

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

WAYNE R. BEYER
CERTIFIED PUBLIC ACCOUNTANT

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

111 NORTH ODEN
830/569-8781 FAX 830 569-6776
SINTON, TEXAS 78587

BEYER & Co.
CERTIFIED PUBLIC ACCOUNTANTS

Wayne R. Beyer, C.P.A.

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

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

Honorable Mayor
and City Council
City of Elmendorf
Elmendorf, Texas

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

Administrative:

Finding:

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

Recommendation:

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

Revenue/Receivables:

Finding:

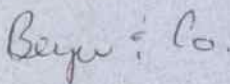
1. We noted that the City has now assigned codes to the Transaction List indicating reasons for adjustments to the utility bills, however, a supervisor is not signing off on the adjustments to indicate approval.

Recommendation:

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

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

Sincerely,



BEYER & CO.
Certified Public Accountants
June 14, 2012

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To the City Council
City of Elmendorf, Texas

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

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

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

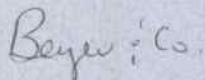
1. Financial Statement Preparation - Recently issued auditing standards have clarified that the components of internal controls are the same for all entities, regardless of their size or other challenges that are present accordingly, auditors are not allowed to give exemptions or special relief to smaller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

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

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

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

Sincerely,

A handwritten signature in cursive script that reads "Beyers & Co.".

BEYER & CO.
Certified Public Accountants
June 14, 2012

CITY OF ELMENDORF, TEXAS

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

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

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FINANCIAL SECTION

BEYER & CO.
CERTIFIED PUBLIC ACCOUNTANTS

Wayne R. Beyer, C.P.A.

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Elmendorf, Texas

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elmendorf, Texas, as of September 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress for the Public Employees Retirement System on pages 3 through 12, and page 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,

Bay & Co.

BEYER & CO.
Certified Public Accountants
June 14, 2012

Management's Discussion and Analysis

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

Financial Highlights

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

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Elmendorf, Texas's basic financial statements. The City of Elmendorf, Texas's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements: The notes provided additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-42 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Elmendorf, Texas, assets exceeded liabilities by \$534,440 at the close of the most recent fiscal year.

A portion of the City of Elmendorf, Texas's net assets (57 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The City of Elmendorf, Texas uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Elmendorf, Texas's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF ELMENDORF, TEXAS
NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and Other Assets	\$83,265	\$67,004	\$200,202	\$254,009	\$283,467	\$321,013
Capital Assets:	220,249	168,593	92,116	101,113	312,365	269,706
Total Assets	303,514	235,597	292,318	355,122	595,832	590,719
Long-Term Liabilities	9,699	20,358	0	2,479	9,699	22,837
Other Liabilities (Payable from Restricted Assets)	0	0	5,785	5,785	5,785	5,785
Other Liabilities	14,397	17,727	31,511	28,075	45,908	45,802
Total Liabilities	24,096	38,085	37,296	36,339	61,392	74,424
Invested in Capital Assets, Net of Related Debt	213,330	148,522	92,116	99,164	305,446	247,686
Unrestricted	66,088	48,990	162,906	219,619	228,994	268,609
Total Net Assets	\$279,418	\$197,512	\$255,022	\$318,783	\$534,440	\$516,295

The remaining balance of *unrestricted net assets* (\$228,994) may be used to meet the government's ongoing obligations to citizens and creditors.

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

The government's total net assets increased by \$18,145. This increase is mainly attributable to an increase in charges for services of \$98,996 and in utility fees of \$58,277.

Governmental activities: Governmental activities increased the City of Elmendorf, Texas's net assets by \$81,906 which accounted for 100 percent of the total growth in the net assets of the City of Elmendorf, Texas. Key elements of this increase are as follows: This increase is attributable to an increase in fines of \$40,719 and an increase in transfers in of \$63,971. Overall the total revenues increased by \$55,162 while the total expenses increased by \$37,113. General administration increased by \$64,272 while both public facilities and public transportation decreased by \$14,659 and \$18,984, respectively.

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

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues:						
Charges for Services	\$43,129	\$2,410	\$698,136	\$639,859	\$741,265	\$642,269
Capital Grants and Contributions	0	0	0	0	0	0
General Revenues:						
Maintenance and Operations Taxes	110,865	107,049			110,865	107,049
Sales Taxes	51,060	44,422			51,060	44,422
Franchise Taxes	31,914	33,402			31,914	33,402
Licenses and Permits	10,233	7,573			10,233	7,573
Unrestricted Investment Earnings	0	0			0	0
Grants and Contributions Not Restricted to Specific Programs	0	0			0	0
Miscellaneous	6,747	3,930			6,747	3,930
Total Revenue	253,948	198,786	698,136	639,859	952,084	838,645
Expenses:						
General Administration	185,961	121,689			185,961	121,689
Public Safety	141,372	134,021			141,372	134,021
Public Facilities	3,489	18,148			3,489	18,148
Public Transportation	34,292	53,276			34,292	53,276
Interest and Fiscal Charges	968	1,835			968	1,835
Utility			567,857	439,519	567,857	439,519
Total Expenses	366,082	328,969	567,857	439,519	933,939	768,488
Increase in Net Assets Before Transfers and Special Items	(112,134)	(130,183)	130,279	200,340	18,145	70,157
Transfers	194,040	130,069	(194,040)	(130,069)	0	0
Increase in Net Assets	81,906	(114)	(63,761)	70,271	18,145	70,157
Net Assets at 09/30/2010	197,512	197,626	318,783	248,512	516,295	446,138
Net Assets at 09/30/2011	\$279,418	\$197,512	\$255,022	\$318,783	\$534,440	\$516,295

Expenses and Program Revenues - Governmental Activities

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary Government			
Government Activities:			
General Administration	\$185,961	\$0	\$0
Public Safety	141,372	43,129	
Public Facilities	3,489		
Public Transportation	34,292		
Interest and Fiscal Charges	968		
Total Government Activities	<u>\$366,082</u>	<u>\$43,129</u>	<u>\$0</u>

Revenues by Source - Governmental Activities

	REVENUES	%
Charges for Services	\$43,129	17%
Maintenance and Operations Taxes	110,865	44%
Sales Taxes	51,060	20%
Franchise Taxes	31,914	13%
Licenses and Permits	10,233	4%
Miscellaneous	6,747	3%
	<u>\$253,948</u>	<u>100%</u>

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

Business-type activities: Business-type activities decreased the City of Elmendorf, Texas's net assets by \$63,761, accounting for 00 percent of the total growth in the government's net assets. Key elements of this decrease are as follows: Increase in charges for services of \$58,277 coupled with an increase in expenses of \$128,338. Transfers to the general fund increased by \$63,971.

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary government			
Business-Type Activities:			
Utility	\$567,857	\$698,136	\$0
Total Business-Type Activities	<u>\$567,857</u>	<u>\$698,136</u>	<u>\$0</u>

Financial Analysis of the Government's Funds

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

Governmental fund: The focus of the City of Elmendorf, Texas's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Elmendorf, Texas's financing requirements. In particular, *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's governmental funds reported combined ending fund balances of a negative \$2,093, a decrease of \$1,758 in comparison with the prior year. Approximately 0% of this total amount \$0 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, uncommitted, undesignated fund balance of the general fund was a negative \$2,093 while total fund balance reached a negative \$2,093. As a measure of the general fund's liquidity, it may be useful to compare both uncommitted fund balance and total fund balance to total fund expenditures. Uncommitted, undesignated fund balance represents 00 percent of total general fund expenditures, while total fund balance represents 00 percent of that same amount.

The fund balance of the City of Elmendorf, Texas's general fund decreased by \$1,758 during the current fiscal year. Key factor in this decrease is as follows: 1) an increase in expenditures of \$45,858 and an increase in revenues of \$13,110. The transfers in from the utility fund increased by \$63,971. The major increase in revenues was in fines which increased by \$5,153. The major increase in expenditures was in the non-departmental which increased by \$53,744. The expenditures in the street department decreased by \$61,785.

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

Unrestricted net assets of the Utility fund at the end of the year amounted to \$162,906. The total decrease in net assets for the Utility fund was \$63,761. Key factors in this overall decrease are as follows:

1. This decrease represents an increase in Charges for Services of \$58,277. The total expenses increased by \$128,338. The transfers to the general fund increased by \$63,971.

General Fund Budgetary Highlights

During the year there was an increase in appropriations between the original and final amended budget for the general fund of \$25,000. This increase occurred in the general administration department in the line item of City Secretary. The actual expenditures in the general administration department were under the budget amount by \$19,187. The building department actual expenditures exceeded the final budgeted amount by \$23,405 and the miscellaneous department actual expenditures exceeded the final budgeted amount by \$11,188. The debt service (\$14,120) was not budgeted. Overall, the total actual expenditures of \$366,639 were under the budgeted amount of \$376,005 by \$9,366.

Capital Asset and Debt Administration

Capital assets: The City of Elmendorf, Texas's investment in capital assets for its governmental and business-type activities as of September 30, 2011, amounts to \$312,365 (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's investment in capital assets for the current fiscal year was 16 percent (a 31 percent increase for governmental activities and a 9 percent decrease for business-type activities).

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

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

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$54,388	\$21,100	\$30	\$30	\$54,418	\$21,130
Construction in Progress	64,364	78,342	0	0	64,364	78,342
Building and Improvements	15,660	16,240	21,610	22,420	37,270	38,660
Machinery and Equipment	8,670	24,859	70,476	78,663	79,146	103,522
Intangible	2,145	4,291			2,145	4,291
Infrastructure	75,022	23,761			75,022	23,761
Distribution System			0	0	0	0
Total	\$220,249	\$168,593	\$92,116	\$101,113	\$312,365	\$269,706

Additional information of the City of Elmendorf, Texas's 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 no bonded debt outstanding.

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

Economic Factors: The City procured a loan and a grant for the new municipal building in the amount of \$1,272,000 in the form of a loan and \$250,000 in the form of a grant.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF ELMENDORF, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and Cash Equivalents	\$11,032	\$108,608	\$119,640
Receivables (net of allowance for uncollectibles)	72,233	91,594	163,827
Capital Assets Not Being Depreciated:			
Land	54,388	30	54,418
Construction in Progress	64,364		64,364
Total Capital Assets Being Depreciated, Net			
Building and Improvements	15,660	21,610	37,270
Machinery and Equipment	8,670	70,476	79,146
Intangible	2,145		2,145
Infrastructure	75,022		75,022
Total Assets	\$303,514	\$292,318	\$595,832
LIABILITIES:			
Accounts Payable	\$13,834	\$31,511	\$45,345
Accrued Wages	563		563
Consumer Meter Deposit		5,785	5,785
Noncurrent Liabilities:			
Due Within One Year	9,699		9,699
Due in More Than One Year			0
Total Liabilities	24,096	37,296	61,392
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	213,330	92,116	305,446
Unrestricted	66,088	162,906	228,994
Total Net Assets	\$279,418	\$255,022	\$534,440

The accompanying notes are an integral part of this statement.

CITY OF ELMENDORF, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2011

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	\$185,961	\$0	\$0	(\$185,961)		(\$185,961)
Public Safety	141,372	43,129		(98,243)		(98,243)
Public Facilities	3,489			(3,489)		(3,489)
Public Transportation	34,292			(34,292)		(34,292)
Interest and Fiscal Charges	968			(968)		(968)
Total Government Activities	366,082	43,129	0	(322,953)	0	(322,953)
Business-Type Activities:						
Utility (Water, Garbage, and Sewer)	567,857	698,136			130,279	130,279
Total Business-Type Activities	567,857	698,136	0	0	130,279	130,279
Total Primary Government	\$933,939	\$741,265	\$0	(322,953)	130,279	(192,674)
General Revenues						
Property Taxes, Levies for General Purposes				110,865		110,865
Sales Taxes				51,060		51,060
Franchise Taxes				31,914		31,914
Licenses and Permits				10,233		10,233
Unrestricted Investment Earnings				0	0	0
Miscellaneous				6,747		6,747
Transfers				194,040	(194,040)	0
Total General Revenues and Transfers				404,859	(194,040)	210,819
Change in Net assets				81,906	(63,761)	18,145
Net Assets - Beginning				197,512	318,783	516,295
Net Assets - Ending				\$279,418	\$255,022	\$534,440

The accompanying notes are an integral part of this statement.

2001	2002
100.00	100.00
100.00	100.00
100.00	100.00

2003	2004
100.00	100.00
100.00	100.00
100.00	100.00

2005	2006
100.00	100.00
100.00	100.00
100.00	100.00

FUND FINANCIAL STATEMENTS

STATE OF CALIFORNIA
DEPARTMENT OF REVENUE
FUND FINANCIAL STATEMENTS

STATE OF CALIFORNIA
DEPARTMENT OF REVENUE
FUND FINANCIAL STATEMENTS

STATE OF CALIFORNIA
DEPARTMENT OF REVENUE
FUND FINANCIAL STATEMENTS

STATE OF CALIFORNIA
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DEPARTMENT OF REVENUE
FUND FINANCIAL STATEMENTS

STATE OF CALIFORNIA
DEPARTMENT OF REVENUE
FUND FINANCIAL STATEMENTS

CITY OF ELMENDORF, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	General Fund	Total Governmental Funds
ASSETS		
Cash and Cash Equivalents	\$11,032	\$11,032
Receivables (net of allowance for uncollectibles)	22,262	22,262
Total Assets	<u>\$33,294</u>	<u>\$33,294</u>
LIABILITIES AND FUND BALANCES:		
Accounts Payable	\$13,834	\$13,834
Accrued Wages	563	563
Unearned Revenues	20,990	20,990
Total Liabilities	<u>35,387</u>	<u>35,387</u>
Fund Balances:		
Unassigned	(2,093)	(2,093)
Total Fund Balance	<u>(2,093)</u>	<u>(2,093)</u>
Total Liabilities and Fund Balances	<u>\$33,294</u>	<u>\$33,294</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 ASSETS
 SEPTEMBER 30, 2011

Total Fund Balances - governmental funds balance sheet	(2,093)
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	220,249
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles).	20,990
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	49,971
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(9,699)
Net assets of governmental activities - statement of net assets	<u>\$279,418</u>

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, 2011

	General Fund	Total Governmental Funds
REVENUES		
Taxes		
Property	\$107,229	\$107,229
Sales	51,060	51,060
Franchise	31,914	31,914
Licenses and Permits	10,233	10,233
Charges for Services	0	0
Fines and Forfeitures	25,416	25,416
Miscellaneous	6,747	6,747
Total Revenues	<u>232,599</u>	<u>232,599</u>
EXPENDITURES		
Current:		
General Administration	218,881	218,881
Public Safety	130,087	130,087
Public Facilities	41,605	41,605
Public Transportation	23,704	23,704
Debt Service		
Principal Retirement	13,153	13,153
Interest Retirement	967	967
Total Expenditures	<u>428,397</u>	<u>428,397</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(195,798)</u>	<u>(195,798)</u>
OTHER FINANCING SOURCES (USES):		
Operating Transfers In	194,040	194,040
Total Other Financing Sources (Uses)	<u>194,040</u>	<u>194,040</u>
Net Changes in Fund Balances	<u>(1,758)</u>	<u>(1,758)</u>
Fund Balances - Beginning	<u>(335)</u>	<u>(335)</u>
Fund Balances - Ending	<u><u>(\$2,093)</u></u>	<u><u>(\$2,093)</u></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, 2011

Net Changes in Fund Balances - total governmental funds (\$1,758)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	51,656
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.	17,713
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	3,636
(Increase) decrease in compensated absences from beginning of period to end of period.	(2,493)
Repayment of loan principal is an expenditure in the funds but not an expense in the SOA.	13,152
Change in net assets of governmental activities - statement of activities	<u>\$81,906</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, 2011

	Budgeted Amounts		Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property	\$109,000	\$109,000	\$107,229	(\$1,771)
Sales	45,000	45,000	51,060	6,060
Franchise	32,700	32,700	31,914	(786)
Licenses and Permits	7,500	7,500	10,233	2,733
Charges for Services	1,500	1,500	0	(1,500)
Fines and Forfeitures	80,600	80,600	25,416	(55,184)
Miscellaneous	4,395	4,395	6,747	2,352
Total Revenues	280,695	280,695	232,599	(48,096)
EXPENDITURES				
Current:				
General Administration				
General Administration	82,263	107,263	88,076	19,187
Insurance	8,700	8,700	4,882	3,818
Operations	9,200	9,200	3,584	5,616
Miscellaneous	11,290	11,290	22,478	(11,188)
Non Departmental	47,280	47,280	52,223	(4,943)
Public Safety				
Police	121,096	121,096	124,642	(3,546)
Jail	1,306	1,306	0	1,306
Municipal Court	3,000	3,000	5,445	(2,445)
Public Facilities				
Building	18,200	18,200	41,605	(23,405)
Public Transportation				
Streets	15,100	15,100	2,120	12,980
Public Transportation	33,570	33,570	21,584	11,986
Total Expenditures	351,005	376,005	366,639	9,366
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	(70,310)	(95,310)	(134,040)	(38,730)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	70,310	95,310	194,040	98,730
Total Other Financing Sources (Uses)	70,310	95,310	194,040	98,730
Net Changes in Fund Balances - Budgetary Basis	0	0	60,000	60,000
Reconciliation from Budgetary Basis to Modified Accrual:				
Land Purchase			(33,788)	
TIRZ/PID Consultant			(13,850)	
Capital Lease - Principal			(13,153)	
Capital Lease - Interest			(967)	
Net Changes in Fund Balances - Modified Accrual Basis			(1,758)	
Fund Balances - Beginning			(335)	
Fund Balances - Ending			(\$2,093)	

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

CITY OF ELMENDORF, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2011

ASSETS

Current Assets

Cash and Cash Equivalents

Accounts Receivables (net of allowance
for uncollectibles)

Total Current Assets

Capital Assets

Land

Construction in Progress

Buildings and Improvements

Machinery and Equipment

Infrastructure

Total Capital Assets

Less Accumulated Depreciation

Total Capital Assets (net of
accumulated depreciation)

Total Noncurrent Assets

TOTAL ASSETS

(continued)

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
\$108,608	\$175,144	\$108,608
91,594	78,865	91,594
200,202	254,009	200,202
30	30	30
0	0	0
40,500	40,500	40,500
192,000	192,000	192,000
0	0	0
232,530	232,530	232,530
(140,414)	(131,417)	(140,414)
92,116	101,113	92,116
92,116	101,113	92,116
\$292,318	\$355,122	\$292,318

(continued)

LIABILITIES, FUND EQUITY
AND OTHER CREDITS

Liabilities

Current Liabilities (Payable from Current Assets)

Accounts Payable

Accrued Wages

Compensated Absences

Capital Lease and Notes Payable - Current

Total Current Liabilities (Payable from Current Assets)

Current Liabilities (Payable from Restricted Assets)

Consumer Meter Deposits

Total Current Liabilities

Payable from Restricted Assets

Noncurrent Liabilities

Capital Lease and Notes Payable

Total Noncurrent Liabilities

Total Liabilities

Invested in Capital Assets, Net of Related Debt

Unrestricted

Total Net Assets

BUSINESS TYPE ACTIVITIES
- ENTERPRISE FUNDS

UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
\$31,511	\$27,077	\$31,511
0	998	0
0	530	0
0	1,949	0
31,511	30,554	31,511
5,785	5,785	5,785
5,785	5,785	5,785
0	0	0
0	0	0
37,296	36,339	37,296
92,116	99,164	92,116
162,906	219,619	162,906
\$255,022	\$318,783	\$255,022

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

CITY OF ELMENDORF, TEXAS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
OPERATING REVENUES:			
Charges for Services (Water, Sewer, and Garbage)	\$696,289	\$636,242	\$696,289
Miscellaneous	1,847	3,617	1,847
Total Operating Revenues	698,136	639,859	698,136
OPERATING EXPENSES:			
Personal Services	107,199	104,625	107,199
Supplies	4,546	7,418	4,546
Other Services and Charges	447,103	308,848	447,103
Depreciation	8,997	18,467	8,997
Total Operating Expenses	567,845	439,358	567,845
Operating Income (Loss)	130,291	200,501	130,291
NON-OPERATING REVENUES (EXPENSES):			
Interest and Fiscal Charges	(12)	(161)	(12)
Federal Grants and Contributions			0
Total Non-Operating Revenues (Expenses)	(12)	(161)	(12)
Income Before Transfers	130,279	200,340	130,279
Transfers In (Out) - Net	(194,040)	(130,069)	(194,040)
Change in Net Assets	(63,761)	70,271	(63,761)
Total Net Assets - Beginning	318,783	248,512	318,783
Total Net Assets - Ending	\$255,022	\$318,783	\$255,022

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, 2011

Cash Flows from Operating Activities
Receipts from Customers and Users
Payments to Suppliers
Payments to Employees
Net Cash Provided (Used) By Operating Activities

Cash Flows from Non-Capital
and Related Financing Activities
Transfers In (Out)
Federal Grants and Contributions
Net Cash Provided (Used) by Non-Capital
and Related Financing Activities

Cash Flows from Capital and Related Financing Activities
Interest and Fiscal Charges
Purchases of Capital Assets
Principal Payment on Revenue Bonds, Notes
and Capital Leases
Net Cash Provided (Used) By Capital
and Related Financing Activities

Net Increase (Decrease) in Cash Equivalents

Cash and Cash Equivalents at Beginning of Year
Cash and Cash Equivalents at End of Year

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
\$685,407	\$616,979	\$685,407
(447,215)	(306,012)	(447,215)
(108,727)	(105,866)	(108,727)
129,465	205,101	129,465
(194,040)	(130,069)	(194,040)
0	0	0
(194,040)	(130,069)	(194,040)
(12)	(161)	(12)
0	20,000	0
(1,949)	(5,722)	(1,949)
(1,961)	14,117	(1,961)
(66,536)	89,149	(66,536)
175,144	85,995	175,144
\$108,608	\$175,144	\$108,608

(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)	\$130,291	\$200,501	\$130,291
Adjustments to Reconcile to Net Cash Flow			
Non-Cash Items Included in Net Income			
Depreciation	8,997	18,467	8,997
Changes in Current Items			
(Increase) Decrease in Accounts Receivable	(12,729)	(22,815)	(12,729)
Increase (Decrease) in Accounts Payable	4,434	10,254	4,434
Increase (Decrease) in Accrued Wages	(998)	(1,589)	(998)
Increase (Decrease) in Compensated Absences	(530)	348	(530)
Increase (Decrease) in Due to Other Funds	0	0	0
Increase (Decrease) in Consumer Meter Deposits	0	(65)	0
Net Cash Provided (Used) By Operating Activities	\$129,465	\$205,101	\$129,465

Noncash Investing, Capital, and Financing Activities:
None

Note: The above funds are all Enterprise Funds.

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

CITY OF ELMENDORF, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

I. Summary of significant accounting policies

A. Reporting entity

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

B. Government-wide and fund financial statements

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

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

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

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

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

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

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

The government reports the following major governmental funds:

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

The government reports the following major proprietary funds:

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

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

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

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

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

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

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

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

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

2. Receivables and payables

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

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. The current trade accounts receivable allowance is equal to 1 percent, the trade accounts receivable allowance in excess of 30 days is equal to 5 percent of outstanding trade accounts receivable at September 30, 2011, the trade accounts receivable allowance in excess of 60 days is equal to 10 percent of outstanding trade accounts receivable at September 30, 2011, the trade accounts receivable allowance in excess of 90 days is equal to 25 percent of outstanding trade accounts receivable at September 30, 2011, and the trade accounts receivable allowance in excess of 120 days is equal to 75 percent of outstanding trade accounts receivable at September 30, 2011. The property tax receivable allowance is equal to 1 percent of current outstanding property taxes at September 30, 2011, and 10 percent of delinquent outstanding property taxes at September 30, 2011.

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, 2011.

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, 2011.

4. Restricted assets

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

The restricted assets consist of the following: None

5. Capital assets

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

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

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

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

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

6. Compensated absences

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

7. Long-term obligations

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

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

8. Fund Balances – Governmental Funds

As of September 30, 2011, fund balances of the governmental funds are classified as follows:

Unassigned — all other spendable amounts.

As of September 30, 2011, fund balances are composed of the following:

Fund Balances:	
Unassigned	(\$2,093)
Total Fund Balance	<u>(\$2,093)</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 percent of the subsequent year's budgeted General Fund expenditures.

II. Reconciliation of government-wide and fund financial statements

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

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$9,699 difference are as follows:

Lease Purchases	\$6,919
Compensated Absences	<u>2,780</u>
	<u>\$9,699</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.)" The details of this \$20,990 difference are as follows:

Property Taxes Receivable	\$22,277
Allowance for Doubtful Accounts	<u>(1,287)</u>
Net	<u>\$20,990</u>

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$220,249 difference are as follows:

Capital Assets Not Being Depreciated	\$118,752
Capital Assets Being Depreciated	307,664
Depreciation Expense	(206,167)
Net Adjustment to Increase Net Changes in Fund Balances - Total Governmental Funds to Arrive at Changes in Net Assets of Governmental Activities	<u>\$220,249</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Municipal fines and fees receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.") The details of this \$49,971 difference are as follows:

Fines and Fees Receivable	\$158,691
Allowance for Doubtful Accounts	(108,720)
Net	<u>\$49,971</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this \$51,656 difference are as follows:

Capital Outlay - Additions - Not Being Depreciated	\$72,829
Capital Outlay - Additions - Being Depreciated	8,300
Capital Outlay - Deletions	0
Depreciation Expense	(29,473)
Net Adjustment to Increase Net Changes in Fund Balances - Total Governmental Funds to Arrive at Changes in Net Assets of Governmental Activities	<u>\$51,656</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, 2011.

B. Excess of expenditures over appropriations

During the year there was an increase in appropriations between the original and final amended budget for the general fund of \$25,000. This increase occurred in the general administration department in the line item of City Secretary. The actual expenditures in the general administration department were under the budget amount by \$19,187. The building department actual expenditures exceeded the final budgeted amount by \$23,405 and the miscellaneous department actual expenditures exceeded the final budgeted amount by \$11,188. The debt service (\$14,120) was not budgeted. Overall, the total actual expenditures of \$366,639 were under the budgeted amount of \$376,005 by \$9,366.

C. Deficit fund equity

The general fund had a deficit fund balance of \$2,093 as of September 30, 2011. This deficit is expected to be liquidated by future resources of this fund.

IV. Detailed notes on all funds

A. Deposits and investments

Legal and Contractual Provisions Governing Deposits and Investments

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

Policies Governing Deposits and Investments

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

Custodial Credit Risk - Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City is not exposed to custodial credit risk because during the year the City was fully covered by either depository insurance and/or was fully collateralized by pledged securities in the City's depository in the City's name. The total amount of cash in the bank at September 30, 2011 is \$129,988 while the total pledged securities are \$90,463 and the FDIC insurance coverage is \$250,000. Thus the city was fully covered by depository insurance and pledged securities at September 30, 2011. The book amount of cash is \$119,640.

As of September 30, 2011, 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:

	General	Utility	Total
<u>Receivables</u>			
Taxes	\$22,277		\$22,277
Accounts		87,821	87,821
Fines	158,691		158,691
Other	1,272	22,065	23,337
Gross Receivables	182,240	109,886	292,126
Less: Allowance for Uncollectibles	110,007	18,292	128,299
Net Total Receivables	<u>\$72,233</u>	<u>\$91,594</u>	<u>\$163,827</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>\$20,990</u>
Total deferred/unearned revenue for governmental funds	<u>\$20,990</u>

C. Capital assets

Capital asset activity for the year ended September 30, 2011 was as follows:

Primary Government

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$21,100	\$33,288	\$0	\$54,388
Construction in Progress	78,342	39,541	53,519	64,364
Total Capital Assets Not Being Depreciated	99,442	72,829	53,519	118,752
Capital Assets Being Depreciated:				
Building and Improvements	29,000	0	0	29,000
Intangible	25,338	8,300	0	33,638
Machinery and Equipment	119,147	0	0	119,147
Infrastructure	72,360	53,519	0	125,879
Total Capital Assets Being Depreciated	245,845	61,819	0	307,664
Less Accumulated Depreciation for:				
Building and Improvements	12,760	580	0	13,340
Machinery and Equipment	94,288	24,489	0	118,777
Intangible	21,047	2,146	0	23,193
Infrastructure	48,599	2,258	0	50,857
Total Accumulated Depreciation	176,694	29,473	0	206,167
Total Capital Assets Being Depreciated, Net	69,151	32,346	0	101,497
Governmental Activities Capital Assets, Net	\$168,593	\$105,175	\$53,519	\$220,249

	Beginning Balances	Increases	Decreases	Ending 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			192,000
Distribution System	0			0
Total Capital Assets Being Depreciated	232,500	0	0	232,500
Less Accumulated Depreciation for:				
Building and Improvements	18,080	810		18,890
Machinery and Equipment	113,337	8,187		121,524
Distribution System	0	0		0
Total Accumulated Depreciation	131,417	8,997	0	140,414
Total Capital Assets Being Depreciated, Net	101,083	(8,997)	0	92,086
Business-Type Activities Capital Assets, Net	\$101,113	(\$8,997)	\$0	\$92,116

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

Governmental Activities	
General Administration	\$580
Public Safety	18,305
Public Transportation	10,588
Total Depreciation Expense - Governmental Activities	<u>\$29,473</u>
Business-Type Activities	
Utility	\$8,997
Total Depreciation Expense - Business-Type Activities	<u>\$8,997</u>

Construction commitments

The government had started a municipal building project as of September 30, 2011.

Discretely presented component units

The City had no discretely presented component units as of September 30, 2011.

D. Interfund receivables, payables, and transfers

There are no due to or from at September 30, 2011.

The intrafund and interfund fund transfers for the year ended September 30, 2011 are as follows:

PRIMARY GOVERNMENT

<u>ACCOUNT</u>	<u>AMOUNT</u>	<u>REASON</u>
<u>GENERAL FUND</u>		
TRANSFER FROM UTILITY FUND	\$194,040	GENERAL OPERATIONS - RECURRING
	<u>\$194,040</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, 2011. The future minimum lease payments for these leases are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2012	\$ 2,200
2013	2,200
2014	2,200
2015	<u>1,100</u>
Total	<u>\$ 7,700</u>

F. Long-term debt

Capital Leases

The government has entered into a capital lease agreement as lessee for financing the acquisition of three Police Vehicles with 60 monthly payments of \$1,176.63 at 6.85%. The general fund is used to service this capital lease. The amount outstanding at September 30, 2011 is \$6,919.

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

	Governmental Activities	
	POLICE	
ASSET	VEHICLES	TOTAL
COST	\$59,624	\$59,624
ACCUMULATED DEPRECIATION	(59,624)	(59,624)
NET ASSET	\$0	\$0

The following for the above debt is a schedule of the future minimum lease payments and the present value of net minimum lease payments at September 30, 2011.

	Governmental Activities	
YEAR	AMOUNT	TOTAL
2012	\$7,060	\$7,060
Total Minimum Lease Payments	7,060	7,060
Less: Amount Representing Interest	141	141
Present Value of Net Minimum Lease Payments	\$6,919	\$6,919

Changes in long-term liabilities are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>	<u>Due After One Year</u>
<u>Governmental Activities:</u>						
Lease Purchases	\$20,071	\$0	\$13,152	\$6,919	\$6,919	\$0
Compensated Absences	287	2,780	287	2,780	2,780	0
	<u>20,358</u>	<u>2,780</u>	<u>13,439</u>	<u>9,699</u>	<u>9,699</u>	<u>0</u>
<u>Business-Type activities:</u>						
Lease Purchases	1,949	0	1,949	0	0	0
Compensated Absences	530	0	530	0	0	0
	<u>2,479</u>	<u>0</u>	<u>2,479</u>	<u>0</u>	<u>0</u>	<u>0</u>
 Grand Total	 <u>\$22,837</u>	 <u>\$2,780</u>	 <u>\$15,918</u>	 <u>\$9,699</u>	 <u>\$9,699</u>	 <u>\$0</u>

Interest expense of \$979 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 \$9,699 as "noncurrent liabilities, due within one year".

The current amount of compensated absences at September 30, 2011 is \$2,780.

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:

	Year ended 09/30/11	Year ended 09/30/10
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.

Lawsuit was filed against the city by Kilowatt Land Partners, LLC on November 11, 2011 for alleged breach of contract involving Butterfield Ranch Public Improvement District. A settlement was entered in April 2012 and the parties are currently working on the terms. If all the terms are met then the case will be dismissed.

D. Subsequent Events

On March 8, 2012, the City Council awarded the bid for the Elmendorf Municipal Building Project to SAL-CON in the amount of \$1,210,610.

On March 27, 2012, the City Council approved an ordinance restating, readopting, and ratifying an ordinance previously adopted on September 16, 2011 authorizing the issuance of the City's combination tax and limited pledge revenue certificates of obligation, Series 2011 in the principal amount of \$1,272,000.00.

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	2010	2011
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
09-30-09	7,178	100%	-0-
09-30-10	6,438	100%	-0-
09-30-11	6,481	100%	-0-

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest valuation, December 31, 2009, also follows:

VALUATION DATE	12/31/2008	12/31/2009	12/31/2010
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	29 years; closed period	27.3 years; closed period	26.4 years; closed period
ASSET VALUATION METHOD	Amortized Cost	10 year smoothed market	10 year smoothed market
AMORTIZATION PERIOD FOR NEW GAINS/LOSES	30 years	30 years	15 years
ACTUARIAL ASSUMPTIONS:			
INVESTMENT RATE OF RETURN	7.5%	7.5%	7.0%
PROJECTED SALARY INCREASES	Varies by age and service	Varies by age and service	Varies by age and service
INCLUDES INFLATION AT	3.00%	3.00%	3.00%
COST-OF-LIVING ADJUSTMENTS	0.0%	0.0%	0.0%

The funded status as of December 31, 2010, the most actuarial valuation date, is as follows:

ANALYSIS OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded Ratio (a/b) (b-a)	Unfunded AAL (UAAL)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
2010	\$45,683	\$56,385	81.0%	\$10,702	\$195,760	5.5%

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)
2008	\$16,417	\$27,414	59.9%	\$10,997	\$194,536	5.7%
2009	30,814	40,002	77.0%	9,188	197,337	4.7%
2010	45,683	56,385	81.0%	10,702	195,760	5.5%

Funded Status and funding Progress – In June, 2011, 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, 2011 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).