

CITY OF ELMENDORF, TEXAS

**ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended
SEPTEMBER 30, 2013**

CITY OF ELMENDORF, TEXAS
Annual Financial Report
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Elmendorf, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elmendorf, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elmendorf, Texas, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that that the management's discussion and analysis and the schedule of funding progress for the Public Employees Retirement System on pages 3 through 12 and 44, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

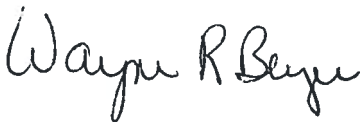
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elmendorf, Texas' basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2014, on our consideration of the City of Elmendorf, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Elmendorf, Texas' internal control over financial reporting and compliance.



BEYER & CO.
Certified Public Accountants
Pleasanton, Texas
June 10, 2014

Management's Discussion and Analysis

As management of the City of Elmendorf, Texas, we offer readers of the City of Elmendorf, Texas' financial statements this narrative overview and analysis of the financial activities of the City of Elmendorf, Texas for the fiscal year ended September 30, 2013.

Financial Highlights

- . The assets of the City of Elmendorf, Texas, exceeded its liabilities at the close of the most recent fiscal year by \$716,692 (Net Position). Of this amount, \$280,798 or 39% (unrestricted Net Position) may be used to meet the government's ongoing obligations to citizens and creditors.
- . The government's total Net Position increased by \$206,575. This increase is mainly attributable to a capital grant of \$66,300, an increase in charges for services of \$72,001, an increase in miscellaneous revenues of \$47,141, and careful budget management.
- . At the end of the current fiscal year, unassigned fund balance for the general fund was \$72,189 or 6 percent of total general fund expenditures.
- . The City of Elmendorf, Texas' restricted Net Assets at September 30, 2013 were \$97,966.
- . The City of Elmendorf, Texas' total debt increased by \$696,967 (119%) during the current fiscal year. The key factor in this increase was the issuance of \$692,000 of USDA bonds 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' basic financial statements. The City of Elmendorf, Texas' 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' finances, in a manner similar to a private-sector business.

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

The *statement for activities presents* information showing how the government's Net Position changed during the most recent fiscal year. All changes in Net Position 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 25-43 of this report.

Government-wide Financial Analysis

As noted earlier, Net Position 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 \$716,692 at the close of the most recent fiscal year.

A portion of the City of Elmendorf, Texas' Net Position (47 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' 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 POSITION**

	Governmental		Business-Type		Total	
	Activities		Activities		2013	2012
	2013	2012	2013	2012		
Current and Other Assets	\$222,181	\$179,920	\$150,463	\$143,886	\$372,644	\$323,806
Restricted Assets:	97,966	86,041			97,966	86,041
Capital Assets:	1,498,603	749,781	103,147	84,529	1,601,750	834,310
Total Assets	1,818,750	1,015,742	253,610	228,415	2,072,360	1,244,157
Long-Term Liabilities	1,262,015	584,416	21,194	1,826	1,283,209	586,242
Other Liabilities (Payable from Restricted Assets)	0	0	5,785	1,170	5,785	1,170
Other Liabilities	31,962	86,078	34,712	60,550	66,674	146,628
Total Liabilities	1,293,977	670,494	61,691	63,546	1,355,668	734,040
Invested in Capital Assets, Net of Related Debt	240,603	169,781	97,325	84,529	337,928	254,310
Restricted	97,966	86,041	0	0	97,966	86,041
Unrestricted	186,204	89,426	94,594	80,340	280,798	169,766
Total Net Position	\$524,773	\$345,248	\$191,919	\$164,869	\$716,692	\$510,117

The remaining balance of *unrestricted Net Position* (\$280,798) 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 Position, 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 Position increased by \$206,575. This increase is mainly attributable to a capital grant of \$66,300, an increase in charges for services of \$72,001, an increase in miscellaneous revenues of \$47,141, and careful budget management.

Governmental activities: Governmental activities increased the City of Elmendorf, Texas' Net Position by \$179,525 which accounted for 87 percent of the total growth in the Net Position of the City of Elmendorf, Texas. Key elements of this increase are as follows: This increase is mainly attributable to a capital grant of \$66,300, an increase in miscellaneous revenues of \$47,141, and careful budget management.

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

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues:						
Charges for Services	\$84,722	\$128,381	\$782,544	\$666,884	\$867,266	\$795,265
Capital Grants and Contributions	66,300	0	0	0	66,300	0
General Revenues:						
Maintenance and Operations Taxes	173,244	171,464			173,244	171,464
Sales Taxes	81,122	67,840			81,122	67,840
Franchise Taxes	33,246	32,214			33,246	32,214
Licenses and Permits	12,418	10,080			12,418	10,080
Unrestricted Investment Earnings	0	0			0	0
Grants and Contributions Not Restricted to Specific Programs	0	0			0	0
Miscellaneous	51,218	4,077			51,218	4,077
Total Revenue	502,270	414,056	782,544	666,884	1,284,814	1,080,940
Expenses:						
General Administration	198,365	207,758			198,365	207,758
Public Safety	145,892	172,435			145,892	172,435
Public Facilities	5,091	16,779			5,091	16,779
Public Transportation	46,360	29,786			46,360	29,786
Interest and Fiscal Charges	34,188	2,465			34,188	2,465
Utility			648,343	676,040	648,343	676,040
Total Expenses	429,896	429,223	648,343	676,040	1,078,239	1,105,263
Increase in Net Position Before Transfers and Special Items	72,374	(15,167)	134,201	(9,156)	206,575	(24,323)
Transfers	107,151	80,997	(107,151)	(80,997)	0	0
Increase in Net Position	179,525	65,830	27,050	(90,153)	206,575	(24,323)
Net Position at 09/30/2012	345,248	279,418	164,869	255,022	510,117	534,440
Net Position at 09/30/2013	\$524,773	\$345,248	\$191,919	\$164,869	\$716,692	\$510,117

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary Government			
Government Activities:			
General Administration	\$198,365	\$0	\$0
Public Safety	145,892	84,722	
Public Facilities	5,091		66,300
Public Transportation	46,360		
Interest and Fiscal Charges	34,188		
Total Government Activities	\$429,896	\$84,722	\$66,300

Revenues by Source - Governmental Activities

	<u>REVENUES</u>	<u>%</u>
Charges for Services	\$84,722	17%
Capital Grants and Contributions	66,300	13%
Maintenance and Operations Taxes	173,244	34%
Sales Taxes	81,122	16%
Franchise Taxes	33,246	7%
Licenses and Permits	12,418	2%
Miscellaneous	51,218	10%
	\$502,270	100%

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' Net Position by \$27,050, accounting for 13 percent of the total growth in the government's Net Position. Key elements of this increase are as follows: This increase is mainly attributable to an increase in charges for services of \$115,660 and careful budget management.

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary government			
Business-Type Activities:			
Utility	\$648,343	\$782,544	\$0
Total Business-Type Activities	\$648,343	\$782,544	\$0

Revenues by Source - Business-Type Activities

	REVENUES	%
Charges for Services	\$782,544	100%
	\$782,544	100%

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' *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' financing requirements. In particular, *uncommitted 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' governmental funds reported combined ending fund balances of \$170,155, an increase of \$119,011 in comparison with the prior year. Approximately 42% of this total amount \$72,189 constitutes *uncommitted, 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, unassigned fund balance of the general fund was \$72,189 while total fund balance reached \$170,155. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 6 percent of total general fund expenditures, while total fund balance represents 15 percent of that same amount.

The fund balance of the City of Elmendorf, Texas' general fund increased by \$119,011 during the current fiscal year. Key factor in this increase is as follows: This increase is mainly attributable to a capital grant of \$66,300 and careful budget management.

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

Unrestricted Net Position of the Utility fund at the end of the year amounted to \$94,594. The total increase in Net Position for the Utility fund was \$27,050. Key factors in this overall increase are as follows:

1. This increase is mainly attributable to an increase in charges for services of \$115,660 and careful budget management.

General Fund Budgetary Highlights

During the year there was no change in appropriations between the original and final amended budget for the general fund. The actual expenditures in the non-departmental department were over the budget amount by \$8,740. Overall, the total actual expenditures of \$1,142,104 were under the budgeted amount of \$1,440,958 by \$298,854.

Capital Asset and Debt Administration

Capital assets: The City of Elmendorf, Texas' investment in capital assets for its governmental and business-type activities as of September 30, 2013, amounts to \$1,601,750 (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 increase in the City of Elmendorf, Texas' investment in capital assets for the current fiscal year was 92 percent (a 100 percent increase for governmental activities and a 22 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following: The government had a municipal building project in the 2012-2013 year.

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

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$54,388	\$54,388	\$30	\$30	\$54,418	\$54,418
Construction in Progress	1,327,958	602,570	0	0	1,327,958	602,570
Building and Improvements	14,500	15,080	19,990	20,800	34,490	35,880
Machinery and Equipment	31,253	4,980	83,127	63,699	114,380	68,679
Intangible	0	0			0	0
Infrastructure	70,504	72,763			70,504	72,763
Distribution System			0	0	0	0
Total	\$1,498,603	\$749,781	\$103,147	\$84,529	\$1,601,750	\$834,310

Additional information of the City of Elmendorf, Texas' capital assets can be found in note IV.C on pages 36-37 of this report.

Long-term debt:

At the end of the current fiscal year, the City of Elmendorf, Texas had the following bonded debt.

	<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>						
Bonds Payable	580,000	692,000	14,000	1,258,000	14,000	1,244,000
Grand Total	<u>\$580,000</u>	<u>\$692,000</u>	<u>\$14,000</u>	<u>\$1,258,000</u>	<u>\$14,000</u>	<u>\$1,244,000</u>

State statutes limit the amount of general obligation debt a governmental entity may issue to 25 percent of its total assessed valuation. The current debt limitation for the City of Elmendorf, Texas is \$8,969,380, which is significantly in excess of the City of Elmendorf, Texas' outstanding general obligation debt.

Additional information on the City of Elmendorf, Texas' long-term debt can be found in note IV.F on page 38-39 of this report.

Economic Factors: None

Requests for Information

This financial report is designed to provide a general overview of the City of Elmendorf, Texas' 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 POSITION
SEPTEMBER 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$92,172	\$67,657	\$159,829
Receivables (net of allowance for uncollectibles)	130,009	82,806	212,815
Restricted Assets:			
Cash and Cash Equivalents	97,966		97,966
Capital Assets Not Being Depreciated:			
Land	54,388	30	54,418
Construction in Progress	1,327,958		1,327,958
Total Capital Assets Being Depreciated, Net			
Building and Improvements	14,500	19,990	34,490
Machinery and Equipment	31,253	83,127	114,380
Intangible			0
Infrastructure	70,504		70,504
Total Assets	\$1,818,750	\$253,610	\$2,072,360
LIABILITIES:			
Accounts Payable	\$23,394	\$33,485	\$56,879
Accrued Wages	1,492	1,227	2,719
Accrued Interest	7,076		7,076
Consumer Meter Deposit		5,785	5,785
Noncurrent Liabilities:			
Due Within One Year	18,015	7,671	25,686
Due in More Than One Year	1,244,000	13,523	1,257,523
Total Liabilities	1,293,977	61,691	1,355,668
NET POSITION			
Invested in Capital Assets, Net of Related Debt	240,603	97,325	337,928
Restricted			
Butterfield Ranch PID No. 1	6,858		6,858
Construction	13,389		13,389
Debt Service	75,947		75,947
PEG Fund	1,772		1,772
Unrestricted	186,204	94,594	280,798
Total Net Position	\$524,773	\$191,919	\$716,692

The accompanying notes are an integral part of this statement.

CITY OF ELMENDORF, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2013

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	\$198,365	\$0	\$0	(\$198,365)		(\$198,365)
Public Safety	145,892	84,722		(61,170)		(61,170)
Public Facilities	5,091		66,300	61,209		61,209
Public Transportation	46,360			(46,360)		(46,360)
Interest and Fiscal Charges	34,188			(34,188)		(34,188)
Total Government Activities	429,896	84,722	66,300	(278,874)	0	(278,874)
Business-Type Activities:						
Utility (Water, Garbage, and Sewer)	648,343	782,544			134,201	134,201
Total Business-Type Activities	648,343	782,544	0	0	134,201	134,201
Total Primary Government	\$1,078,239	\$867,266	\$66,300	(278,874)	134,201	(144,673)
General Revenues						
Property Taxes, Levies for General Purposes				173,244		173,244
Sales Taxes				81,122		81,122
Franchise Taxes				33,246		33,246
Licenses and Permits				12,418		12,418
Unrestricted Investment Earnings						0
Miscellaneous				51,218		51,218
Transfers				107,151	(107,151)	0
Total General Revenues and Transfers				458,399	(107,151)	351,248
Change in Net Position				179,525	27,050	206,575
Net Position - Beginning				345,248	164,869	510,117
Net Position - Ending				\$524,773	\$191,919	\$716,692

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

CITY OF ELMENDORF, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	General Fund	Total Governmental Funds
ASSETS		
Cash and Cash Equivalents	\$92,172	\$92,172
Receivables (net of allowance for uncollectibles)	36,381	36,381
Restricted Assets:		
Cash and Cash Equivalents	97,966	97,966
Total Assets	<u>\$226,519</u>	<u>\$226,519</u>
 LIABILITIES AND FUND BALANCES:		
Accounts Payable	\$23,394	\$23,394
Accrued Wages	1,492	1,492
Unearned Revenues	31,478	31,478
Total Liabilities	<u>56,364</u>	<u>56,364</u>
 Fund Balances:		
Restricted		
Butterfield Ranch PID No. 1	6,858	6,858
Construction	13,389	13,389
Debt Service	75,947	75,947
PEG Fund	1,772	1,772
Unassigned	72,189	72,189
Total Fund Balance	<u>170,155</u>	<u>170,155</u>
 Total Liabilities and Fund Balances	 <u>\$226,519</u>	 <u>\$226,519</u>

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 POSITION
 SEPTEMBER 30, 2013

Total Fund Balances - governmental funds balance sheet \$170,155

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

Capital assets used in governmental activities are not reported in the funds.	1,498,603
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles).	31,478
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	93,628
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,269,091)

Net Position of governmental activities - statement of Net Position	\$524,773
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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, 2013

	General Fund	Total Governmental Funds
<i>REVENUES</i>		
Taxes		
Property	\$169,655	\$169,655
Sales	81,122	81,122
Franchise	33,246	33,246
Intergovernmental	66,300	66,300
Licenses and Permits	12,418	12,418
Fines and Forfeitures	92,837	92,837
Miscellaneous	16,302	16,302
Total Revenues	<u>471,880</u>	<u>471,880</u>
<i>EXPENDITURES</i>		
Current:		
General Administration	197,658	197,658
Public Safety	144,760	144,760
Public Facilities	5,091	5,091
Public Transportation	37,118	37,118
Capital Projects -		
Capital Outlay and Other	725,388	725,388
Debt Service		
Principal Retirement	14,000	14,000
Interest Retirement	28,005	28,005
Total Expenditures	<u>1,152,020</u>	<u>1,152,020</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(680,140)</u>	<u>(680,140)</u>
<i>OTHER FINANCING SOURCES (USES):</i>		
Other Financing Sources - Bond Principal	692,000	692,000
Operating Transfers In	107,151	107,151
Total Other Financing Sources (Uses)	<u>799,151</u>	<u>799,151</u>
Net Changes in Fund Balances	119,011	119,011
Fund Balances - Beginning	51,144	51,144
Fund Balances - Ending	<u>\$170,155</u>	<u>\$170,155</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, 2013

Net Changes in Fund Balances - total governmental funds \$119,011

Amounts reported for governmental activities in the statement of Net Position
 ("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.	748,822
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.	(8,115)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	3,589
(Increase) decrease in compensated absences from beginning of period to end of period.	401
(Increase) decrease in Accrued Interest Payable from beginning of period to end of period.	(6,183)
Increase in loan principal are receipts in the funds but not revenue in the SOA.	(692,000)
Repayment of loan principal is an expenditure in the funds but not an expense in the SOA.	14,000
Change in Net Position of governmental activities - statement of activities	<u><u>\$179,525</u></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, 2013

	Budgeted Amounts		Budgetary Basis	Variance with Final Budget -
	Original	Final		Positive (Negative)
REVENUES				
Taxes				
Property	\$172,863	\$172,863	\$169,655	(\$3,208)
Sales	60,000	60,000	81,122	21,122
Franchise	29,420	29,420	33,246	3,826
Intergovernmental	254,000	254,000	66,300	(187,700)
Licenses and Permits	9,600	9,600	12,418	2,818
Fines and Forfeitures	113,613	113,613	92,837	(20,776)
Miscellaneous	4,850	4,850	16,302	11,452
Total Revenues	644,346	644,346	471,880	(172,466)
EXPENDITURES				
Current:				
General Administration				
General Administration	180,699	180,699	117,964	62,735
Insurance	5,100	5,100	6,934	(1,834)
Operations	3,140	3,140	5,148	(2,008)
Miscellaneous	9,265	9,265	9,448	(183)
Non Departmental	49,424	49,424	58,164	(8,740)
Public Safety				
Police	138,720	138,720	137,885	835
Jail				0
Municipal Court	10,100	10,100	6,875	3,225
Public Facilities				
Building	6,400	6,400	5,091	1,309
Public Transportation				
Streets	3,700	3,700	6,342	(2,642)
Public Transportation	26,970	26,970	20,860	6,110
Capital Projects -				
Capital Outlay and Other	946,000	946,000	725,388	220,612
Debt Service				
Principal Retirement	14,000	14,000	14,000	0
Interest and Fiscal Charges	47,440	47,440	28,005	19,435
Total Expenditures	1,440,958	1,440,958	1,142,104	298,854
Excess (Deficiency) of Revenues Over (Under) Expenditures				
	(796,612)	(796,612)	(670,224)	126,388
OTHER FINANCING SOURCES (USES):				
Other Financing Sources - Bond Proceeds	692,000	692,000	692,000	0
Operating Transfers In	74,120	74,120	107,151	33,031
Total Other Financing Sources (Uses)	766,120	766,120	799,151	33,031
Net Changes in Fund Balances - Budgetary Basis	(30,492)	(30,492)	128,927	159,419
Reconciliation from Budgetary Basis to Modified Accrual:				
Zero Turn Mower			(9,916)	
Net Changes in Fund Balances - Modified Accrual Basis			119,011	
Fund Balances - Beginning			51,144	
Fund Balances - Ending			\$170,155	

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

CITY OF ELMENDORF, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2013

BUSINESS TYPE ACTIVITIES
- ENTERPRISE FUNDS

ASSETS

Current Assets

Cash and Cash Equivalents

\$67,657 \$71,551 \$67,657

Accounts Receivables (net of allowance
for uncollectibles)

82,806 72,335 82,806

Total Current Assets

150,463 143,886 150,463

Capital Assets

Land

30 30 30

Construction in Progress

0 0 0

Buildings and Improvements

40,500 40,500 40,500

Machinery and Equipment

219,956 192,000 219,956

Infrastructure

0 0 0

Total Capital Assets

260,486 232,530 260,486

Less Accumulated Depreciation

(157,339) (148,001) (157,339)

Total Capital Assets (net of
accumulated depreciation)

103,147 84,529 103,147

Total Noncurrent Assets

103,147 84,529 103,147

TOTAL ASSETS

\$253,610 \$228,415 \$253,610

(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	\$33,485	\$60,003	\$33,485
Accrued Wages	1,227	547	1,227
Compensated Absences	1,849	1,826	1,849
Capital Lease and Notes Payable - Current	5,822	0	5,822
Total Current Liabilities (Payable from Current Assets)	<u>42,383</u>	<u>62,376</u>	<u>42,383</u>
Current Liabilities (Payable from Restricted Assets)			
Consumer Meter Deposits	5,785	1,170	5,785
Total Current Liabilities Payable from Restricted Assets	<u>5,785</u>	<u>1,170</u>	<u>5,785</u>
Noncurrent Liabilities			
Capital Lease and Notes Payable	13,523	0	13,523
Total Noncurrent Liabilities	<u>13,523</u>	<u>0</u>	<u>13,523</u>
Total Liabilities	<u>61,691</u>	<u>63,546</u>	<u>61,691</u>
Invested in Capital Assets, Net of Related Debt	97,325	84,529	97,325
Unrestricted	94,594	80,340	94,594
Total Net Position	<u>\$191,919</u>	<u>\$164,869</u>	<u>\$191,919</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 POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
OPERATING REVENUES:			
Charges for Services (Water, Sewer, and Garbage)	\$778,192	\$663,235	\$778,192
Miscellaneous	4,352	3,649	4,352
Total Operating Revenues	782,544	666,884	782,544
OPERATING EXPENSES:			
Personal Services	170,696	172,452	170,696
Supplies	10,559	8,519	10,559
Other Services and Charges	456,885	487,482	456,885
Depreciation	9,338	7,587	9,338
Total Operating Expenses	647,478	676,040	647,478
Operating Income (Loss)	135,066	(9,156)	135,066
NON-OPERATING REVENUES (EXPENSES):			
Interest and Fiscal Charges	(865)	0	(865)
Federal Grants and Contributions			0
Total Non-Operating Revenues (Expenses)	(865)	0	(865)
Income Before Transfers	134,201	(9,156)	134,201
Transfers In (Out) - Net	(107,151)	(80,997)	(107,151)
Change in Net Position	27,050	(90,153)	27,050
Total Net Position - Beginning	164,869	255,022	164,869
Total Net Position - Ending	\$191,919	\$164,869	\$191,919

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, 2013

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
Cash Flows from Operating Activities			
Receipts from Customers and Users	\$776,688	\$681,528	\$776,688
Payments to Suppliers	(493,962)	(467,509)	(493,962)
Payments to Employees	(169,993)	(170,079)	(169,993)
Net Cash Provided (Used) By Operating Activities	112,733	43,940	112,733
Cash Flows from Non-Capital and Related Financing Activities			
Transfers In (Out)	(107,151)	(80,997)	(107,151)
Federal Grants and Contributions	0	0	0
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	(107,151)	(80,997)	(107,151)
Cash Flows from Capital and Related Financing Activities			
Interest and Fiscal Charges	(865)	0	(865)
Purchases of Capital Assets	(27,956)	0	(27,956)
Principal Payment on Revenue Bonds, Notes and Capital Leases	19,345	0	19,345
Net Cash Provided (Used) By Capital and Related Financing Activities	(9,476)	0	(9,476)
Net Increase (Decrease) in Cash Equivalents	(3,894)	(37,057)	(3,894)
Cash and Cash Equivalents at Beginning of Year	71,551	108,608	71,551
Cash and Cash Equivalents at End of Year	\$67,657	\$71,551	\$67,657

(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)	\$135,066	(\$9,156)	\$135,066
Adjustments to Reconcile to Net Cash Flow Non-Cash Items Included in Net Income			
Depreciation	9,338	7,587	9,338
Changes in Current Items			
(Increase) Decrease in Accounts Receivable	(10,471)	19,259	(10,471)
Increase (Decrease) in Accounts Payable	(26,518)	28,492	(26,518)
Increase (Decrease) in Accrued Wages	680	547	680
Increase (Decrease) in Compensated Absences	23	1,826	23
Increase (Decrease) in Due to Other Funds	0	0	0
Increase (Decrease) in Consumer Meter Deposits	4,615	(4,615)	4,615
Net Cash Provided (Used) By Operating Activities	<u>\$112,733</u>	<u>\$43,940</u>	<u>\$112,733</u>
Noncash Investing, Capital, and Financing Activities:			
Note Proceeds	<u>\$23,956</u>	<u>\$0</u>	<u>\$23,956</u>

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, 2013

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 City's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities those transactions between governmental and business-type activities have not been eliminated.

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the Government-Wide financial statements. The City has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. (The City’s deferred outflows of resources and deferred inflows of resources are noncurrent.) The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

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.

C. Proprietary fund financial statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The government reports the following major proprietary funds:

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

D. Assets, liabilities, and Net Position 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, 2013, the trade accounts receivable allowance in excess of 60 days is equal to 10 percent of outstanding trade accounts receivable at September 30, 2013, and the trade accounts receivable allowance in excess of 90 days and later is equal to 75 percent of outstanding trade accounts receivable at September 30, 2013. The property tax receivable allowance is equal to 1 percent of current outstanding property taxes at September 30, 2013, and 10 percent of delinquent outstanding property taxes at September 30, 2013.

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, 2013.

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, 2013.

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:

Butterfield Ranch PID No. 1	\$6,858
Construction	13,389
Debt Service	75,947
PEG Fund	1,772

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 government had a municipal building project in the 2012-2013 year.

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 Position. 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 Balances – Governmental Funds

As of September 30, 2013, fund balances of the governmental funds are classified as follows:

Restricted — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Unassigned — all other spendable amounts.

As of September 30, 2013, fund balances are composed of the following:

Fund Balances:	
Restricted	
Butterfield Ranch PID No. 1	\$6,858
Construction	13,389
Debt Service	75,947
PEG Fund	1,772
Unassigned	72,189
Total Fund Balance	<u>\$170,155</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council or the finance committee has provided otherwise in its commitment or assignment actions.

In fiscal year 2011, the City Council adopted a minimum fund balance policy for the General Fund. The policy requires the unassigned fund balance at fiscal year end to be at least equal to 25 to 33 percent of the subsequent year's budgeted General Fund expenditures.

9. Comparative data/reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

10. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

11. Net position flow assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

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 Position

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and Net Position - governmental activities as reported in the government-wide statement of Net Position. 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 \$1,269,091 difference are as follows:

Bonds Payable	\$1,258,000
Accrued Interest	7,076
Compensated Absences	4,015
	<u>\$1,269,091</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and Net Position - governmental activities as reported in the government-wide statement of Net Position. 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 \$31,478 difference are as follows:

Property Taxes Receivable	\$33,628
Allowance for Doubtful Accounts	<u>(2,150)</u>
Net	<u>\$31,478</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 Position 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 \$1,498,603 difference are as follows:

Capital Assets Not Being Depreciated	\$1,382,346
Capital Assets Being Depreciated	337,580
Depreciation Expense	(221,323)
Net Adjustment to Increase Net Changes in Fund Balances - Total Governmental Funds to Arrive at Changes in Net Position of Governmental Activities	<u>\$1,498,603</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and Net Position - governmental activities as reported in the government-wide statement of Net Position. 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 \$93,628 difference are as follows:

Fines and Fees Receivable	\$204,880
Allowance for Doubtful Accounts	(111,252)
Net	<u>\$93,628</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 Position 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 \$748,822 difference are as follows:

Capital Outlay - Additions - Not Being Depreciated	\$725,388
Capital Outlay - Additions - Being Depreciated	34,916
Capital Outlay - Deletions	0
Depreciation Expense	(11,482)
Net Adjustment to Increase Net Changes in Fund Balances - Total Governmental Funds to Arrive at Changes in Net Position of Governmental Activities	<u>\$748,822</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, 2013.

B. Excess of expenditures over appropriations

During the year there was no change in appropriations between the original and final amended budget for the general fund. The actual expenditures in the non-departmental department were over the budget amount by \$8,740. Overall, the total actual expenditures of \$1,142,104 were under the budgeted amount of \$1,440,958 by \$298,854.

C. Deficit fund equity

The City had no deficit fund balances as of September 30, 2013.

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, 2013 is \$264,231 while the total pledged securities are \$127,261 and the FDIC insurance coverage is \$250,000. Thus the city was fully covered by depository insurance and pledged securities at September 30, 2013. The book amount of cash is \$257,795.

As of September 30, 2013, 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	\$33,628		\$33,628
Accounts		111,215	111,215
Fines	204,880		204,880
Other	4,903		4,903
Gross Receivables	243,411	111,215	354,626
Less: Allowance for Uncollectibles	113,402	28,409	141,811
Net Total Receivables	<u>\$130,009</u>	<u>\$82,806</u>	<u>\$212,815</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>\$31,478</u>
Total deferred/unearned revenue for governmental funds	<u>\$31,478</u>

C. Capital assets

Capital asset activity for the year ended September 30, 2013 was as follows:

Primary Government

	Beginning			Ending
	Balances	Increases	Decreases	Balances
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$54,388	\$0	\$0	\$54,388
Construction in Progress	602,570	725,388	0	1,327,958
Total Capital Assets Not Being Depreciated	656,958	725,388	0	1,382,346
Capital Assets Being Depreciated:				
Building and Improvements	29,000	0	0	29,000
Machinery and Equipment	122,447	34,916	0	157,363
Intangible	25,338	0	0	25,338
Infrastructure	125,879	0	0	125,879
Total Capital Assets Being Depreciated	302,664	34,916	0	337,580
Less Accumulated Depreciation for:				
Building and Improvements	13,920	580	0	14,500
Machinery and Equipment	117,467	8,643	0	126,110
Intangible	25,338	0	0	25,338
Infrastructure	53,116	2,259	0	55,375
Total Accumulated Depreciation	209,841	11,482	0	221,323
Total Capital Assets Being Depreciated, Net	92,823	23,434	0	116,257
Governmental Activities Capital Assets, Net	\$749,781	\$748,822	\$0	\$1,498,603

	Beginning			Ending
	Balances	Increases	Decreases	Balances
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$30			\$30
Construction in Progress	0	0	0	0
Total Capital Assets Not Being Depreciated	30	0	0	30
Capital Assets Being Depreciated:				
Building and Improvements	40,500			40,500
Machinery and Equipment	192,000	27,956		219,956
Distribution System	0			0
Total Capital Assets Being Depreciated	232,500	27,956	0	260,456
Less Accumulated Depreciation for:				
Building and Improvements	19,700	810		20,510
Machinery and Equipment	128,301	8,528		136,829
Distribution System	0	0		0
Total Accumulated Depreciation	148,001	9,338	0	157,339
Total Capital Assets Being Depreciated, Net	84,499	18,618	0	103,117
Business-Type Activities Capital Assets, Net	\$84,529	\$18,618	\$0	\$103,147

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

Governmental Activities	
General Administration	\$580
Public Safety	1,660
Public Transportation	9,242
Total Depreciation Expense - Governmental Activities	<u>\$11,482</u>
Business-Type Activities	
Utility	<u>\$9,338</u>
Total Depreciation Expense - Business-Type Activities	<u>\$9,338</u>

Construction commitments

The government had a municipal building project in the 2012-2013 year.

Discretely presented component units

The City had no discretely presented component units as of September 30, 2013.

D. Interfund receivables, payables, and transfers

There are no due to or from at September 30, 2013.

The intrafund and interfund fund transfers for the year ended September 30, 2013 are as follows:

<u>PRIMARY GOVERNMENT</u>		
<u>ACCOUNT</u>	<u>AMOUNT</u>	<u>REASON</u>
<u>GENERAL FUND</u>		
TRANSFER FROM UTILITY FUND	\$107,151	GENERAL OPERATIONS - RECURRING
	<u>\$107,151</u>	

E. Leases

Operating Leases

The government leases equipment under noncancellable operating leases. Total costs for such leases were \$2,200 for the year ended September 30, 2013. The future minimum lease payments for these leases are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2014	\$2,200
2015	<u>1,100</u>
Total	<u>\$3,300</u>

F. Long-term debt

The City sold \$1,272,000 Combination Tax and Limited Pledge Revenue Certificates of Obligations Revenue Bonds in 2013 to USDA Rural Development. The proceeds are to be used for the Elmendorf Municipal Building Project. The projected payout of these bonds will be through the year 2051 at an interest rate of 3.375%.

Purpose	Original Amount	Series	Rate	Current Amount
Governmental activities	\$1,272,000	2013	3.375	\$1,258,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending September 30,	Governmental Activities	
	Principal	Interest
2014	\$14,000	\$42,221
2015	15,000	41,732
2016	16,000	41,209
2017	16,000	40,669
2018	17,000	40,112
2019-2023	96,000	191,295
2024-2028	115,000	173,559
2029-2033	141,000	152,027
2034-2038	174,000	125,550
2039-2043	212,000	93,049
2044-2048	260,000	53,325
2049-2051	182,000	9,383
TOTALS	\$1,258,000	\$1,004,130

Notes Payable

Notes payable, To Schertz Bank and trust, Issued November 2012, Interest Rate: 4.5%, Maturity: October 2016, Amount Issued: \$23,955.75, Amount Outstanding: \$19,344.67.

The security for the Notes is Utility Revenues.

The annual requirements for the above general long-term debt outstanding at September 30, 2013 are as follows:

Year Ending September 30,	Business-Type Activities		Total	
	Principal	Interest	Principal	Interest
2014	5,822	749	\$5,822	\$749
2015	6,089	482	6,089	482
2016	6,369	202	6,369	202
2017	1,065	30	1,065	30
TOTALS	\$19,345	\$1,463	\$19,345	\$1,463

Changes in long-term liabilities are as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>	<u>Due After</u> <u>One Year</u>
<u>Governmental Activities:</u>						
Bonds Payable	580,000	692,000	14,000	1,258,000	14,000	1,244,000
Compensated Absences	4,416	4,015	4,416	4,015	4,015	0
	<u>584,416</u>	<u>696,015</u>	<u>18,416</u>	<u>1,262,015</u>	<u>18,015</u>	<u>1,244,000</u>
<u>Business-Type activities:</u>						
Notes Payable	0	23,956	4,611	19,345	5,822	13,523
Compensated Absences	1,826	1,849	1,826	1,849	1,849	0
	<u>1,826</u>	<u>25,805</u>	<u>6,437</u>	<u>21,194</u>	<u>7,671</u>	<u>13,523</u>
 Grand Total	 <u>\$586,242</u>	 <u>\$721,820</u>	 <u>\$24,853</u>	 <u>\$1,283,209</u>	 <u>\$25,686</u>	 <u>\$1,257,523</u>

Interest expense of \$35,053 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 \$25,686 as "noncurrent liabilities, due within one year".

The current amount of compensated absences at September 30, 2013 is \$5,864.

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. There were no instances where settlements exceeded insurance coverage in any of the three previous years.

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:

	<u>Year ended</u> <u>09/30/13</u>	<u>Year ended</u> <u>09/30/12</u>
Unpaid claims, beginning of fiscal year	\$ -0-	\$ -0-
Incurred claims (including IBNRs)		
Claim payments	-0-	-0-
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.

Moreno v Austin TCEQ Lic#WG0012682 No. 40S1300329 suit for property damages settled in the amount of \$283.64 on January 1, 2014.

D. Subsequent Events

On February 13, 2014 the City voted to de-obligate from the USDA loan/grant combination financing plan for the addition of a city owned and operated water well with treatment plant. [A Letter of Conditions (LOC) was issued by the USDA in 2009 for a loan in the amount of \$900,000 and grant funds in the amount of \$709,000.]

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	2012	2013
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
09-30-11	6,481	100%	-0-
09-30-12	6,513	100%	-0-
09-30-13	2,443	100%	-0-

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest valuation, December 31, 2012, also follows:

VALUATION DATE	12/31/2010	12/31/2011	12/31/2012
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	26.4 years; closed period	25.1 years; closed period	23.5 years; closed period
ASSET VALUATION METHOD	10 year smoothed market	10 year smoothed market	10 year smoothed market
AMORTIZATION PERIOD FOR NEW GAINS/LOSES	15 years	19 years	18 years
ACTUARIAL ASSUMPTIONS:			
INVESTMENT RATE OF RETURN	7.0%	7.0%	7.0%
PROJECTED SALARY INCREASES	Varies by age and service	Varies by age and service	Varies by age and service
INCLUDES INFLATION AT COST-OF-LIVING ADJUSTMENTS	3.00%	3.00%	3.00%
	0.0%	0.0%	0.0%

The funded status as of December 31, 2012, 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)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
2012	\$84,167	\$ 90,281	\$6,114	93.2%	\$326,790	1.9%

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)
2009	\$30,814	\$40,002	\$ 9,188	77.0%	\$197,337	4.7%
2010	45,683	56,385	10,702	81.0%	195,760	5.5%
2011	62,051	68,677	6,626	90.4%	236,886	2.8%
2012	84,167	90,281	6,114	93.2%	326,790	1.9%

Funded Status and funding Progress – In June, 2013, SB was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial study that was adopted by the TMRS Board at their May, 2013 meeting (the review compared actual to expected experience for the four year period of January 1, 2006 through December 31, 2009). for a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please refer to the December 31, 2010 TMRS Comprehensive Annual financial Report (CAFR).

SINGLE AUDIT

CITY OF ELMENDORF, TEXAS
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

SOURCE AND TITLE OF GRANT	FEDERAL CFDA NUMBER	PROGRAM OR AWARD AMOUNT	GRANTOR'S/ PASS-THROUGH GRANTOR'S NUMBER	PROGRAM EXPEND- ITURES
STIMULUS				
<i>U.S. Department of Agriculture</i>				
Direct				
Rural Development				
Rural Utilities Service	10.760	\$250,000		\$66,300
Water and Waste Disposal Systems for Rural Communities - Grant (NM)				<u>66,300</u>
Total U.S. Department of Agriculture				
<i>U.S. Environmental Protection Agency</i>				
Passed Through				
Texas Water Development Board	66.468	1,272,000	SER. 2012	692,000
Water and Waste Disposal Systems for Rural Communities - Loan (M)				<u>692,000</u>
Total U.S. Environmental Protection Agency				
TOTAL STIMULUS				<u>758,300</u>
Total Federal Assistance				<u><u>\$758,300</u></u>

CFDA=CATALOGUE OF FEDERAL DOMESTIC ASSISTANCE NUMBER

M=MAJOR PROGRAM

NM=NONMAJOR PROGRAM

See Accompanying Notes to Schedule of Federal Financial Assistance

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the City Council
City of Elmendorf, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elmendorf, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Elmendorf, Texas' basic financial statements and have issued our report thereon dated June 10, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as described below as finding 2013-1.

2013-1 Segregation of Duties

Condition: 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. 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.

Criteria: Internal controls should be in place that provides reasonable assurance that 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.

Effect: Because the City does not have proper segregation of duties the possibility exists that the financial statements can be materially misstated either through mistake, error, or fraud.

Cause of Condition: This condition exists because it would be impracticable and expensive for the City to have a proper segregation of duties.

Recommendation: We recommend that the City look into the possibility of dividing up the accounting, bookkeeping/cash duties and/or to institute more oversight by management so as to avoid the possibility of financial statements being materially misstated either through mistake, error, or fraud. The following are suggestions as to accomplish division of duties and/or institute more oversight.

Response: The City is not large enough to effectuate segregation of duties; therefore, the City will implement more oversight by the City Council and by City management.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Elmendorf, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance.

City of Elmendorf, Texas' Response to Findings

The City of Elmendorf, Texas' response to the findings identified in our audit is described above. The City of Elmendorf, Texas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



BEYER & CO.
Certified Public Accountants
Pleasanton, Texas
June 10, 2014

BEYER & Co.
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the City Council
City of Elmendorf, Texas

Report on Compliance for Each Major Federal Program

We have audited the City of Elmendorf, Texas' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Elmendorf, Texas' major federal programs for the year ended September 30, 2013. The City of Elmendorf, Texas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Elmendorf, Texas' compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Elmendorf, Texas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

Other Matters

The results of our auditing procedures did not disclose any instances of noncompliance.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did identify one deficiency in internal control over compliance that we consider to be a significant deficiency as noted on page 47 as 2013-1.

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



BEYER & CO.
Certified Public Accountants
Pleasanton, Texas
June 10, 2014

CITY OF ELMENDORF, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

General

The accompanying Schedule of Expenditure of Federal Awards presents the activity of all the City of Elmendorf, Texas's federal grants for the year ended September 30, 2013. This report is intended for the information of the City of Elmendorf, Texas, state and federal awarding agencies, and is not intended to be used and should not be used by anyone other than these specified parties.

Basis of Accounting

The Schedule of Expenditure of Federal Awards is presented using the modified accrual basis of accounting.

Non Cash Grants

The City of Elmendorf received no non-cash grants for the year ended September 30, 2013.

CITY OF ELMENDORF, TEXAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Federal

There were no prior audit findings for Federal Awards.

CITY OF ELMENDORF, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Elmendorf, Texas.
2. There was one significant deficiency disclosed during the audit on page 47 as finding 2013-1. There was no material weaknesses disclosed during the audit.
3. There were no instances of noncompliance material to the financial statements of the City of Elmendorf, Texas, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. There was one significant deficiency over major federal award programs disclosed during the audit on page 51 as finding 2013-1. There was no material weakness over major federal award programs disclosed during the audit.
5. The auditor's report on compliance for the major federal award programs for the City of Elmendorf, Texas expresses an unqualified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs: Water and Waste Disposal Systems for Rural Communities - Loan – CFDA 10.760 and Community Facilities Loans and Grants – Loan CFDA 66.468.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The City of Elmendorf did not qualify as a low-risk auditee.
10. Material Weaknesses
 - a. There was no material weaknesses disclosed during the audit.

Findings relating to the Financial Statements

None

Findings and Questioned Costs for Federal Awards

None

