

CITY OF ELKHART, TEXAS
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

INTRODUCTORY SECTION

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**CITY OF ELKHART, TEXAS
PRINCIPAL CITY OFFICIALS
AT SEPTEMBER 30, 2022**

Honorable Jennifer McCoy.....Mayor
Chuck ConnerMayor Pro Tem
Tammy Baughman Councilmember
Lucia Butler Councilmember
Randy McCoy Councilmember
James Warren Councilmember
Sunshine Alcorta..... City Secretary

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Elkhart, Texas

Qualified and Unmodified Opinions

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, (the "City") as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-type Activities	Qualified
General Fund	Unmodified
Streets Fund	Unmodified
Debt Service Fund	Unmodified
Utility Fund	Qualified

Qualified Opinions on Business-type Activities and Utility Fund

In our opinion, except for the possible effects of the matters described in the "Basis for Qualified and Unmodified Opinions" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the utility fund of the City of Elkhart, Texas, as of September 30, 2022, 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.

Unmodified Opinions on Governmental Activities and Governmental Funds

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the general fund, the streets fund, and the debt service fund of the City of Elkhart, Texas, as of September 30, 2022, 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.

INDEPENDENT AUDITORS' REPORT – CONTINUED

Basis for Qualified and Unmodified Opinions

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. Our responsibilities under those standards are further described in the “Auditors’ Responsibilities for the Audit of the Financial Statements” section of our report. We are required to be independent of the City and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified audit opinions.

Matter Giving Rise to Qualified Opinions on Business-type Activities and Utility Fund. In the fiscal year ending September 30, 2021, the City changed its utility billing software. The City has been unable to provide a detailed listing of customer balances (both receivable balances and meter deposit balances) that were moved from the old system to the new system, as well as detailed listings by customer (for both receivable balances and meter deposit balances) that agreed to the customer receivables/customer deposit payable balance per the general ledger at September 30, 2021 or September 30, 2022.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

INDEPENDENT AUDITORS' REPORT – CONTINUED

- Obtain an understanding of internal control relevant to the audit 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 City of Elkhart, Texas' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Elkhart, Texas' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liability, and the schedule of pension contributions and related notes on pages 9-14 and 47-52, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2026 (pages 54-55), on our consideration of the City's 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's internal control over financial reporting and compliance.

Todd, Hamaker & Johnson, LLP

Todd, Hamaker & Johnson, LLP
Lufkin, Texas

April 2, 2026

**CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2022
(UNAUDITED)**

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, 2022. We encourage readers to consider information presented here as well as the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources (net position) by \$3,478,299 at the end of the fiscal year. Of this amount, \$831,817 (*unrestricted net position*) may be used to meet the on-going obligations to citizens and creditors.
- Unrestricted cash and cash equivalents at year end totaled \$741,980 (an increase of \$95,152 for the year).
- The City's overall long-term debt obligations at the end of the year were \$1,939,799 (a decrease of \$109,556 for the year). No new loans were incurred in the fiscal year.
- During the fiscal year, the City completed construction of the three-phase water improvement project which focused on water transmission and water pump station improvements.
- Overall expenses exceeded revenue (or a decrease in net position) by \$69,020. Net position increased by \$44,798 in the governmental funds and decreased by \$113,818 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 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.

Government-wide Financial Statements. The *government-wide financial statements*, which begin on page 15 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.

The *statement of activities* presents information showing how the City's net position changed during the fiscal year. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows.

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Revenues are recognized when they are both measurable and available. Expenditures are recorded when the related fund liability is

CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2022
(UNAUDITED)

incurred, except for general obligation bond principal and interest, which are reported as expenditures in the year due.

Proprietary funds are used to report the same functions presented as *business-type* activities in the government-wide financial statements. The City uses a proprietary fund to account for the operations of the water, sewer and garbage collections 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 and services to the general public on a continuing basis are to be financed or recovered primarily through user charges. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The basic governmental and proprietary fund financial statements can be found on pages 19 – 26 of this report.

Notes to the Financial Statements. The notes provide 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 27 – 46 of this report.

**CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2022
(UNAUDITED)**

THE CITY'S NET POSITION

Over time, net position may serve as a useful indicator of a government's financial position. At September 30, 2022, the City's assets exceeded its liabilities by \$3,478,299.

The City has a large investment in capital assets (e.g., land, buildings, equipment, and construction in progress) and related debt used to acquire those assets that remain 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 capital assets themselves cannot be used to liquidate these liabilities. At year end, net position invested in capital assets, net of related debt, totaled \$2,617,762.

An additional portion of the City's net position, or \$28,720, represents resources that are subject to external restriction on how they may be used. The remaining balance is \$831,817 and is unrestricted in nature.

The City's Net Position

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$ 800,710	\$ 808,812	\$ 354,326	\$ 1,577,305	\$ 1,155,036	\$ 2,386,117
Capital assets	680,681	3,876,880	3,876,880	3,091,074	4,557,561	6,967,954
Total assets	1,481,391	4,685,692	4,231,206	4,668,379	5,712,597	9,354,071
Deferred outflows of resources	2,947	2,054	8,551	9,153	11,498	11,207
Long-term liabilities	109,844	111,920	1,829,955	1,937,435	1,939,799	2,049,355
Other liabilities	21,071	118,211	230,901	462,406	251,972	580,617
Total liabilities	130,915	230,131	2,060,856	2,399,841	2,191,771	2,629,972
Deferred outflows of resources	15,079	14,993	43,252	23,919	58,331	38,912
Net position						
Invested in capital assets, net of related debt	570,837	615,885	2,046,925	2,266,646	2,617,762	2,882,531
Restricted	27,488	23,870	1,232	52,732	28,720	76,602
Unrestricted	740,020	653,792	91,797	(65,606)	831,817	588,186
Total net position	\$ 1,338,345	\$ 1,293,547	\$ 2,139,954	\$ 2,253,772	\$ 3,478,299	\$ 3,547,319

**CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2022
(UNAUDITED)**

Change in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Revenues						
Charges for services	\$ -	\$ -	\$ 1,067,079	\$ 928,281	\$ 1,067,079	\$ 928,281
General revenues:						
Property taxes	142,785	123,827	-	-	142,785	123,827
Sales taxes	217,685	202,137	-	-	217,685	202,137
Franchise fees	82,726	81,639	-	-	82,726	81,639
Interest income	959	386	2,146	1,595	3,105	1,981
Grants and contributions	4,916	1,976	-	242,903	4,916	244,879
Other miscellaneous	7,726	28,857	1,980	10,088	9,706	38,945
Total revenues	<u>456,797</u>	<u>438,822</u>	<u>1,071,205</u>	<u>1,182,867</u>	<u>1,528,002</u>	<u>1,621,689</u>
Expenses						
General government	244,662	265,347	-	-	244,662	265,347
Streets and drainage	75,913	42,717	-	-	75,913	42,717
Fire protection	14,800	16,000	-	-	14,800	16,000
Enforcement	8,961	5,194	-	-	8,961	5,194
Health and welfare	6,420	10,189	-	-	6,420	10,189
Water, sewer, sanitation	-	-	897,027	733,996	897,027	733,996
Depreciation	58,053	44,642	231,905	193,806	289,958	238,448
Interest on long-term debt	3,190	-	56,091	60,014	59,281	60,014
Total expenses	<u>411,999</u>	<u>384,089</u>	<u>1,185,023</u>	<u>987,816</u>	<u>1,597,022</u>	<u>1,371,905</u>
Transfers						
In (out)	-	-	-	-	-	-
Total transfers	-	-	-	-	-	-
Increase (decrease) in net position	44,798	54,733	(113,818)	195,051	(69,020)	249,784
Net position at beginning of year	<u>1,293,547</u>	<u>1,238,814</u>	<u>2,253,772</u>	<u>2,058,721</u>	<u>3,547,319</u>	<u>3,297,535</u>
Net position at end of year	<u>\$ 1,338,345</u>	<u>\$ 1,293,547</u>	<u>\$ 2,139,954</u>	<u>\$ 2,253,772</u>	<u>\$ 3,478,299</u>	<u>\$ 3,547,319</u>

**CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2022
(UNAUDITED)**

FINANCIAL ANALYSIS OF THE GOVERNMENT'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, 2022, the City governmental funds reported a total fund balance of \$741,184. This fund balance is comprised of \$15,712 that is restricted for payment of debt service and \$276,576 that is committed for street repair/maintenance. The remaining balance, \$448,896, is unassigned. During the year, the fund balance in the City's governmental funds increased by \$76,481.

General Fund Budget. A comparison of the general fund budget and actual results is presented as required supplementary information on page 48. Actual revenues were higher than budgeted amounts by \$9,240. Actual expenditures were lower than budgeted amounts by \$40,304. The General fund's fund balance increased by \$49,544 during the fiscal year.

Streets Fund Budget. A comparison of the streets fund budget and actual results is presented as required supplementary information on page 49. Actual revenues were lower than budgeted amounts by \$19,337. Actual expenditures were lower than budgeted amounts by \$38,369. The Streets fund's fund balance increased by \$19,032 during the fiscal year.

CAPITAL ASSETS

The City's investment in capital assets as of September 30, 2022, totaled \$4,557,561 (net of accumulated depreciation). This investment includes land, buildings and improvements, streets and drainage, equipment, and construction work in progress.

Current year expenditures during the current year included:

- Three-phase water improvement project (funded through grant/bonds)
- Improvements to the City Park

Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 92,250	\$ 92,250	\$ 61,203	\$ 61,203	\$ 153,453	\$ 153,453
Buildings and improvements	108,459	108,459	-	-	108,459	108,459
City Park improvements	45,846	34,917	-	-	45,846	34,917
Plant and equipment	-	-	7,769,810	5,389,167	7,769,810	5,389,167
Machinery and equipment	83,341	83,341	526,640	498,320	609,981	581,661
Transportation equipment	-	-	126,180	111,668	126,180	111,668
Office equipment & furniture	5,767	5,767	3,202	3,202	8,969	8,969
Streets and drainage	845,796	845,796	-	-	845,796	845,796
Construction in progress	-	-	-	1,405,764	-	1,405,764
	<u>\$ 1,181,459</u>	<u>\$ 1,170,530</u>	<u>\$ 8,487,035</u>	<u>\$ 7,469,324</u>	<u>\$ 9,668,494</u>	<u>\$ 8,639,854</u>
Accumulated depreciation	<u>(500,778)</u>	<u>(442,725)</u>	<u>(4,610,155)</u>	<u>(4,378,250)</u>	<u>(5,110,933)</u>	<u>(4,820,975)</u>
Net	<u>\$ 680,681</u>	<u>\$ 727,805</u>	<u>\$ 3,876,880</u>	<u>\$ 3,091,074</u>	<u>\$ 4,557,561</u>	<u>\$ 3,818,879</u>

**CITY OF ELKHART, TEXAS
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2022
(UNAUDITED)**

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total debt outstanding of \$1,939,799.

Debt Outstanding

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Notes payable	\$ 109,844	\$ 111,920	\$ 41,821	\$ 59,438	\$ 151,665	\$ 171,358
Bonds payable	-	-	1,788,134	1,877,997	1,788,134	1,877,997
Total	<u>\$ 109,844</u>	<u>\$ 111,920</u>	<u>\$ 1,829,955</u>	<u>\$ 1,937,435</u>	<u>\$ 1,939,799</u>	<u>\$ 2,049,355</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In September 2022, the Council approved the 2022/2023 budget. The City adopted a property tax rate of 0.262816 per \$100 (0.246880 for maintenance and operations and 0.015936 for interest and sinking). Overall property tax revenues will increase due to increases in property taxable values.

REQUESTS FOR INFORMATION

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. If you have any questions about this report or need additional information, contact the City office at 110 W. Parker, Elkhart, Texas.

Basic Financial Statements

Government-wide Financial Statements

CITY OF ELKHART, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2022

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 554,111	\$ 187,869	\$ 741,980
Receivables, net of allowance for uncollectibles	42,414	64,037	106,451
Internal balances	142,673	(142,673)	-
Restricted assets			
Cash and cash equivalents	27,488	1,232	28,720
Invested cash	-	186,763	186,763
Net pension assets	34,024	57,098	91,122
Capital assets, net of accumulated depreciation	680,681	3,876,880	4,557,561
TOTAL ASSETS	<u>1,481,391</u>	<u>4,231,206</u>	<u>5,712,597</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension plan	2,947	8,551	11,498
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>2,947</u>	<u>8,551</u>	<u>11,498</u>
LIABILITIES			
Accounts payable and accrued expenses	21,070	61,789	82,859
Accrued interest	-	8,203	8,203
Accrued compensated absences	-	9,506	9,506
Customer deposits payable	-	147,098	147,098
Noncurrent liabilities			
Due within one year	25,716	139,574	165,290
Due in more than one year	84,128	1,690,381	1,774,509
TOTAL LIABILITIES	<u>130,914</u>	<u>2,056,551</u>	<u>2,187,465</u>
DEFERRED INFLOWS OF RESOURCES			
Pension plan	15,079	43,252	58,331
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>15,079</u>	<u>43,252</u>	<u>58,331</u>
NET POSITION			
Invested in capital assets, net of related debt	570,837	2,046,925	2,617,762
Restricted for:			
Debt service	27,488	-	27,488
Grant expenditures	-	1,232	1,232
Unrestricted	740,020	91,797	831,817
TOTAL NET POSITION	<u>\$ 1,338,345</u>	<u>\$ 2,139,954</u>	<u>\$ 3,478,299</u>

See accompanying notes to the financial statements.

**CITY OF ELKHART, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Fees, Fines, Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government							
Governmental activities							
General government	\$ 267,697	\$ -	\$ -	\$ -	\$ (267,697)	\$ -	\$ (267,697)
Streets	109,731	-	-	-	(109,731)	-	(109,731)
Fire protection	16,000	-	-	-	(16,000)	-	(16,000)
Enforcement	8,961	-	-	-	(8,961)	-	(8,961)
Health and welfare	6,420	-	4,916	-	(1,504)	-	(1,504)
Interest on long-term debt	3,190	-	-	-	(3,190)	-	(3,190)
Total governmental activities	<u>411,999</u>	<u>-</u>	<u>4,916</u>	<u>-</u>	<u>(407,083)</u>	<u>-</u>	<u>(407,083)</u>
Business-type activities							
Water, sewer, garbage	1,128,932	1,067,079	-	-	-	(61,853)	(61,853)
Interest on long-term debt	56,091	-	-	-	-	(56,091)	(56,091)
Total business-type activities	<u>1,185,023</u>	<u>1,067,079</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(117,944)</u>	<u>(117,944)</u>
Total primary government	<u>\$ 1,597,022</u>	<u>\$ 1,067,079</u>	<u>\$ 4,916</u>	<u>\$ -</u>	<u>(407,083)</u>	<u>(117,944)</u>	<u>(525,027)</u>
		General revenues					
		Property taxes			142,785	-	142,785
		Sales taxes			217,685	-	217,685
		Franchise taxes			82,726	-	82,726
		Investment income			959	2,146	3,105
		Miscellaneous income			7,726	1,980	9,706
		Transfers in (out)			-	-	-
		Total general revenues and transfers			<u>451,881</u>	<u>4,126</u>	<u>456,007</u>
		Change in net position			44,798	(113,818)	(69,020)
		Net position - beginning			<u>1,293,547</u>	<u>2,253,772</u>	<u>3,547,319</u>
		Net position - ending			<u>\$ 1,338,345</u>	<u>\$ 2,139,954</u>	<u>\$ 3,478,299</u>

See accompanying notes to the financial statements.

Fund Financial Statements

**CITY OF ELKHART, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2022**

	<u>Major Funds</u>		<u>Nonmajor</u>	<u>Total</u>
	<u>General Fund</u>	<u>Streets Fund</u>	<u>Debt Service Fund</u>	
ASSETS				
Cash and cash equivalents	\$ 273,428	\$ 280,683	\$ -	\$ 554,111
Receivables				
Property taxes, net of allowance	5,364	-	339	5,703
Sales taxes	29,369	7,342	-	36,711
Due from other funds	231,161	65,057	15,548	311,766
Restricted assets				
Cash and cash equivalents	-	-	27,488	27,488
TOTAL ASSETS	<u>539,322</u>	<u>353,082</u>	<u>43,375</u>	<u>935,779</u>
LIABILITIES				
Accounts payable and accrued expenses	5,656	15,414	-	21,070
Due to other funds	80,605	61,092	27,396	169,093
Total liabilities	<u>86,261</u>	<u>76,506</u>	<u>27,396</u>	<u>190,163</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	4,165	-	267	4,432
Total deferred inflows of resources	<u>4,165</u>	<u>-</u>	<u>267</u>	<u>4,432</u>
FUND BALANCES				
Restricted for:				
Debt service	-	-	15,712	15,712
Committed for:				
Street maintenance	-	276,576	-	276,576
Unassigned	448,896	-	-	448,896
Total fund balances	<u>448,896</u>	<u>276,576</u>	<u>15,712</u>	<u>741,184</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 539,322</u>	<u>\$ 353,082</u>	<u>\$ 43,375</u>	<u>\$ 935,779</u>

See accompanying notes to the financial statements.

**CITY OF ELKHART, TEXAS
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

Total fund balances - governmental funds balance sheet	\$	741,184
Amounts reported for governmental activities in the statement of net position are different because:		
Certain revenues are not available to pay current period expenditures and therefore, are reported as deferred inflows in the governmental funds.		4,433
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds.		680,680
Differences resulting from the issuance of long-term liabilities are not due in the current period and therefore, are not reported in the governmental funds.		(109,843)
Net pension liabilities (assets) are not due in the current period or do not provide current financial resources and therefore, are not reported in the governmental funds.		<u>21,891</u>
Net position of governmental activities	\$	<u>1,338,345</u>

See accompanying notes to financial statements.

CITY OF ELKHART, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	<u>Major Funds</u>		<u>Nonmajor</u>	<u>Total</u>
	<u>General Fund</u>	<u>Streets Fund</u>	<u>Debt Service Fund</u>	
REVENUES				
Property taxes, penalty and interest	\$ 133,681	\$ -	\$ 7,905	\$ 141,586
Sales taxes	174,148	43,537	-	217,685
Franchise taxes	-	82,726	-	82,726
Interest income	959	-	-	959
Donations	4,916	-	-	4,916
Other revenues	5,226	2,500	-	7,726
Total revenues	<u>318,930</u>	<u>128,763</u>	<u>7,905</u>	<u>455,598</u>
EXPENDITURES				
General government	221,811	-	-	221,811
Fire protection	16,000	-	-	16,000
Municipal court	8,961	-	-	8,961
Health and welfare	6,420	-	-	6,420
Streets	-	109,731	-	109,731
Capital outlay	10,929	-	-	10,929
Debt service				
Principal retired	2,075	-	-	2,075
Interest	3,190	-	-	3,190
Total expenditures	<u>269,386</u>	<u>109,731</u>	<u>-</u>	<u>379,117</u>
EXCESS (DEFICIENCY) OF REVENUES				
OVER EXPENDITURES	<u>49,544</u>	<u>19,032</u>	<u>7,905</u>	<u>76,481</u>
EXCESS (DEFICIENCY) OF REVENUES				
OVER EXPENDITURES AND OTHER USES	49,544	19,032	7,905	76,481
FUND BALANCES - BEGINNING OF YEAR	<u>399,352</u>	<u>257,544</u>	<u>7,807</u>	<u>664,703</u>
FUND BALANCES - END OF YEAR	<u>\$ 448,896</u>	<u>\$ 276,576</u>	<u>\$ 15,712</u>	<u>\$ 741,184</u>

See accompanying notes to the financial statements.

**CITY OF ELKHART, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

Net change in fund balance - governmental funds	\$	76,481
<p>Amounts reported for governmental activities in the government-wide statement of activities are different because:</p>		
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		1,198
Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		(47,124)
This represents retired principal debt that is not reported as current expenditures in the governmental funds.		2,076
This amount represents the change in net pension liabilities and related deferrals from the beginning of the period to the end of the period.		<u>12,167</u>
Change in net position of governmental activities	\$	<u><u>44,798</u></u>

See accompanying notes to the financial statements.

CITY OF ELKHART, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2022

	<u>Utility Fund</u>	<u>Total</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 187,869	\$ 187,869
Receivables, net of allowance	57,385	57,385
Unbilled receivables	6,652	6,652
Due from other funds	88,488	88,488
Restricted assets		
Cash and cash equivalents	1,232	1,232
Invested cash	186,763	186,763
Total current assets	<u>528,389</u>	<u>528,389</u>
Noncurrent assets		
Capital assets		
Nondepreciable	61,203	61,203
Depreciable, net of accumulated depreciation	3,815,677	3,815,677
Net pension asset	57,098	57,098
Total noncurrent assets	<u>3,933,978</u>	<u>3,933,978</u>
TOTAL ASSETS	<u>4,462,367</u>	<u>4,462,367</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension plan and other postemployment benefits	8,551	8,551
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>8,551</u>	<u>8,551</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	61,789	61,789
Accrued interest	8,203	8,203
Accrued compensated absences	9,506	9,506
Due to other funds	231,161	231,161
Customer deposits payable	147,098	147,098
Long term debt - current maturities	139,574	139,574
Total current liabilities	<u>597,331</u>	<u>597,331</u>
Noncurrent liabilities		
Long-term debt	1,690,381	1,690,381
Total noncurrent liabilities	<u>1,690,381</u>	<u>1,690,381</u>
TOTAL LIABILITIES	<u>2,287,712</u>	<u>2,287,712</u>
DEFERRED INFLOWS OF RESOURCES		
Pension plan and other postemployment benefits	43,252	43,252
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>43,252</u>	<u>43,252</u>
NET POSITION		
Invested in capital assets, net of related debt	1,860,162	1,860,162
Restricted for:		
Grant expenditures	52,732	52,732
Unrestricted	227,060	227,060
TOTAL NET POSITION	<u>\$ 2,139,954</u>	<u>\$ 2,139,954</u>

See accompanying notes to the financial statements.

CITY OF ELKHART, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Utility Fund	Total
OPERATING REVENUES		
Utility revenues	\$ 1,067,079	\$ 1,067,079
Miscellaneous charges	1,980	1,980
Total operating revenues	1,069,059	1,069,059
OPERATING EXPENSES		
Personnel and related costs	379,903	379,903
Supplies and materials	128,406	128,406
Office expense	17,797	17,797
Professional fees	70,674	70,674
Insurance	16,670	16,670
Education/dues	15,519	15,519
Utilities	1,617	1,617
Repairs and maintenance	83,182	83,182
Garbage expense	176,773	176,773
Other expense	6,486	6,486
Depreciation	231,905	231,905
Total operating expenses	1,128,932	1,128,932
INCOME (LOSS) FROM OPERATIONS	(59,873)	(59,873)
NONOPERATING REVENUES (EXPENSES)		
Interest income	2,146	2,146
Interest expense	(56,091)	(56,091)
Total nonoperating revenues (expenses)	(53,945)	(53,945)
CHANGE IN NET POSITION	(113,818)	(113,818)
NET POSITION AT BEGINNING OF YEAR	2,253,772	2,253,772
NET POSITION AT END OF YEAR	\$ 2,139,954	\$ 2,139,954

See accompanying notes to the financial statements.

CITY OF ELKHART, TEXAS
STATEMENT OF CASH FLOWS
UTILITY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers and users	\$ 1,075,042
Cash payments to suppliers	(527,669)
Cash payments to employees	<u>(407,095)</u>
Net cash provided by (used in) operating activities	<u>140,278</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(1,017,711)
Principal payments on long-term debt	(107,480)
Interest paid on long-term debt	<u>(56,091)</u>
Net cash provided by (used in) capital and related financing activities	<u>(1,181,282)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>2,146</u>
Net cash provided by (used in) investing activities	<u>2,146</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,038,858)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,414,722</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 375,864</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	
Operating income (loss) before nonoperating revenues	\$ (59,873)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation and amortization	231,905
Changes in assets and liabilities	
(Increase) decrease in accounts receivable; unbilled receivables	108
(Increase) decrease in due from other funds	(5,576)
(Increase) decrease in prepaid expenses	3,537
(Increase) decrease in grants receivable	2,100
(Increase) decrease in pension asset/liability	(47,209)
(Increase) decrease in deferred pension outflows	602
Increase (decrease) in accounts payable; accrued expenses	12,212
Increase (decrease) in accrued interest	(753)
Increase (decrease) in accrued compensated absences	82
Increase (decrease) in due to other funds	(22,065)
Increase (decrease) in customer deposits payable	5,875
Increase (decrease) in deferred pension inflows	<u>19,333</u>
Total adjustments	<u>200,151</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 140,278</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND INVESTED CASH TO THE STATEMENT OF NET POSITION	
Cash and cash equivalents	\$ 187,869
Restricted cash and cash equivalents	1,232
Invested cash	<u>186,763</u>
CASH AND CASH EQUIVALENTS AND INVESTED CASH, END OF YEAR	<u>\$ 375,864</u>

See accompanying notes to the financial statements.

Notes to the Financial Statements

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The financial statements of the City of Elkhart, Texas (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 accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting and reporting policies used by the City are discussed below.

Reporting Entity

The City of Elkhart 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 City’s major operations include: street repair and maintenance; general administrative services; and water, sewer, and sanitation utilities.

For financial reporting purposes, based on standards established by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, these financial statements should present the City (the primary government) and its component units. Component units generally are legally separate entities for which the primary government is financially accountable or for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading. The City does not have any blended or discretely presented component units.

Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report information on all of the activities of the City as a whole. *Governmental activities*, which normally are supported by taxes, grants, and other intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for services for support.

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 or segment. *Program revenues* include: 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other revenue sources not properly included with program revenues are reported as *general revenues*.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Separate financial statements are provided for governmental and proprietary (or “enterprise”) funds. Major individual governmental and major individual enterprise funds are reported in separate columns in the fund financial statements.

New Accounting Pronouncements

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (“GASB 89”), is intended to enhance the relevance and comparability of information about capital assets

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019 (changed to December 15, 2020 by GASB 95). Implementation of GASB 89 had no effect on the City's financial disclosures.

GASB Statement No. 91, *Conduit Debt Obligations* ("GASB 91"), is intended to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in certain practices. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2020. The effective date was subsequently extended by one year in accordance with GASB No. 95. Implementation of GASB 91 had no effects on the City's financial disclosures.

GASB Statement No. 92, *Omnibus 2020* ("GASB 92"), is intended to enhance comparability in accounting and financial reporting and to improve consistency of authoritative literature. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2020 (changed to June 15, 2021 by GASB 95). Implementation of GASB 92 is reflected in the City's financial disclosures.

GASB Statement No. 93, *Replacement of Interbank Offered Rates* ("GASB 93"), is primarily intended to address the accounting and financial reporting implications resulting from the replacement of an interbank offered rate. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2020 (changed to June 15, 2021 by GASB 95). Implementation of GASB 93 had no effect on the City's financial disclosures.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* ("GASB 94"), is intended to enhance comparability in accounting and financial reporting and to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2022. The effects of implementing GASB 94 on the City's financial disclosures have not been evaluated by management.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* ("GASB 96"), is intended to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2022. The effects of implementing GASB 96 on the City's financial disclosures have not been evaluated by management.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* ("GASB 97"), is intended to increase consistency and comparability related to the reporting of fiduciary component units, mitigate costs associated with the reporting of certain pension plans, and enhance the relevance, consistency, and comparability of the accounting and financial reporting of Section 457 plans. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2021. The effects of implementing GASB 97 on the City's financial disclosures have not been evaluated by management.

GASB Statement No. 98, *The Annual Comprehensive Financial Report* ("GASB 98"), establishes the term *annual comprehensive financial report* and its acronym *ACFR* to replace *comprehensive annual financial report* and its acronym *CAFR*. The requirements of this statement are effective for financial statements for periods ending after December 15, 2021. Implementation of GASB 98 had no effects on the City's financial disclosures.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

GASB Statement No. 99, *Omnibus 2022* (“GASB 99”), is intended to provide guidance on the implementation of certain GASB statements. The requirements of this statement are effective in varying parts for financial statements with immediate effect. Implementation of GASB 99 is reflected in the City’s financial disclosures.

GASB Statement No. 100, *Accounting Changes and Error Corrections – an Amendment to GASB 62* (“GASB 100”), is intended to enhance accounting and financial reporting for accounting changes and error corrections. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2023. The effects of implementing GASB 100 on the City’s financial disclosures have not been evaluated by management.

GASB Statement No. 101, *Compensated Absences* (“GASB 101”), is intended to update the recognition and measurement guidance for compensated absences. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2023. The effects of implementing GASB 101 on the City’s financial disclosures have not been evaluated by management.

GASB Statement No. 102, *Certain Risk Disclosures* (“GASB 102”), is intended to improve financial reporting and disclosure of certain concentrations or constraints and related events that have occurred or have begun to occur and is effective for periods beginning after June 15, 2024. Management has not evaluated the effects of implementing GASB 102 on the financial disclosures.

GASB Statement No. 103, *Financial Reporting Model Improvements* (“GASB 103”), is intended to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government’s accountability and is effective for periods beginning after June 15, 2025. Management has not evaluated the effects of implementing GASB 103 on the financial disclosures.

GASB Statement No. 104, *Disclosure of Certain Capital Assets* (“GASB 104”), updates required disclosure information relating to capital assets. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2025. Management has not evaluated the effects of implementing GASB 104 on the financial disclosures.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide 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 tax revenues are recognized in the year for which they are levied. Grants and donations are recognized as revenue in the fiscal year in which grantor eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related liability is incurred, as under accrual accounting. Debt service expenditures, both principal and interest, are recorded only when payment is due.

Major governmental fund revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes, and investment income. In general, all other revenue items are considered to be

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

measurable and available only when cash is received. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Proprietary funds distinguish between operating revenues and expenses from non-operating items. Operating income reported in proprietary fund financial statements include revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expense and depreciation of capital assets. Revenues and expenses not meeting this definition are classified as non-operating in the financial statements.

The City's funds are classified as either governmental or proprietary and are described below.

Governmental Funds. Governmental funds are used to account for all or most of a government's general activity.

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 intergovernmental revenue and grants. Expenditures include general government, fire, enforcement and health and welfare.

The *street maintenance fund* is used to account for the accumulation of sales tax and franchise taxes to be used for street maintenance and repairs, as well as the associated expenses for same.

The *debt service fund* is used to account for the accumulation of restricted monies for the payment of general obligation debt.

Proprietary Funds. Proprietary funds are used to account for the City's business-type activities.

The *utility fund* is used to account for 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 be financed or recovered primarily through user charges. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt.

The general fund and the street maintenance funds are reported as major funds.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the City's policy to generally consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of the City that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts. In both instances, when a proposed expenditure is made with specific balances identified as the source of the funding, that specific fund balance will be used.

All expenses incurred by the City are properly segregated and accounted for in the fund to which the expenses apply. Certain general and administrative expenses are allocated to the proprietary fund and to the governmental fund based on the level of services rendered through each fund as estimated by management.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

Assets, Liabilities, and Net Position or Fund Balance

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, money market accounts, and certificates of deposit or short-term, highly liquid investments that are readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents include investments with original maturities of three months or less and are stated at fair value.

Certificates of deposit consist of deposits with maturities greater than three months. Certificates of deposit are recorded at cost, which approximates market value. The City did not own any certificates of deposit at year end or at any time during the year.

The City is required by the Public Funds Collateral Act (Government Code, chapter 2257) to maintain security for all deposits of funds that exceed coverage provided by the Federal Deposit Insurance Corporation (FDIC). As of the balance sheet date, the City's cash deposits were fully collateralized by securities pledged by the depository banks. Based on audit procedures conducted in conjunction with the audit of the basic financial statements, the City complied with the requirements of the Public Funds Collateral Act.

The City is required by the Public Funds Investment Act (Government Code, chapter 2256) (the "Act") to adopt, implement, and publicize a written investment policy which primarily emphasizes safety of principal and liquidity, and addresses investment diversification, yield, and maturity. Additionally, the policy must address the quality and capability of investment management and include the types of investments in which the entity may invest its funds, as well as the maximum allowable stated maturity of any individual investment, the maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio of pooled fund groups, and bid requirements for certificates of deposit.

The City is authorized to invest in financial instruments, as authorized by the Act, including:

- U.S. Treasury securities which have a liquid market; direct obligations of the State of Texas, and other obligations that are guaranteed by the State of Texas or United States of America;
- obligations of states, agencies, counties, and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent;
- fully insured or collateralized certificates of deposit at commercial banks;
- repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency securities in accordance with a master repurchase agreement;
- joint pools of political subdivisions in the State of Texas which invest in instruments and follow practices allowed by current law (the pool must be continuously rated no lower than "AAA" or "AAA-m" by at least one nationally recognized rating service).

The Act also requires an annual audit of investment practices. Based on audit procedures conducted in conjunction with the audit of the basic financial statements, the City appears to have complied with the requirements of the Public Funds Investment Act.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

Fair Value of Financial Instruments

The City evaluates the fair value of its non-investment financial instruments based on the current interest rate environment and current pricing of debt instruments with comparable terms. The carrying value of all non-investment financial instruments, including debt, is considered to approximate fair value.

Receivables

All customer and property tax receivables are shown net of an estimated allowance for potentially uncollectible accounts. The receivable allowances are calculated based on historical collection rates.

Restricted Assets

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

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets and Depreciation

Capital assets, which include land, buildings and improvements, furniture and equipment, and infrastructure assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital 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.

Infrastructure assets are a subset of capital assets and primarily consist of roads and bridges. GASB No. 34 encourages but does not require Phase 3 governments (cities with revenues of less than \$10 million) to retroactively report major general infrastructure assets. New roads and bridges acquired after October 1, 2003 are required to be reported.

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.

Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

The estimated useful lives are as follows:

Buildings and improvements	5 to 50 years
Utility plant and equipment	3 to 40 years
Machinery and equipment	5 to 20 years
Transportation equipment	5 years
Office furniture and equipment	3 to 10 years
Streets and drainage	10 to 30 years

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

Deferred Inflows/Outflows of Resources

Deferred Outflows 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 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 that time. The City has one type of item, which arises only under a full accrual basis of accounting, that qualifies for reporting in this category: pension plan amounts. This item is reported on the proprietary fund balance sheet and the government-wide statement of net position and is described more fully later in these notes.

Deferred Inflows of Resources. 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 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 one item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category: unavailable revenue – property taxes is reported only on the governmental funds balance sheet and is deferred and recognized as an inflow in the period that the amount becomes available. The City has one other item, which arises only under a full accrual basis of accounting, that qualifies for reporting in this category: pension plan amounts. This item is reported on the proprietary fund balance sheet and the government-wide statement of net position and is described more fully later in these notes.

Compensated Absences

The City's policy is to encourage all employees to utilize their vacation time annually. In accordance with the City's maximum accrual policy, all employees, after 3 years of service, must take a minimum of 5 days (40 hours) of vacation leave. The maximum number of vacation days that may be accumulated is two times the employee's current accrual rate. Unused vacation time at September 30, 2022 have been accrued in the financial statements in the amount of \$9,506.

Employee sick leave time may be accumulated up to 960 hours (120 days), 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.

Long-term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures in the year incurred.

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

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

Net Position and Fund Balances

In the government-wide financial statements, the difference between the City's total assets and total liabilities represents net position. Net position is displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. At September 30, 2022, restricted net position represents monies that are legally restricted for payment of debt service and grant expenditures. Unrestricted net position represents the net position available for future operations.

In the governmental fund financial statements, fund balances are classified as follows:

Non-spendable – 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 – 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 – 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 – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes.

Unassigned – all other spendable amounts.

Proprietary fund net position is classified the same as in government-wide statements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets and Budgetary Process

In accordance with the City's legal requirements, the City adopts an annual budget for the general fund. 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. The City's budget was not amended during the current fiscal year.

Restricted Balances

Bond covenants require that the City establish separate bank accounts, with minimum balance requirements, for debt service payments for its bonds outstanding. At the end of the fiscal year, the City did not have a specific bank account that was designated to be used for the accumulation of I&S property

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

taxes received and payment of debt service on the Series 2019 bonds. All debt service payments were made on a timely basis.

DETAILED NOTES ON ALL FUNDS

ASSETS

Deposits and Investments

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.

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.

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the 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. As of September 30, 2022, the City’s cash deposits with depository banks totaled \$792,588. All deposits were fully collateralized by securities pledged by the depository banks with total collateral value of \$978,416 in addition to FDIC coverage.

Invested Cash. In the fiscal year ending September 30, 2020, the City deposited proceeds of \$2,000,000 of construction funds from the Series 2019 bond issue in two local government investment pools, the Texas Short Term Asset Reserve Program (“TEXSTAR”) and the Local Government Investment Cooperative (“LOGIC”). TEXSTAR and LOGIC are local government investment pools, which operate in full compliance with the Texas Public Funds Investment Act. TEXSTAR and LOGIC investment pools maintain a stable net asset value (“NAV”) of \$1 per share using the fair value method.

At September 30, 2022, the remaining balance of these funds is as follows:

	Balance 09/30/22	Weighted Average Maturity (years)
Investments pools:		
TEXSTAR (net asset value)	\$ 77,227	0.04
LOGIC (net asset value)	109,536	0.05
Total value	\$ 186,763	
Portfolio weighted average maturity		0.05

The project funded with these bonds was completed in 2022. See additional note *Bond Compliance Requirements* on page 41 for disposition of these remaining funds.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

Receivables

Receivable and Uncollectible Accounts. The City's receivables at year end, including the related allowances for uncollectible accounts, are as follows:

	<u>Customer Accounts</u>	<u>Property Taxes</u>	<u>Sales Taxes</u>	<u>Unbilled Receivables</u>	<u>Totals</u>
Receivables by activity					
Governmental	\$ -	\$ 22,863	\$ 36,711	\$ -	\$ 59,574
Business-type	<u>83,392</u>	<u>-</u>	<u>-</u>	<u>6,652</u>	<u>90,044</u>
Receivables, gross	<u>83,392</u>	<u>22,863</u>	<u>36,711</u>	<u>6,652</u>	<u>149,618</u>
Allowance for uncollectibles					
Governmental	-	(17,160)	-	-	(17,160)
Business-type	<u>(26,007)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,007)</u>
Total allowance	<u>(26,007)</u>	<u>(17,160)</u>	<u>-</u>	<u>-</u>	<u>(43,167)</u>
Total receivables, net	<u>\$ 57,385</u>	<u>\$ 5,703</u>	<u>\$ 36,711</u>	<u>\$ 6,652</u>	<u>\$ 106,451</u>

Property Taxes. Property taxes are levied on October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. Taxes are due upon receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property taxes are considered available when paid.

The combined tax rate to finance general governmental services and principal and interest on long-term debt for the year ended September 30, 2022, was \$.294023 per \$100 of assessed valuation. The total taxable value and total tax levy assessed for the year was \$46,023,379 and \$135,319, respectively. The City has contracted with the Anderson County Central Appraisal District for the collection of property taxes.

Interfund Receivables, Payables, and Transfers

The following interfund receivable and payable balances are the result of cash needed by the utility fund until the fund is able to generate sufficient revenues to cover expenditures. These receivables and payables are netted and eliminated on the government-wide statement of net assets.

At September 30, 2022, these internal balances consisted of the following:

	<u>Receivable</u>	<u>Payable</u>	<u>Net Totals</u>
<i>Governmental activities</i>			
General Fund	\$ 231,161	\$ (80,605)	\$ 150,556
Streets Fund	65,057	(61,092)	3,965
Debt Service Fund	<u>15,548</u>	<u>(27,396)</u>	<u>(11,848)</u>
Total governmental activities	<u>\$ 311,766</u>	<u>\$ (169,093)</u>	<u>\$ 142,673</u>
<i>Business-type activities</i>			
Utility Fund	<u>\$ 88,488</u>	<u>\$ (231,161)</u>	<u>\$ (142,673)</u>
Total business-type activities	<u>\$ 88,488</u>	<u>\$ (231,161)</u>	<u>\$ (142,673)</u>

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

Capital Assets

A summary of changes in capital assets for the year ended September 30, 2022 is as follows:

Governmental activities

	<u>Balance</u> <u>09/30/2021</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>09/30/2022</u>
Capital assets, not being depreciated				
Land	\$ 92,250	\$ -	\$ -	\$ 92,250
Total not being depreciated	<u>92,250</u>	<u>-</u>	<u>-</u>	<u>92,250</u>
Capital assets, being depreciated				
Buildings and improvements	108,459	-	-	108,459
City park improvements	34,917	10,929	-	45,846
Machinery and equipment	83,341	-	-	83,341
Office equipment and furniture	5,767	-	-	5,767
Streets	845,796	-	-	845,796
Total being depreciated	<u>1,078,280</u>	<u>10,929</u>	<u>-</u>	<u>1,089,209</u>
Less accumulated depreciation:				
Buildings and improvements	(34,058)	(9,570)	-	(43,628)
City park improvements	(5,621)	(12,265)	-	(17,886)
Machinery and equipment	(46,801)	(8,301)	-	(55,102)
Office equipment and furniture	(5,767)	-	-	(5,767)
Streets	(350,478)	(27,917)	-	(378,395)
Total accumulated depreciation	<u>(442,725)</u>	<u>(58,053)</u>	<u>-</u>	<u>(500,778)</u>
Total being depreciated, net	<u>635,555</u>	<u>(47,124)</u>	<u>-</u>	<u>588,431</u>
Total capital assets, net	<u>\$ 727,805</u>	<u>\$ 47,124</u>	<u>\$ -</u>	<u>\$ 680,681</u>
				<u>(109,844)</u>
				<u>\$ 570,837</u>

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

General government	\$	23,035
Streets		33,818
Fire protection		<u>1,200</u>
Total	<u>\$</u>	<u>58,053</u>

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CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

Business-type activities

	Balance 09/30/2021	Additions	Placed in service/ Disposals	Balance 09/30/2022
Capital assets, not being depreciated				
Land	\$ 61,203	\$ -	\$ -	\$ 61,203
Construction in progress	<u>1,405,764</u>	<u>974,879</u>	<u>(2,380,643)</u>	<u>-</u>
Total not being depreciated	<u>1,466,967</u>	<u>974,879</u>	<u>-</u>	<u>61,203</u>
Capital assets, being depreciated				
Plant and equipment	5,389,167	2,380,643	-	7,769,810
Transportation equipment	111,668	14,512	-	126,180
Machinery and equipment	498,320	28,320	-	526,640
Office equipment	<u>3,202</u>	<u>-</u>	<u>-</u>	<u>3,202</u>
Total being depreciated	<u>6,002,357</u>	<u>2,423,475</u>	<u>-</u>	<u>8,425,832</u>
Less accumulated depreciation:				
Plant and equipment	(3,911,624)	(177,598)	-	(4,089,222)
Transportation equipment	(87,031)	(14,232)	-	(101,263)
Machinery and equipment	(376,393)	(40,075)	-	(416,468)
Office equipment	<u>(3,202)</u>	<u>-</u>	<u>-</u>	<u>(3,202)</u>
Total accumulated depreciation	<u>(4,378,250)</u>	<u>(231,905)</u>	<u>-</u>	<u>(4,610,155)</u>
Total being depreciated, net	<u>1,624,107</u>	<u>2,191,570</u>	<u>-</u>	<u>3,815,677</u>
Total capital assets, net	<u>\$ 3,091,074</u>	<u>\$ 3,166,449</u>	<u>\$ (2,380,643)</u>	<u>\$ 3,876,880</u>
				<u>(1,829,955)</u>
				<u>\$ 2,046,925</u>

Depreciation expense of \$231,905 was charged to the proprietary fund.

Construction in Progress

The City began a three phase water improvement project in late 2020. The project focused on water transmission and water pump station improvements. Phase 1 was funded by a grant secured through the Texas Department of Agriculture. Grant administration for phase 1 was managed through Traylor and Associates; engineering was provided by KSA. Phases 2 and 3 were funded by combination tax and revenue certificates of obligation issued in 2019. Different contractors and subcontractors were utilized throughout the 2nd and 3rd phases; engineering was provided by KSA. All phases of the project were completed and placed in service at the end of fiscal year 2022.

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CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

LIABILITIES

Long-Term Debt

Long-term debt activity for the year ended September 30, 2022, was as follows:

Governmental activities

	Balance 09/30/21	Additions	Reductions	Balance 09/30/22	Due Within One Year
Land note	\$ 71,920	\$ -	\$ -	\$ 71,920	\$ 12,909
Building note	40,000	-	(2,076)	37,924	12,807
Total long-term debt	<u>\$ 111,920</u>	<u>\$ -</u>	<u>\$ (2,076)</u>	<u>\$ 109,844</u>	<u>\$ 25,716</u>

Business-type activities

	Balance 09/30/21	Additions	Reductions	Balance 09/30/22	Due Within One Year
Series 2019 bonds	\$ 1,877,997	\$ -	\$ (89,863)	\$ 1,788,134	\$ 121,000
Tractor loan	32,035	-	(7,535)	24,500	7,843
Vehicle loan	27,403	-	(10,082)	17,321	10,731
Total long-term debt	<u>\$ 1,937,435</u>	<u>\$ -</u>	<u>\$ (107,480)</u>	<u>\$ 1,829,955</u>	<u>\$ 139,574</u>

The annual debt service requirements to maturity for all long-term debt are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	Principal	Interest	Principal	Interest
2023	\$ 25,716	\$ 5,087	\$ 139,574	\$ 50,831
2024	26,993	3,810	138,753	46,375
2025	26,016	2,398	162,589	42,321
2026	15,137	1,334	158,094	38,437
2027	15,982	489	161,094	34,622
2028-2032	-	-	743,851	112,247
2033-2035	-	-	<u>326,000</u>	<u>14,189</u>
Total	<u>\$ 109,844</u>	<u>\$ 13,118</u>	<u>\$ 1,829,955</u>	<u>\$ 399,022</u>

Additional information regarding the City's long-term debt obligations follows:

Note payable to CBTx, Elkhart Banking Center. In September 2022, the City made a first modification and extension to the initial agreement for the purchase of land for \$71,920. The new agreement bears interest at 5.50% annually and matures on September 1, 2027. The monthly principal and interest installments total \$1,373 start on October 12, 2022. The note is collateralized by the land that the note serves to finance.

Note payable to CBTx, Elkhart Banking Center. In July 2022, the City made a first modification and extension to the initial agreement for the purchase of a new building for \$40,000. The new agreement bears interest at 4.75% annually and matures on July 12, 2025. The monthly principal and interest installments total \$1,194 began on August 12, 2022. The note is collateralized by the building that the note serves to finance.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

Note payable to CBTx, Elkhart Banking Center. In September 2021, the City financed the purchase of a John Deere tractor for \$32,035. The note bears interest at 4.00% annually and is payable in 48 (forty-eight) monthly installments of \$723. The note matures in 2025 and is collateralized by the equipment that the note serves to finance.

Note payable to CBTx, Elkhart Banking Center. In March 2019, the City financed the purchase of two new trucks and related accessories for \$49,271. The note bears interest at 6.25% annually and is payable in 60 (sixty) monthly installments of \$959. The note matures in 2024 and is collateralized by the equipment that the note serves to finance.

Combination Tax and Revenue Certificates of Obligation, Series 2019. In September 2019, the City issued Combination Tax and Revenue Certificates of Obligation, Series 2019, in the amount of \$2,050,000. The bonds were dated September 18, 2019, bear interest at 2.89%, and matures in 2034. Bonds may be called on August 15, 2026, or any date thereafter at the redemption price of par. The bonds were issued for the purpose of water line improvements. The bonds are repaid from and secured by a pledge of surplus net revenues of the City's proprietary fund.

Bond Compliance Requirements. The bond ordinances require that during the period in which the bonds are outstanding, the City must create and maintain certain accounts or funds to receive the proceeds from the sale of the bonds and to account for the revenues (as defined) and/or taxes, which are pledged for payment of the bonds. The assets can be used only in accordance with the terms of the bond ordinance and for the specific purpose(s) designated therein.

At September 30, 2022, the City had completed the water improvement project that was funded by the bonds. In accordance with the bond documents, any moneys remaining on deposit from construction proceeds should be transferred to the interest and sinking fund.

At fiscal year end, the City had not established a specific bank account for the accumulation of funds needed for debt service payments. All debt service payments were made timely from operating funds. As noted previously, construction expenses were paid from TEXSTAR and LOGIC investment accounts. Remaining construction funds (\$186,763 at September 30, 2022) should be combined with other monies be set aside for interest and sinking.

Defined Benefit Pension Plan

Plan Description. The City of Elkhart participates as one of 895 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System ("TMRS"). TMRS is a statewide public retirement plan 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 employees of Texas participating cities. The TMRS Act places the general administration and management of the System with a six-member Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the state of Texas. TMRS issues a publicly available comprehensive annual financial report ("Annual Report") that can be obtained at tmrs.com. All eligible employees of the City are required to participate in TMRS.

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 member's benefit is calculated based on the sum of the member's contributions, with interest, and the City-financed monetary credits with interest. The retiring member may select one of

CITY OF ELKHART, TEXAS
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SEPTEMBER 30, 2022

seven monthly benefit payment 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 total member contributions and interest.

	Plan Year 2021
Employee deposit rate	5%
Matching ratio (City to employee)	1 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, Any/25
Updated Service Credit	0%
Annuity Increase (to retirees)	70% of CPI, Repeating

Employees Covered by Benefit Terms. At the December 31, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	17
Active employees	8
	32

Contributions and Actuarial Information. 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. 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 5.0% of their annual gross earnings during the fiscal year. The contribution rates for the City of Elkhart were 4.29% and 3.95% in calendar years 2021 and 2022, respectively. The City’s contributions to TMRS for the year ended September 30, 2022 were \$17,509 and were equal to the required contributions.

The City’s Net Pension Liability/Asset (“NPL”) was measured as of December 31, 2021, and the Total Pension Liability (“TPL”) used to calculate the Net Pension Liability/Asset was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The Total Pension Liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	2.25% per year
Investment Rate of Return (net of pension plan investment expense, including inflation)	6.75%

Salary increases were based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees, and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 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 2011 and dated December 31, 2013. 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.

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 2022 are summarized in the following table:

<u>Asset Class:</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return (Arithmetic)</u>
Global equity	30.0%	5.30%
Core fixed income	10.0%	1.25%
Non-core fixed income	20.0%	4.14%
Real return	10.0%	3.85%
Real estate	10.0%	4.00%
Absolute return	10.0%	3.48%
Private equity	10.0%	7.75%
Total	100.0%	

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.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

Changes in the Net Pension Liability/Asset. A detailed schedule of changes in net pension liability/asset is as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
Balance at 12/31/2020	\$ 757,314	\$ 789,866	\$ (32,552)
Changes for the year:			
Service cost	31,481	-	31,481
Interest	50,786	-	50,786
Difference between expected and actual experience	(6,286)	-	(6,286)
Changes of assumptions	-	-	-
Contributions - employer	-	15,012	(15,012)
Contributions - employee	-	17,508	(17,508)
Net investment income	-	102,504	(102,504)
Benefit payments, incl. employee contrib. refunds	(41,333)	(41,333)	-
Administrative expense	-	(476)	476
Other charges	-	3	(3)
Net changes	<u>34,648</u>	<u>93,218</u>	<u>(58,570)</u>
Balance at 12/31/2021	<u>\$ 791,962</u>	<u>\$ 883,084</u>	<u>\$ (91,122)</u>

The City has allocated the current year activity, except for contributions, on a pro-rata basis between governmental and business-type activities based on calendar year 2021 contributions by activity.

A summary of changes in net pension liability/asset by activity follows.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
Beginning balance, 12/31/2020			
Governmental activities	\$ 52,461	\$ 75,124	\$ (22,663)
Business-type activities	<u>704,853</u>	<u>714,742</u>	<u>(9,889)</u>
Total balance, 12/31/2020	<u>757,314</u>	<u>789,866</u>	<u>(32,552)</u>
Changes for the year, net			
Governmental activities	6,725	18,086	(11,361)
Business-type activities	<u>27,923</u>	<u>75,132</u>	<u>(47,209)</u>
Total changes for the year, net	<u>34,648</u>	<u>93,218</u>	<u>(58,570)</u>
Ending balance, 12/31/2021			
Governmental activities	59,186	93,210	(34,024)
Business-type activities	<u>732,776</u>	<u>789,874</u>	<u>(57,098)</u>
Total balance at 12/31/2021	<u>\$ 791,962</u>	<u>\$ 883,084</u>	<u>\$ (91,122)</u>

Sensitivity of the Net Pension Liability/Asset to Changes in the Discount Rate. The following presents the net pension liability/asset of the City, calculated using the discount rate of 6.75%, as well as what the

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

City's net pension liability/asset 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 (asset)	\$ 602	\$ (91,122)	\$ (166,495)

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's Fiduciary Net Position is available in the Schedule of Changes in Fiduciary Net Position, by Participating City. That report may be obtained at *tmrs.com*.

Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions. For the year ended September 30, 2022, the City recognized net pension (benefit) expense of \$(24,140). Net pension (benefit) expense was charged to functions/programs as follows:

Function/program	Governmental Activities	Business-type Activities	Total
General government	\$ (8,368)	\$ -	\$ (8,368)
Water and sewer	-	(15,772)	(15,772)
Total	\$ (8,368)	\$ (15,772)	\$ (24,140)

At September 30, 2022, the City reported deferred amounts related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<i>Governmental activities</i>		
Differences between expected and actual economic experience	\$ -	\$ (1,500)
Difference between projected and actual investment earnings	-	(13,529)
Changes in actuarial assumptions	-	(50)
Contributions subsequent to the measurement date	2,947	-
Totals, governmental activities	\$ 2,947	\$ (15,079)
<i>Business-type activities</i>		
Differences between expected and actual economic experience	\$ -	\$ (4,596)
Difference between projected and actual investment earnings	-	(38,565)
Changes in actuarial assumptions	-	(91)
Contributions subsequent to the measurement date	8,551	-
Totals, business-type activities	8,551	(43,252)
Totals, all activities	\$ 11,498	\$ (58,331)

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

<u>Plan Year ended December 31,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2022	\$ 11,498	\$ (14,942)
2023	-	(22,538)
2024	-	(11,015)
2025	-	(9,836)
2026	-	-
Total	<u>\$ 11,498</u>	<u>\$ (58,331)</u>

OTHER INFORMATION

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, injuries to employees; and natural disasters. The City provides insurance coverage for each of those risks of loss by participation in the Texas Municipal League Intergovernmental Risk Pool. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. The City did not have any significant claims during the current year.

Contingent Liabilities

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

Subsequent Events

Utility billing software contract. In May 2025, the City signed a one year contract with AdComp Systems for online access to its products and services for billing software (GovTrack). The software also provides online access to reports of activities and transactions by the consumer. The one-time set up fee is \$3,000 with an annual service fee of \$6,800.

The date of conversion to GovTrack was October 1, 2025, and, as of the date of this report, the City has not completed the full migration of Asyst data to GovTrack.

The initial one-year contract term expires on May 8, 2026, with the option to extend each year for the cost of the annual service fee.

Management has evaluated subsequent events through April 2, 2026, the date when the financial statements were available to be issued.

**Required Supplementary Information
(unaudited)**

CITY OF ELKHART, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Original Adopted Budget	Final Appropriated Budget	Actual Amounts	Variances Favorable (Unfavorable)
REVENUES				
Property taxes, penalties and interest	\$ 158,930	\$ 158,930	\$ 133,681	\$ (25,249)
Sales taxes	144,000	144,000	174,148	30,148
Donations	2,400	2,400	4,916	2,516
Other revenues	4,360	4,360	6,185	1,825
Total revenues	<u>309,690</u>	<u>309,690</u>	<u>318,930</u>	<u>9,240</u>
EXPENDITURES				
General government	232,790	232,790	221,811	10,979
Fire protection	-	-	16,000	(16,000)
Enforcement	48,900	48,900	8,961	39,939
Health and welfare	28,000	28,000	6,420	21,580
Capital outlay	-	-	10,929	(10,929)
Debt service	-	-	5,265	(5,265)
Total expenditures	<u>309,690</u>	<u>309,690</u>	<u>269,386</u>	<u>40,304</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>49,544</u>	<u>49,544</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	-	-	49,544	49,544
FUND BALANCE - BEGINNING OF YEAR	<u>399,352</u>	<u>399,352</u>	<u>399,352</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 399,352</u>	<u>\$ 399,352</u>	<u>\$ 448,896</u>	<u>\$ 49,544</u>

See Independent Auditors' Report and Notes to the Financial Statements.

CITY OF ELKHART, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
STREETS FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Original Adopted Budget	Final Appropriated Budget	Actual Amounts	Variances Favorable (Unfavorable)
REVENUES				
Sales taxes	\$ 60,000	\$ 60,000	\$ 43,537	\$ (16,463)
Franchise taxes	88,100	88,100	82,726	(5,374)
Other revenues	-	-	2,500	2,500
Total revenues	<u>148,100</u>	<u>148,100</u>	<u>128,763</u>	<u>(19,337)</u>
EXPENDITURES				
General government	-	-	-	-
Fire protection	-	-	-	-
Streets and utilities	148,100	148,100	109,731	38,369
Enforcement	-	-	-	-
Health and welfare	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>148,100</u>	<u>148,100</u>	<u>109,731</u>	<u>38,369</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>19,032</u>	<u>19,032</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	-	-	19,032	19,032
FUND BALANCE - BEGINNING OF YEAR	<u>257,544</u>	<u>257,544</u>	<u>257,544</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 257,544</u>	<u>\$ 257,544</u>	<u>\$ 276,576</u>	<u>\$ 19,032</u>

See Independent Auditors' Report.

CITY OF ELKHART, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET)
AND RELATED RATIOS - LAST TEN YEARS *
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Plan Year Ending December 31,							
	2021	2020	2019	2018	2017	2016	2015	2014
TOTAL PENSION LIABILITY								
Service cost	31,481	28,577	\$ 24,772	\$ 19,651	\$ 18,706	\$ 18,373	\$ 22,129	\$ 23,475
Interest (on the total pension liability)	50,786	48,627	48,470	45,918	44,856	45,652	47,393	44,030
Changes of benefit terms	-	-	-	-	-	-	-	-
Difference between expected and actual experience	(6,286)	(8,967)	(31,332)	2,958	(11,907)	(28,307)	(40,921)	13,629
Change of assumptions	-	-	(5,484)	-	-	-	11,482	-
Benefit payments, including employee contribution refunds	(41,333)	(34,064)	(37,947)	(28,602)	(44,194)	(51,154)	(26,705)	(38,116)
NET CHANGE IN TOTAL PENSION LIABILITY	34,648	34,173	(1,521)	39,925	7,461	(15,436)	13,378	43,018
TOTAL PENSION LIABILITY - BEGINNING	757,314	723,141	724,662	684,737	677,276	692,712	679,334	636,316
TOTAL PENSION LIABILITY - ENDING	(a) \$ 791,962	\$ 757,314	\$ 723,141	\$ 724,662	\$ 684,737	\$ 677,276	\$ 692,712	\$ 679,334
PLAN FIDUCIARY NET POSITION								
Contributions - employer	\$ 15,012	\$ 16,806	\$ 15,455	\$ 13,270	\$ 12,558	\$ 13,151	\$ 15,022	\$ 15,960
Contributions - employee	17,508	16,091	15,152	11,519	10,726	11,041	13,299	15,983
Net investment income	102,504	55,563	99,076	(19,916)	83,599	39,914	874	32,401
Benefit payments, including employee contribution refunds	(41,333)	(34,064)	(37,947)	(28,602)	(44,194)	(51,154)	(26,705)	(38,116)
Administrative expense	(476)	(361)	(563)	(387)	(436)	(453)	(532)	(338)
Other	3	(15)	(17)	(20)	(22)	(24)	(27)	(28)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	93,218	54,020	91,156	(24,136)	62,231	12,475	1,931	25,862
PLAN FIDUCIARY NET POSITION - BEGINNING	789,866	735,846	644,690	668,826	606,595	594,120	592,189	566,327
PLAN FIDUCIARY NET POSITION - ENDING	(b) 883,084	789,866	\$ 735,846	\$ 644,690	\$ 668,826	\$ 606,595	\$ 594,120	\$ 592,189
NET PENSION LIABILITY (ASSET) - ENDING	(a - b) \$ (91,122)	\$ (32,552)	\$ (12,705)	\$ 79,972	\$ 15,911	\$ 70,681	\$ 98,592	\$ 87,145
RELATED RATIOS								
Plan Fiduciary Net Position as a percentage of Total Pension Liability	111.51%	104.30%	101.76%	88.96%	97.68%	89.56%	85.77%	87.17%
Covered Employee Payroll	350,175	321,810	\$ 294,899	\$ 230,379	\$ 214,514	\$ 220,815	\$ 265,977	\$ 319,650
Net Pension Liability (Asset) as a percentage of Covered Employee Payroll	-26.02%	-10.12%	-4.31%	34.71%	7.42%	32.01%	37.07%	27.26%

* - GASB 68 requires ten years of data to be presented. Data for only eight years are available.

See Independent Auditors' Report and Notes to the Financial Statements.

**CITY OF ELKHART, TEXAS
SCHEDULE OF PENSION CONTRIBUTIONS
LAST TEN FISCAL YEARS *
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

	Fiscal Year Ending September 30,								
	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially Determined Contribution	\$ 15,302	\$ 15,851	\$ 16,628	\$ 14,362	\$ 13,092	\$ 12,396	\$ 13,490	\$ 15,697	\$ 11,139
Contributions in relation to the actuarially determined contribution	<u>15,302</u>	<u>15,851</u>	<u>16,628</u>	<u>14,362</u>	<u>13,092</u>	<u>12,356</u>	<u>13,490</u>	<u>15,697</u>	<u>11,139</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered Employee Payroll	\$ 385,454	\$ 350,030	\$ 321,140	\$ 275,195	\$ 226,352	\$ 210,840	\$ 229,715	\$ 287,662	\$ 300,634
Contributions as a percentage of Covered Employee Payroll	3.97%	4.53%	5.18%	5.22%	5.78%	5.86%	5.87%	5.46%	3.71%

* - GASB 68 requires ten years of data to be presented. Data for only nine years are available.

See Independent Auditors' Report and Notes to the Schedule of Pension Contributions.

**CITY OF ELKHART, TEXAS
NOTES TO THE SCHEDULE OF PENSION CONTRIBUTIONS
SEPTEMBER 30, 2022**

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

<i>Actuarial Cost Method</i>	Entry Age Normal
<i>Amortization Method</i>	Level Percentage of Payroll, Closed
<i>Remaining Amortization Period</i>	N/A
<i>Asset Valuation Method</i>	10 year smoothed market; 12% soft corridor
<i>Inflation</i>	2.50%
<i>Salary Increases</i>	3.50% to 11.50% including inflation
<i>Investment Rate of Return</i>	6.75%
<i>Retirement Age</i>	Experience-based table of rates that are specific to the City’s plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018.
<i>Mortality</i>	<p>Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.</p> <p>Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.</p>

Other Information

<i>Notes</i>	There were no benefit changes during the year.
<i>Presentation of Schedule</i>	In accordance with GASB standards, the City reports contribution activity included in the Schedule of Pension Contributions based on the City’s fiscal year end of June 30.

COMPLIANCE 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 *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and
Members of the City Council
City of Elkhart, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elkhart, Texas (the "City"), as of and for the year ended September 30, 2022, 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 April 2, 2026.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

We consider the deficiencies described in the accompanying schedule of findings as items 2022-001 through 2022-002 to be material weaknesses.

**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 *GOVERNMENT
AUDITING STANDARDS* – CONTINUED**

Report on 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 that are required to be reported under *Government Auditing Standards*.

City of Elkhart, Texas' Response to Findings

Government Auditing Standards requires that the auditor to perform limited procedures on the City's responses to the findings identified in our audit and described in the accompanying schedule of findings. The City's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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.

Todd, Hamaker & Johnson, LLP

Todd, Hamaker & Johnson, LLP
Lufkin, Texas

April 2, 2026

**CITY OF ELKHART, TEXAS
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

Financial Statements Audit Findings

**2022-001 *Material Weakness: Conversion of utility balances*
*(see also, Prior Audit Finding 2021-001)***

Prior year finding. During fiscal year 2021, the City changed its utility billing software from RVS to Asyst. The City was unable to provide detailed, written records that documented the transfer and reconciliation of customer balances (both accounts receivable and customer deposits) at the time of conversion from RVS to Asyst. Further, they were not able to reproduce these records from the system.

Prior year recommendation. On October 1, 2025, the City converted customer balances (both accounts receivable and customer deposits) into a different utility billing system (GovTrack). It is critical that the City prints (or maintains electronically) sufficient records that document these conversions by customer from one system to the other. This record (along with other items mentioned in the following finding) will be essential in being able to provide an unqualified opinion on the financials in future years.

FY 2022 update. As noted above, the City stopped using Asyst in September 2025. It is our understanding that Asyst deleted data prior to September 2023. No reports showing accounts receivable and customer deposit balances were printed during fiscal year 2022 or fiscal year 2023.

Beginning in October 2023, the City was able to print reports from the Asyst system for that time period. However, we have no assurance that these reports contain balances prior to September 2023.

When the City made the decision to move to GovTrack, the vendor made representation to City personnel that they would likely be able to provide prior year data from the Asyst system as part of the conversion at October 1, 2025. As of the date of this report, the City has not received this information from GovTrack. Further, GovTrack has not provided reports showing movement of balances from Asyst to GovTrack.

FY 2022 recommendation. It is imperative that the City find a way to produce a complete, detailed listing of customer balances (both accounts receivable and customer deposits) that is from the City's billing system. City Management must be responsible to determine the accuracy and auditability of these balances.

Management's response and corrective action. See *Management's Responses to Findings and Corrective Action Plan* on page 59.

**2022-002 *Material Weakness: Reconciliation of utility billing software and QuickBooks*
*(see also, Prior Audit Finding 2021-002)***

Prior year finding. The City's utility billings software (both old and new system) does not interface directly with QuickBooks (the City's primary financial source).

The City was unable to provide a detailed listing by customer (for both accounts receivable and customer deposits) at September 30, 2022. These reports were not printed (either on paper or electronic format) at months-end or year-end and could not be reproduced currently from the system, Asyst. Consequently, the balances in QuickBooks at September 30, 2022 could not be validated or reconciled with anything from the utility billing system. It was also noted that specific procedures were not in place to ensure that the utility billing system and QuickBooks are reconciled.

Prior year recommendation. The following recommendations should be considered:

**CITY OF ELKHART, TEXAS
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

1. Establish daily procedures for reconciling the activity in the utility billing system with the data recorded in QuickBooks.
2. Determine what daily/monthly reports should be generated (and saved, likely electronically) to ensure and document proper balancing and reconciliation of the systems.
3. At month end, always print an accounts receivable aging by customer and a customer deposit listing by customer. Establish a specific procedure for reconciling customer accounts receivable/customer deposits balances from the billing system and the respective balances in QuickBooks.
4. Determine that all computer systems are backed up daily.
5. Establish a listing of reports to be provided the Council for monitoring utility billing/collection activity.

FY 2022 update. None of the recommendations were implemented in fiscal year 2022.

FY 2022 recommendation. In addition to the prior year recommendations, the City needs to hold its current software vendor (GovTrack) accountable for support, additional training, and assistance with generating comprehensive monthly reports for billing and payments in order to balance and reconcile with the system.

Management's response and corrective action. See *Management's Responses to Findings and Corrective Action Plan* on page 59.

**CITY OF ELKHART, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

Financial Statements Audit Findings

2021-001 *Material Weakness: Conversion of utility balances*

Status. This item remains outstanding; see current year finding 2022-01 on page 56.

2021-002 *Material Weakness: Reconciliation of utility billing software and QuickBooks*

Status. This item remains outstanding; see current year finding 2022-02 on page 56.

Compliance and Other Matters

None reported in 2021.

**CITY OF ELKHART, TEXAS
MANAGEMENT’S RESPONSES TO FINDINGS AND CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

Jennifer McCoy, Mayor
Sunshine Alcorta, City Secretary



Tanya Conner, Councilmember
James Warren, Councilmember
Randy McCoy, Councilmember
William Tom Ellis, Councilmember
Lucia Butler, Mayor Pro Tem

www.cityofelkharttx.gov

Management’s Responses to Audit Findings Dated March 31, 2026

The City of Elkhart, Texas, submits the following responses to the Schedule of Audit Findings for the fiscal year ended September 30, 2022.

2022-001 Conversion of utility balances

Response and Planned Corrective Action: The auditor identified that the historical account history was lost due to storage limitations in the cloud system maintained by Central Square until September 2023. Recently, I have been working on transferring current data to the new billing software. To ensure data accuracy, we have designed a form that records daily logs and prints them out each day’s records.

Anticipated Implementation Date – September 30, 2025

Official Responsible for Corrective Action – Sunshine Alcorta

2022-002 Reconciliation of utility billing software with QuickBooks

Response and Planned Corrective Action – We are actively transitioning to the new billing software system. Daily logs are maintained and categorized accordingly to align the information with the quick reference data books.

Anticipated Implementation Date – October 1, 2026

Official Responsible for Corrective Action – Sunshine Alcorta

Respectfully,

Jennifer McCoy
Jennifer McCoy (Apr 1, 2026 16:02:39 CDT)

Jennifer McCoy
Mayor