

CITY OF ALTON, TX
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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Reyna & Garza, PLLC
Certified Public Accountants
2111 Jackson Creek Ave.
Edinburg, TX 78539

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Alton, Tx

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 City of Alton, Tx, as of and for the year ended September 30, 2013, 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.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Alton, Tx, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows and the respective budgetary comparison for the General Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

New Accounting Principles

As discussed in the notes to the financial statements, management has implemented Governmental Accounting Standards Board (GASB) statement 63 *Financial Reporting of Deferred Outflows of Resources, deferred Inflows of Resources, and Net Positions* and had elected to implement early GASB 65 *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Alton, Tx's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2014, on our consideration of the City of Alton, Tx's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Alton, Tx's internal control over financial reporting and compliance.

Reyna & Garza, PLLC

Edinburg, Tx
April 27, 2014

Management's Discussion and Analysis
CITY OF ALTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of CITY OF ALTON, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2013. Please read it in conjunction with the Independent Auditors' Report on page 2, and the City's Basic Financial Statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

- The City's net assets: decreased by \$ 285,639 as a result of this year's operations. While net assets of our business-type activities: increased by \$ 4,403,850 net assets of our governmental activities: decreased, by \$ 4,689,489.
- During the year, the City had expenses that were \$ 1,495,915 more than the \$3.4 million generated in tax and other revenues for governmental programs (before special items).
- In the City's business-type activities, revenues increased from \$1.44 to \$2.26 million (or 56.3 percent) while expenses also increased from \$1.55 to \$1.59 million (or 2.4 percent).
- The General Fund ended the year with a fund balance of (259,471) thousand.
- The resources available for appropriation were \$32 thousand more than budgeted for the General Fund.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities on pages 10 and 11. These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements starting on page 13 report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the City were sold to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements (if applicable), provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the City.

The notes to the financial statements (starting on page 25) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for non-major funds contain even more information about the City's individual funds.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 10. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who share the costs of some programs, such grants provided by the Outside Sources (general revenues). All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net assets and changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider non-financial factors as well, such as changes in the City's property tax base and the condition of the City's facilities.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities—Most of the City's basic services are reported here, including public safety, public works, culture and recreation, economic development and assistance, and general administration. Property taxes, sales taxes, franchise taxes, charges for services, and state and federal grants finance most of these activities.
- Business-type activities—The City charges a fee to “customers” to help it cover all or most of the cost of providing services such as water, sewer, and solid waste services.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 13 and provide detailed information about the most significant funds—not the City as a whole. Laws and/or contracts require the City to establish some funds, such as grants received under the Environmental Protection Agency program. The City's administration establishes several other funds to help it control and manage money for particular purposes. The City's two kinds of funds—governmental and proprietary—use different accounting approaches.

· Governmental funds—Most of the City's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

· Proprietary funds—The City reports the activities for which it charges users (whether outside customers or other units of the City) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the City's governmental and business-type activities.

Net assets of the City's governmental activities decreased from \$ 10.56 million to \$ 5.37 million. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was (\$47,551) at September 30, 2013.

In 2013, net assets of our business-type activities increased by \$4.4 million, about 70 percent.

Table I
City of ALTON
NET ASSETS

	Governmental Activities 2013	Governmental Activities 2012	Business-type Activities 2013	Business-type Activities 2012	Total 2013	Total 2012
Current and other assets	6,117,215	10,946,016	475,328	352,713	6,592,543	11,298,729
Capital assets	17,358,284	16,728,947	11,277,272	7,092,041	28,635,556	23,820,988
Total assets	23,475,499	27,674,963	11,752,600	7,444,754	35,225,099	35,119,717
Long-term liabilities	7,292,156	7,028,684	660,019	841,066	7,952,175	7,869,750
Other liabilities	10,816,609	10,618,738	318,065	233,022	11,134,674	10,823,076
Total liabilities	18,108,765	17,618,738	978,084	1,074,088	19,086,849	18,692,826
Net Assets:						
Invested in capital assets net of related debt	(185,599)	8,101,378	10,442,336	6,257,744	10,256,737	14,359,122
Restricted	5,571,110	1,995,392	0	0	5,571,110	1,995,392
Unrestricted	(47,551)	(40,545)	332,180	112,922	284,629	72,377
Total net assets	5,337,960	10,056,225	10,774,516	6,370,666	16,112,476	16,426,891

Table II
City of ALTON

CHANGES IN NET ASSETS

	Governmental Activities 2013	Governmental Activities 2012	Business-type Activities 2013	Business-type Activities 2012	Total 2013	Total 2012
Revenues:						
Program Revenues:						
Charges for Services	230,538	789,190	2,255,536	1,443,091	2,486,074	2,232,281
Operating grants and contributions	106,358	217,237	0	0	106,358	217,239
General Revenues:						
Maintenance and operations taxes	875,429	878,999	0	0	875,429	878,999
Debt service taxes	406,842	432,940	0	0	406,842	432,940
Sales Taxes	645,560	572,081	0	0	645,560	572,081
Franchise Taxes	212,996	227,094	0	0	212,996	227,094
Investment Earnings	10,168	30,090	0	0	10,168	30,090
Miscellaneous	1,151,169	1,361,656	389	83	1,151,558	1,361,656
Total Revenue	3,408,522	4,509,287	2,255,925	1,443,174	5,664,447	5,952,461
Expenses:						
General Government	1,224,401	1,518,188	0	0	1,224,401	1,518,188
Public Safety	2,055,556	1,910,889	0	0	2,055,556	1,910,889
Public Works	677,835	933,297	0	0	677,835	933,297
Health and Welfare	117,623	101,728	0	0	117,623	101,728
Culture & Recreation	111,005	23,852	0	0	111,005	23,852
Economic Development & Asst.	534,723	591,955	0	0	534,723	591,955
Debt Service	211,818	187,998	0	0	211,818	187,998
Fiscal Agent's Fees	250	70,003	0	0	250	70,003
Utility Fund Services	0	0	0	0	0	0
Solid Waste Fund Services	0	0	1,586,171	1,548,970	1,586,171	1,548,970
Utility I&S Fund	0	0	0	0	0	0
Total Expenses	4,933,211	5,337,910	1,586,171	1,548,970	6,519,382	6,886,880
Increase in net assets before transfers and special items	(1,524,690)	(828,623)	669,754	(105,796)	(854,936)	(934,419)
Transfers	502,000	(263,387)	(502,000)	(236,000)	0	(499,387)
Special Items – Resources	(4,433,159)	0	4,433,159	445,134	0	445,134
Special Items-Prior Period Adjustments	737,585	1	(197,064)	23,563	540,521	23,564
Net assets at 10/1/12	10,056,225	11,148,236	6,370,667	6,243,765	16,426,892	17,392,001
Net assets at 9/30/13	5,337,960	10,056,225	10,774,516	6,370,666	16,112,476	16,426,891

The cost of all governmental activities this year was \$ 4.9 million. However, as shown in the Statement of Activities on pages 11 and 12, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$1.28 million because some of the costs were paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions; \$106 thousand.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on pages 13 reported a combined fund balance of \$1.279 million, which is less than last year's total of \$1.734 million. Included in this year's total change in fund balance is an increase of \$1.8 thousand in the City's General Fund.

Over the course of the year, the Board revised the City's budget several times. These budget amendments fall into one category. They involved amendments moving funds from programs that did not need all the resources originally appropriated, to programs with resource needs.

The City's General Fund balance of (\$259,471) thousand reported on page 13 differs from the General Fund's budgetary fund balance of (\$194 thousand) reported in the General Fund budgetary comparison schedule on page 19. This is principally due unrealized revenues.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2012-13 year, the City had \$26.63 million invested in a broad range of capital assets, including facilities, land, infrastructure, vehicles, and equipment.

This years' major addition included:

The continuation of the sewer line expansion project, utilizing proceeds from the 100% forgivable loan from the Texas Water Development Board (Clean Water Revolving Loan Fund).

Debt

At year-end, the City had \$18.34 million in bonds and notes outstanding, increasing by \$.25 million from \$18.09 million, due to a new bond issue and note payable.

Other obligations include accrued vacation pay and sick leave. More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2012-13 budget tax rates. One of those factors is the economy. The City's population growth during 2000–2010 averaged annual gains of 181.5 percent. More recently, unemployment has remained relatively constant. This compares with the State's unemployment rate of 8.2 percent and the national rate of 9.6 percent. The City also takes the number of households served by the City in developing the budget for the Enterprise fund. The City is currently serving 2,799 residents through its Enterprise fund, providing water, sewer and solid waste services.

These indicators were taken into account when adopting the General Fund budget for 2013-14. Amounts available for appropriation in the General Fund budget are \$3.544 million, lower than the final 2012-13 budget of \$ 3.178 million, due to the City's establishing of an Enterprise Solid Waste Fund. The City will use its revenues to finance programs we currently offer. Budgeted expenditures are expected to relatively increase to \$3.375 million, also as a result of the Enterprise Solid Waste Fund.

If these estimates are realized, the City's budgetary General Fund balance is expected to increase slightly by the close of 2013-14.

Subsequent to year-end the City of Alton:

- The City has begun construction of Fire Station Facility. The funding was provided by USDA-RD on a Community Facilities grant/loan of \$1,000,000.00. The City expects to complete construction in September 2014.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and 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 questions about this report or need additional financial information, contact the City's administration office, at CITY OF ALTON, 519 S Main Blvd., ALTON, Texas.

CITY OF ALTON, TX
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

EXHIBIT A-1

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 1,168,536	\$ 242,143	\$ 1,410,679
Receivables (net of allowance for uncollectibles)	581,444	325,483	906,927
Internal Balances	92,298	(92,298)	-
Due from Others	8,320	-	8,320
Restricted Assets:			
Temp. Restricted Asset - Cash	4,266,617	-	4,266,617
Capital Assets:			
Land	3,549,928	25,110	3,575,038
Infrastructure, net	8,894,600	-	8,894,600
Buildings, net	4,258,094	-	4,258,094
Improvements other than Buildings, net	-	5,228,790	5,228,790
Machinery and Equipment, net	519,000	397,452	916,452
Construction in Progress	107,888	5,625,920	5,733,808
Total Assets	<u>23,446,725</u>	<u>11,752,600</u>	<u>35,199,325</u>
LIABILITIES			
Accounts Payable	285,266	136,708	421,974
Intergovernmental Payable	67,492	6,440	73,932
Deferred Revenues	128,657	-	128,657
Note Payable	-	174,917	174,917
Noncurrent Liabilities			
Due Within One Year	10,335,194	-	10,335,194
Due in More Than One Year	7,292,156	660,019	7,952,175
Total Liabilities	<u>18,108,765</u>	<u>978,084</u>	<u>19,086,849</u>
NET POSITION			
Net Investment in Capital Assets	(185,599)	10,442,336	10,256,737
Restricted for:			
Restricted for Special Projects	1,136,596	-	1,136,596
Restricted for Debt Service	78,670	-	78,670
Restricted for Capital Projects	4,355,844	-	4,355,844
Unrestricted Net Position	(47,551)	332,180	284,629
Total Net Position	<u>\$ 5,337,960</u>	<u>\$ 10,774,516</u>	<u>\$ 16,112,476</u>

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

CITY OF ALTON, TX
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Expenses	Program Revenues <u>Charges for Services</u>
Primary Government:		
GOVERNMENTAL ACTIVITIES:		
General Government	\$ 1,224,401	\$ 230,538
Public Safety	2,055,556	-
Public Works	677,835	-
Health and Welfare	117,623	-
Culture and Recreation	111,005	-
Conservation and Development	534,723	-
Bond Interest	160,039	-
Other Debt Interest	51,779	-
Fiscal Agent's Fees	250	-
Total Governmental Activities:	4,933,211	230,538
BUSINESS-TYPE ACTIVITIES:		
	952,514	1,294,119
	633,657	961,417
Total Business-Type Activities:	1,586,171	2,255,536
TOTAL PRIMARY GOVERNMENT:	\$ 6,519,382	\$ 2,486,074

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes
Property Taxes, Levied for Debt Service
Sales Taxes
Franchise Taxes
Other Taxes
Penalty and Interest
Grants and Contributions Not Restricted
Miscellaneous Revenue
Investment Earnings
Special Item - resource
Transfers In (Out)
Total General Revenues, Special Items, and Transfers
Change in Net Position
Net Position - Beginning
Prior Period Adjustment
Net Position--Ending

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

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (993,863)	\$ -	\$ (993,863)
(2,055,556)	-	(2,055,556)
(677,835)	-	(677,835)
(117,623)	-	(117,623)
(111,005)	-	(111,005)
(534,723)	-	(534,723)
(160,039)	-	(160,039)
(51,779)	-	(51,779)
(250)	-	(250)
<u>(4,702,673)</u>	<u>-</u>	<u>(4,702,673)</u>
-	341,605	341,605
-	327,760	327,760
<u>-</u>	<u>669,365</u>	<u>669,365</u>
<u>(4,702,673)</u>	<u>669,365</u>	<u>(4,033,308)</u>
875,429	-	875,429
406,842	-	406,842
645,560	-	645,560
212,996	-	212,996
118	-	118
78,393	-	78,393
106,358	-	106,358
842,120	389	842,509
10,168	-	10,168
(4,433,159)	4,433,159	-
502,000	(502,000)	-
<u>(753,176)</u>	<u>3,931,548</u>	<u>3,178,372</u>
(5,455,849)	4,600,913	(854,936)
10,056,225	6,370,667	16,426,892
737,585	(197,064)	540,521
<u>\$ 5,337,960</u>	<u>\$ 10,774,516</u>	<u>\$ 16,112,476</u>

CITY OF ALTON, TX
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	General Fund	Debt Service Fund	Capital Projects
ASSETS			
Cash and Cash Equivalents	\$ 130,828	\$ 97,670	\$ 11,420
Taxes Receivable	310,646	135,390	-
Receivables (Net)	68,626	-	-
Intergovernmental Receivables	43,253	-	-
Due from Other Funds	154,813	5,705	293,002
Due from Others	8,321	-	-
Temporarily Restricted Asset - Cash	-	-	4,266,617
Total Assets	<u>\$ 716,487</u>	<u>\$ 238,765</u>	<u>\$ 4,571,039</u>
LIABILITIES			
Accounts Payable	\$ 12,464	\$ -	\$ 231,243
Wages and Salaries Payable	28,966	-	-
Intergovernmental Payable	67,492	-	-
Due to Other Funds	549,608	24,705	61,112
Due to Others	-	-	-
Unavailable Revenues	-	-	4,031,791
Total Liabilities	<u>658,530</u>	<u>24,705</u>	<u>4,324,146</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	317,428	135,390	-
Total Deferred Inflows of Resources	<u>317,428</u>	<u>135,390</u>	<u>-</u>
FUND BALANCES			
Other Restricted Fund Balance	-	78,670	246,893
Unassigned Fund Balance	(259,471)	-	-
Total Fund Balances	<u>(259,471)</u>	<u>78,670</u>	<u>246,893</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 716,487</u>	<u>\$ 238,765</u>	<u>\$ 4,571,039</u>

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

Other Funds	Total Governmental Funds
\$ 928,618	\$ 1,168,536
1,316	447,352
22,213	90,839
-	43,253
278,469	731,989
-	8,321
-	4,266,617
<u>\$ 1,230,616</u>	<u>\$ 6,756,907</u>
\$ 3,708	\$ 247,415
1,742	30,708
-	67,492
4,267	639,692
7,143	7,143
-	4,031,791
<u>16,860</u>	<u>5,024,241</u>
-	452,818
-	452,818
1,213,756	1,539,319
-	(259,471)
<u>1,213,756</u>	<u>1,279,848</u>
<u>\$ 1,230,616</u>	<u>\$ 6,756,907</u>

CITY OF ALTON, TX
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2013

Total Fund Balances - Governmental Funds	\$	1,279,848
<p>The City uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to Increase (decrease) net position.</p>		
		-0-
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$32,142,338 and the accumulated depreciation was \$15,413,391. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.</p>		
		3,442,235
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2013 capital outlays and debt principal payments is to increase (decrease) net position.</p>		
		1,309,805
<p>The 2013 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.</p>		
		(845,962)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.</p>		
		152,034
Net Position of Governmental Activities	\$	5,337,960

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

CITY OF ALTON, TX
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	General Fund	Debt Service Fund	Capital Projects
REVENUES:			
Taxes:			
Property Taxes	\$ 921,261	\$ 406,842	\$ -
General Sales and Use Taxes	323,798	-	-
Franchise Tax	212,996	-	-
Other Taxes	118	-	-
Penalty and Interest on Taxes	54,105	24,288	-
Licenses and Permits	177,830	-	-
Intergovernmental Revenue and Grants	-	-	4,427,843
Charges for Services	230,538	-	-
Fines	381,645	-	-
Forfeits	-	-	-
Special Assessments	-	-	-
Investment Earnings	286	59	8,867
Rents and Royalties	26,961	-	-
Contributions & Donations from Private Sources	-	-	-
Other Revenue	93,388	-	-
Total Revenues	<u>2,422,926</u>	<u>431,189</u>	<u>4,436,710</u>
EXPENDITURES:			
Current:			
General Government	822,521	-	-
Public Safety	1,643,971	-	-
Public Works	556,987	-	-
Health and Welfare	98,041	-	-
Culture and Recreation	31,993	-	-
Conservation and Development	134,834	-	-
Debt Service:			
Bond Principal	-	464,411	-
Other Debt Principal	-	14,917	-
Bond Interest	-	160,039	-
Other Debt Interest	-	-	-
Fiscal Agent's Fees	-	250	-
Capital Outlay:			
Capital Outlay	-	-	4,433,159
Total Expenditures	<u>3,288,347</u>	<u>639,617</u>	<u>4,433,159</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(865,421)</u>	<u>(208,428)</u>	<u>3,551</u>
OTHER FINANCING SOURCES (USES):			
Sale of Real and Personal Property	473,498	-	-
Non-Current Loans	-	-	-
Transfers In	446,000	126,000	-
Transfers Out (Use)	(50,120)	(24,705)	-
Total Other Financing Sources (Uses)	<u>869,378</u>	<u>101,295</u>	<u>-</u>
Net Change in Fund Balances	3,957	(107,133)	3,551
Fund Balance - October 1 (Beginning)	(261,274)	185,803	243,342
Prior Period Adjustment	(2,154)	-	-
Fund Balance - September 30 (Ending)	<u>\$ (259,471)</u>	<u>\$ 78,670</u>	<u>\$ 246,893</u>

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

Other Funds	Total Governmental Funds
\$ -	\$ 1,328,103
321,762	645,560
-	212,996
-	118
-	78,393
-	177,830
44,055	4,471,898
27,695	258,233
-	381,645
20,200	20,200
78,064	78,064
956	10,168
450	27,411
18,375	18,375
29,818	123,206
541,375	7,832,200
-	822,521
60,543	1,704,514
-	556,987
-	98,041
58,794	90,787
403,718	538,552
-	464,411
92,766	107,683
-	160,039
51,779	51,779
-	250
1,233,243	5,666,402
1,900,843	10,261,966
(1,359,468)	(2,429,766)
-	473,498
1,000,000	1,000,000
355,304	927,304
(350,479)	(425,304)
1,004,825	1,975,498
(354,643)	(454,268)
1,566,247	1,734,118
2,152	(2)
\$ 1,213,756	\$ 1,279,848

CITY OF ALTON, TX
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

Total Net Change in Fund Balances - Governmental Funds	\$	(454,268)
<p>The city uses some internal service funds to charge the costs of certain activities primarily to the governmental funds. The net income (loss) of these internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) the change in net position.</p>		
		-0-
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2013 capital outlays and debt principal payments is to increase (decrease) the change in net position.</p>		
		1,309,805
<p>Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.</p>		
		(845,962)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) the change in net position.</p>		
		(5,465,424)
Change in Net Position of Governmental Activities	\$	(5,455,849)

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

CITY OF ALTON, TX
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 898,025	\$ 904,204	\$ 921,261	\$ 17,057
General Sales and Use Taxes	316,153	316,153	323,798	7,645
Franchise Tax	250,000	234,365	212,996	(21,369)
Other Taxes	400	118	118	-
Penalty and Interest on Taxes	44,779	48,766	54,105	5,339
Licenses and Permits	162,300	163,900	177,830	13,930
Charges for Services	221,350	224,508	230,538	6,030
Fines	487,500	379,920	381,645	1,725
Investment Earnings	-	280	286	6
Rents and Royalties	23,280	26,356	26,961	605
Other Revenue	97,685	92,730	93,388	658
Total Revenues	<u>2,501,472</u>	<u>2,391,300</u>	<u>2,422,926</u>	<u>31,626</u>
EXPENDITURES:				
Current:				
General Government	823,336	825,221	822,521	2,700
Public Safety	1,487,126	1,649,700	1,643,971	5,729
Public Works	523,297	564,984	556,987	7,997
Health and Welfare	92,755	100,313	98,041	2,272
Culture and Recreation	39,500	31,627	31,993	(366)
Conservation and Development	152,112	132,088	134,834	(2,746)
Total Expenditures	<u>3,118,126</u>	<u>3,303,933</u>	<u>3,288,347</u>	<u>15,586</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(616,654)</u>	<u>(912,633)</u>	<u>(865,421)</u>	<u>47,212</u>
OTHER FINANCING SOURCES (USES):				
Sale of Real and Personal Property	300,000	534,000	473,498	(60,502)
Transfers In	376,000	446,000	446,000	-
Transfers Out (Use)	-	-	(50,120)	(50,120)
Total Other Financing Sources (Uses)	<u>676,000</u>	<u>980,000</u>	<u>869,378</u>	<u>(110,622)</u>
Net Change	59,346	67,367	3,957	(63,410)
Fund Balance - October 1 (Beginning)	(261,274)	(261,274)	(261,274)	-
Prior Period Adjustment	-	-	(2,154)	(2,154)
Fund Balance - September 30 (Ending)	<u>\$ (201,928)</u>	<u>\$ (193,907)</u>	<u>\$ (259,471)</u>	<u>\$ (65,564)</u>

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

CITY OF ALTON, TX
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2013

	Business-Type Activities - Enterprise Funds		
	Utility Fund	Solid Waste Fund	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 89,538	\$ 152,605	\$ 242,143
Accounts Receivable-Net of Uncollectible Allowance	207,788	117,695	325,483
Total Current Assets	297,326	270,300	567,626
Noncurrent Assets:			
Capital Assets:			
Land Purchase and Improvements	25,110	-	25,110
Improvements other than Buildings	7,024,974	-	7,024,974
Accumulated Depreciation - Other Improvements	(1,796,184)	-	(1,796,184)
Machinery and Equipment	-	552,156	552,156
Accumulated Depreciation - Machinery & Equipment	-	(154,704)	(154,704)
Construction in Progress	5,625,920	-	5,625,920
Total Noncurrent Assets	10,879,820	397,452	11,277,272
Total Assets	11,177,146	667,752	11,844,898
LIABILITIES			
Current Liabilities:			
Accounts Payable	3,003	114,017	117,020
Wages and Salaries Payable	14,484	5,204	19,688
Intergovernmental Payable	-	6,440	6,440
Due to Other Funds	89,122	3,176	92,298
Notes Payable - Current	13,907	161,010	174,917
Total Current Liabilities	120,516	289,847	410,363
NonCurrent Liabilities:			
Notes Payable - Noncurrent	149,077	510,942	660,019
Total Noncurrent Liabilities	149,077	510,942	660,019
Total Liabilities	269,593	800,789	1,070,382
NET POSITION			
Net Investment in Capital Assets	10,716,836	(274,500)	10,442,336
Unrestricted Net Position	190,717	141,463	332,180
Total Net Position	\$ 10,907,553	\$ (133,037)	\$ 10,774,516

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

CITY OF ALTON, TX
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business-Type Activities - Enterprise Funds		
	Utility Fund	Solid Waste Fund	Total Enterprise Funds
OPERATING REVENUES:			
Charges for Services	\$ -	\$ 921,235	\$ 921,235
Charges for Sewerage Service	1,294,119	40,182	1,334,301
Investment Earnings	116	126	242
Contributions & Donations from Private Source	-	22	22
Other Revenue	-	125	125
Total Operating Revenues	<u>1,294,235</u>	<u>961,690</u>	<u>2,255,925</u>
OPERATING EXPENSES:			
Personnel Services - Salaries and Wages	187,335	131,032	318,367
Personnel Services - Employee Benefits	45,941	35,262	81,203
Purchased Professional & Technical Services	910	1,987	2,897
Purchased Property Services	-	42,460	42,460
Other Operating Expenses	543,576	219,401	762,977
Supplies	2,268	68,633	70,901
Depreciation	162,252	112,841	275,093
Interest Expense	10,232	22,041	32,273
Total Operating Expenses	<u>952,514</u>	<u>633,657</u>	<u>1,586,171</u>
Income Before Contributions & Transfers	341,721	328,033	669,754
Capital Contributions	4,433,159	-	4,433,159
Transfers Out	(226,000)	(276,000)	(502,000)
Change in Net Position	4,548,880	52,033	4,600,913
Total Net Position - October 1 (Beginning)	6,555,737	(185,070)	6,370,667
Prior Period Adjustment	(197,064)	-	(197,064)
Total Net Position - September 30 (Ending)	<u>\$ 10,907,553</u>	<u>\$ (133,037)</u>	<u>\$ 10,774,516</u>

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

CITY OF ALTON, TX
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT D-3

	Business-Type Activities		
	Utility Fund	Solid Waste Fund	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>			
Cash Received from User Charges	\$ 1,470,708	\$ 932,668	\$ 2,403,376
Cash Received - Other Sources	116	273	389
Cash Payments to Employees for Services	(231,630)	(163,002)	(394,632)
Cash Payments for Suppliers	(3,178)	(113,080)	(116,258)
Cash Payments for Other Operating Expenses	(723,682)	(164,972)	(888,654)
Net Cash Provided by Operating Activities	<u>512,334</u>	<u>491,887</u>	<u>1,004,221</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Operating Transfer Out	(226,000)	(276,000)	(502,000)
<u>Cash Flows from Capital & Related Financing Activities:</u>			
Acquisition of Capital Assets	(4,433,159)	(27,165)	(4,460,324)
Capital Contributed by Other Funds	4,433,159	-	4,433,159
Debt Service Payments	(12,016)	(162,345)	(174,361)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(12,016)</u>	<u>(189,510)</u>	<u>(201,526)</u>
<u>Cash Flows from Investing Activities:</u>			
Prior Period Adjustment	(197,064)	-	(197,064)
Net Increase in Cash and Cash Equivalents	77,254	26,377	103,631
Cash and Cash Equivalents at Beginning of the Year:	12,284	126,228	138,512
Cash and Cash Equivalents at the End of the Year:	<u>\$ 89,538</u>	<u>\$ 152,605</u>	<u>\$ 242,143</u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>			
Operating Income:	\$ 341,721	\$ 328,033	\$ 669,754
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	162,252	112,841	275,093
Effect of Increases and Decreases in Current Assets and Liabilities:			
Decrease (increase) in Receivables	176,589	(28,749)	147,840
Increase (decrease) in Accounts Payable	126	66,853	66,979
Increase (decrease) in Payroll Deductions	1,646	3,292	4,938
Increase (decrease) in Due to Other Funds	(170,000)	3,177	(166,823)
Increase (decrease) in Other Current Liabilities	-	6,440	6,440
Net Cash Provided by Operating Activities	<u>\$ 512,334</u>	<u>\$ 491,887</u>	<u>\$ 1,004,221</u>

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

CITY OF ALTON, TX
 STATEMENT OF NET POSITION
 FIDUCIARY FUNDS
 SEPTEMBER 30, 2013

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 2,790
Accounts Receivable-Net of Uncollectible Allowance	2,342
Total Assets	<u>\$ 5,132</u>
NET POSITION	
Unrestricted Net Position	<u>\$ 5,132</u>
Total Net Position	

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

CITY OF ALTON

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CITY OF ALTON (the "City") was incorporated on April 1, 1978, under Article XI, Section 5 of the Constitution of the State of Texas. The City operates under a Home Rule (Mayor, City Commissioners) form of government and provides the following services as authorized by its charter. The services include public safety (police and fire), public works, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. Other services include utilities (water & sewer services and solid waste collection).

The City prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants and the requirements of contracts and grants of agencies from which it receives funds.

On October 1, 2012, the City adopted GASB 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and early implemented GASB 65 *Items Previously Reported as Assets and Liabilities* as encouraged by GASB.

The effect on financial statements of implementing these two Statements requires a restatement of Net Position – Beginning at the government-wide level financial statements in the Statement of Activities. See related Note 22 for further details on this change.

The GASB 63 Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concept Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB 65 Items Previously Reported As Assets and Liabilities. This Statement addresses important practice issues for state and local governments. Statement No. 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

Concept Statement No. 4, *Elements of Financial Statements*, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in Concepts Statement 4. Based on those definitions, Statement 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources

and deferred inflows of resources. In addition, this Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources.

The requirements of this Statement will improve financial reporting by clarifying the appropriate use of financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

A. REPORTING ENTITY

The Board of Commissioners (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity."

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Generally Accepted Accounting Principles (GAAP). The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of the above criteria, the following is a brief review of the City's component unit addressed in defining the City's reporting entity.

Blended Component Units – Blended component units, although legally separate entities, are in substance part of the government's operations and so data from these units are combined with data of the primary government. The City's blended component unit follows.

Included in the Reporting Entity

The City of Alton Development Corporation (4A Corporation) and the City of Alton Community Development Corporation (4B Corporation) were incorporated on July 9, 1996, under the Development Corporation Act of 1979, of the State of Texas. The Development Corporations (4A & 4B) operate as Component Units of the City of Alton, Texas (the "City"). The Corporations' purpose are to promote economic development and encourage employment and public welfare on behalf of the City by developing, implementing, providing and financing projects under the Act as defined in Sections 4A and 4B of the Act.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the CITY OF ALTON nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. The "grants and contributions" column includes amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. If a revenue is not a program revenue, it is a general revenue used to support all of the City's functions. Taxes are always general revenues.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due froms on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Assets and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Assets. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Assets as internal balances and on the Statement of Activities as interfund transfers. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the government-wide statements. The City considers some governmental and enterprise funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for un-matured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the City to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

D. FUND ACCOUNTING

The City reports the following major governmental funds:

- 1. The General Fund** – The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
- 2. The Debt Service Fund** – The debt service fund is used to account for the accumulation of resources for and payment of, general long term debt principal, interest, and related costs.
- 3. Capital Projects Funds** – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

The City reports the following major enterprise fund(s):

- 1. The Utility Fund** – The utility fund is used to account for all financial resources derived from providing basic services such as water, sewer services and solid waste services.

Additionally, the City reports the following fund type(s):

Governmental Funds:

- 1. Special Revenue Funds** – The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
- 2. Capital Projects Funds** – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Proprietary Funds:

- 4. Enterprise Funds** – The City's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund.

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

3. It is the City's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is a liability for unpaid accumulated sick leave since the City does have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.
4. Capital assets, which include land, buildings, furniture and equipment [and infrastructure assets], are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the City are depreciated using the straight line method over the following estimated useful lives. The estimated lives range from 5 to 7 years for equipment, 45 years for improvements, and 40 years for buildings.

5. Restricted Assets-Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.
6. Deferred revenues are those for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Monies collected in advance from federal or state agencies are recorded as revenue in the year for which the expenditures are incurred.
7. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
8. Encumbrances-The City of Alton, Texas, employs encumbrance accounting; under which purchase order, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.

9. The City has adopted GASB 54 as part of its 2010-11 fiscal year reporting. Implementation of GASB 54 is required for all cities for their fiscal year ending 2011. The intention of GASB 54 is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the City's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. GASB 54 provides for two major types of fund balances, which are nonspendable and spendable.

Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of these classifications are prepaid items and inventories.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government form its highest level of decision making authority. The responsibility to commit funds rests with the City Commissioners. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

When the City incurs an expense for which it may use either restricted or unrestricted assets, it used the restricted assets first whenever they will have to be returned if they are not used.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets</u> <u>at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net Value at the</u> <u>Beginning of the</u> <u>Year</u>	<u>Change in Net</u> <u>Assets</u>
Land	\$2,483,398	0	\$ 2,483,398	
Buildings	5,743,873	(1,259,800)	4,484,073	
Furniture & Equipment	2,695,768	(2,080,971)	614,797	
Construction In Progress	74,119	0	74,119	
Infrastructure	21,145,180	(12,072,620)	9,072,560	
Change in Net Assets				<u>\$ 16,728,947</u>

<u>Long-term Liabilities</u> <u>at the Beginning of the year</u>	<u>Payable at the</u> <u>Beginning of the</u> <u>Year</u>	
Bonds Payable	5,694,000	
Less Deferred Charges		
Loans Payable	<u>11,393,203</u>	
Change in Net Assets		<u>(17,087,203)</u>
Net Adjustment to Net Assets		<u>\$(358,256)</u>

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides the reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

	<u>Amount</u>	<u>Adjustments to</u> <u>Changes in Net</u> <u>Assets</u>	<u>Adjustments to</u> <u>Net Assets</u>
<u>Current Year Capital Outlay</u>			
Various Categories	<u>\$737,711</u>		
Total Capital Outlay	<u>\$737,711</u>	<u>\$737,711</u>	<u>\$737,711</u>
<u>Debt Principal Payments</u>			
Bond Principal	462,000		
Loan Principal	<u>110,093</u>		
Total Principal Payments	<u>\$572,093</u>	<u>572,093</u>	<u>572,093</u>
Total Adjustment to Net Assets		<u>\$1,309,804</u>	<u>\$1,309,804</u>

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to</u> <u>Change in Net</u> <u>Assets</u>	<u>Adjustments</u> <u>to Net Assets</u>
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	\$136,380	\$ (136,380)	
Uncollected taxes (assumed collectible) from Current Year Levy	140,522	140,522	140,522
<u>Reclassify Proceeds of Bonds, Loans & Capital Leases</u>			
Note Issuance	1,000,000	(1,000,000)	(1,000,000)
Transfer of CIP to Enterprise Fund	4,433,159	(4,433,159)	
Other		(36,407)	707,444
Total		<u>\$(5,465,424)</u>	<u>\$ 152,034</u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Commissioners adopts an "appropriated budget" for the General Fund and Debt Service Fund. In accordance with Government Accounting Standards Board (GASB) Statement#34, a City is required to present the adopted and final amended budgeted revenues and expenditures for the General Fund. The City compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit F-1.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to October 1, the City prepares a budget for the next succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance by the Board. Once a budget is approved, it can only be formally amended by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, and are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the City has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were deemed significant.
4. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

General Fund expenditures exceeded appropriations by the amount(s) noted below;

<u>Functional Category</u>	<u>Amount</u>
Culture and Recreation	\$ 366
Conservation and Development	<u>2,746</u>
Total Excess of Expenditures	<u>\$ 3,112</u>

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At September 30, 2013, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$ 5,680,085 and the bank balance was \$5,762,292. The City's cash deposits at September 30, 2013 and during the year ended September 30, 2013 were entirely covered by FDIC Insurance and securities collateral.

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

Credit Risk To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the City limits investments to Certificates of Deposits, Public Funds Investment Pools and Guaranteed Investment Contracts, collateralized by U.S. Government Securities. As of September 30, 2013, the city's investments were secured by FDIC Insurance and securities collateral.

Custodial Credit Risk for Investments State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the city complies with this law, it has no custodial credit risk for deposits.

Concentration of Credit Risk To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the investment portfolio shall be diversified in terms of investment instruments maturity scheduling, and financial institutions.

Interest Rate Risk To limit the risk that changes in interest rates will adversely affect the fair value of investments, the City requires that the investments shall be monitored by using specific identification.

Foreign Currency Risk for Investments The District limits the risk that changes in exchanges rates will adversely affect the fair value of an investment. At year-end, the District was not exposed to foreign currency risk.

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on 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 31st of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. INTERFUND BALANCES

General Fund Due to:

4A Corporation	101,819
4B Corporation	101,819
Special Revenue	47,264
Debt Service	5,705
Capital Projects	<u>293,001</u>
	549,608

4A Corporation Due to:

Other Funds	<u>2,863</u>
	2,863

Special Revenue Fund Due to:

General Fund	<u>1,404</u>
	1,404

Debt Service Fund Due to:

Special Revenue Fund	<u>24,705</u>
	24,705

Capital Projects Fund Due to:

General Fund	<u>61,112</u>
	61,112

Enterprise Fund Due to:

General Fund	<u>92,298</u>
	92,298

Total Due To:

731,989

General Fund Due From:

Special Revenue Fund	1,403
Capital Projects Fund	61,112
Enterprise Fund	<u>92,298</u>
	154,813

4A Corporation Due From:

General Fund	<u>101,819</u>
	101,819

4B Corporation Due From:

General Fund	<u>101,819</u>
	101,819

Special Revenue Fund Due From:

Debt Service Fund	<u>74,832</u>
	74,832

Debt Service Fund Due From:	
General Fund	<u>5,705</u>
	5,705
Capital Projects Fund Due From:	
General Fund	<u>293,001</u>
	293,001
Total Due From:	<u><u>731,989</u></u>

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2013, were as follows:

	<u>Property Taxes</u>	<u>Sales and Franchise Taxes</u>	<u>Other Governments</u>	<u>Due From Other Funds</u>	<u>Other</u>	<u>Total Receivables</u>
General Fund	\$ 310,646	\$ 68,626	\$ 43,253	\$ 154,813	\$ 8,321	\$ 585,659
Special Revenue Funds	-	19,207	-	278,469	4,322	301,998
Debt Service Fund	135,390	-	-	5,705	-	141,095
Capital Projects Fund	-	-	-	293,002	-	293,002
Enterprise Fund	-	-	-	-	<u>335,798</u>	<u>335,798</u>
Total Receivables	<u>\$ 446,036</u>	<u>\$ 87,833</u>	<u>\$ 43,253</u>	<u>\$ 731,989</u>	<u>\$ 348,441</u>	<u>\$ 1,657,552</u>
Less: Allowance for Uncollectible	\$ -	\$ -	-	-	<u>(10,315)</u>	<u>\$ (10,315)</u>
Net Total Receivable	<u><u>\$ 446,036</u></u>	<u><u>\$ 87,833</u></u>	<u><u>\$ 43,253</u></u>	<u><u>\$ 731,989</u></u>	<u><u>\$ 338,126</u></u>	<u><u>\$ 1,647,237</u></u>

Payables at September 30, 2013, were as follows:

	<u>Accounts Payable</u>	<u>Loans, Leases and Bonds Payable - Current Year</u>	<u>Salaries and Benefits</u>	<u>Due To Other Funds</u>	<u>Due to Other Governments</u>	<u>Other</u>	<u>Total Payables</u>
General Fund	\$ 12,464	\$ -	\$ 28,966	\$ 549,608	\$ 67,492	\$ -	\$ 658,530
Special Revenue Funds	3,708	-	1,742	4,267	-	-	9,717
Debt Service	-	10,335,194	-	24,705	-	-	10,359,899
Capital Projects Fund	231,243	-	-	61,112	-	-	292,355
Enterprise Fund	<u>117,020</u>	<u>174,927</u>	<u>19,688</u>	<u>92,297</u>	<u>6,440</u>	<u>-</u>	<u>410,372</u>
Total Payable	<u><u>\$ 364,435</u></u>	<u><u>\$ 10,510,121</u></u>	<u><u>\$ 50,396</u></u>	<u><u>\$ 731,989</u></u>	<u><u>\$ 73,932</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 11,730,873</u></u>

F. TEMPORARILY RESTRICTED CASH

Temporarily restricted cash consists of loan proceeds that were deposited into an escrow account by the Texas Water Development Board. The proceeds are required to be expended towards the City's Sewer Project. The expenditures must be approved by the Texas Development Water Board in order for the funds to be authorized for release from the escrow account. As of September 30, 2013 the temporarily restricted cash balance totaled \$4,266,617.

G. CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended September 30, 2013, was as follows:

	Primary Government				
	<u>Beginning</u>				<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Balance</u>
Governmental Activities:					
Land	\$ 2,483,398	\$ 328,943	\$ -	\$ 737,587	\$ 3,549,928
Buildings & Improvements	5,743,873	6,590	-	-	5,750,463
Furniture and Equipment	2,695,768	82,815	-	-	2,778,583
Construction In Progress	74,119	33,769	-	-	107,888
Infrastructure	<u>21,145,180</u>	<u>285,594</u>	<u>-</u>	<u>-</u>	<u>21,430,774</u>
Totals at Historic Cost	<u>32,142,338</u>	<u>\$ 737,711</u>	<u>-</u>	<u>\$ 737,587</u>	<u>\$ 33,617,636</u>
Less Accumulated Depreciation:					
Total Accumulated Depreciation	<u>(15,413,391)</u>	<u>(845,963)</u>	<u>-</u>	<u>-</u>	<u>(16,259,353)</u>
Governmental Activities Capital Assets, Net	<u>\$16,728,947</u>	<u>\$ (108,252)</u>	<u>\$ -</u>	<u>737,587</u>	<u>\$17,358,282</u>
Business-type Activities:					
Land	\$ 25,110	-	-	-	\$ 25,110
Construction in Progress	1,192,761	4,433,159	-	-	5,625,920
Furniture and Equipment	524,991	27,165	-	-	552,156
Infrastructure	5,924,606	-	-	-	5,924,606
Buildings and Improvements	<u>1,100,369</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,100,369</u>
Totals at Historic Cost	<u>\$ 8,767,837</u>	<u>\$ 4,460,322</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,228,059</u>
Less Accumulated Depreciation					
Total Accumulated Depreciation	<u>(1,675,796)</u>	<u>(275,093)</u>	<u>-</u>	<u>-</u>	<u>(1,950,888)</u>
Business-type Activities Capital Assets, Net	<u>\$ 7,092,041</u>	<u>\$ 4,185,229</u>	<u>\$ -</u>	<u>\$ (-)</u>	<u>\$11,277,172</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$182,559
Public Safety	378,399
Public Works	123,680
Health & Welfare	21,826
Culture and Recreation	20,218
Economic Development & Assistance	<u>119,281</u>
Total Depreciation Expense	<u>\$ 845,963</u>

H. BONDS AND LONG-TERM NOTES PAYABLE

At September 30, 2013, long-term debt consisted of the following:

Governmental General Long Term Debt:

\$2,568,000 Series 2007 Certificate of Obligation with annual interest rate of 4.39% to 4.47%; Original date of issuance on January 18, 2008 and maturity date on September 15, 2026.	1,967,000
\$ 2,485,000 Series 2011 General Obligation Refunding Bonds. Original Issue Date is October 14, 2011 Maturity date is September 15, 2023. Annual interest rate of 2.31%.	2,100,000
\$1,250,000 Series 2012 Tax Increment Revenue and Limited Tax Certificates of Obligation(TIRZ). Original Issue Date is August 21, 2012 Maturity date is August 15, 2022 . Annual interest rate of 3.7%.	1,165,000

Note Payable to Wells Fargo Bank, dated January 20, 2004 in the original amount of \$400,000 for the purchase of a Fire Truck; Ten annual payments of \$53,434, interest rate of 3.159%.

51,434

Note Payable to Happy State Bank, dated September 20, 2010 in the original amount of \$229,306.00 for the purchase of Police Vehicles; Maturity date November 15, 2015 with an interest rate of 5.82%.

112,878

Note Payable to John Deere Credit, dated September 1, 2010 in the original amount of \$58,368.09 for the purchase of a Backhoe Loader; Maturity date September 1, 2014 with an interest rate of 3.95%.

12,888

During the year 2011, the City was approved financial assistance from the Texas Water Development Board in the amount of \$9,595,000, with 100% of such loan to be forgiven, all as is more specifically set forth in the application. No debt obligations are to be assumed by the City for the loan and no taxes and/or revenues are required to be pledged by the City.

9,596,104

Note Payable to The Bank of New York, dated July 22, 2013 in the original amount of \$500,000; Maturity dated August 1, 2028 with an interest rate of 3.25%

496,117

Note Payable to The Bank of New York, dated July 22, 2013 in the original amount of \$500,000; Maturity dated August 1, 2028 with an interest rate of 3.25%

496,117

Note Payable to Bank of New York Mellon in the amount of \$2,925,000 for the construction of the city recreation center funded through the Urban County CBDG Program

1,515,000

Total General Long Term Debt

\$ 17,512,538

Enterprise Funds General Long Term Debt:

Note Payable to Lone Star National Bank, dated October 27, 2011 in the original amount of \$175,000 for the purchase of a Cash Flow; Ten annual payments of \$10,500, interest rate of 6.0%

\$ 162,984

Note Payable to Government Capital Corp, dated February 28, 2012 in the original amount of \$834,296.85 for the purchase of Solid Waste Equipment; interest rate of 3.447%

671,952

Total Enterprise Fund Long Term Debt

\$ 834,936

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the City is in compliance with all significant limitations and restrictions at September 30, 2013.

The city issued \$2,485,000 in General Obligation Refunding Bonds – Series 2011 to provide resources to cover the costs of issuance to purchase qualifying securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt, Series 1999 and Series 2008. The aggregate difference between the refunding debt and refunded debt is \$418,274. The economic gain on this transaction is a net present value of \$368,201. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District’s financial statements.

I. DEBT SERVICE REQUIREMENTS – BONDS/NOTES PAYABLE

Debt service requirements for bonds/notes payable are as follows:

GOVERNMENTAL FUNDS			ENTERPRISE FUNDS		
Year Ending			Year Ending		
September 30	Principal	Interest	September 30	Principal	Interest
2014	10,335,193	195,788	2014	174,927	32,774
2015	713,016	206,623	2015	181,336	26,366
2016	736,408	188,962	2016	186,219	19,713
2017	733,187	170,724	2017	292,455	6,737
2018	776,107	155,255	2018	-	-
2019-2023	3,273,616	469,979	2019-2023	-	-
2024-2028	945,011	82,929	2024-2028	-	-
Total	<u>17,512,538</u>	<u>1,469,259</u>	Total	<u>834,936</u>	<u>85,589</u>

J. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended September 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:						
Bonds and Notes Payable:						
General Obligation Bonds	\$ 5,694,000	\$ -	\$ (462,000)	\$ -	\$5,232,000	\$ 414,000
Loans Payable	<u>11,393,203</u>	<u>1,000,000</u>	<u>(112,665)</u>	<u>-</u>	<u>12,280,538</u>	<u>9,921,194</u>
Total Bonds and Notes Payable	<u>\$17,087,203</u>	<u>\$ 1,000,000</u>	<u>\$ (574,665)</u>	<u>\$ -</u>	<u>\$17,512,538</u>	<u>\$10,335,194</u>
Notes Payable:						
Loans Payable	<u>\$1,009,297</u>	<u>\$ -</u>	<u>\$ (174,361)</u>	<u>\$ -</u>	<u>\$834,936</u>	<u>\$ 174,927</u>
Total Bonds and Notes Payable	<u>-</u>	<u>-</u>	<u>(174,361)</u>	<u>-</u>	<u>834,936</u>	<u>174,927</u>
Total Enterprises Activities Long-term Liabilities	<u>\$1,009,297</u>	<u>\$ -</u>	<u>\$ (174,361)</u>	<u>\$ -</u>	<u>\$834,936</u>	<u>\$ 174,927</u>

K. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Governmental funds report deferred inflows in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

As of August 31, 2013 the various components of deferred outflows and inflows of resources are as follows:

At the fund level financial statements, the City has the following Deferred Inflows of Resources:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Property Tax, unavailable	\$317,428	\$135,390	\$452,818

L. DEFERRED REVENUE

Deferred revenue at year-end consisted of the following:

	<u>Capital Projects Fund</u>	<u>Total</u>
Deferred Revenue	\$4,031,791	\$4,031,791
Total Deferred Revenue	<u>\$4,031,791</u>	<u>\$4,031,791</u>

M. TAX INCREMENT REINVESTMENT ZONE

The City of Alton, on December 29, 2009 through Ordinance 2009-09 created “Reinvestment Zone Number One, City of Alton, Texas. Section 7. The Ordinance reads as follows:

This hereby created and established in the depository bank of the City, a fund to call the “REINVESTMENT ZONE NUMBER ONE, CITY OF ALTON, TEXAS, TEXAS TAX INCREMENT FUND” (HEREIN CALLED THE “Tax Increment Fund”). Money in the Tax Increment Fund, from whatever source, may be disbursed from the Tax Increment Fund, invested and paid as permitted by the Act or by any agreements entered into pursuant to the Act, or as otherwise authorized by law.

As of the end of fiscal year 2013, the County of Hidalgo transferred \$33,492 for fiscal years 2010, 2011 and 2012, while the City transferred \$74,825 to meet the requirements of the TIRZ agreement for the same fiscal years.

N. DEFINED BENEFIT PENSION PLAN

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS’ website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2011	Plan Year 2012
Employee Deposit Rate	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of Service)	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% Repeating; Transfers	100% Repeating; Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions

Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member’s projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

1. Annual Required Contribution (ARC)	\$ 177,506
2. Interest on Net Pension Obligation	2,721
3. Adjustment to the ARC	(2,339)
4. Annual Pension Cost (APC)	177,888
5. Contributions Made	(142,711)
6. Increase (decrease) in net pension obligation	35,177
7. Net Pension Obligation/(Asset), beginning of year	38,866
8. Net Pension Obligation/(Asset), end of year	\$ 74,043

<u>September 30,</u>	<u>Made</u>	<u>Cost (APC)</u>	<u>Contributed</u>	<u>Obligation</u>
2011	169,975	175,049	97%	43,963.00
2012	154,336	149,238	103%	38,866.00
2013	142,711	177,888	81%	74,043.00

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Valuation Date	12/31/2010	12/31/2011	12/31/12
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	27.8 years; Closed Period	27.1 years; Closed Period	26.1 years; Closed Period
Amortization Period for new	30 years	30 years	30 years

Gains/Losses

Asset Valuation Method	10-year smoothed market	10-year smoothed market	10-year smoothed market
Actuarial Assumptions:			
Investment Rate of Return	7.5%	7.0%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes inflation at	3.00%	3.00%	3.00%
Cost of Living Adjustments	2.1%	2.1%	2.1%

The funded status as of December 31, 2012, the most recent actuarial valuation date, is as follows:

Actual Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3)	Unfunded AAL (UAAL) (4)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6)
		(1)/(2)	(2)-(1)			(4)/(5)
12/31/12	\$ 2,246,112	\$2,876,944	78.1%	\$630,832	\$1,904,212	33.1%

Actual valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short – term volatility in actuarial accrued liabilities and the actuarial value of assets.

Actual Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3)	Unfunded AAL (UAAL) (4)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6)
		(1)/(2)	(2)-(1)			(4)/(5)
12/31/10	\$1,564,202	\$2,115,606	73.9%	\$551,404	\$1,535,137	35.9%
12/31/11	\$1,879,487	\$2,516,997	74.7%	\$637,510	\$1,801,460	35.4%
12/31/12	\$2,246,112	\$2,876,944	78.1%	\$630,832	\$1,904,212	33.1%

O. OTHER POST EMPLOYMENT BENEFITS – TEXAS MUNICIPAL RETIREMENT SYSTEM –SUPPLEMENTAL DEATH BENEFITS

The city also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The city elected, by ordinance, to provide group-term life insurance coverage to current and retired employees . The city may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an “other postemployment benefit,” or OPEB.

Your city offers supplemental death to:	Plan Year 2012	Plan Year 2013
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

The city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The city's contributions to the TMRS SDBF for the years ended 2013, 2012 and 2011 were \$2,149, \$2,015 and \$2,045, respectively, which equaled the required contributions each year.

P. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Projected Summary of Facilities

<u>Project</u>	<u>Architect</u>	<u>Projected Completion Date</u>	<u>Negotiated Contract Amount</u>
2011 Sewer Project	LEMC Engineering	September 30, 2014	\$9,500,000
Fire Station Project	AGA, Inc.	September 30, 2014	\$1,000,000

Q. LITIGATION

The City is the defendant in several legal proceedings arising from its operations. The City's administration believes the outcome of these proceedings, if not favorable to the City, will not materially affect the City's financial position and therefore no allowances have been made.

R. SUBSEQUENT EVENTS

The City began construction on the New Fire Station in the 2013-2014 fiscal year at an estimated cost of \$1,000,000. The construction is funded by through a grant/loan from the U.S. Department of Agriculture.

The City considered all subsequent events through April 25, 2014

S. PRIOR PERIOD ADJUSTMENT

The City recognized prior period adjustments in the Governmental Funds totaling \$2 and the Government Wide Financial Statements totaling \$540,521. The following adjustments to beginning fund/net assets balances were necessary to reflect the actual balances at beginning of the year:

The General Fund Balance account was adjusted to correctly reflect the beginning Fund Balance as of 9/30/2012, for (\$2,154).

Special Revenue Funds Fund Balance account was adjusted to correct the beginning Fund Balance as of 9/30/2012, for \$2,152.

The Government Wide Financial Statements Net Asset account was adjusted to correctly restate the beginning Fixed Assets balance in the amount of \$737,758 in the Governmental Funds and \$197,064 to restate the beginning net asset balance in the Enterprise Funds.

COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES

CITY OF ALTON, TX
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2013

	Development Corporation 4A	Development Corporation 4B	Facilities & Infrastructur Fund
ASSETS			
Cash and Cash Equivalents	\$ 65,673	\$ 57,504	\$ 107,432
Taxes Receivable	-	-	-
Receivables (Net)	9,603	9,603	-
Due from Other Funds	101,819	101,819	-
Total Assets	<u>\$ 177,095</u>	<u>\$ 168,926</u>	<u>\$ 107,432</u>
LIABILITIES			
Accounts Payable	\$ -	\$ 738	\$ -
Wages and Salaries Payable	981	761	-
Due to Other Funds	2,863	-	-
Due to Others	-	-	-
Total Liabilities	<u>3,844</u>	<u>1,499</u>	<u>-</u>
FUND BALANCES			
Other Restricted Fund Balance	173,251	167,427	107,432
Total Fund Balances	<u>173,251</u>	<u>167,427</u>	<u>107,432</u>
Total Liabilities and Fund Balances	<u>\$ 177,095</u>	<u>\$ 168,926</u>	<u>\$ 107,432</u>

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

Urban County Fund	Seizures & Forfeitures Fund	Alton Youth Club	TIRZ Fund	PEG Fund	Texas Leverage Fund	Volunteer Firefighter Fund	Alton Chamber of Commerce
\$ -	\$ 74,026	\$ 1,144	\$ 11,146	\$ 6,813	\$ 526,569	\$ 1,150	\$ -
-	-	-	-	1,316	-	-	-
2,857	-	150	-	-	-	-	-
(2,857)	-	-	74,825	-	-	-	2,863
<u>\$ -</u>	<u>\$ 74,026</u>	<u>\$ 1,294</u>	<u>\$ 85,971</u>	<u>\$ 8,129</u>	<u>\$ 526,569</u>	<u>\$ 1,150</u>	<u>\$ 2,863</u>
\$ -	\$ 1,816	\$ 1,154	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	1,404	-	-	-	-	-
-	7,143	-	-	-	-	-	-
-	8,959	2,558	-	-	-	-	-
-	65,067	(1,264)	85,971	8,129	526,569	1,150	2,863
-	65,067	(1,264)	85,971	8,129	526,569	1,150	2,863
<u>\$ -</u>	<u>\$ 74,026</u>	<u>\$ 1,294</u>	<u>\$ 85,971</u>	<u>\$ 8,129</u>	<u>\$ 526,569</u>	<u>\$ 1,150</u>	<u>\$ 2,863</u>

CITY OF ALTON, TX
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2013

	Total Nonmajor Special Revenue Funds	Debt Service Fund	Capital Projects TIRZ Fund	Capital Projects USDA Fund
ASSETS				
Cash and Cash Equivalents	\$ 851,457	\$ 1	\$ 65,140	\$ 12,020
Taxes Receivable	1,316	-	-	-
Receivables (Net)	22,213	-	-	-
Due from Other Funds	278,469	-	-	-
Total Assets	<u>\$ 1,153,455</u>	<u>\$ 1</u>	<u>\$ 65,140</u>	<u>\$ 12,020</u>
LIABILITIES				
Accounts Payable	\$ 3,708	\$ -	\$ -	\$ -
Wages and Salaries Payable	1,742	-	-	-
Due to Other Funds	4,267	-	-	-
Due to Others	7,143	-	-	-
Total Liabilities	<u>16,860</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Other Restricted Fund Balance	1,136,595	1	65,140	12,020
Total Fund Balances	<u>1,136,595</u>	<u>1</u>	<u>65,140</u>	<u>12,020</u>
Total Liabilities and Fund Balances	<u>\$ 1,153,455</u>	<u>\$ 1</u>	<u>\$ 65,140</u>	<u>\$ 12,020</u>

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

Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
\$ 77,160	\$ 928,618
-	1,316
-	22,213
-	278,469
<u>\$ 77,160</u>	<u>\$ 1,230,616</u>
\$ -	\$ 3,708
-	1,742
-	4,267
-	7,143
<u>-</u>	<u>16,860</u>
<u>77,160</u>	<u>1,213,756</u>
<u>77,160</u>	<u>1,213,756</u>
<u>\$ 77,160</u>	<u>\$ 1,230,616</u>

CITY OF ALTON, TX
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Development Corporation 4A	Development Corporation 4B	Facilities & Infrastructur Fund
REVENUES:			
Taxes:			
General Sales and Use Taxes	\$ 160,881	\$ 160,881	\$ -
Intergovernmental Revenue and Grants	-	-	-
Charges for Services	-	-	10,750
Forfeits	-	-	-
Special Assessments	-	-	78,064
Investment Earnings	113	149	74
Rents and Royalties	-	-	-
Contributions & Donations from Private Sources	-	-	-
Other Revenue	-	-	25
Total Revenues	<u>160,994</u>	<u>161,030</u>	<u>88,913</u>
EXPENDITURES:			
Current:			
Public Safety	-	-	-
Culture and Recreation	-	-	-
Conservation and Development	128,940	264,215	-
Debt Service:			
Other Debt Principal	3,883	3,883	-
Other Debt Interest	3,150	3,150	-
Capital Outlay:			
Capital Outlay	-	-	22,500
Total Expenditures	<u>135,973</u>	<u>271,248</u>	<u>22,500</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>25,021</u>	<u>(110,218)</u>	<u>66,413</u>
OTHER FINANCING SOURCES (USES):			
Non-Current Loans	-	-	-
Transfers In	-	-	-
Transfers Out (Use)	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	25,021	(110,218)	66,413
Fund Balance - October 1 (Beginning)	148,886	277,645	41,019
Prior Period Adjustment	(656)	-	-
Fund Balance - September 30 (Ending)	<u>\$ 173,251</u>	<u>\$ 167,427</u>	<u>\$ 107,432</u>

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

Urban County Fund	Seizures & Forfeitures Fund	Alton Youth Club	TIRZ Fund	PEG Fund	Texas Leverage Fund	Volunteer Firefighter Fund	Alton Chamber of Commerce
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10,563	-	-	33,492	-	-	-	-
-	-	16,945	-	-	-	-	-
-	20,200	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	79	4	8	3	67	-	-
-	-	450	-	-	-	-	-
-	-	-	-	-	-	1,150	17,225
-	-	18,820	-	5,973	-	-	5,000
<u>10,563</u>	<u>20,279</u>	<u>36,219</u>	<u>33,500</u>	<u>5,976</u>	<u>67</u>	<u>1,150</u>	<u>22,225</u>
-	60,543	-	-	-	-	-	-
-	-	38,777	-	-	-	-	20,017
10,563	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	473,498	-	-
<u>10,563</u>	<u>60,543</u>	<u>38,777</u>	<u>-</u>	<u>-</u>	<u>473,498</u>	<u>-</u>	<u>20,017</u>
-	(40,264)	(2,558)	33,500	5,976	(473,431)	1,150	2,208
-	-	-	-	-	1,000,000	-	-
-	-	-	74,825	-	-	-	-
-	(70,000)	-	(22,354)	-	-	-	-
-	(70,000)	-	52,471	-	1,000,000	-	-
-	(110,264)	(2,558)	85,971	5,976	526,569	1,150	2,208
-	175,331	1,294	-	-	-	-	-
-	-	-	-	2,153	-	-	655
<u>\$ -</u>	<u>\$ 65,067</u>	<u>\$ (1,264)</u>	<u>\$ 85,971</u>	<u>\$ 8,129</u>	<u>\$ 526,569</u>	<u>\$ 1,150</u>	<u>\$ 2,863</u>

CITY OF ALTON, TX
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Total Nonmajor Special Revenue Funds	Debt Service Fund	Capital Projects TIRZ Fund	Capital Projects USDA Fund
REVENUES:				
Taxes:				
General Sales and Use Taxes	\$ 321,762	\$ -	\$ -	\$ -
Intergovernmental Revenue and Grants	44,055	-	-	-
Charges for Services	27,695	-	-	-
Forfeits	20,200	-	-	-
Special Assessments	78,064	-	-	-
Investment Earnings	497	1	416	42
Rents and Royalties	450	-	-	-
Contributions & Donations from Private Sources	18,375	-	-	-
Other Revenue	29,818	-	-	-
Total Revenues	<u>540,916</u>	<u>1</u>	<u>416</u>	<u>42</u>
EXPENDITURES:				
Current:				
Public Safety	60,543	-	-	-
Culture and Recreation	58,794	-	-	-
Conservation and Development	403,718	-	-	-
Debt Service:				
Other Debt Principal	7,766	85,000	-	-
Other Debt Interest	6,300	45,479	-	-
Capital Outlay:				
Capital Outlay	495,998	-	651,342	85,903
Total Expenditures	<u>1,033,119</u>	<u>130,479</u>	<u>651,342</u>	<u>85,903</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(492,203)</u>	<u>(130,478)</u>	<u>(650,926)</u>	<u>(85,861)</u>
OTHER FINANCING SOURCES (USES):				
Non-Current Loans	1,000,000	-	-	-
Transfers In	74,825	130,479	-	150,000
Transfers Out (Use)	(92,354)	-	(258,125)	-
Total Other Financing Sources (Uses)	<u>982,471</u>	<u>130,479</u>	<u>(258,125)</u>	<u>150,000</u>
Net Change in Fund Balance	490,268	1	(909,051)	64,139
Fund Balance - October 1 (Beginning)	644,175	-	974,191	(52,119)
Prior Period Adjustment	2,152	-	-	-
Fund Balance - September 30 (Ending)	<u>\$ 1,136,595</u>	<u>\$ 1</u>	<u>\$ 65,140</u>	<u>\$ 12,020</u>

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

Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
\$ -	\$ 321,762
-	44,055
-	27,695
-	20,200
-	78,064
458	956
-	450
-	18,375
-	29,818
458	541,375
-	60,543
-	58,794
-	403,718
-	92,766
-	51,779
737,245	1,233,243
737,245	1,900,843
(736,787)	(1,359,468)
-	1,000,000
150,000	355,304
(258,125)	(350,479)
(108,125)	1,004,825
(844,912)	(354,643)
922,072	1,566,247
-	2,152
\$ 77,160	\$ 1,213,756

FEDERAL SECTION

Reyna & Garza, PLLC
Certified Public Accountants
2111 Jackson Creek Ave.
Edinburg, TX 78539

INDEPENDENT AUDITOR'S 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 City Council
City of Alton, Tx

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 City of Alton, Tx, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City of Alton, Tx's basic financial statements, and have issued our report thereon dated April 25, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We noted certain matters that we reported to management of City of Alton, Tx, in a separate letter dated April 25, 2014.

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.

Reyna & Garza, PLLC

Edinburg, Tx
April 25, 2014

Reyna & Garza, PLLC
Certified Public Accountants
2111 Jackson Creek Ave.
Edinburg, TX 78539

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Honorable Mayor and City Council
City of Alton, Tx

Report on Compliance for Each Major Federal Program

We have audited City of Alton, Tx's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Alton, Tx's major federal programs for the year ended September 30, 2013. City of Alton, Tx's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Alton, Tx's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Alton, Tx's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Alton, Tx's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Alton, Tx, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

Report on Internal Control Over Compliance

Management of City of Alton, Tx, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Alton, Tx's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate

in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Alton, Tx's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Reyna & Garza, PLLC

Edinburg, Tx
April 25, 2014

CITY OF ALTON
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

I. Summary of the Auditor's Results:

A. The type of report issued:	Unmodified opinion.
B. Internal control over financial statements:	
Material Weakness(es) indentified?	No
Significant Deficiency(ies) identified which were not considered material weaknesses?	Yes
C. Noncompliance material to the financial statements noted?	No
D. Federal Awards: Type of Report on Compliance with major programs.	Unmodified opinion
E. Internal control over Major Programs:	
Material Weakness(es) identified?	No
Significant Deficiency(ies) identified which were not considered material weaknesses?	No
F. Findings & Questioned Costs for Federal Awards as defined under Section __.510(a). OMB Circular 133	No
F. Dollar threshold used to distinguish between Type A And Type B Federal programs.	\$300,000
G. Auditee qualified as a low-risk auditee?	No
H. Major Federal Program(s)	E.P.A. & T.W.D.B. – Clean Water Revolving Loan Fund

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with Generally Accepted Government Auditing Standards.

2013-01 Fund Balances

Criteria: Financial statements prepared in conformity with GAAP present the Fund Balance account in a credit (positive) state.

Condition: The City's General Fund - Fund Balance Account ended the fiscal year in a deficit.

Cause: The City's expended funds in excess of appropriations.

Effect: The City expended its reserve funds it had built up in the General Fund, with expenditures having exceeded appropriations and reserves.

Recommendation: The City should review its internal policies and procedures to ensure the amounts expended are limited to the appropriations the City has authorized.

Auditee: The City shall review and improve internal procedures and controls. Contact name: Jorge Arcaute, phone number 956-432-0760.

III. Findings Related to Federal Awards.

None

CITY OF ALTON
SCHEDULE OF PRIOR FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

2012-01 Fund Balances

See current findings

CITY OF ALTON, TX
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
ENVIRONMENTAL PROTECTION AGENCY			
<u>Passed Through Texas Water Development Board</u>			
Clean Water State Revolving Fund	66.458	G11016	\$ 4,427,843
Total Passed Through Texas Water Development Board			<u>4,427,843</u>
TOTAL ENVIRONMENTAL PROTECTION AGENCY			<u>4,427,843</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,427,843</u>

CITY OF ALTON, TX
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2013

- The City uses the fund types specified by the Governmental Accounting Standards Board. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes. Federal and state financial assistance generally is accounted for in a Special Revenue Fund because it is restricted for specific purposes.
- The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus called the modified accrual basis of accounting. Nearly all Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Usually Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. When Federal grant funds are received before related expenditures are made, they are recorded as deferred revenues.

- The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extends 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement.