to exceed \$150,000. The City also procured a USDA loan (not to exceed \$900,000) and grant (not to exceed \$709,000) to build a new municipal building.

E. Pension Plan

Plan Description

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

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

PLAN YEAR	2009	2010
EMPLOYEE DEPOSIT RATE	5.00%	5.00%
MATCHING RATIO (city to employee)	1 to 1	1 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	0%	0%
ANNUITY INCREASE (to retirees)	00% of CPI	00% of CPI

Contributions

Under the state law governing TMRS, the contribution rate for each City is determined annually by actuary, using the Projected Unit Credit actuarial Method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that City. Both the normal cost and the 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:

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
09-30-08	5,138	100%	-0-
09-30-09	7,178	100%	-0-
09-30-10	6,438	100%	-0-

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest valuation, December 31, 2009, also follows:

VALUATION DATE	12/31/2007	12/31/2008	12/31/2009
ACTUARIAL COST METHOD	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
AMORTIZATION METHOD	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
REMAINING AMORTIZATION PERIOD	30 years; closed period	29 years; closed period	27 years; closed period
ASSET VALUATION METHOD	Amortized Cost	Amortized Cost	10 year smoothed market

ACTUARIAL ASSUMPTIONS:

INVESTMENT RATE OF RETURN	7.0%	7.5%	7.5%
PROJECTED SALARY INCREASES	Varies by age and service	Varies by age and service	Varies by age and service
INCLUDES INFLATION AT	3.00%	3.00%	3.00%
COST-OF-LIVING ADJUSTMENTS	0.0%	0.0%	0.0%

The funded status as of December 31, 2009, the most actuarial valuation date, is as follows:

ANALYSIS OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded Ratio (a/b) (b-a)	Unfunded AAL (UAAL)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
2009	\$30,814	\$40,002	77.0%	\$9,188	\$197,337	4.7%

The schedule of funding progress presented as required supplementary information (RSI) immediately following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

REQUIRED SUPPLEMENTARY INFORMATION

ANALYSIS OF FUNDING PROGRESS

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 (c)	UAAL as a Percentage of Payroll ((b-a)/c)
2007	\$5,393	\$16,401	14.6%	\$14,008	\$141,374	9.9%
2008	16,417	27,414	59.9%	10,997	194,536	5.7%
2009	30,814	40,002	77.0%	9,188	197,337	4.7%