

CITY OF ELMENDORF, TEXAS

ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended
SEPTEMBER 30, 2012

CITY OF ELMENDORF, TEXAS
Annual Financial Report
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

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FINANCIAL SECTION

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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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Elmendorf, Texas' 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 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 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 the 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 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, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2013, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require 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 43, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elmendorf, Texas' financial statements as a whole. The accompanying 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,

BEYER & COMPANY
Certified Public Accountants
Pleasanton, Texas
August 6, 2013

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, 2012.

Financial Highlights

- . The assets of the City of Elmendorf, Texas, exceeded its liabilities at the close of the most recent fiscal year by \$510,117 (net assets). Of this amount, \$169,766 or 33% (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- . The government's total net assets decreased by \$24,323. This decrease is mainly attributable to a decrease in utility fees of \$31,252.
- . At the end of the current fiscal year, unassigned fund balance for the general fund was a negative \$34,897, or 00 percent of total general fund expenditures.
- . The City of Elmendorf, Texas' restricted net assets at September 30, 2012 were \$86,041.
- . The City of Elmendorf, Texas' total debt increased by \$576,543 (5944%) during the current fiscal year. The key factor in this increase was the issuance of \$580,000 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 assets* presents information on all of the City of Elmendorf, Texas' 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 \$510,117 at the close of the most recent fiscal year.

A portion of the City of Elmendorf, Texas' net assets (50 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 ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$179,920	\$83,265	\$143,886	\$200,202	\$323,806	\$283,467
Restricted Assets:	86,041				86,041	0
Capital Assets:	749,781	220,249	84,529	92,116	834,310	312,365
Total Assets	1,015,742	303,514	228,415	292,318	1,244,157	595,832
Long-Term Liabilities	584,416	9,699	1,826	0	586,242	9,699
Other Liabilities (Payable from Restricted Assets)	0	0	1,170	5,785	1,170	5,785
Other Liabilities	86,078	14,397	60,550	31,511	146,628	45,908
Total Liabilities	670,494	24,096	63,546	37,296	734,040	61,392
Invested in Capital Assets, Net of Related Debt	169,781	213,330	84,529	92,116	254,310	305,446
Restricted	86,041		0		86,041	0
Unrestricted	89,426	66,088	80,340	162,906	169,766	228,994
Total Net Assets	\$345,248	\$279,418	\$164,869	\$255,022	\$510,117	\$534,440

The remaining balance of *unrestricted net assets* (\$169,766) 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 decreased by \$24,323. This decrease is mainly attributable to a decrease in utility fees of \$31,252.

Governmental activities: Governmental activities increased the City of Elmendorf, Texas' net assets by \$65,830 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 \$85,252 and an increase in ad valorem taxes of \$60,599. Overall the total revenues increased by \$160,108 while the total expenses increased by \$63,141. General administration increased by \$21,797 while both public facilities and public safety increased by \$13,290 and \$31,063, respectively.

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for Services	\$128,381	\$43,129	\$666,884	\$698,136	\$795,265	\$741,265
Capital Grants and Contributions	0	0	0	0	0	0
General Revenues:						
Maintenance and Operations Taxes	171,464	110,865			171,464	110,865
Sales Taxes	67,840	51,060			67,840	51,060
Franchise Taxes	32,214	31,914			32,214	31,914
Licenses and Permits	10,080	10,233			10,080	10,233
Unrestricted Investment Earnings	0	0			0	0
Grants and Contributions Not Restricted to Specific Programs	0	0			0	0
Miscellaneous	4,077	6,747			4,077	6,747
Total Revenue	414,056	253,948	666,884	698,136	1,080,940	952,084
Expenses:						
General Administration	207,758	185,961			207,758	185,961
Public Safety	172,435	141,372			172,435	141,372
Public Facilities	16,779	3,489			16,779	3,489
Public Transportation	29,786	34,292			29,786	34,292
Interest and Fiscal Charges	2,465	968			2,465	968
Utility			676,040	567,857	676,040	567,857
Total Expenses	429,223	366,082	676,040	567,857	1,105,263	933,939
Increase in Net Assets Before Transfers and Special Items	(15,167)	(112,134)	(9,156)	130,279	(24,323)	18,145
Transfers	80,997	194,040	(80,997)	(194,040)	0	0
Increase in Net Assets	65,830	81,906	(90,153)	(63,761)	(24,323)	18,145
Net Assets at 09/30/2011	279,418	197,512	255,022	318,783	534,440	516,295
Net Assets at 09/30/2012	\$345,248	\$279,418	\$164,869	\$255,022	\$510,117	\$534,440

Expenses and Program Revenues - Governmental Activities

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary Government			
Government Activities:			
General Administration	\$207,758	\$0	\$0
Public Safety	172,435	128,381	
Public Facilities	16,779		
Public Transportation	29,786		
Interest and Fiscal Charges	2,465		
Total Government Activities	\$429,223	\$128,381	\$0

Revenues by Source - Governmental Activities

	REVENUES	%
Charges for Services	\$128,381	31%
Maintenance and Operations Taxes	171,464	41%
Sales Taxes	67,840	16%
Franchise Taxes	32,214	8%
Licenses and Permits	10,080	2%
Miscellaneous	4,077	1%
	\$414,056	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 decreased the City of Elmendorf, Texas' net assets by \$90,153, accounting for 00 percent of the total growth in the government's net assets. Key elements of this decrease are as follows: Decrease in charges for services of \$31,252 coupled with an increase in expenses of \$108,183. Transfers to the general fund decreased by \$113,043.

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary government			
Business-Type Activities:			
Utility	\$676,040	\$666,884	
Total Business-Type Activities	\$676,040	\$666,884	\$0

Financial Analysis of the Government's Funds

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

Governmental fund: The focus of the City of Elmendorf, Texas' *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 a negative \$34,897, a decrease of \$53,237 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, unassigned fund balance of the general fund was a negative \$34,897 while total fund balance reached \$51,144. 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 00 percent of total general fund expenditures, while total fund balance represents 12 percent of that same amount.

The fund balance of the City of Elmendorf, Texas' general fund increased by \$53,237 during the current fiscal year. Key factor in this increase is as follows: 1) an increase in expenditures of \$534,748 and an increase in revenues of \$122,786 coupled with proceeds from a bond issuance of \$580,000. The transfers in from the utility fund decreased by \$113,043. The major increase in revenues was in fines and property taxes which increased by \$51,193 and \$57,336, respectively. The major increase in expenditures was in the general administration which increased by \$560,465; mainly the result of the new City Building construction. The expenditures in the police department increased by \$35,047.

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 assets of the Utility fund at the end of the year amounted to \$80,340. The total decrease in net assets for the Utility fund was \$90,153. Key factors in this overall decrease are as follows:

1. This decrease represents a decrease in Charges for Services of \$31,252. The total expenses increased by \$108,183. The transfers to the general fund decreased by \$113,043.

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 miscellaneous department were over the budget amount by \$12,758. Overall, the total actual expenditures of \$416,448 were over the budgeted amount of \$412,764 by \$3,684.

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, 2012, amounts to \$834,310 (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 167 percent (a 240 percent increase for governmental activities and a 8 percent decrease 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 2011-2012 year.

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$54,388	\$54,388	\$30	\$30	\$54,418	\$54,418
Construction in Progress	602,570	64,364	0	0	602,570	64,364
Building and Improvements	15,080	15,660	20,800	21,610	35,880	37,270
Machinery and Equipment	4,980	8,670	63,699	70,476	68,679	79,146
Intangible	0	2,145			0	2,145
Infrastructure	72,763	75,022			72,763	75,022
Distribution System			0	0	0	0
Total	<u>\$749,781</u>	<u>\$220,249</u>	<u>\$84,529</u>	<u>\$92,116</u>	<u>\$834,310</u>	<u>\$312,365</u>

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	0	580,000	0	580,000	0	580,000
Grand Total	<u>\$0</u>	<u>\$580,000</u>	<u>\$0</u>	<u>\$580,000</u>	<u>\$0</u>	<u>\$580,000</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 \$8,742,391, 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 37-38 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 ASSETS
SEPTEMBER 30, 2012

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and Cash Equivalents	\$48,340	\$71,551	\$119,891
Receivables (net of allowance for uncollectibles)	131,580	72,335	203,915
Restricted Assets:			
Cash and Cash Equivalents	86,041		86,041
Capital Assets Not Being Depreciated:			
Land	54,388	30	54,418
Construction In Progress	602,570		602,570
Total Capital Assets Being Depreciated, Net			
Building and Improvements	15,080	20,800	35,880
Machinery and Equipment	4,980	63,699	68,679
Intangible	0		0
Infrastructure	72,763		72,763
Total Assets	\$1,015,742	\$228,415	\$1,244,157
LIABILITIES:			
Accounts Payable	\$84,265	\$60,003	\$144,268
Accrued Wages	920	547	1,467
Accrued Interest	893		893
Consumer Meter Deposit		1,170	1,170
Noncurrent Liabilities:			
Due Within One Year	4,416	1,826	6,242
Due in More Than One Year	580,000		580,000
Total Liabilities	670,494	63,546	734,040
NET ASSETS			
Invested In Capital Assets, Net of Related Debt	169,781	84,529	254,310
Restricted			
Debt Service	49,729		49,729
Construction	35,708		35,708
PEG Fund	604		604
Unrestricted	89,426	80,340	169,766
Total Net Assets	\$345,248	\$164,869	\$510,117

The accompanying notes are an integral part of this statement.

CITY OF ELMENDORF, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2012

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	\$207,758	\$0	\$0	(\$207,758)		(\$207,758)
Public Safety	172,435	128,381		(44,054)		(44,054)
Public Facilities	16,779			(16,779)		(16,779)
Public Transportation	29,786			(29,786)		(29,786)
Interest and Fiscal Charges	2,465			(2,465)		(2,465)
Total Government Activities	429,223	128,381	0	(300,842)	0	(300,842)
Business-Type Activities:						
Utility (Water, Garbage, and Sewer)	676,040	666,884			(9,156)	(9,156)
Total Business-Type Activities	676,040	666,884	0	0	(9,156)	(9,156)
Total Primary Government	\$1,105,263	\$795,265	\$0	(300,842)	(9,156)	(309,998)
General Revenues						
Property Taxes, Levies for General Purposes				171,464		171,464
Sales Taxes				67,840		67,840
Franchise Taxes				32,214		32,214
Licenses and Permits				10,080		10,080
Unrestricted Investment Earnings						0
Miscellaneous				4,077		4,077
Transfers				80,997	(80,997)	0
Total General Revenues and Transfers				366,672	(80,997)	285,675
Change in Net Assets				65,830	(90,153)	(24,323)
Net Assets - Beginning				279,418	255,022	534,440
Net Assets - Ending				\$345,248	\$164,869	\$510,117

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

CITY OF ELMENDORF, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	General Fund	Total Governmental Funds
ASSETS		
Cash and Cash Equivalents	\$48,340	\$48,340
Receivables (net of allowance for uncollectibles)	29,837	29,837
Restricted Assets:		
Cash and Cash Equivalents	86,041	86,041
Total Assets	\$164,218	\$164,218
LIABILITIES AND FUND BALANCES:		
Accounts Payable	\$84,265	\$84,265
Accrued Wages	920	920
Unearned Revenues	27,889	27,889
Total Liabilities	113,074	113,074
Fund Balances:		
Restricted		
Debt Service	49,729	49,729
Construction	35,708	35,708
PEG Fund	604	604
Unassigned	(34,897)	(34,897)
Total Fund Balance	51,144	51,144
Total Liabilities and Fund Balances	\$164,218	\$164,218

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, 2012

Total Fund Balances - governmental funds balance sheet	\$51,144
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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.	749,781
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles).	27,889
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	101,743
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(585,309)

Net assets of governmental activities - statement of net assets	<u>\$345,248</u>
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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, 2012

	General Fund	Total Governmental Funds
REVENUES		
Taxes		
Property	\$164,565	\$164,565
Sales	67,840	67,840
Franchise	32,214	32,214
Licenses and Permits	10,080	10,080
Fines and Forfeitures	76,609	76,609
Miscellaneous	4,077	4,077
Total Revenues	<u>355,385</u>	<u>355,385</u>
EXPENDITURES		
Current:		
General Administration	744,228	744,228
Public Safety	168,149	168,149
Public Facilities	16,779	16,779
Public Transportation	25,498	25,498
Debt Service		
Principal Retirement	6,919	6,919
Interest Retirement	1,572	1,572
Total Expenditures	<u>963,145</u>	<u>963,145</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(607,760)</u>	<u>(607,760)</u>
OTHER FINANCING SOURCES (USES):		
Other Financing Sources - Bond Principal	580,000	580,000
Operating Transfers In	80,997	80,997
Total Other Financing Sources (Uses)	<u>660,997</u>	<u>660,997</u>
Net Changes in Fund Balances	<u>53,237</u>	<u>53,237</u>
Fund Balances - Beginning	<u>(2,093)</u>	<u>(2,093)</u>
Fund Balances - Ending	<u>\$51,144</u>	<u>\$51,144</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, 2012

Net Changes in Fund Balances - total governmental funds \$53,237

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.	529,532
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.	51,772
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	6,899
(Increase) decrease in compensated absences from beginning of period to end of period.	(1,636)
(Increase) decrease in Accrued Interest Payable from beginning of period to end of period.	(893)
Increase in loan principal are receipts in the funds but not revenue in the SOA.	(580,000)
Repayment of loan principal is an expenditure in the funds but not an expense in the SOA.	6,919
Change in net assets of governmental activities - statement of activities	<u><u>\$65,830</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, 2012

	Budgeted Amounts		Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property	\$159,730	\$159,730	\$164,565	\$4,835
Sales	46,400	46,400	67,840	21,440
Franchise	33,860	33,860	32,214	(1,646)
Licenses and Permits	8,000	8,000	10,080	2,080
Fines and Forfeitures	94,880	94,880	76,609	(18,271)
Miscellaneous	6,434	6,434	4,077	(2,357)
Total Revenues	349,304	349,304	355,385	6,081
EXPENDITURES				
Current:				
General Administration				
General Administration	115,026	115,026	110,335	4,691
Insurance	6,500	6,500	5,836	664
Operations	4,550	4,550	2,755	1,795
Miscellaneous	5,920	5,920	18,678	(12,758)
Non Departmental	71,865	71,865	68,418	3,447
Public Safety				
Police	163,648	163,648	159,889	3,959
Jail	1,100	1,100	0	1,100
Municipal Court	3,800	3,800	8,460	(4,660)
Public Facilities				
Building	13,655	13,655	16,779	(3,124)
Public Transportation				
Streets	4,450	4,450	2,245	2,205
Public Transportation	22,250	22,250	23,253	(1,003)
Total Expenditures	412,764	412,764	416,448	(3,684)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(63,460)	(63,460)	(61,063)	2,397
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	73,898	73,898	80,997	7,099
Total Other Financing Sources (Uses)	73,898	73,898	80,997	7,099
Net Changes in Fund Balances - Budgetary Basis	10,438	10,438	19,934	9,496
Reconciliation from Budgetary Basis to Modified Accrual:				
Other Financing Sources - Bond Principal			580,000	
City Hall Construction			(538,206)	
Capital Lease - Principal			(6,919)	
Capital Lease - Interest			(1,572)	
Net Changes in Fund Balances - Modified Accrual Basis			53,237	
Fund Balances - Beginning			(2,093)	
Fund Balances - Ending			\$51,144	

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, 2012

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
\$71,551	\$108,608	\$71,551
72,335	91,594	72,335
143,886	200,202	143,886
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
(148,001)	(140,414)	(148,001)
84,529	92,116	84,529
84,529	92,116	84,529
\$228,415	\$292,318	\$228,415

(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	\$60,003	\$31,511	\$60,003
Accrued Wages	547	0	547
Compensated Absences	1,826	0	1,826
Capital Lease and Notes Payable - Current	0	0	0
Total Current Liabilities (Payable from Current Assets)	62,376	31,511	62,376
Current Liabilities (Payable from Restricted Assets)			
Consumer Meter Deposits	1,170	5,785	1,170
Total Current Liabilities	1,170	5,785	1,170
Payable from Restricted Assets			
Noncurrent Liabilities			
Capital Lease and Notes Payable	0	0	0
Total Noncurrent Liabilities	0	0	0
Total Liabilities	63,546	37,296	63,546
Invested in Capital Assets, Net of Related Debt	84,529	92,116	84,529
Unrestricted	80,340	162,906	80,340
Total Net Assets	\$164,869	\$255,022	\$164,869

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, 2012

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
OPERATING REVENUES:			
Charges for Services (Water, Sewer, and Garbage)	\$663,235	\$696,289	\$663,235
Miscellaneous	3,649	1,847	3,649
Total Operating Revenues	666,884	698,136	666,884
OPERATING EXPENSES:			
Personal Services	172,452	107,199	172,452
Supplies	8,519	4,546	8,519
Other Services and Charges	487,482	447,103	487,482
Depreciation	7,587	8,997	7,587
Total Operating Expenses	676,040	567,845	676,040
Operating Income (Loss)	(9,156)	130,291	(9,156)
NON-OPERATING REVENUES (EXPENSES):			
Interest and Fiscal Charges	0	(12)	0
Federal Grants and Contributions			0
Total Non-Operating Revenues (Expenses)	0	(12)	0
Income Before Transfers	(9,156)	130,279	(9,156)
Transfers In (Out) - Net	(80,997)	(194,040)	(80,997)
Change in Net Assets	(90,153)	(63,761)	(90,153)
Total Net Assets - Beginning	255,022	318,783	255,022
Total Net Assets - Ending	\$164,869	\$255,022	\$164,869

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, 2012

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
Cash Flows from Operating Activities			
Receipts from Customers and Users	\$681,528	\$685,407	\$681,528
Payments to Suppliers	(467,509)	(447,215)	(467,509)
Payments to Employees	(170,079)	(108,727)	(170,079)
Net Cash Provided (Used) By Operating Activities	43,940	129,465	43,940
Cash Flows from Non-Capital and Related Financing Activities			
Transfers In (Out)	(80,997)	(194,040)	(80,997)
Federal Grants and Contributions	0	0	0
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	(80,997)	(194,040)	(80,997)
Cash Flows from Capital and Related Financing Activities			
Interest and Fiscal Charges	0	(12)	0
Purchases of Capital Assets	0	0	0
Principal Payment on Revenue Bonds, Notes and Capital Leases	0	(1,949)	0
Net Cash Provided (Used) By Capital and Related Financing Activities	0	(1,961)	0
Net Increase (Decrease) in Cash Equivalents	(37,057)	(66,536)	(37,057)
Cash and Cash Equivalents at Beginning of Year	108,608	175,144	108,608
Cash and Cash Equivalents at End of Year	\$71,551	\$108,608	\$71,551

(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)	(\$9,156)	\$130,291	(\$9,156)
Adjustments to Reconcile to Net Cash Flow			
Non-Cash Items Included in Net Income			
Depreciation	7,587	8,997	7,587
Changes in Current Items			
(Increase) Decrease in Accounts Receivable	19,259	(12,729)	19,259
Increase (Decrease) in Accounts Payable	28,492	4,434	28,492
Increase (Decrease) in Accrued Wages	547	(998)	547
Increase (Decrease) in Compensated Absences	1,826	(530)	1,826
Increase (Decrease) in Due to Other Funds	0	0	0
Increase (Decrease) in Consumer Meter Deposits	(4,615)	0	(4,615)
Net Cash Provided (Used) By Operating Activities	<u>\$43,940</u>	<u>\$129,465</u>	<u>\$43,940</u>
Noncash Investing, Capital, and Financing Activities:			
None			

Note: The above funds are all Enterprise Funds.

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

**CITY OF ELMENDORF, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

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, 2012, the trade accounts receivable allowance in excess of 60 days is equal to 10 percent of outstanding trade accounts receivable at September 30, 2012, the trade accounts receivable allowance in excess of 90 days is equal to 25 percent of outstanding trade accounts receivable at September 30, 2012, and the trade accounts receivable allowance in excess of 120 days is equal to 75 percent of outstanding trade accounts receivable at September 30, 2012. The property tax receivable allowance is equal to 1 percent of current outstanding property taxes at September 30, 2012, and 10 percent of delinquent outstanding property taxes at September 30, 2012.

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, 2012.

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, 2012.

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 government had a municipal building project in the 2011-2012 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 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, 2012, 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, 2012, fund balances are composed of the following:

Fund Balances:

Restricted	
Debt Service	\$49,729
Construction	35,708
PEG Fund	604
Unassigned	<u>(34,897)</u>
Total Fund Balance	<u>\$51,144</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 \$585,309 difference are as follows:

Bonds Payable	\$580,000
Accrued Interest	893
Compensated Absences	4,416
	<u>\$585,309</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 \$27,889 difference are as follows:

Property Taxes Receivable	\$29,475
Allowance for Doubtful Accounts	<u>(1,586)</u>
Net	<u>\$27,889</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 \$749,781 difference are as follows:

Capital Assets Not Being Depreciated	\$656,958
Capital Assets Being Depreciated	302,664
Depreciation Expense	(209,841)
Net Adjustment to Increase Net Changes in Fund Balances - Total Governmental Funds to Arrive at Changes in Net Assets of Governmental Activities	<u>\$749,781</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 \$101,743 difference are as follows:

Fines and Fees Receivable	\$214,595
Allowance for Doubtful Accounts	<u>(112,852)</u>
Net	<u>\$101,743</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 \$529,532 difference are as follows:

Capital Outlay - Additions - Not Being Depreciated	\$538,206
Capital Outlay - Additions - Being Depreciated	0
Capital Outlay - Deletions	0
Depreciation Expense	<u>(8,674)</u>
Net Adjustment to Increase Net Changes in Fund Balances - Total Governmental Funds to Arrive at Changes in Net Assets of Governmental Activities	<u>\$529,532</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, 2012.

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 miscellaneous department were over the budget amount by \$12,758. Overall, the total actual expenditures of \$416,448 were over the budgeted amount of \$412,764 by \$3,684.

C. Deficit fund equity

The City had no deficit fund balances as of September 30, 2012.

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 not in compliance with the requirements of the Act because the City has no depository contract.

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, 2012 is \$219,337 while the total pledged securities are \$73,844 and the FDIC insurance coverage is \$250,000. Thus the city was fully covered by depository insurance and pledged securities at September 30, 2012. The book amount of cash is \$205,932.

As of September 30, 2012, 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	\$29,475		\$29,475
Accounts		87,914	87,914
Fines	214,595		214,595
Other	<u>1,948</u>	<u>6,481</u>	<u>8,429</u>
Gross Receivables	246,018	94,395	340,413
Less: Allowance for Uncollectibles	<u>114,438</u>	<u>22,060</u>	<u>136,498</u>
Net Total Receivables	<u>\$131,580</u>	<u>\$72,335</u>	<u>\$203,915</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>\$27,889</u>
Total deferred/unearned revenue for governmental funds	<u>\$27,889</u>

C. Capital assets

Capital asset activity for the year ended September 30, 2012 was as follows:

Primary Government

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$54,388	\$0	\$0	\$54,388
Construction in Progress	64,364	538,206	0	602,570
Total Capital Assets Not Being Depreciated	118,752	538,206	0	656,958
Capital Assets Being Depreciated:				
Building and Improvements	29,000	0	0	29,000
Machinery and Equipment	127,447	0	5,000	122,447
Intangible	25,338	0	0	25,338
Infrastructure	125,879	0	0	125,879
Total Capital Assets Being Depreciated	307,664	0	5,000	302,664
Less Accumulated Depreciation for:				
Building and Improvements	13,340	580	0	13,920
Machinery and Equipment	118,777	3,690	5,000	117,467
Intangible	23,193	2,145	0	25,338
Infrastructure	50,857	2,259	0	53,116
Total Accumulated Depreciation	206,167	8,674	5,000	209,841
Total Capital Assets Being Depreciated, Net	101,497	(8,674)	0	92,823
Governmental Activities Capital Assets, Net	\$220,249	\$529,532	\$0	\$749,781

	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	18,890	810		19,700
Machinery and Equipment	121,524	6,777		128,301
Distribution System	0	0		0
Total Accumulated Depreciation	140,414	7,587	0	148,001
Total Capital Assets Being Depreciated, Net	92,086	(7,587)	0	84,499
Business-Type Activities Capital Assets, Net	\$92,116	(\$7,587)	\$0	\$84,529

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

Governmental Activities	
General Administration	\$580
Public Safety	3,806
Public Transportation	<u>4,288</u>
Total Depreciation Expense - Governmental Activities	<u>\$8,674</u>
Business-Type Activities	
Utility	<u>\$7,587</u>
Total Depreciation Expense - Business-Type Activities	<u>\$7,587</u>

Construction commitments

The government had a municipal building project in the 2011-2012 year.

Discretely presented component units

The City had no discretely presented component units as of September 30, 2012.

D. Interfund receivables, payables, and transfers

There are no due to or from at September 30, 2012.

The intrafund and interfund fund transfers for the year ended September 30, 2012 are as follows:

PRIMARY GOVERNMENT

<u>ACCOUNT</u>	<u>AMOUNT</u>	<u>REASON</u>
<u>GENERAL FUND</u>		
TRANSFER FROM UTILITY FUND	\$80,997	GENERAL OPERATIONS - RECURRING
	<u>\$80,997</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, 2012. The future minimum lease payments for these leases are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2013	\$ 2,200
2014	2,200
2015	<u>1,100</u>
Total	<u>\$ 5,500</u>

F. Long-term debt

The City sold \$1,272,000 Combination Tax and Limited Pledge Revenue Certificates of Obligations Revenue Bonds in 2012 to USDA Rural Development. The proceeds are to be used for the Elmendorf Municipal Building Project. The City has received only a draw of \$580,000 of these proceeds as of September 30, 2012. The payment amounts will be included in an amortization schedule once all the proceeds have been received. 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	\$ 580,000	2012	3.375	\$ 580,000

Changes in long-term liabilities are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due After One Year
<u>Governmental Activities:</u>						
Lease Purchases	\$6,919	\$0	\$6,919	\$0	\$0	\$0
Bonds Payable	0	580,000	0	580,000	0	580,000
Compensated Absences	2,780	4,416	2,780	4,416	4,416	0
	<u>9,699</u>	<u>584,416</u>	<u>9,699</u>	<u>584,416</u>	<u>4,416</u>	<u>580,000</u>
<u>Business-Type activities:</u>						
Compensated Absences	0	1,826	0	1,826	1,826	0
	<u>0</u>	<u>1,826</u>	<u>0</u>	<u>1,826</u>	<u>1,826</u>	<u>0</u>
Grand Total	<u>\$9,699</u>	<u>\$586,242</u>	<u>\$9,699</u>	<u>\$586,242</u>	<u>\$6,242</u>	<u>\$580,000</u>

Interest expense of \$2,465 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 \$6,242 as "noncurrent liabilities, due within one year".

The current amount of compensated absences at September 30, 2012 is \$6,242.

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

B. Related party transaction

There were no related party transactions during the year.

C. Contingent liabilities

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

The City was not a defendant in any lawsuit at September 30, 2012.

There was a theft within the City during the 2011-2012 year. The amount is approximately \$15,438.88. The City has not recovered any of this amount as of the audit report date and it remains unclear whether the City will collect any or all of the amount stolen.

D. Subsequent Events

There are no subsequent events required to be disclosed.

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	2011	2012
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
09-30-10	6,438	100%	-0-
09-30-11	6,481	100%	-0-
09-30-12	6,513	100%	-0-

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest valuation, December 31, 2011, also follows:

VALUATION DATE	12/31/2009	12/31/2010	12/31/2011
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	27.3 years; closed period	26.4 years; closed period	25.1 years; closed period
ASSET VALUATION METHOD	10 year smoothed market	10 year smoothed market	10 year smoothed market
AMORTIZATION PERIOD FOR NEW GAINS/LOSES	30 years	15 years	19 years
ACTUARIAL ASSUMPTIONS:			
INVESTMENT RATE OF RETURN	7.5%	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	3.00%	3.00%	3.00%
COST-OF-LIVING ADJUSTMENTS	0.0%	0.0%	0.0%

The funded status as of December 31, 2011, 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)	Unfunded AAL (UAAL) (b-a)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
2011	\$62,051	\$68,677		90.4%	2.8%	\$6,626 \$236,88

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%

Funded Status and funding Progress – In June, 2012, 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, 2012 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, 2012

SOURCE AND TITLE OF GRANT	FEDERAL	PROGRAM	GRANTOR'S/	PROGRAM
	CFDA	OR AWARD	PASS-THROUGH	EXPEND-
	NUMBER	AMOUNT	GRANTOR'S	ITURES
			NUMBER	
<u>STIMULUS</u>				
<i>U.S. Department of Agriculture</i>				
Direct				
Rural Development				
Rural Utilities Service	10.760	\$250,000		\$0
Water and Waste Disposal Systems for Rural Communities - Grant (NM)				0
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	580,000
Water and Waste Disposal Systems for Rural Communities - Loan (M)				580,000
Total U.S. Environmental Protection Agency				
TOTAL STIMULUS				580,000
Total Federal Assistance				\$0

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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**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 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, 2012, which collectively comprise the City of Elmendorf, Texas' basic financial statements and have issued our report thereon dated August 6, 2013. 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.

Internal Control over Financial Reporting

Management of the City of Elmendorf, Texas, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Elmendorf, Texas' internal control over financial reporting 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' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Elmendorf, Texas' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described below to be material weaknesses.

2012-1 Financial Statement Preparation

Criteria: Internal controls should be in place that provides reasonable assurance that the City has an individual on staff that is familiar with GAAP and who can apply Generally Accepted Accounting Principles to the City's financial statements.

Effect: Because the City does not have an individual on staff that is familiar with GAAP, the City's governing body cannot adequately evaluate the City's financial position and results of operations on an ongoing basis.

Cause of Condition: This condition exists because it would be impracticable and expensive for the City to have someone on staff who is familiar with Generally Accepted Accounting Principles because that individual would have to be a Certified Public Accountant as a minimum.

Recommendation: We recommend that the City look into the possibility of obtaining someone who is familiar with Generally Accepted Accounting Principles.

Response: The City is not large enough to have a person on staff that is well versed in the GASB statements.

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. We consider the deficiencies described below.

2012-2 Segregation of Duties/ Review and Initialing

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 of 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to the management of the City of Elmendorf, Texas in a separate letter dated August 6, 2013.

This report is intended solely for the information and use of management, City Council, others within the entity, and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

BEYER & COMPANY
Certified Public Accountants
Pleasanton, Texas
August 6, 2013

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

To the City Council
City of Elmendorf, Texas

Compliance

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, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Elmendorf, Texas' management. Our responsibility is to express an opinion on the City of Elmendorf, Texas' compliance based on our audit.

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. Our audit does not provide a legal determination of the City of Elmendorf, Texas' compliance with those requirements.

In our opinion, the City of Elmendorf, Texas, complied, in all material respects, with the 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, 2012.

Internal Control over Compliance

Management of the City of Elmendorf, Texas, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Elmendorf, Texas' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

BEYER & COMPANY
Certified Public Accountants
Pleasanton, Texas
August 6, 2013

**CITY OF ELMENDORF, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

General

The accompanying Schedule of Expenditure of Federal Awards presents the activity of all the City of Elmendorf, Texas' federal grants for the year ended September 30, 2012. 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, 2012.

**CITY OF ELMENDORF, TEXAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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, 2012**

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 46 as finding 2012-2. There was one material weakness disclosed during the audit on page 46 as finding 2012-1.
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 were no significant deficiencies over major federal award programs disclosed during the audit. 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 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 one material weakness disclosed during the audit on page 46 as finding 2012-1.

Findings relating to the Financial Statements

None

Findings and Questioned Costs for Federal Awards

None