

CITY OF ELKHART, TEXAS
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

INTRODUCTORY SECTION

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CITY OF ELKHART, TEXAS
PRINCIPAL CITY OFFICIALS
AT SEPTEMBER 30, 2021

Honorable Jennifer McCoy.....Mayor

Raymond DunlapMayor Pro Tem

Lucia Butler Councilmember

James Warren..... Councilmember

Daryll Faulk Councilmember

Chuck Conner Councilmember

Sunshine Alcorta City Secretary

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elkhart, Texas, (the "City") as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT – *CONTINUED*

Summary of Opinions

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

Basis for Qualified Opinions

Business-Type Activities and Utility Fund. During the fiscal year, the City changed its utility billing software. The City was 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 a detailed listing by customer (for both receivable balances and meter deposit balances) that agreed the customer receivables/customer deposit payable balance per the general ledger at year end.

Qualified Opinions

In our opinion, except for the effects of the matters described in the “Basis for Qualified Opinions” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the City of Elkhart, Texas, as of September 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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 47-51, 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 October 3, 2025 (pages 53-54), 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

INDEPENDENT AUDITORS' REPORT – *CONTINUED*

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

October 3, 2025

CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021
(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, 2021. 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 \$3,547,319 at the end of the fiscal year. Of this amount, \$588,186 (*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 \$646,828.
- The City's overall long-term debt obligations at the end of the year were \$2,049,355 (an increase of \$48,850 for the year). New loans were incurred in the fiscal year.
- Overall revenues exceeded expenses (or an increase in net position) by \$249,784. Net position increased by \$54,733 in the governmental funds and increased by \$195,051 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 incurred, except for general obligation bond principal and interest, which are reported as expenditures in the year due.

CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021
(UNAUDITED)

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 – 45 of this report.

CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021
(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, 2021, the City's assets exceeded its liabilities by \$3,547,319.

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 \$2,882,531. This amount includes \$1,113,007 of construction funds from the 2019 Series bond issue (invested cash) that were unspent at September 30, 2021.

An additional portion of the City's net position, or \$76,602, represents resources that are subject to external restriction on how they may be used. The remaining balance is \$588,186 and is unrestricted in nature.

The City's Net Position

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 808,812	\$ 758,361	\$ 1,577,305	\$ 2,507,154	\$ 2,386,117	\$ 3,265,515
Capital assets	727,805	607,630	3,091,074	1,999,226	3,818,879	2,606,856
Total assets	1,536,617	1,365,991	4,668,379	4,506,380	6,204,996	5,872,371
Deferred outflows of resources	2,054	12,775	9,153	39,785	11,207	52,560
Long-term liabilities	111,920	-	1,937,435	2,000,505	2,049,355	2,000,505
Other liabilities	118,211	127,177	462,406	447,154	580,617	574,331
Total liabilities	230,131	127,177	2,399,841	2,447,659	2,629,972	2,574,836
Deferred outflows of resources	14,993	28,564	23,919	61,491	38,912	90,055
Net position						
Invested in capital assets, net of related debt	615,885	607,630	2,266,646	(1,279)	2,882,531	606,351
Restricted	23,870	10,093	52,732	2,016,960	76,602	2,027,053
Unrestricted	653,792	621,091	(65,606)	43,040	588,186	664,131
Total net position	\$ 1,293,547	\$ 1,238,814	\$ 2,253,772	\$ 2,058,721	\$ 3,547,319	\$ 3,297,535

CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021
(UNAUDITED)

Change in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Revenues						
Charges for services	\$ -	\$ -	\$ 928,281	\$ 972,990	\$ 928,281	\$ 972,990
General revenues:						
Property taxes	123,827	117,441	-	-	123,827	117,441
Sales taxes	202,137	186,928	-	-	202,137	186,928
Franchise fees	81,639	91,826	-	-	81,639	91,826
Interest income	386	-	1,595	12,285	1,981	12,285
Grants and contributions	1,976	17,164	242,903	31,950	244,879	49,114
Gain on sale of fixed assets	-	(1,181)	-	-	-	(1,181)
Other miscellaneous	28,857	2,914	10,088	2,572	38,945	5,486
Total revenues	<u>438,822</u>	<u>415,092</u>	<u>1,182,867</u>	<u>1,019,797</u>	<u>1,621,689</u>	<u>1,434,889</u>
Expenses						
General government	265,347	221,316	-	-	265,347	221,316
Streets and drainage	42,717	65,463	-	-	42,717	65,463
Fire protection	16,000	12,330	-	-	16,000	12,330
Enforcement	5,194	538	-	-	5,194	538
Health and welfare	10,189	10,059	-	-	10,189	10,059
Water, sewer, sanitation	-	-	733,996	762,041	733,996	762,041
Depreciation	44,642	38,021	193,806	220,650	238,448	258,671
Interest on long-term debt	-	-	60,014	65,865	60,014	65,865
Total expenses	<u>384,089</u>	<u>347,727</u>	<u>987,816</u>	<u>1,048,556</u>	<u>1,371,905</u>	<u>1,396,283</u>
Transfers						
In (out)	-	-	-	-	-	-
Total transfers	-	-	-	-	-	-
Increase (decrease) in net position	54,733	67,365	195,051	(28,759)	249,784	38,606
Net position at beginning of year	1,238,814	1,110,904	2,058,721	2,084,642	3,297,535	3,195,546
Prior period adjustment	-	60,545	-	2,838	-	63,383
Net position at end 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>

**CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021
(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, 2021, the City's governmental funds reported a total fund balance of \$664,703. This fund balance is comprised of \$7,807 that is restricted for payment of debt service, \$2,045 for prepaid expenses and \$257,544 that is committed for street repair/maintenance. The remaining balance, \$397,307, is unassigned. During the year, the fund balance in the City's governmental funds increased by \$40,299.

General Fund Budget. A comparison of the general fund budget and actual results is presented as required supplementary information on page 47. Actual revenues were higher than budgeted amounts by \$54,705. Actual expenditures were higher than budgeted amounts by \$220,675. The General fund's fund balance decreased by \$39,050 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 48. Actual revenues were higher than budgeted amounts by \$1,066. Actual expenditures were lower than budgeted amounts by \$78,283. The Streets fund's fund balance increased by \$79,349 during the fiscal year.

CAPITAL ASSETS

The City's investment in capital assets as of September 30, 2021, totaled \$3,818,879 (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 (partially grant funded)
- Purchase of land and building
- Substantial improvements to the City Park

Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 92,250	\$ 2,350	\$ 61,203	\$ 61,203	\$ 153,453	\$ 63,553
Buildings and improvements	108,459	68,459	-	-	108,459	68,459
City Park improvements	34,917	-	-	-	34,917	-
Plant and equipment	-	-	5,389,167	5,389,167	5,389,167	5,389,167
Machinery and equipment	83,341	83,341	498,320	421,130	581,661	504,471
Transportation equipment	-	-	111,668	111,668	111,668	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	197,300	1,405,764	197,300
	<u>\$ 1,170,530</u>	<u>\$ 1,005,713</u>	<u>\$ 7,469,324</u>	<u>\$ 6,183,670</u>	<u>\$ 8,639,854</u>	<u>\$ 7,189,383</u>
Accumulated depreciation	<u>(442,725)</u>	<u>(398,083)</u>	<u>(4,378,250)</u>	<u>(4,184,444)</u>	<u>(4,820,975)</u>	<u>(5,219,058)</u>
Net	<u>\$ 727,805</u>	<u>\$ 607,630</u>	<u>\$ 3,091,074</u>	<u>\$ 1,999,226</u>	<u>\$ 3,818,879</u>	<u>\$ 1,970,325</u>

**CITY OF ELKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021
(UNAUDITED)**

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total debt outstanding of \$2,049,355.

Debt Outstanding

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Notes payable	\$ 111,920	\$ -	\$ 59,438	\$ 36,882	\$ 171,358	\$ 36,882
Bonds payable	-	-	1,877,997	1,963,623	1,877,997	1,963,623
Total	<u>\$ 111,920</u>	<u>\$ -</u>	<u>\$ 1,937,435</u>	<u>\$ 2,000,505</u>	<u>\$ 2,049,355</u>	<u>\$ 2,000,505</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In September 2021, the Council approved the 2021/2022 budget. The City adopted a property tax rate of 0.294023 per \$100 (0.274895 for maintenance and operations and 0.019128 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, 2021

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and cash equivalents	\$ 428,664	\$ 218,164	\$ 646,828
Receivables, net of allowance for uncollectibles	46,168	64,145	110,313
Internal balances	170,314	(170,314)	-
Prepaid expenses	2,045	3,537	5,582
Restricted assets			
Cash and cash equivalents	23,870	83,551	107,421
Invested cash	-	1,113,007	1,113,007
Grant receivable	-	2,100	2,100
Net pension assets	22,663	9,889	32,552
Capital assets, net of accumulated depreciation	727,805	3,091,074	3,818,879
TOTAL ASSETS	1,421,529	4,415,153	5,836,682
DEFERRED OUTFLOWS OF RESOURCES			
Pension plan	2,054	9,153	11,207
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,054	9,153	11,207
LIABILITIES			
Accounts payable and accrued expenses	3,123	16,658	19,781
Grants payable	-	32,919	32,919
Accrued interest	-	8,956	8,956
Accrued compensated absences	-	9,424	9,424
Customer deposits payable	-	141,223	141,223
Noncurrent liabilities			
Due within one year	111,920	134,618	246,538
Due in more than one year	-	1,802,817	1,802,817
TOTAL LIABILITIES	115,043	2,146,615	2,261,658
DEFERRED INFLOWS OF RESOURCES			
Pension plan	14,993	23,919	38,912
TOTAL DEFERRED INFLOWS OF RESOURCES	14,993	23,919	38,912
NET POSITION			
Invested in capital assets, net of related debt	615,885	2,266,646	2,882,531
Restricted for:			
Debt service	23,870	-	23,870
Grant expenditures	-	52,732	52,732
Unrestricted	653,792	(65,606)	588,186
TOTAL NET POSITION	\$ 1,293,547	\$ 2,253,772	\$ 3,547,319

See accompanying notes to the financial statements.

CITY OF ELKHART, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2021

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	\$ 309,989	\$ -	\$ -	\$ -	\$ (309,989)	\$ -	\$ (309,989)
Streets	42,717	-	-	-	(42,717)	-	(42,717)
Fire protection	16,000	-	-	-	(16,000)	-	(16,000)
Enforcement	5,194	-	-	-	(5,194)	-	(5,194)
Health and welfare	10,189	-	1,976	-	(8,213)	-	(8,213)
Interest on long-term debt	-	-	-	-	-	-	-
Total governmental activities	<u>384,089</u>	<u>-</u>	<u>1,976</u>	<u>-</u>	<u>(382,113)</u>	<u>-</u>	<u>(382,113)</u>
Business-type activities							
Water, sewer, garbage	927,802	928,281	-	242,903	-	243,382	243,382
Interest on long-term debt	60,014	-	-	-	-	(60,014)	(60,014)
Total business-type activities	<u>987,816</u>	<u>928,281</u>	<u>-</u>	<u>242,903</u>	<u>-</u>	<u>183,368</u>	<u>183,368</u>
Total primary government	<u>\$ 1,371,905</u>	<u>\$ 928,281</u>	<u>\$ 1,976</u>	<u>\$ 242,903</u>	<u>(382,113)</u>	<u>183,368</u>	<u>(198,745)</u>
General revenues							
Property taxes					123,827	-	123,827
Sales taxes					202,137	-	202,137
Franchise taxes					81,639	-	81,639
Investment income					386	1,595	1,981
Miscellaneous income					28,857	10,088	38,945
Transfers in (out)					-	-	-
Total general revenues and transfers					<u>436,846</u>	<u>11,683</u>	<u>448,529</u>
Change in net position					54,733	195,051	249,784
Net position - beginning					<u>1,238,814</u>	<u>2,058,721</u>	<u>3,297,535</u>
Net position - ending					<u>\$ 1,293,547</u>	<u>\$ 2,253,772</u>	<u>\$ 3,547,319</u>

See accompanying notes to the financial statements.

Fund Financial Statements

CITY OF ELKHART, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2021

	Major Funds		Nonmajor	
	General Fund	Streets Fund	Debt Service Fund	Total
ASSETS				
Cash and cash equivalents	\$ 144,485	\$ 284,179	\$ -	\$ 428,664
Receivables				
Property taxes, net of allowance	5,032	-	-	5,032
Sales taxes	32,909	8,227	-	41,136
Due from other funds	253,226	24,462	7,714	285,402
Prepaid expenses	2,045	-	-	2,045
Restricted assets				
Cash and cash equivalents	-	-	23,870	23,870
TOTAL ASSETS	437,697	316,868	31,584	786,149
LIABILITIES				
Accounts payable and accrued expenses	2,934	189	-	3,123
Due to other funds	32,176	59,135	23,777	115,088
Total liabilities	35,110	59,324	23,777	118,211
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	3,235	-	-	3,235
Total deferred inflows of resources	3,235	-	-	3,235
FUND BALANCES				
Non-spendable:				
Prepaid expenses	2,045	-	-	2,045
Restricted for:				
Debt service	-	-	7,807	7,807
Committed for:				
Street maintenance	-	257,544	-	257,544
Unassigned	397,307	-	-	397,307
Total fund balances	399,352	257,544	7,807	664,703
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 437,697	\$ 316,868	\$ 31,584	\$ 786,149

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, 2021**

Total fund balances - governmental funds balance sheet	\$ 664,703
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.	3,235
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds.	727,805
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.	(111,920)
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>9,724</u>
Net position of governmental activities	<u>\$ 1,293,547</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, 2021

	Major Funds		Nonmajor	
	General Fund	Streets Fund	Debt Service Fund	Total
REVENUES				
Property taxes, penalty and interest	\$ 126,276	\$ -	\$ -	\$ 126,276
Sales taxes	161,710	40,427	-	202,137
Franchise taxes	-	81,639	-	81,639
Interest income	386	-	-	386
Donations	1,976	-	-	1,976
Other revenues	28,857	-	-	28,857
Total revenues	319,205	122,066	-	441,271
EXPENDITURES				
General government	273,975	-	-	273,975
Fire protection	16,000	-	-	16,000
Municipal court	5,194	-	-	5,194
Health and welfare	10,189	-	-	10,189
Streets	-	17,370	-	17,370
Utilities	-	25,347	-	25,347
Capital outlay	164,817	-	-	164,817
Total expenditures	470,175	42,717	-	512,892
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(150,970)	79,349	-	(71,621)
OTHER FINANCING SOURCES (USES)				
Gain on sale of assets	-	-	-	-
Loan proceeds	111,920	-	-	111,920
Grant income	-	-	-	-
Transfers in (out)	-	-	-	-
Net other financing sources (uses)	111,920	-	-	111,920
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	(39,050)	79,349	-	40,299
FUND BALANCES - BEGINNING OF YEAR	438,402	178,195	7,807	624,404
FUND BALANCES - END OF YEAR	\$ 399,352	\$ 257,544	\$ 7,807	\$ 664,703

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, 2021

Net change in fund balance - governmental funds	\$ 40,299
Amounts reported for governmental activities in the government-wide statement of activities are different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(2,449)
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 capital outlays exceeded depreciation in the current period.	120,175
Proceeds from the issuance of long-term debt do not provide revenue in the statement of activities, but are reported as current resources in the governmental funds.	(111,920)
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>8,628</u>
Change in net position of governmental activities	<u>\$ 54,733</u>

See accompanying notes to the financial statements.

CITY OF ELKHART, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2021

	Utility Fund	Total
ASSETS		
Current assets		
Cash and cash equivalents	\$ 218,164	\$ 218,164
Receivables, net of allowance	57,493	57,493
Unbilled receivables	6,652	6,652
Due from other funds	82,912	82,912
Prepaid expenses	3,537	3,537
Restricted assets		
Cash and cash equivalents	83,551	83,551
Invested cash	1,113,007	1,113,007
Grant receivable	2,100	2,100
Total current assets	<u>1,567,416</u>	<u>1,567,416</u>
Noncurrent assets		
Capital assets		
Nondepreciable	1,466,967	1,466,967
Depreciable, net of accumulated depreciation	1,624,107	1,624,107
Net pension asset	9,889	9,889
Total noncurrent assets	<u>3,100,963</u>	<u>3,100,963</u>
TOTAL ASSETS	<u>4,668,379</u>	<u>4,668,379</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension plan and other postemployment benefits	9,153	9,153
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>9,153</u>	<u>9,153</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	49,577	49,577
Accrued interest	8,956	8,956
Accrued compensated absences	9,424	9,424
Due to other funds	253,226	253,226
Customer deposits payable	141,223	141,223
Long term debt - current maturities	134,618	134,618
Total current liabilities	<u>597,024</u>	<u>597,024</u>
Noncurrent liabilities		
Long-term debt	1,802,817	1,802,817
Total noncurrent liabilities	<u>1,802,817</u>	<u>1,802,817</u>
TOTAL LIABILITIES	<u>2,399,841</u>	<u>2,399,841</u>
DEFERRED INFLOWS OF RESOURCES		
Pension plan and other postemployment benefits	23,919	23,919
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>23,919</u>	<u>23,919</u>
NET POSITION		
Invested in capital assets, net of related debt	40,632	40,632
Restricted for:		
Grant expenditures	52,732	52,732
Unrestricted	2,160,408	2,160,408
TOTAL NET POSITION	<u>\$ 2,253,772</u>	<u>\$ 2,253,772</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, 2021

	Utility Fund	Total
OPERATING REVENUES		
Utility revenues	\$ 928,281	\$ 928,281
Miscellaneous charges	10,088	10,088
Total operating revenues	<u>938,369</u>	<u>938,369</u>
OPERATING EXPENSES		
Personnel and related costs	312,048	312,048
Supplies and materials	74,097	74,097
Office expense	16,245	16,245
Professional fees	53,097	53,097
Insurance	1,168	1,168
Education/Dues	14,656	14,656
Utilities	2,667	2,667
Repairs and Maintenance	114,885	114,885
Garbage expense	126,155	126,155
Bad debt expense	13,101	13,101
Other expense	5,877	5,877
Depreciation	<u>193,806</u>	<u>193,806</u>
Total operating expenses	<u>927,802</u>	<u>927,802</u>
INCOME (LOSS) FROM OPERATIONS	10,567	10,567
NONOPERATING REVENUES (EXPENSES)		
Grant income - capital	242,903	242,903
Interest income	1,595	1,595
Interest expense	<u>(60,014)</u>	<u>(60,014)</u>
Total nonoperating revenues (expenses)	<u>184,484</u>	<u>184,484</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	195,051	195,051
Transfers in (out)	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	195,051	195,051
NET POSITION AT BEGINNING OF YEAR	<u>2,058,721</u>	<u>2,058,721</u>
NET POSITION AT END OF YEAR	<u>\$ 2,253,772</u>	<u>\$ 2,253,772</u>

See accompanying notes to the financial statements.

CITY OF ELKHART, TEXAS
STATEMENT OF CASH FLOWS
UTILITY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers and users	\$ 969,144
Cash payments to suppliers	(391,683)
Cash payments to employees	<u>(338,742)</u>
Net cash provided by (used in) operating activities	<u>238,719</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from capital grants	242,903
Purchase of capital assets	(1,253,619)
Principal payments on long-term debt	(95,105)
Interest paid on long-term debt	<u>(60,014)</u>
Net cash provided by (used in) capital and related financing activities	<u>(1,165,835)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>1,595</u>
Net cash provided by (used in) investing activities	<u>1,595</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (925,521)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 2,340,243

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 1,414,722

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH

PROVIDED BY (USED IN) OPERATING ACTIVITIES

Operating income (loss) before nonoperating revenues	\$ 10,567
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation and amortization	193,806
Changes in assets and liabilities	
(Increase) decrease in accounts receivable; unbilled receivables	12,993
(Increase) decrease in due from other funds	(35,870)
(Increase) decrease in prepaid expenses	587
(Increase) decrease in grants receivable	900
(Increase) decrease in pension asset/liability	(14,068)
(Increase) decrease in deferred pension outflows	539
Increase (decrease) in accounts payable; accrued expenses	5,736
Increase (decrease) in accrued interest	(502)
Increase (decrease) in accrued compensated absences	(5,686)
Increase (decrease) in due to other funds	59,414
Increase (decrease) in customer deposits payable	17,782
Increase (decrease) in deferred pension inflows	<u>(7,479)</u>
Total adjustments	<u>228,152</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u><u>\$ 238,719</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS AND INVESTED CASH TO THE STATEMENT OF NET POSITION

Cash and cash equivalents	\$ 218,164
Restricted cash and cash equivalents	83,551
Invested cash	<u>1,113,007</u>
CASH AND CASH EQUIVALENTS AND INVESTED CASH, END OF YEAR	<u><u>\$ 1,414,722</u></u>

See accompanying notes to the financial statements.

Notes to the Financial Statements

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

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. 84, *Fiduciary Activities* (“GASB 84”), improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

activities should be reported. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2018. The City's financial disclosures were not affected by implementation.

GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61* ("GASB 90"), is intended to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2018. The City's financial disclosures were not affected by implementation.

Effective date postponed by one year due to COVID-19 pandemic in accordance with GASB No. 95 (original effective dates listed):

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 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. The effects of implementing GASB 89 on the City's financial disclosures have not been evaluated by management.

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 effects of implementing GASB 91 on the City's financial disclosures have not been evaluated by management.

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. The effects of implementing GASB 92 on the City's financial disclosures have not been evaluated by management.

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. The effects of implementing GASB 93 on the City's financial disclosures have not been evaluated by management.

Effective date postponed by 18 months due to COVID-19 pandemic in accordance with GASB No. 95 (original effective date listed):

GASB Statement No. 87, *Leases* ("GASB 87"), is intended to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019. The effects of implementing GASB 87 on the City's financial disclosures have not been evaluated by management.

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

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

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.

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 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.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

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.

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.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

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.

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.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

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

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 arise only under a full accrual basis of accounting, that qualify for reporting in this category: pension plan amounts. These items are reported on the proprietary fund balance sheet and the government-wide statement of net position and are described more fully later in these notes.

CITY OF ELKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

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 two items, which arise only under a modified accrual basis of accounting, that qualify for reporting in this category: Unavailable revenue – property taxes and unavailable revenue – fines are reported only on the governmental funds balance sheet and are deferred and recognized as an inflow in the period that the amounts become available. The City has one other item, which arise only under a full accrual basis of accounting, that qualify 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 are 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, 2021 have been accrued in the financial statements in the amount of \$9,424.

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.

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, 2021, 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

CITY OF ELKHART, TEXAS
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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 amended its original budget once 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 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.

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Credit Risk. State law and the City's investment policy limit investments to obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent. As of September 30, 2021, the City did not have any investments.

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, 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, 2021, the City's cash deposits with depository banks totaled \$763,428. All deposits were fully collateralized by securities pledged by the depository banks with total collateral value of \$1,040,400, in addition to FDIC coverage.

Invested Cash. 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.

These funds may only be used for construction expenditures related to the water improvement projects.

At September 30, 2021, the City had \$1,113,007 of unspent construction funds invested in the following:

	Balance 09/30/21	Weighted Average Maturity (years)
Investments pools:		
TEXSTAR (net asset value)	\$ 1,004,318	0.11
LOGIC (net asset value)	<u>108,689</u>	0.16
Total value	<u>\$ 1,113,007</u>	
Portfolio weighted average maturity		0.11

Receivables

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

	Customer Accounts	Property Taxes	Sales Taxes	Unbilled Receivables	Totals
Receivables by activity					
Governmental	\$ -	\$ 24,992	\$ 41,136	\$ -	\$ 66,128
Business-type	<u>83,500</u>	<u>-</u>	<u>-</u>	<u>6,652</u>	<u>90,152</u>
Receivables, gross	<u>83,500</u>	<u>24,992</u>	<u>41,136</u>	<u>6,652</u>	<u>156,280</u>
Allowance for uncollectibles					
Governmental	-	(19,960)	-	-	(19,960)
Business-type	<u>(26,007)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,007)</u>
Total allowance	<u>(26,007)</u>	<u>(19,960)</u>	<u>-</u>	<u>-</u>	<u>(45,967)</u>
Total receivables, net	<u>\$ 57,493</u>	<u>\$ 5,032</u>	<u>\$ 41,136</u>	<u>\$ 6,652</u>	<u>\$ 110,313</u>

CITY OF ELKHART, TEXAS
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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, 2021, was \$.294023 per \$100 of assessed valuation. The total taxable value and total tax levy assessed for the year was \$40,394,185 and \$118,808, 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, 2021, these internal balances consisted of the following:

	<u>Receivable</u>	<u>Payable</u>	<u>Net Totals</u>
<i>Governmental activities</i>			
General Fund	\$ 253,226	\$ (32,176)	\$ 221,050
Streets Fund	24,462	(59,135)	(34,673)
Debt Service Fund	<u>7,714</u>	<u>(23,777)</u>	<u>(16,063)</u>
Total governmental activities	<u>\$ 285,402</u>	<u>\$ (115,088)</u>	<u>\$ 170,314</u>
<i>Business-type activities</i>			
Utility Fund	\$ 82,912	\$ (253,226)	\$ (170,314)
Total business-type activities	<u>\$ 82,912</u>	<u>\$ (253,226)</u>	<u>\$ (170,314)</u>

Capital Assets

A summary of changes in capital assets for the year ended September 30, 2021 is as follows:

<i>Governmental activities</i>	<u>Balance</u>			<u>Balance</u>
	<u>09/30/2020</u>	<u>Additions</u>	<u>Disposals</u>	<u>09/30/2021</u>
Capital assets, not being depreciated				
Land	\$ 2,350	\$ 89,900	\$ -	\$ 92,250
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total not being depreciated	<u>2,350</u>	<u>89,900</u>	<u>-</u>	<u>92,250</u>
Capital assets, being depreciated				
Buildings and improvements	68,459	40,000	-	108,459
City Park improvements	-	34,917	-	34,917
Machinery and equipment	83,341	-	-	83,341
Office equipment and furniture	5,767	-	-	5,767
Streets	<u>845,796</u>	<u>-</u>	<u>-</u>	<u>845,796</u>
Total being depreciated	<u>1,003,363</u>	<u>74,917</u>	<u>-</u>	<u>1,078,280</u>

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	Balance 09/30/2020	Additions	Disposals	Balance 09/30/2021
Less accumulated depreciation:				
Buildings and improvements	(31,288)	(2,770)	-	(34,058)
City Park improvements	-	(5,621)	-	(5,621)
Machinery and equipment	(38,467)	(8,334)	-	(46,801)
Office equipment and furniture	(5,767)	-	-	(5,767)
Streets	(322,561)	(27,917)	-	(350,478)
Total accumulated depreciation	(398,083)	(44,642)	-	(422,725)
Total being depreciated, net	605,280	(30,275)	-	635,555
Total capital assets, net	\$ 607,630	\$ 120,175	\$ -	\$ 727,805
				Less associated debt (111,920)
				Invested in capital assets, net of related debt \$ 615,885

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

General government	\$ 1,200
Fire protection	9,591
Streets	33,851
Total	\$ 44,642

Business-type activities

	Balance 09/30/2020	Additions	Disposals	Balance 09/30/2021
Capital assets, not being depreciated				
Land	\$ 61,203	\$ -	\$ -	\$ 61,203
Construction in progress	197,300	1,208,464	-	1,405,764
Total not being depreciated	258,503	1,208,464	-	1,466,967
Capital assets, being depreciated				
Plant and equipment	5,389,167	-	-	5,389,167
Transportation equipment	111,668	-	-	111,668
Machinery and equipment	421,130	77,190	-	498,320
Office equipment	3,202	-	-	3,202
Total being depreciated	5,925,167	77,190	-	6,002,357
Less accumulated depreciation:				
Plant and equipment	(3,755,882)	(155,742)	-	(3,911,624)
Transportation equipment	(77,177)	(9,854)	-	(87,031)
Machinery and equipment	(348,183)	(28,210)	-	(376,393)
Office equipment	(3,202)	-	-	(3,202)
Total accumulated depreciation	(4,184,444)	(193,806)	-	(4,378,250)
Total being depreciated, net	1,740,723	(116,616)	-	1,624,107
Total capital assets, net	\$ 1,999,226	\$ 1,091,848	\$ -	\$ 3,091,074
				Less associated debt (824,428)
				Invested in capital assets, net of related debt \$ 2,266,646

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Depreciation expense of \$193,806 was charged to the proprietary fund.

Construction in Progress

The City started a three phase water improvement project in the 2020 fiscal year. The project focused on water transmission and water pump station improvements. The City secured a grant for phase 1 through the Texas Department of Agriculture. Grant administration for phase 1 was managed through Traylor and Associates. Engineering was performed by KSA for all three phases. Different contractors and subcontractors were utilized throughout the 3 phases. Construction on phases 1 through 3 started in October 2020 and all phases were completed by year end of 2022.

LIABILITIES

Long-Term Debt

Long-term debt activity for the year ended September 30, 2021, was as follows:

Governmental activities

	Balance 09/30/20	Additions	Reductions	Balance 09/30/21	Due Within One Year
Land note	\$ -	\$ 71,920	\$ -	\$ 71,920	\$ 71,920
Building note	-	40,000	-	40,000	40,000
Total long-term debt	<u>\$ -</u>	<u>\$ 111,920</u>	<u>\$ -</u>	<u>\$ 111,920</u>	<u>\$ 111,920</u>

Business-type activities

	Balance 09/30/20	Additions	Reductions	Balance 09/30/21	Due Within One Year
Series 2019 bonds	\$ 1,963,622	\$ -	\$ (85,626)	\$ 1,877,997	\$ 117,000
Tractor loan	-	32,035	-	32,035	7,535
Vehicle loan	36,882	-	(9,479)	27,403	10,083
Total long-term debt	<u>\$ 2,000,505</u>	<u>\$ 32,035</u>	<u>\$ (95,105)</u>	<u>\$ 1,937,435</u>	<u>\$ 134,618</u>

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

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2022	\$ 111,920	\$ 4,477	\$ 134,618	\$ 55,167
2023	-	-	139,574	50,831
2024	-	-	164,846	46,375
2025	-	-	162,589	42,321
2026	-	-	158,094	38,437
2027-2031	-	-	742,094	122,940
2032-2035	-	-	435,620	28,120
Total	<u>\$ 111,920</u>	<u>\$ 4,477</u>	<u>\$ 1,937,435</u>	<u>\$ 384,191</u>

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

Note payable to CBTx, Elkhart Banking Center. In September 2021, the City financed the purchase of land for \$71,920. The note bears interest at 4.00% annually and matures on September 9, 2022. The note is collateralized by the equipment that the note serves to finance.

Note payable to CBTx, Elkhart Banking Center. In July 2021, the City financed the purchase of a new building for \$40,000. The note bears interest at 4.00% annually and matures on July 12, 2022. The note is collateralized by the equipment that the note serves to finance.

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. 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. 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 mature in years through 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. At September 30, 2021, there were \$1,113,007 in unexpended construction funds.

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, 2021, the City had \$1,113,007 available for the water improvement project that was funded by the bonds. Debt service payments are not being paid from these accounts. At fiscal year end, the City had not established a specific bank account for the accumulation of funds needed for debt service payments. However, all debt service payments were made timely.

Defined Benefit Pension Plan

Plan Description. The City of Groveton 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.

CITY OF ELKHART, TEXAS
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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 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 2020
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, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	15
Active employees	8
	28

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 5.23% and 4.29% in calendar years 2020 and 2021, respectively. The City's contributions to TMRS for the year ended September 30, 2021 were \$15,851, and were equal to the required contributions.

The City's Net Pension Liability/Asset ("NPL") was measured as of December 31, 2020, 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, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	2.75% per year
Investment Rate of Return (net of pension plan investment expense, including inflation)	6.75%

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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 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 2021 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.

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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 12/31/2019	\$ 723,141	\$ 735,846	\$ (12,705)
Changes for the year:			
Service cost	28,577	-	28,577
Interest	48,627	-	48,627
Difference between expected and actual experience	(8,967)	-	(8,967)
Changes of assumptions	-	-	-
Contributions - employer	-	16,806	(16,806)
Contributions - employee	-	16,091	(16,091)
Net investment income	-	55,563	(55,563)
Benefit payments, incl. employee contrib. refunds	(34,064)	(34,064)	-
Administrative expense	-	(361)	361
Other charges	-	(14)	14
Net changes	34,173	54,020	(19,847)
Balance at 12/31/2020	<u>\$ 757,314</u>	<u>\$ 789,866</u>	<u>\$ (32,552)</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 2020 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, 12/31/2019			
Governmental activities	\$ 42,510	\$ 59,395	\$ (16,885)
Business-type activities	680,631	676,451	4,180
Total balance, 12/31/2019	723,141	735,846	(12,705)
Changes for the year, net			
Governmental activities	9,951	15,730	(5,779)
Business-type activities	24,222	38,290	(14,068)
Total changes for the year, net	34,173	54,020	(19,847)
Ending balance, 12/31/2020			
Governmental activities	52,461	75,124	(22,663)
Business-type activities	704,853	714,742	(9,889)
Total balance at 12/31/2020	<u>\$ 757,314</u>	<u>\$ 789,866</u>	<u>\$ (32,552)</u>

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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'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 <u>(5.75%)</u>	Discount Rate <u>(6.75%)</u>	1% Increase in Discount Rate <u>(7.75%)</u>
City's net pension liability (asset)	\$ 46,874	\$ (32,552)	\$ (98,923)

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, 2021, the City recognized net pension (benefit) expense of \$(13,752). Net pension (benefit) expense was charged to functions/programs as follows:

<u>Function/program</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
General government	\$ (5,179)	\$ -	\$ (5,179)
Water and sewer	-	(8,573)	(8,573)
Total	<u>\$ (5,179)</u>	<u>\$ (8,573)</u>	<u>\$ (13,752)</u>

At September 30, 2021, the City reported deferred amounts related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<i>Governmental activities</i>		
Differences between expected and actual economic experience	\$ -	\$ (5,470)
Difference between projected and actual investment earnings	-	(8,844)
Changes in actuarial assumptions	-	(679)
Contributions subsequent to the measurement date	<u>2,054</u>	<u>-</u>
Totals, governmental activities	<u>\$ 2,054</u>	<u>\$ (14,993)</u>
<i>Business-type activities</i>		
Differences between expected and actual economic experience	\$ -	\$ (10,967)
Difference between projected and actual investment earnings	-	(11,709)
Changes in actuarial assumptions	-	(1,243)
Contributions subsequent to the measurement date	<u>9,153</u>	<u>-</u>
Totals, business-type activities	<u>9,153</u>	<u>(23,919)</u>
Totals, all activities	<u>\$ 11,207</u>	<u>\$ (38,912)</u>

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<u>Plan Year ended December 31,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2021	\$ 11,207	\$ (23,279)
2022	-	(2,166)
2023	-	(12,290)
2024	-	(1,177)
2025	-	-
Total	<u>\$ 11,207</u>	<u>\$ (38,912)</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

Management has evaluated subsequent events through October 3, 2025, 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, 2021

	Original Adopted Budget	Final Appropriated Budget	Actual Amounts	Variances Favorable (Unfavorable)
REVENUES				
Property taxes, penalties and interest	\$ 136,300	\$ 136,300	\$ 126,276	\$ (10,024)
Sales taxes	125,000	125,000	161,710	36,710
Donations	2,000	2,000	1,976	(24)
Other revenues	1,200	1,200	29,243	28,043
Total revenues	<u>264,500</u>	<u>264,500</u>	<u>319,205</u>	<u>54,705</u>
EXPENDITURES				
General government	180,500	180,500	273,975	(93,475)
Fire protection	-	-	16,000	(16,000)
Enforcement	49,000	49,000	5,194	43,806
Health and welfare	20,000	20,000	10,189	9,811
Capital outlay	-	-	164,817	(164,817)
Total expenditures	<u>249,500</u>	<u>249,500</u>	<u>470,175</u>	<u>(220,675)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>15,000</u>	<u>15,000</u>	<u>(150,970)</u>	<u>(165,970)</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	-	111,920	111,920
Transfers in (out)	<u>(15,000)</u>	<u>(15,000)</u>	<u>-</u>	<u>15,000</u>
Net other financing sources (uses)	<u>(15,000)</u>	<u>(15,000)</u>	<u>111,920</u>	<u>126,920</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	<u>-</u>	<u>-</u>	<u>(39,050)</u>	<u>(39,050)</u>
FUND BALANCE - BEGINNING OF YEAR	<u>438,402</u>	<u>438,402</u>	<u>438,402</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 438,402</u>	<u>\$ 438,402</u>	<u>\$ 399,352</u>	<u>\$ (39,050)</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, 2021

	Original Adopted Budget	Final Appropriated Budget	Actual Amounts	Variances Favorable (Unfavorable)
REVENUES				
Sales taxes	\$ 32,000	\$ 32,000	\$ 40,427	\$ 8,427
Franchise taxes	89,000	89,000	81,639	(7,361)
Other revenues	-	-	-	-
Total revenues	<u>121,000</u>	<u>121,000</u>	<u>122,066</u>	<u>1,066</u>
EXPENDITURES				
General government	-	-	-	-
Fire protection	-	-	-	-
Streets and utilities	121,000	121,000	42,717	78,283
Enforcement	-	-	-	-
Health and welfare	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>121,000</u>	<u>121,000</u>	<u>42,717</u>	<u>78,283</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>79,349</u>	<u>79,349</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	-	-	-	-
Net other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	<u>-</u>	<u>-</u>	<u>79,349</u>	<u>79,349</u>
FUND BALANCE - BEGINNING OF YEAR	<u>178,195</u>	<u>178,195</u>	<u>178,195</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 178,195</u>	<u>\$ 178,195</u>	<u>\$ 257,544</u>	<u>\$ 79,349</u>

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

CITY OF ELKHART, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET)
AND RELATED RATIOS - LAST TEN YEARS *
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Plan Year Ending December 31,						
	2020	2019	2018	2017	2016	2015	2014
TOTAL PENSION LIABILITY							
Service cost	28,577	\$ 24,772	\$ 19,651	\$ 18,706	\$ 18,373	\$ 22,129	\$ 23,475
Interest (on the total pension liability)	48,627	48,470	45,918	44,856	45,652	47,393	44,030
Changes of benefit terms	-	-	-	-	-	-	-
Difference between expected and actual experience	(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	(34,064)	(37,947)	(28,602)	(44,194)	(51,154)	(26,705)	(38,116)
NET CHANGE IN TOTAL PENSION LIABILITY	34,173	(1,521)	39,925	7,461	(15,436)	13,378	43,018
TOTAL PENSION LIABILITY - BEGINNING	723,141	724,662	684,737	677,276	692,712	679,334	636,316
TOTAL PENSION LIABILITY - ENDING (a)	\$ 757,314	\$ 723,141	\$ 724,662	\$ 684,737	\$ 677,276	\$ 692,712	\$ 679,334
PLAN FIDUCIARY NET POSITION							
Contributions - employer	\$ 16,806	\$ 15,455	\$ 13,270	\$ 12,558	\$ 13,151	\$ 15,022	\$ 15,960
Contributions - employee	16,091	15,152	11,519	10,726	11,041	13,299	15,983
Net investment income	55,563	99,076	(19,916)	83,599	39,914	874	32,401
Benefit payments, including employee contribution refunds	(34,064)	(37,947)	(28,602)	(44,194)	(51,154)	(26,705)	(38,116)
Administrative expense	(361)	(563)	(387)	(436)	(453)	(532)	(338)
Other	(15)	(17)	(20)	(22)	(24)	(27)	(28)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	54,020	91,156	(24,136)	62,231	12,475	1,931	25,862
PLAN FIDUCIARY NET POSITION - BEGINNING	735,846	644,690	668,826	606,595	594,120	592,189	566,327
PLAN FIDUCIARY NET POSITION - ENDING (b)	789,866	\$ 735,846	\$ 644,690	\$ 668,826	\$ 606,595	\$ 594,120	\$ 592,189
NET PENSION LIABILITY (ASSET) - ENDING (a - b)	\$ (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	104.30%	101.76%	88.96%	97.68%	89.56%	85.77%	87.17%
Covered Employee Payroll	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	-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 seven 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, 2021

	Fiscal Year Ending September 30,							
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially Determined Contribution	\$ 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>15,851</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>40</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered Employee Payroll	\$ 350,030	\$ 321,140	\$ 275,195	\$ 226,352	\$ 210,840	\$ 229,715	\$ 287,662	\$ 300,634
Contributions as a percentage of Covered Employee Payroll	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 eight 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, 2021

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>	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. 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.

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, 2021, 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 October 3, 2025.

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 2021-001 through 2021-002 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

October 3, 2025

**CITY OF ELKHART, TEXAS
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

Financial Statements Audit Findings

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

Finding. During the current fiscal year, the City changed its utility billing software to a different vendor. The City was unable to provide detailed, written records that documented the transfer and reconciliation of customer balances (both accounts receivable and customer deposits) from one system to the other. Further, they were not able to reproduce these records from the system.

While this may be a moot point today, the City is currently in the process of changing its utility billing software again.

Recommendation. On October 1, 2025, the City converted customer balances (both accounts receivable and customer deposits) into a different utility billing system. 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.

Management's response and corrective action. See *Management's Responses to Findings and Corrective Action Plan* on page 56.

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

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, 2021. 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. Consequently, the balances in QuickBooks at September 30, 2021 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.

Recommendation. The following recommendations should be considered:

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.

Management's response and corrective action. See *Management's Responses to Findings and Corrective Action Plan* on page 56.

**CITY OF ELKHART, TEXAS
MANAGEMENT'S RESPONSES TO FINDINGS AND CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

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

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Management's Responses to Audit Findings Dated October 3, 2025

The City of Elkhart, Texas submits the following responses to the Schedule of Audit Findings for the fiscal year ended September 30, 2021.

2021-001 Conversion of utility balances

Response and Planned Corrective Action – Auditor is correct in finding water deposit history was lost due to a limitation on cloud storage space with Assist – the utility program. They did not contact us, and we were unaware at the time. We have only recently transferred known utility data from Assist to a newer utility program to eliminate future losses of data. In the future, customers will prove they have a water deposit on account with the City, before they are issued a refund.

Anticipated Implementation Date – October 6, 2025

Official Responsible for Corrective Action – Sunshine Alcorta

2021-002 Reconciliation of utility billing software with QuickBooks

Response and Planned Corrective Action – Auditor is correct in finding history of utility accounts was lost due to a limitation on cloud storage space with Assist – the utility program. They did not contact us, and we were unaware at the time. We have only recently transferred known utility data from Assist to a newer utility program to eliminate future losses of data. Accounts will be reconciled to the program in the future beginning 10-1-2025.

Anticipated Implementation Date – October 6, 2025

Official Responsible for Corrective Action – Sunshine Alcorta

Respectfully,



Jennifer McCoy
Mayor