

CITY OF ELKHART, TEXAS

**BASIC FINANCIAL STATEMENTS AND REQUIRED
SUPPLEMENTARY AND OTHER INFORMATION**

FISCAL YEAR ENDED SEPTEMBER 30, 2018

Gollob Morgan Peddy PC
CERTIFIED PUBLIC ACCOUNTANTS

1001 ESE Loop 323, Suite 300, Tyler, TX 75701
Tel 903-534-0088 Fax 903-581-3915 www.gmpcpa.com
Members American Institute of Certified Public Accountants and Private Companies Practice Section

**CITY OF ELKHART, TEXAS
TABLE OF CONTENTS
SEPTEMBER 30, 2018**

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE(S)</u>
FINANCIAL SECTION		
Independent Auditors' Report		1-2
Management's Discussion and Analysis		3-8
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Position	1	9
Statement of Activities	2	10
Fund Financial Statements:		
Balance Sheet – Governmental Funds	3	11-12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	4	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities	5	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	6	15
Statement of Net Assets – Proprietary Fund	7	16
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund	8	17
Statement of Cash Flows – Proprietary Fund	9	18
Notes to the Financial Statements		19-39
Required Supplementary Information:		
Schedule of Changes in Net Pension Liability and Related Ratios	1	40
Schedule of Contributions	2	41
Compliance and Internal Controls Section:		
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit Of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>		42-43



INDEPENDENT AUDITORS' REPORT

To the City Council
City of Elkhart, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elkhart, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Elkhart, Texas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elkhart, Texas, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 3-8 and schedules of pension liabilities and contributions on pages 40-41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elkhart, Texas' basic financial statements. The additional supplemental information is present for purposes of additional analysis and is not a required part of the basic financial statements.

The additional supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The additional supplemental information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2019 on our consideration of the City of Elkhart, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Elkhart, Texas' internal control over financial reporting and compliance.



Certified Public Accountants

Tyler, Texas
May 29, 2019

**CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED SEPTEMBER 30, 2018**

As management of City of Elkhart, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2018. We encourage readers to consider information presented here as well as the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The overall assets of the City decreased by \$322,032 during the fiscal year. Of this amount, cash and other current assets decreased by \$197,024.
- The City's total long-term debt obligations decreased by \$385,217 during the current fiscal year. Total debt outstanding at year end was \$36,501; \$15,911 in net pension liability, \$19,100 in accrued compensated absences, and \$1,490 in capital lease obligations.
- The City's overall assets exceeded its total liabilities by \$3,412,818 (*net position*) at September 30, 2018. Of this amount, \$593,055 (*unrestricted net position*) may be used to meet the on-going obligations to citizens and creditors.
- Overall, revenues decreased by \$66,740 from the prior year.
- Overall revenues exceeded expenses (or an increase in net position) by \$3,857. Net position increased by \$42,172 in the governmental funds and decreased by \$38,315 in the proprietary fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The financial statements are prepared using Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*.

The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

The *government-wide financial statements*, which begin on page 9 of this report, are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position and the Statement of Activities divide the City into two classes of activities:

1. Governmental Activities – Most of the City's basic services are reported here, including general government (general administrative services) and public works (streets). Interest payments on the City's debts are also reported here. Sales tax, property tax, franchise tax, and charges for services finance most of these activities.
2. Business-Type Activities – Services involving a fee for those services are reported here. These services include the City's water and sewer services, as well as solid waste collection.

**CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018**

The government-wide financial statements can be found after the MD&A.

The fund financial statements are presented using fund designations. 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. All of the funds of the City can be divided into two categories: *governmental* funds and *proprietary* funds.

Governmental funds. These 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 the City's near-term financing requirements.

Because the focus of governmental funds are 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 City'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 maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service fund. While the debt service fund did not technically meet the criteria to be presented as a major fund, management elected to present it as major due to its significance. The basic governmental fund financial statements can be found on pages 11-14 of this report.

Proprietary fund. The City maintains one type of proprietary fund, an enterprise fund. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its water distribution, wastewater collection/treatment, and solid waste operations. The proprietary fund financial statements provide more detailed information for the utility fund. The basic proprietary fund financial statements can be found on pages 16-18 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 19-39 of this report.

The City adopts an annual appropriated budget for its general and utility funds. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets exceed its liabilities by \$3,412,818 as of September 30, 2018. This compares with \$3,408,961 from the prior fiscal year. The largest portion of the City's net position, 81%, reflects its investments in capital assets (e.g., land, building, equipment, improvements, infrastructure, and construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

City of Elkhart's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 462,786	\$ 675,704	\$ 300,035	\$ 257,561	\$ 762,821	\$ 933,265
Restricted assets	40,629	67,389	-	-	40,629	67,389
Capital assets	688,556	737,363	2,152,848	2,228,869	2,841,404	2,966,232
Total Assets	<u>1,191,971</u>	<u>1,480,456</u>	<u>2,452,883</u>	<u>2,486,430</u>	<u>3,644,854</u>	<u>3,966,886</u>
Deferred outflows of resources	7,337	2,522	27,044	10,269	34,381	12,791
Current liabilities	21,098	125,704	136,774	130,767	157,872	256,471
Non-current liabilities	9,806	242,911	24,203	60,780	34,009	303,691
Total Liabilities	<u>30,904</u>	<u>368,615</u>	<u>160,977</u>	<u>191,547</u>	<u>191,881</u>	<u>560,162</u>
Deferred inflows of resources	14,624	2,755	59,912	7,799	74,536	10,554
Net Position:						
Invested in capital assets	687,066	386,325	2,092,068	2,168,089	2,779,134	2,554,414
Restricted	40,629	66,402	-	-	40,629	66,402
Unrestricted	426,085	658,881	166,970	129,264	593,055	788,145
Total Net Position	<u>\$ 1,153,780</u>	<u>\$ 1,111,608</u>	<u>\$ 2,259,038</u>	<u>\$ 2,297,353</u>	<u>\$ 3,412,818</u>	<u>\$ 3,408,961</u>

A portion of the City's net position, \$40,629, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$593,055, may be used to meet the City's ongoing obligation to citizens and creditors.

The City's total net position increased by \$3,857 during the current fiscal year, as compared to an overall increase of \$91,296 in the prior year.

CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

City of Elkhart's Statement of Activities

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Charges for services	\$ -	\$ -	\$ 815,833	\$ 791,079	\$ 815,833	\$ 791,079
Property taxes	103,087	104,608	-	-	103,087	104,608
Sales tax	138,215	159,964	-	-	138,215	159,964
Franchise fees	80,427	103,121	-	-	80,427	103,121
Interest income	-	59	293	13	293	72
Grants and contributions	-	-	-	36,810	-	36,810
Gain (loss) on sale of assets	30,589	-	-	-	30,589	-
Other miscellaneous	3,387	23,662	2,866	22,121	6,253	45,783
Total Revenues	355,705	391,414	818,992	850,023	1,174,697	1,241,437
Expenses:						
General government	196,830	153,916	-	-	196,830	153,916
Public works	80,090	94,129	-	-	80,090	94,129
Fire protection	1,587	12,613	-	-	1,587	12,613
Municipal court	-	1,100	-	-	-	1,100
Water, sewer, and sanitation	-	-	666,114	657,437	666,114	657,437
Depreciation	-	-	221,680	220,810	221,680	220,810
Interest on long-term debt	4,539	10,053	-	83	4,539	10,136
Total Expenses	283,046	271,811	887,794	878,330	1,170,840	1,150,141
Transfers In (Out)	(30,487)	133,720	30,487	(133,720)	-	-
Total Transfers	(30,487)	133,720	30,487	(133,720)	-	-
Change in net position	42,172	253,323	(38,315)	(162,027)	3,857	91,296
Net position at beginning of year	1,111,608	858,285	2,297,353	2,459,380	3,408,961	3,317,665
Net position at end of year	\$ 1,153,780	\$ 1,111,608	\$ 2,259,038	\$ 2,297,353	\$ 3,412,818	\$ 3,408,961

For the year ended September 30, 2018, revenues from governmental activities totaled \$355,705. Overall, governmental revenues decreased by 9%. This decrease is mainly due to a decrease in franchise fees.

For the year ended September 30, 2018, expenses for governmental activities totaled \$283,046, which is an increase of \$11,235 from the prior year. This increase can be attributed primarily to the increases in general government departmental expenditures.

For the year ended September 30, 2018, revenues from business-type activities totaled \$818,992. Overall, business-type revenues decreased by 4%. This decrease is mainly due to a decrease in grant revenues.

For the year ended September 30, 2018, expenses for business-type activities totaled \$887,794, which is an increase of \$9,464 from the prior year. This increase can be attributed primarily to the increases in personnel and supplies and materials costs.

**CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related requirements.

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

As of September 30, 2018, the City's governmental funds reported a total fund balance of \$481,909, of which \$93 is restricted for payment of debt service, and \$40,536 is restricted for future capital expenditures. During the year, the fund balance in the City's governmental funds decreased by \$250,828.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$441,280, while total fund balances reached \$481,816. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balances and total fund balances to total fund expenditures. Unassigned fund balance represents 148% of total general fund expenditures, while total fund balance represents 161%. The general fund had an overall decrease of \$184,519 during the year primarily due to transfers out for debt payments.

The debt service fund has a total fund balance of \$93, all of which is restricted for the payment of debt service. The net decrease in fund balance for the current year was \$66,309, which was due to paying off the bonds payable balance during the fiscal year.

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

Unrestricted net position of the utility fund at the end of the year amount to \$106,190. Overall, net position for the fund decreased by \$38,315. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities above.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City revised its budget. Differences between the original budget and the final amended budget were a net increase in appropriations of \$47,000. The significant increases to the overall budgeted expenditures are as follows:

- \$22,000 for capital expenditures
- \$14,000 for utilities and breach of contract expenditures
- \$7,000 for increased legal fees

Difference between the final amended budget and actual general fund expenditures were a net negative variance of \$134,803. This is mostly due to the additional bond payment of \$247,200 originally recorded in this fund. Without this payment, the variance would be a net positive of \$112,397.

Overall, the City budgeted for a net decrease to fund balance of \$45,200, and its actual decrease on the budgetary basis came to be \$114,489. A comparison of the general fund budget and actual results are on page 15.

CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The City of Elkhart's investment in capital assets for the governmental and business-type activities as of September 30, 2018, amounts to \$2,779,134, net of accumulated depreciation and related debt. This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment, water and sewer system, and infrastructure. The biggest changes for the year was the disposal of fire department assets, and the construction in progress for the dredging of the lagoon.

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 2,350	\$ 2,350	\$ 61,203	\$ 61,203	\$ 63,553	\$ 63,553
Construction in progress	-	-	61,400	-	61,400	-
Buildings and improvements	51,074	94,612	-	-	51,074	94,612
Plant and equipment	-	-	1,889,758	1,991,999	1,889,758	1,991,999
Machinery and equipment	55,827	32,841	136,608	168,739	192,435	201,580
Transportation equipment	-	-	2,852	5,000	2,852	5,000
Office equipment and furniture	-	-	1,027	1,928	1,027	1,928
Infrastructure	579,305	607,560	-	-	579,305	607,560
Total Net Assets	<u>\$ 688,556</u>	<u>\$ 737,363</u>	<u>\$ 2,152,848</u>	<u>\$ 2,228,869</u>	<u>\$ 2,841,404</u>	<u>\$ 2,966,232</u>

Additional information on the City's capital assets can be found in the footnotes to this financial report.

Long-Term Debt. At year end, the City had \$36,501 in bonds and other long-term liabilities outstanding after principal payments of \$380,578 were made against debt during the year. During the year, the City paid off the remaining balance of the general obligation bond.

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Capital lease obligations	\$ 1,490	\$ 8,038	\$ -	\$ -	\$ 1,490	\$ 8,038
Compensated absences	10,021	-	9,079	-	19,100	-
Net pension liability	787	9,900	15,124	60,780	15,911	70,680
Bonds payable	-	343,000	-	-	-	343,000
Total	<u>\$ 12,298</u>	<u>\$ 360,938</u>	<u>\$ 24,203</u>	<u>\$ 60,780</u>	<u>\$ 36,501</u>	<u>\$ 421,718</u>

Additional information on the City's long-term debt can be found in the footnotes to this financial report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In December 2018, the Council approved the 2018/2019 budget. The City adopted a property tax rate of .3130 per \$100, a slight increase from the prior year. There was a \$.89 increase on garbage charges to customers. The budget is also projecting a significant increases in capital expenditures. Also than the items noted, the overall revenues and expenses of the City were budgeted to remain at prior year levels, with slight variances.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to the City office at 110 W. Parker, Elkhart, Texas.

BASIC FINANCIAL STATEMENTS

**CITY OF ELKHART, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018**

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	\$ 371,096	\$ 269,181	\$ 640,277
Receivables (net of allowance for doubtful accounts)	31,071	91,473	122,544
Internal balances	60,619	(60,619)	-
Restricted assets:			
Cash and cash equivalents	40,629	-	40,629
Capital assets			
Nondepreciable	2,350	122,603	124,953
Depreciable, net of accumulated depreciation	686,206	2,030,245	2,716,451
Total Assets	1,191,971	2,452,883	3,644,854
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows Related to TMRS Pension	7,337	27,044	34,381
Total Deferred Outflows of Resources	7,337	27,044	34,381
LIABILITIES			
Accounts payable and accrued liabilities	18,606	31,577	50,183
Customer deposits payable	-	105,197	105,197
Noncurrent liabilities:			
Due within one year	2,492	908	3,400
Due in more than one year	9,019	8,171	17,190
Net pension liability	787	15,124	15,911
Total Liabilities	30,904	160,977	191,881
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows Related to TMRS Pension	14,624	59,912	74,536
Total Deferred Inflows of Resources	14,624	59,912	74,536
NET POSITION			
Invested in capital assets	687,066	2,092,068	2,779,134
Restricted for:			
Debt service	93	-	93
Capital expenditures	40,536	-	40,536
Unrestricted	426,085	166,970	593,055
Total Net Position	\$ 1,153,780	\$ 2,259,038	\$ 3,412,818

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

**CITY OF ELKHART, TEXAS
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2018**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
PRIMARY GOVERNMENT:						
Governmental activities:						
General government	\$ 196,830	\$ -	\$ -	\$ (196,830)	\$ -	\$ (196,830)
Fire protection	1,587	-	-	(1,587)	-	(1,587)
Public works	80,090	-	-	(80,090)	-	(80,090)
Interest on long-term debt	4,539	-	-	(4,539)	-	(4,539)
Total governmental activities	<u>283,046</u>	<u>-</u>	<u>-</u>	<u>(283,046)</u>	<u>-</u>	<u>(283,046)</u>
Business-type activities:						
Water, sewer, and sanitation	887,794	815,833	-	-	(71,961)	(71,961)
Interest on long-term debt	-	-	-	-	-	-
Total business-type activities	<u>887,794</u>	<u>815,833</u>	<u>-</u>	<u>-</u>	<u>(71,961)</u>	<u>(71,961)</u>
Total primary government	<u>\$ 1,170,840</u>	<u>\$ 815,833</u>	<u>\$ -</u>	<u>\$ (283,046)</u>	<u>\$ (71,961)</u>	<u>\$ (355,007)</u>
General Revenues:						
Property taxes				103,087	-	103,087
Sales tax				138,215	-	138,215
Franchise taxes				80,427	-	80,427
Interest income				-	293	293
Gain (loss) on sale of assets				30,589	-	30,589
Other revenue				3,387	2,866	6,253
Transfers in (out)				<u>(30,487)</u>	<u>30,487</u>	<u>-</u>
Total general revenues and transfers				<u>325,218</u>	<u>33,646</u>	<u>358,864</u>
Change in net position				42,172	(38,315)	3,857
Net position - beginning of year				<u>1,111,608</u>	<u>2,297,353</u>	<u>3,408,961</u>
Net position - end of year				<u>\$ 1,153,780</u>	<u>\$ 2,259,038</u>	<u>\$ 3,412,818</u>

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

CITY OF ELKHART, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

	GENERAL FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and cash equivalents	\$ 371,096	\$ -	\$ 371,096
Receivables:			
Property taxes, net of allowance	2,900	-	2,900
Sales taxes	26,163	-	26,163
Franchise taxes	2,008	-	2,008
Due from other funds	60,619	-	60,619
Restricted assets:			
Cash and cash equivalents	40,536	93	40,629
Total Assets	<u>\$ 503,322</u>	<u>\$ 93</u>	<u>\$ 503,415</u>
LIABILITIES			
Accounts payable and accrued liabilities	<u>\$ 18,606</u>	<u>\$ -</u>	<u>\$ 18,606</u>
Total Liabilities	<u>18,606</u>	<u>-</u>	<u>18,606</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	<u>2,900</u>	<u>-</u>	<u>2,900</u>
Total deferred inflows of resources	<u>2,900</u>	<u>-</u>	<u>2,900</u>
FUND BALANCES			
Restricted for:			
Debt service	-	93	93
Capital expenditures	40,536	-	40,536
Unassigned	<u>441,280</u>	<u>-</u>	<u>441,280</u>
Total Fund Balances	<u>481,816</u>	<u>93</u>	<u>481,909</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 503,322</u>	<u>\$ 93</u>	<u>\$ 503,415</u>

CITY OF ELKHART, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position (Exhibit 1)

Total fund balances governmental funds (Exhibit 3 page 1)	\$ 481,909
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the governmental funds balance sheet.	688,556
Other long-term assets are not available to pay for current period expenditures, and therefore, are deferred in the funds.	2,900
Recognition of the City's net pension liability and related deferred resource inflow occurs in the statement of net position but is not reported in the funds.	(8,074)
Long-term liabilities, including bonds payable and capital leases, are not due and payable in the current period, and therefore, are not reported in the governmental funds balance sheet.	(11,511)
	<hr/>
Net position of governmental activities	<u><u>\$ 1,153,780</u></u>

CITY OF ELKHART, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2018

	GENERAL FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Property taxes, penalty and interest	\$ 102,866	\$ -	\$ 102,866
Sales taxes	138,215	-	138,215
Franchise taxes	80,427	-	80,427
Interest income	-	-	-
Other revenue	3,387	-	3,387
Total Revenues	<u>324,895</u>	<u>-</u>	<u>324,895</u>
EXPENDITURES			
General government	184,714	-	184,714
Public works	44,252	-	44,252
Capital outlay	31,030	-	31,030
Debt service:			
Principal retired	37,543	343,035	380,578
Interest	903	3,636	4,539
Total Expenditures	<u>298,442</u>	<u>346,671</u>	<u>645,113</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>26,453</u>	<u>(346,671)</u>	<u>(320,218)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of assets	68,847	-	68,847
Capital lease proceeds	31,030	-	31,030
Transfers in (out)	<u>(310,849)</u>	<u>280,362</u>	<u>(30,487)</u>
Total Other Financing Sources (Uses)	<u>(210,972)</u>	<u>280,362</u>	<u>69,390</u>
Net Change in Fund Balances	(184,519)	(66,309)	(250,828)
Fund Balance, October 1, 2017	<u>666,335</u>	<u>66,402</u>	<u>732,737</u>
Fund Balance, September 30, 2018	<u>\$ 481,816</u>	<u>\$ 93</u>	<u>\$ 481,909</u>

CITY OF ELKHART, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2018

Amounts Reported for Governmental Activities in the Statement of Activities (Exhibit 2) are Different Because:

Net changes in fund balances - total governmental funds	\$ (250,828)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(48,807)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	221
The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	349,548
Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.	(10,021)
Changes in GASB 68 pension expense due to changes in the current period deferred outflow of resources and the deferred inflow of resources.	<u>2,059</u>
Change in net assets of governmental activities	<u><u>\$ 42,172</u></u>

CITY OF ELKHART, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
(NON-GAAP BUDGET BASIS)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

	BUDGET AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES				
Property taxes, penalty, and interest	\$ 107,100	\$ 107,100	\$ 102,866	\$ (4,234)
Sales taxes	148,000	148,000	145,274	(2,726)
Franchise taxes	81,140	81,140	83,101	1,961
Other revenues	620	620	71,133	70,513
Total Revenues	<u>336,860</u>	<u>336,860</u>	<u>402,374</u>	<u>65,514</u>
EXPENDITURES				
General government	227,652	252,652	224,541	28,111
Public works	82,100	82,100	43,031	39,069
Capital outlay	18,537	40,537	567	39,970
Debt service:				
Principal retired	6,399	6,399	247,200	(240,801)
Interest	372	372	1,524	(1,152)
Total Expenditures	<u>335,060</u>	<u>382,060</u>	<u>516,863</u>	<u>(134,803)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,800</u>	<u>(45,200)</u>	<u>(114,489)</u>	<u>(69,289)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses - Budget Basis	<u>1,800</u>	<u>(45,200)</u>	<u>(114,489)</u>	<u>(69,289)</u>
Budget Basis to GAAP Basis Adjustment (Note A)	<u>-</u>	<u>-</u>	<u>(70,030)</u>	<u>(70,030)</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses - GAAP Basis	<u>1,800</u>	<u>(45,200)</u>	<u>(184,519)</u>	<u>(139,319)</u>
Fund Balance, October 1, 2017	<u>666,335</u>	<u>666,335</u>	<u>666,335</u>	<u>-</u>
Fund Balance, September 30, 2018	<u>\$ 668,135</u>	<u>\$ 621,135</u>	<u>\$ 481,816</u>	<u>\$ (139,319)</u>

Note A - Explanation of Differences Between Budget Basis Presentation and GAAP Basis Presentation:**Differences - Budget to GAAP**

Transfers on expenditures paid in other funds	\$ (52,337)
Adjustments made to revenues for full accrual basis	(8,632)
Adjustments to accrue for liabilities	(9,061)
Net Change in Budget Basis Presentation and GAAP Basis Presentation	<u>\$ (70,030)</u>

**CITY OF ELKHART, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2018**

UTILITY FUND

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 269,181
Receivables, net of allowance	84,821
Unbilled receivables	6,652
Total Current Assets	<u>360,654</u>
Noncurrent Assets:	
Capital assets	
Nondepreciable	122,603
Depreciable, net of accumulated depreciation	2,030,245
Total Noncurrent Assets	<u>2,152,848</u>
Total Assets	<u>2,513,502</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to TMRS pension	27,044
Total Deferred Outflows of Resources	<u>27,044</u>

LIABILITIES

Current Liabilities:	
Accounts payable and accrued liabilities	31,577
Customer deposits payable	105,197
Due to other funds	60,619
Total Current Liabilities	<u>197,393</u>
Noncurrent Liabilities:	
Compensated absences	9,079
Net pension liability	15,124
Total Noncurrent Liabilities	<u>24,203</u>
Total Liabilities	<u>221,596</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to TMRS pension	59,912
Total Deferred Inflows of Resources	<u>59,912</u>

NET POSITION

Invested in capital assets	2,152,848
Unrestricted	106,190
Total Net Position	<u>\$ 2,259,038</u>

CITY OF ELKHART, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2018

	<u>UTILITY FUND</u>
OPERATING REVENUES	
Water sales	\$ 415,519
Sewer income	213,892
Garbage income	150,219
Late charges and other income	36,203
Total Operating Revenues	<u>815,833</u>
OPERATING EXPENSES	
Personnel and related costs	288,073
Supplies and materials	68,150
Repairs and maintenance	44,547
Garbage expense	135,194
Professional fees	41,957
Utilities	61,473
Office expense	9,444
Other operating expenses	17,276
Depreciation	221,680
Total Operating Expenses	<u>887,794</u>
Operating Income (Loss)	<u>(71,961)</u>
NON-OPERATING REVENUES (EXPENSES)	
Lease revenues	2,250
Interest income	293
Miscellaneous income	616
Total Nonoperating Revenues (Expenses)	<u>3,159</u>
INCOME BEFORE TRANSFERS	<u>(68,802)</u>
Transfers in (out)	<u>30,487</u>
Change in Net Position	(38,315)
Net Position, October 1, 2017	<u>2,297,353</u>
Net Position, September 30, 2018	<u>\$ 2,259,038</u>

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

**CITY OF ELKHART, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers and users	\$ 800,458
Cash payments to suppliers	(368,491)
Cash payments to employees	(289,312)
Net Cash Provided by Operating Activities	<u>142,655</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

Net advances to other funds	(256)
Operating transfers in	30,487
Net Cash Provided by Noncapital Financing Activities	<u>30,231</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	(145,659)
Proceeds from leasing activities	2,250
Net Cash Used by Capital and Related Financing Activities	<u>(143,409)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest received	293
Net Cash Provided by Investing Activities	<u>293</u>

Net Increase in Cash and Cash Equivalents 29,770

Cash and Cash Equivalents at Beginning of Year 239,411

Cash and Cash Equivalents at End of Year \$ 269,181

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:

Operating income (loss) \$ (71,961)

Adjustments to reconcile operating loss to net cash provided by operating activities:

Depreciation and amortization 221,680
Other expenses 616

Changes in assets and liabilities:

(Increase) decrease in accounts receivable (16,745)
(Increase) decrease in unbilled receivables 4,297
(Increase) decrease in deferred outflows related to pensions (16,775)
Increase (decrease) in accounts payable 21,065
Increase (decrease) in customer deposits payable (2,927)
Increase (decrease) in insurance proceeds refundable (12,131)
Increase (decrease) in deferred inflows related to pensions 52,113
Increase (decrease) in compensated absences 9,079
Increase (decrease) in net pension obligation (45,656)

Total Adjustments 214,616

Net Cash Provided by Operating Activities \$ 142,655

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

**CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED SEPTEMBER 30, 2018**

NOTE 1: — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City of Elkhart ("The City") is a political subdivision and a municipal corporation organized and existing under the general laws of the State of Texas. The City operates under a Mayor-Council form of government. The Council is composed of a mayor and five Council members, all of whom are elected at large and serve two-year terms.

The Mayor is the Chief Executive Officer of the City, presides at Council meetings, and votes on all matters considered by the Council that end in a split vote. All powers of the City are vested in the Council. Such powers include appointment of City management, boards and commissions; adoption of the budget; authorization of bond issues; and adoption of ordinances and resolutions as deemed necessary, desirable, and beneficial to the City.

The City provides the following services: General government, public works, and water, sewer, and sanitation utilities.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for establishing governmental and financial reporting. On June 15, 1987, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with the subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of the government's accounting policies are described below.

B. Reporting Entity

These financial statements present all of the funds of the City.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. No other entities, organizations, or functions have been included as part of the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other government or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the City. Government 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.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

C. Government-Wide and Fund Financial Statements - Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other revenue sources not properly included with program revenues are reported as general revenues. Major individual governmental funds are reported as separate columns in the financial statements.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide statements and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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.

The 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 City 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. General capital assets acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, and interest associated with the current fiscal year are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of the year end). Expenditure driven grants are recognized as revenues when the qualifying expenditures have been incurred and all other grant requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of the year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following 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 principal sources of revenue include local property taxes, fees, licenses and permits, and sales and franchise taxes. Expenditures include general government, streets, and fire (dissolved during the fiscal year). The general fund is always considered a major fund for reporting purposes.

The *debt service fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The primary source of revenue for debt service is local sales taxes. While the debt service fund did not meet the criteria to be presented as a major fund, management elected to present it as major due to its significance.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

The City reports the following major proprietary fund:

The *utility fund* is used to account for the operations of the water, sewer, and sanitation systems that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The utility fund is considered a major fund for reporting purposes.

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 where amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and wastewater functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 City's utility fund are charges to customers for sales and services. Operating expenses for the utility fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities column are eliminated so that only the net amount is included as transfers in the business-type activities column.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For purposes of the statement of cash flows, the proprietary fund considers temporary investments with a maturity of three months or less when purchased to be cash equivalents.

2. Investments

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. The purpose of this Public Funds Investment Policy is set specific investment policy and strategy guidelines for the City in order to achieve the goals of safety, liquidity, diversity, and yield for all investment activity.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance - Continued

3. 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. current position 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". While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

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 receivables are shown net of an allowance for uncollectible. The City provides an allowance for doubtful accounts based upon the anticipated collectability of each specific account, as determined by experience.

4. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due on or before January 31 of the following year. All unpaid taxes become delinquent February 1 of the following year. The City bills and collects its own property taxes. In the government-wide financial statements, City property tax revenue is recognized when levied, and in the fund financial statements, City property tax revenue is recognized when collected. An allowance is established for delinquent taxes to the extent that their collectability is improbable. The City's property tax is levied each October 1 on the assessed value listed as of the previous January 1 for all real and personal property located in the City. The assessment ratio of the City is 100 percent of market value.

5. Capital Assets

Capital assets, which include: land, buildings and improvements, furniture and equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with initial, individual costs of more than \$5,000, and estimated useful life in excess of two or more years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Contributed capital assets are recorded at estimated fair market value at the date received.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred in connection with construction of proprietary fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance - Continued

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

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings and improvements	20-50 years
Utility plant and equipment	7-40 years
Machinery and equipment	5-20 years
Transportation equipment	5 years
Office, furniture, and equipment	5-10 years
Streets and drainage	10 years

6. Construction in progress

Expenditures on incomplete capital projects have been capitalized as construction in progress. The assets resulting from these projects will be transferred from the construction in progress accounts to the appropriate asset account as the projects are completed.

7. Restricted Assets

Certain assets are classified as restricted because they are maintained in separate accounts and their use is limited by applicable laws or regulations, and/or other contractual agreements.

8. Compensated Absences

Employees of the City are entitled to paid vacation and sick days, depending on length of service.

The City's policy is for employees to take their vacation within the City's fiscal year. If not used within the time frame allotted, the vacation time is forfeited. Under certain Council-approved circumstances, certain employees are allowed to carry over vacation time balances.

Employee sick leave time may be carried over from one year to the next, but no cash payment for accumulated sick leave is made when an employee separates from the City, whatever the reason. The City's policy is to pay for, and expense, sick leave as it is taken. However, certain employees (as determined by Council) are eligible to receive sick pay upon separation with the City, as stated in the individual Employment Agreements.

The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the government fund that will pay it when it matures or becomes due. Amounts vested or accumulated vacation/sick time that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations. Accumulated unpaid vacation/sick amounts are accrued as a current liability in the period they are earned in proprietary funds (using the accrual basis of accounting) and the government-wide financial statements. In government funds, the cost of vacation and sick time are recognized when payments are due.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance - Continued

9. Long-Term Obligations

In the government-wide financial statements and proprietary fund type in the fund financial statement, long-term and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities Statement of Net Position. Both premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of applicable bond premium or discount.

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 issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Assets acquired under the terms of a capital lease are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the applicable fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has a deferred charge on the TMRS pension. The TMRS pension expense and net pension liability are reported as of the date of the last actuarial study, which was December 31, 2017. The deferred outflow shows the difference in contributions to the TMRS retirement plan that occurred between December 31, 2017 and September 30, 2018.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category. *Unavailable revenue* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. The second is reported in the government-wide statement of net position. It is a deferred charge related to the TMRS retirement pension. This represents the differences between expected and actual actuarial gains and losses and projected and actual pension plan investment gains and losses. This amount will be amortized in future periods.

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance - Continued

11. Fund Balances Classification

In the fund financial statements, governmental funds report fund balance categorized as non-spendable, restricted, committed, assigned, or unassigned. Fund balances are classified as follows:

Non-spendable – represents amounts that cannot be spent either because they are in non-spendable form (such as inventories and prepaid amounts) or because they are legally or contractually required to be maintained intact.

Restricted – represents amounts that can be spent only for specific purposes due to constraints imposed on resources either (a) externally by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Council – the government’s highest level of decision making authority. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Council.

Assigned – represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the City Council or by an official or body to which the City Council delegates the authority.

Unassigned – represents amounts which are unconstrained in that they may be spent for any purpose.

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

12. Net Position

The City has adopted GASB Statement No. 63, which redefines how net assets are presented in the financial statements. The Statement of Net Assets is now the Statement of Net Position. Net position represents the difference between the assets and liabilities and is now divided into three components.

Net investment in capital assets – This component consists of the City’s capital assets, net of accumulated depreciation, reduced by any outstanding debt used for the acquisition or construction of those assets and adjusted for any deferred outflows and inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt.

Restricted – This component consists of those amounts which have limitations imposed on their use either through legislation adopted by the City or through external restrictions imposed by creditors, grantors, or other laws and regulations, reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – This component consists of the net amount of the assets, deferred outflows and inflows of resources, and liabilities not included in net investment in capital assets or restricted components of net position.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance - Continued

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

13. Tax Abatements

The City has evaluated the total tax abatements issued for the year and has determined that the amount is not material to the financial statements.

14. Estimates

The preparation of financial statements, in conformity with the generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

15. New Accounting Pronouncements

In March 2016, the GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, which will improve financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues. This statement is effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of the date other than the employer's most recent fiscal year-end. In this circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The City has implemented the provisions of GASB No. 82 accordingly.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. It will also enhance the decision-usefulness of the information provided to financial statements users by requiring disclosures related to those AROs. This statement is effective for reporting periods beginning after June 15, 2018. The City is evaluating the impact of this statement of the City's financial statements.

In November 2016, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which will increase consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. The requirements of this statement also will enhance consistency in financial reporting of prepaid insurance related to debt that has been extinguished. In addition, this statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. This statement is effective for reporting periods beginning after June 15, 2017.

In June 2017, the GASB issued Statement No. 87, *Leases*, which will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. This statement is effective for reporting periods beginning after December 15, 2019.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

NOTE 2: — RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position

An element of that reconciliation states that "Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the governmental funds balance sheet." The details of this \$688,556 difference are as follows:

Capital assets, October 1, 2017, net of accumulated depreciation	\$ 737,363
Capital asset additions, net of retirements	(31,496)
Depreciation of capital assets, net of retirements	(17,311)
Net adjustment to increase total fund balances - total governmental funds to arrive at net position - governmental activities	<u>\$ 688,556</u>

Another element of the reconciliation states that "Recognition of the City's net pension liability and related deferred resource outflow occurs in the statement of net position but is not reported in the funds." The details of this \$(8,074) difference are as follows:

Net pension liabilities	\$ (787)
Deferred outflow of resources	7,337
Deferred inflow of resources	(14,624)
Net adjustment to decrease total fund balances - total governmental funds to arrive at net position - governmental activities	<u>\$ (8,074)</u>

The reconciliation states that "Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds." The details of this \$(11,511) difference are as follows:

Accrued compensated absences	\$ (10,021)
Capital lease payable	(1,490)
Net adjustment to decrease total fund balances - total governmental funds to arrive at net position - governmental activities	<u>\$ (11,511)</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance and the Government-Wide Statement of Activities

An element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period." The details of this \$(48,807) difference are as follows:

Capital outlay expenditures	\$ 31,030
Asset deletions, net of accumulated depreciation	(38,258)
Depreciation expense	(41,579)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities	<u>\$ (48,807)</u>

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance and the Government-Wide Statement of Activities - Continued

Another element of the reconciliation states that "The issuance of long-term debt (e.g. bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items." The details of this \$349,548 difference are as follows:

Principal payments on debt	\$ 380,578
New capital lease	(31,030)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities	<u>\$ 349,548</u>

NOTE 3: — STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted essentially on the cash basis. The budgetary comparisons are on this non-GAAP budgetary basis. The original budget is adopted by the City Council prior to the beginning of the year. Budgeted expenditures for the current year, as adopted in the original budget, may be amended to take into account special authorizations of the City Council during the year. All appropriations lapse at the end of each fiscal year. One amendment was made to the City's original budget for both the general and utility funds during the current fiscal year.

B. Expenditures Over Appropriations

For the year ended September 30, 2018, the general fund had expenditures in excess of appropriations.

NOTE 4: — DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Cash and investments as of September 30, 2018 consist of and are classified in the accompanying financial statements as follows:

Statement of net position:	
Primary Government	
Cash and cash equivalents	\$ 640,277
Restricted cash and cash equivalents	<u>40,629</u>
Total cash and investments	<u>\$ 680,906</u>
 Savings and checking accounts	 <u>\$ 680,906</u>
Total cash and investments	<u>\$ 680,906</u>

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

A. Deposits and Investments - Continued

At September 30, 2018, the carrying amount of the City's deposits with financial institutions was \$683,122 and the bank balance was \$707,428. The bank balance was fully covered by federal depository insurance or collateral held by pledging financial institution's agent in the City's name.

Interest Rate Risk – In accordance with its investment policy, the City manages its exposure to declines in fair value by diversifying investments in terms of maturity. As of September 30, 2018, the City did not have any investments.

Credit Risk – State law and the City's investment policy limit investments to obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent. As of September 30, 2018, the City did not have any investments.

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, City's deposits may not be returned. The City's investment policy requires funds on deposit at depository banks to be collateralized to the extent that the deposits exceed FDIC coverage.

B. Receivables

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

	General Fund	Utility Fund	Total
Receivables:			
Accounts	\$ -	\$ 110,043	\$ 110,043
Property taxes	21,342	-	21,342
Sales tax	26,163	-	26,163
Franchise taxes	2,008	-	2,008
Gross receivables	<u>49,513</u>	<u>110,043</u>	<u>159,556</u>
Less: Allowance for uncollectables	<u>(18,442)</u>	<u>(18,570)</u>	<u>(37,012)</u>
Net Receivables	<u>\$ 31,071</u>	<u>\$ 91,473</u>	<u>\$ 122,544</u>

Governmental funds report deferred revenue (deferred inflows of resources) in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

C. Capital Assets

Capital asset activity for the year ended September 30, 2018, was as follows:

<u>PRIMARY GOVERNMENT</u>	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 2,350	\$ -	\$ -	\$ 2,350
Total Capital Assets, Not Being Depreciated	2,350	-	-	2,350
Capital Assets, Being Depreciated				
Buildings and Improvements	138,597	-	(53,926)	84,671
Machinery and Equipment	61,140	31,030	-	92,170
Office Equipment and Furniture	17,329	-	(8,600)	8,729
Infrastructure	845,796	-	-	845,796
Total Capital Assets, Being Depreciated	1,062,862	31,030	(62,526)	1,031,366
Less Accumulated Depreciation For:				
Buildings and Improvements	(43,985)	(5,280)	15,668	(33,597)
Machinery and Equipment	(28,299)	(8,044)	-	(36,343)
Office Equipment and Furniture	(16,991)	(338)	8,600	(8,729)
Infrastructure	(238,574)	(27,917)	-	(266,491)
Total Accumulated Depreciation	(327,849)	(41,579)	24,268	(345,160)
Net Total Assets Being Depreciated	735,013	(10,549)	(38,258)	686,206
Governmental Activities Capital Assets, Net	<u>\$ 737,363</u>	<u>\$ (10,549)</u>	<u>\$ (38,258)</u>	<u>\$ 688,556</u>
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 61,203	\$ -	\$ -	\$ 61,203
Construction in Progress	-	61,400	-	61,400
Total Capital Assets, Not Being Depreciated	61,203	61,400	-	122,603
Capital Assets, Being Depreciated				
Plant and Equipment	5,167,163	84,259	-	5,251,422
Machinery and Equipment	436,463	-	5,748	430,715
Office Equipment	10,289	-	-	10,289
Transportation Equipment	68,320	-	2,400	65,920
Total Capital Assets, Being Depreciated	5,682,235	84,259	8,148	5,758,346
Less Accumulated Depreciation For:				
Plant and Equipment	(3,175,164)	(186,500)	-	(3,361,664)
Machinery and Equipment	(267,724)	(32,131)	5,748	(294,107)
Office Equipment	(8,361)	(901)	-	(9,262)
Transportation Equipment	(63,320)	(2,148)	2,400	(63,068)
Total Accumulated Depreciation	(3,514,569)	(221,680)	8,148	(3,728,101)
Net Total Assets Being Depreciated	2,167,666	(137,421)	16,296	2,030,245
Business-Type Activities Capital Assets, Net	<u>\$ 2,228,869</u>	<u>\$ (76,021)</u>	<u>\$ 16,296</u>	<u>\$ 2,152,848</u>

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

C. Capital Assets - Continued

Depreciation expense was charged to the following functions/programs of the City as follows:

Governmental Activities:	
General Government	\$ 4,154
Fire Protection	1,587
Public Works	35,838
Total depreciation expense, governmental activities	<u>\$ 41,579</u>
 Business-Type Activities:	
Water and Sewer Operations	<u>\$ 221,680</u>

As of September 30, 2018, the City had an active construction project. The project is associated with water and sewer operations. At year-end, the City's commitment with contractors is as follows:

Project	Spent To-Date	Estimated Remaining Construction
Dredging of the Lagoon	\$ 61,400	\$ 17,600

D. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of September 30, 2018, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Utility Fund	\$ 60,619

Interfund transfers are made in accordance with the City's adopted budget or through approvals to meet unexpected operating needs.

The composition of interfund transfers as of September 30, 2018, is as follows:

	Transfers In		
	Debt Service Fund	Utility Fund	Total
Transfers Out:			
General Fund	\$ 210,362	\$ 100,487	\$ 310,849
Utility Fund	70,000	-	70,000
Total transfers out/in	<u>\$ 280,362</u>	<u>\$ 100,487</u>	<u>\$ 380,849</u>

Transfers were for items such as the early payment of debt and various administrative expenditures.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

E. Leases

Operating Leases

The City leased two copy machines under operating lease agreements for equipment provided minimum future rental payments as of September 30, 2018, as follows:

<u>Year ending September 30</u>	
2019	\$ 3,477
2020	3,477
2021	<u>1,739</u>
Total Minimum Rentals	<u>\$ 8,693</u>
Rental Expenditures in 2018	<u>\$ 3,768</u>

Capital Leases

The City has entered into a lease agreement for financing the acquisition of various machinery and equipment. This lease agreement qualifies as a capital lease for accounting purposes, and therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. The assets acquired through the capital lease are as follows:

	<u>Governmental Activities</u>
Machinery and equipment	\$ 27,310
Less: accumulated depreciation	<u>(12,685)</u>
Total	<u>\$ 14,625</u>

The future minimum lease obligations as of September 30, 2018, were as follows:

<u>Year ending September 30</u>	<u>General Fund</u>
2019	\$ 1,507
Total minimum lease payments	1,507
Less: amount representing interest	<u>(17)</u>
Present value of minimum lease payments	<u>\$ 1,490</u>

F. Long-Term Debt

The following is a summary of bond and certificates of obligation transactions of the City for the year ended September 30, 2018:

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

F. Long-Term Debt - Continued

	<u>GENERAL OBLIGATION</u>
Bonds payable - October 1, 2017	\$ 343,000
Additions	-
Retirements	(343,000)
Bonds payable - September 30, 2018	<u>\$ -</u>

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. The bond indenture allows the City to pay the bonds from the proceeds of an additional ad valorem tax that may be levied by the City, and the City has pledged any such proceeds to secure the payment. However, the City Council has elected to repay the bonds from the City's proprietary fund revenues.

In April of 2018, the Council approved the early extinguishment of the 2015 General Obligation Refunding Bonds. Effective May 1, 2018, the City paid the remaining principal balance on the bonds in the amount of \$231,000 plus accrued interest.

Original issue amounts currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Original Issue Amount</u>
Governmental Activities:		
2014 CNH Industrial Capital Lease	6.89%	\$ 27,310
Total Governmental Activities Long-Term Debt		<u>\$ 27,310</u>

Long-term liability activity for the year ended September 30, 2018 was as follows:

	<u>Beginning Balance 10/1/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance 9/30/18</u>	<u>Due Within One Year</u>
Governmental Activities:					
General Obligation Bonds	\$ 343,000	\$ -	\$ 343,000	\$ -	\$ -
Capital Leases	8,038	31,030	37,578	1,490	1,490
Net Pension Liability	9,900	-	9,113	787	-
Compensated Absences	-	10,021	-	10,021	1,002
Governmental Activity Long-Term Liabilities	<u>\$ 360,938</u>	<u>\$ 41,051</u>	<u>\$ 389,691</u>	<u>\$ 12,298</u>	<u>\$ 2,492</u>
Business-type Activities:					
Net Pension Liability	\$ 60,780	\$ -	\$ 45,656	\$ 15,124	\$ -
Compensated Absences	-	9,079	-	9,079	908
Business-type Activity Long-Term Liabilities	<u>\$ 60,780</u>	<u>\$ 9,079</u>	<u>\$ 45,656</u>	<u>\$ 24,203</u>	<u>\$ 908</u>

The liabilities listed above for compensated absences are liquidated by the General Fund or the Utility Fund, depending upon which fund records the employee's salary.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

G. Leases of Lessors

The City leases the use of the space on top of one of the City's water tower. The tenant installed wireless internet access equipment in this area. Equipment under this operating lease was \$97,000 at September 30, 2018, and is included in plant and equipment under the Utility Fund. Accumulated depreciation under this operating lease was \$97,000 at September 30, 2018. The lease term will terminate on October 3, 2022.

Future minimum rental payments to be received on non-cancelable operating leases are contractually due as follows as of September 30, 2018:

<u>Year ending September 30</u>	<u>Amount</u>
2019	\$ 1,800
2020	1,800
2021	1,800
2022	1,800
2023	<u>150</u>
	<u>\$ 7,350</u>

NOTE 5: OTHER INFORMATION

A. Risk Management

The City 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 City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pool (the "Pool"). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivables from granting 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 amounts of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Liabilities 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. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

NOTE 6: DEFINED BENEFIT PENSION PLAN

A. Plan Description

The City of Elkhart participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

A. Plan Description - Continued

The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the city are required to participate in TMRS.

B. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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:

	<u>Plan Year 2017</u>	<u>Plan Year 2016</u>
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	1 to 1	1 to 1
Year required for vesting	5	5
Service retirement eligibility (expressed as age/years of Service)	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% Repeating	100% Repeating
Annuity Increase (to retirees)	70% of CPI, Repeating	70% of CPI, Repeating

C. Employees Covered by Benefit Terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

	<u>12/31/2017</u>
Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	7
Active employees	<u>6</u>
	<u><u>17</u></u>

D. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method.

**CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018**

D. Contributions - Continued

The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Elkhart were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Elkhart were 5.00%, 5.65%, 5.76%, and 5.96% in calendar years 2014, 2015, 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were \$13,092, and were equal to the required contributions.

E. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

F. Actuarial Assumptions

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%.

For cities with fewer than twenty employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than six members, 85% for employers with six to ten members, 100% for employers with eleven to fifteen members, and 115% for employers with less than 100 members. There is also a load on the life expectancy for employers with less than fifteen active members. The life expectancy will be loaded by decreasing the mortality rates by 1% for every active member less than fifteen. For underfunded plans, the maximum amortization period for amortizing gains and losses is decreased from current levels by one year for each active member less than the twenty member threshold.

The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a three year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2001 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

F. Actuarial Assumptions - Continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.90%
Real Return	10.00%	3.80%
Real Estate	10.00%	4.50%
Absolute Return	10.00%	3.75%
Private Equity	5.00%	7.50%
Total	100.00%	

G. Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 12/31/2016	\$ 677,276	\$ 606,595	\$ 70,681
Changes for the year:			
Service cost	18,706	-	18,706
Interest	44,856	-	44,856
Change of benefit terms	-	-	-
Difference between expected and actual experience	(11,907)	-	(11,907)
Changes of assumptions	-	-	-
Contributions - employer	-	12,558	(12,558)
Contributions - employee	-	10,726	(10,726)
Net investment income	-	83,599	(83,599)
Benefit payments, including refunds of employee contributions	(44,194)	(44,194)	-
Administrative expense	-	(436)	436
Other changes	-	(22)	22
Net changes	7,461	62,231	(54,770)
Balance at 12/31/2017	\$ 684,737	\$ 668,826	\$ 15,911

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

H. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 95,666	\$ 15,911	\$ (50,184)

I. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

J. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2018, the city recognized pension expense of \$(178).

At September 30, 2018, the City reported deferred outflows of resource and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 3,057	\$ 40,413
Changes in actuarial assumptions	4,870	-
Difference between projected and actual investment earnings	17,794	34,123
Contributions subsequent to the measurement date	8,660	-
Total	\$ 34,381	\$ 74,536

\$8,660 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Year Ended December 31
2018	\$ (12,525)
2019	(16,043)
2020	(11,717)
2021	(8,530)
2022	-
Thereafter	-
	<u>\$ (48,815)</u>

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

NOTE 7: COMMITMENTS

Effective October 1, 2007, the City entered into a contract with Hutto Garbage Service (currently Waste Connections of Texas, Inc.) for the collection of garbage for the City's residents. The contract period under the agreement ends October 1, 2010 and is renewed every three years unless either party gives written notice of termination. The contract calls for various base rates for collection services. The City paid \$135,194 during the fiscal year for this services. The payment is reported by the City's Utility Fund as an operating expense.

On September 21, 2005, the Texas Commission on Environmental Quality (TCEQ) entered into a contract with the City, detailing the requirements needed for the City's water and sewer system to achieve compliance. As a result of this Agreed Order, the City is required to pay administrative penalties to TCEQ until compliance is completed. In June of 2018, the City was notified by the TCEQ that an amended schedule for compliance with ordering provisions was approved, and the City is in the process of meeting these requirements. The City hired KSA Engineering to conduct a 10 year plan that City Council requested for the adoption of future capital improvements to gain compliance with TCEQ. Both engineering fees and TCEQ penalties are reported by the City's Utility Fund as an operating expense.

In 2014, the City entered into a contract with Constellation Energy for electric services, which breached the existing contract with TXU Energy. The City was required to pay TXU Energy for breach of contract fees, which ran until June 2018. On May 2018, City Council voted to extend the agreement with Constellation Energy until December 2025. The City paid \$76,901 during the fiscal year for these services.

NOTE 8: RELATED PARTY TRANSACTIONS

In October of 2017, the Elkhart Volunteer Fire Department was separated from the City. The City removed all fire department insurance from the TML policy, and capital assets associated with the fire department were transferred. All the vehicles and equipment were transferred to the EVFD at no cost to the fire department.

NOTE 9: SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 29, 2019, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULE 1

CITY OF ELKHART, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
FISCAL YEAR ENDED SEPTEMBER 30, 2018

	Measurement Year 2014	Measurement Year 2015	Measurement Year 2016	Measurement Year 2017
Total Pension Liability				
Service Cost	\$ 23,475	\$ 22,129	\$ 18,373	\$ 18,706
Interest (on the Total Pension Liability)	44,030	47,393	45,652	44,856
Changes in benefit terms	-	-	-	-
Difference between expected and actual results	13,629	(40,921)	(28,307)	(11,907)
Change of assumptions	-	11,482	-	-
Benefit payments, including refunds of employee contributions	<u>(38,116)</u>	<u>(26,705)</u>	<u>(51,154)</u>	<u>(44,194)</u>
Net Change in Total Pension Liability	43,018	13,378	(15,436)	7,461
Total Pension Liability - Beginning	<u>636,316</u>	<u>679,334</u>	<u>692,712</u>	<u>677,276</u>
Total Pension Liability - Ending (a)	<u>\$ 679,334</u>	<u>\$ 692,712</u>	<u>\$ 677,276</u>	<u>\$ 684,737</u>
Plan Fiduciary Net Position				
Contributions - Employer	\$ 15,960	\$ 15,022	\$ 13,151	\$ 12,558
Contributions - Employee	15,983	13,299	11,041	10,726
Net Investment Income	32,401	874	39,914	83,599
Benefit payments, including refunds of employee contributions	(38,116)	(26,705)	(51,154)	(44,194)
Administrative Expense	(338)	(532)	(453)	(436)
Other	<u>(28)</u>	<u>(27)</u>	<u>(24)</u>	<u>(22)</u>
Net Change in Plan Fiduciary Net Position	25,862	1,931	12,475	62,231
Plan Fiduciary Net Position - Beginning	<u>566,327</u>	<u>592,189</u>	<u>594,120</u>	<u>606,595</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 592,189</u>	<u>\$ 594,120</u>	<u>\$ 606,595</u>	<u>\$ 668,826</u>
Net Pension Liability (Asset) - Ending (a)-(b)	<u>\$ 87,145</u>	<u>\$ 98,592</u>	<u>\$ 70,681</u>	<u>\$ 15,911</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	87.17%	85.77%	89.56%	97.68%
Covered Payroll	\$ 319,650	\$ 265,977	\$ 220,815	\$ 214,514
Net Pension Liability as a Percentage of Covered Payroll	27.26%	37.07%	32.01%	7.42%

Notes to Schedule:

This schedule will present 10 years information when it becomes available.

SCHEDULE 2

**CITY OF ELKHART, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
FISCAL YEAR ENDED SEPTEMBER 30, 2018**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarially Determined Contribution	\$ 11,139	\$ 15,697	\$ 13,490	\$ 12,396	\$ 13,092
Contributions in relation to the actuarially determined contributions	<u>11,139</u>	<u>15,697</u>	<u>13,490</u>	<u>12,356</u>	<u>13,092</u>
Contribution deficiency (Excess)	\$ -	\$ -	\$ -	\$ 40	\$ -
Covered payroll	\$ 300,634	\$ 287,662	\$ 229,715	\$ 210,840	\$ 226,352
Contributions as a percentage of covered payroll	3.71%	5.46%	5.87%	5.86%	5.78%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date: Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	19 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study for the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Other Information:	There were no benefit changes during the year.

COMPLIANCE AND INTERNAL CONTROL SECTION

**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**

Independent Auditors' Report

To the City Council
City of Elkhart, Texas

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elkhart, Texas as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Elkhart, Texas' basic financial statements, and have issued our report thereon dated May 29, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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



Certified Public Accountants

Tyler, Texas
May 29, 2019