

CITY OF ALTON, TX
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council of the
City of Alton, Tx
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 the City of Alton, Tx, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Alton, Tx'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, 2017, and the respective changes in financial position, 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information 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 combining and individual nonmajor fund financial statements 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 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 5, 2018, 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 the City of Alton, Tx's internal control over financial reporting and compliance.

Noel Garza, CPA PC

Edinburg, Tx
April 5, 2018

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, 2017. 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 position: decreased by \$205,951, as a result of this year's operations. While net position of our business-type activities: decreased by \$536,485 net position of our governmental activities: increased, by \$330,531. However, net position of governmental activities had a prior period adjustment that increased net position by \$51,757, resulting in a total decrease in net position of \$154,194.
- During the year, the City had expenditures that were \$2.883 million more than the \$5.246 million generated in tax and other revenues for governmental programs (before special items).
- In the City's business-type activities, revenues increased from \$3.1 to \$3.31 million (or 10 percent) while expenses also increased from \$2.39 to \$2.91 million (or 18 percent).
- The General Fund ended the year with a fund balance of \$906,698.
- The resources available for appropriation were \$89 thousand more than budgeted expenses 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 position 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 position 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 position 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 position and changes in them. The City's net position (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 position 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 position 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 position 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 position 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 position (Table I) and changes in net position (Table II) of the City's governmental and business-type activities.

Net position of the City's governmental activities increased from \$ 11.08 million to \$11.47 million. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$682,422 at September 30, 2017.

In 2017, net position of our business-type activities decreased by \$536,485.

Table I
City of ALTON
NET POSITION

	Governmental Activities 2017	Governmental Activities 2016	Business-type Activities 2017	Business-type Activities 2016	Total 2017	Total 2016
Current and other assets	4,665,196	2,095,067	1,211,550	830,510	5,866,746	2,925,577
Capital assets	20,228,495	19,477,494	15,988,388	16,451,913	36,216,883	35,929,207
Total assets	24,883,691	21,572,561	17,199,938	17,282,423	42,083,629	38,854,984
Deferred Outflow, Pension Plan	513,285	365,277	68,769	80,183	582,054	445,460
Long-term liabilities	13,392,791	8,617,778	1,311,366	635,447	14,704,157	2,500,133
Other liabilities	533,350	1,998,296	268,500	501,837	801,850	9,253,225
Total liabilities	13,926,141	10,616,074	1,579,866	1,137,284	15,506,007	11,753,358
Net position:						
Invested in capital assets net of related debt	7,661,689	9,985,777	14,692,023	15,558,384	22,353,712	25,544,161
Restricted	3,126,724	844,041	0	0	3,126,724	844,041
Unrestricted	682,422	491,947	996,818	666,938	1,679,240	1,158,885
Total net position	11,470,835	11,081,764	15,688,841	16,225,322	27,159,676	27,547,086

Table II
City of ALTON
CHANGES IN NET POSITION

	Governmental Activities 2017	Governmental Activities 2016	Business-type Activities 2017	Business-type Activities 2016	Total 2017	Total 2016
Revenues:						
Program Revenues:						
Charges for Services	816,638	366,988	3,308,777	3,100,730	4,125,415	3,467,718
Operating grants and contributions	501,407	10,595,267	0	0	501,407	10,595,267
General Revenues:						
Maintenance and operations taxes	1,030,457	992,620	0	0	1,030,457	992,620
Debt service taxes	467,897	371,285	0	0	467,897	371,285
Sales Taxes	836,652	812,833	0	0	836,652	812,833
Franchise Taxes	287,120	267,315	0	0	287,120	267,315
Investment Earnings	26,232	3,033	0	0	26,232	3,033
Miscellaneous	1,563,028	1,504,774	0	30,747	1,563,028	1,775,521
Total Revenue	5,529,431	15,154,115	3,308,777	3,131,477	8,838,208	18,285,592
Expenses:						
General Government	1,403,453	1,339,259	0	0	1,403,453	1,339,259
Public Safety	2,789,589	2,352,384	0	0	2,789,589	2,352,384
Public Works	601,284	600,981	0	0	601,284	600,981
Health and Welfare	151,850	130,181	0	0	151,850	130,181
Culture & Recreation	250,188	225,087	0	0	250,188	225,087
Economic Development & Asst.	595,111	669,026	0	0	595,111	669,026
Debt Service	337,327	321,183	0	0	337,327	321,183
Fiscal Agent's Fees	2,400	850	0	0	2,400	850
Utility Fund Services	0	0	0	0	0	0
Solid Waste Fund Services	0	0	2,912,958	2,388,166	2,912,958	2,388,166
Utility I&S Fund	0	0	0	0	0	0
Total Expenses	6,131,201	5,638,951	2,912,958	2,388,166	9,044,159	8,027,117
Increase in net position before transfers and special items	(601,770)	9,275,164	395,819	743,311	(205,951)	10,258,475
Transfers	932,301	(535,876)	(932,301)	(946,219)	-	(1,482,095)
Special Items – Resources	-	0	0	1,724,390	0	1,724,390
Special Items-Prior Period Adjustments	51,757	2,147,552	-	506,448	51,757	2,654,000
Net position at 10/1/16	11,088,547	194,924	16,225,332	14,197,392	2,731,879	14,392,316
Net position at 9/30/17	11,470,835	11,081,764	15,688,847	16,225,332	27,159,682	27,307,086

The cost of all governmental activities this year was \$6.131 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 \$1.498 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; \$.5 million.

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 \$4.03 million, which is more than last year's total of \$1.5 million. Included in this year's total change in fund balance is an increase of \$237 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 \$906,698 thousand reported on page 13 differs from the General Fund's budgetary fund balance of \$811,233 thousand reported in the General Fund budgetary comparison schedule on page 19. This is principally due revenues and expenditures exceeding the budget in various functional categories.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2016-17 year, the City had \$36.77 million invested in a broad range of capital assets, including facilities, land, infrastructure, vehicles, and equipment.

Debt

At year-end, the City had \$13.87 million in bonds and notes outstanding, increasing by \$3.27 million from \$10.6 million. The increase is due to a 2016A and 2017 general obligation bond issuances.

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 2016-17 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 2017-18. Amounts available for appropriation in the General Fund budget are \$426 thousand, higher than the final 2016-17 budget of \$4.9 million. The City will use its revenues to finance programs we currently offer. Budgeted expenditures are expected to increase to \$5.28 million.

If these estimates are realized, the City's budgetary General Fund balance is expected to increase slightly by the close of 2017-18.

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, 509 S Alton Blvd., ALTON, Texas.

CITY OF ALTON, TX
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 3,957,116	\$ 556,099	\$ 4,513,215
Receivables (net of allowance for uncollectibles)	687,407	505,431	1,192,838
Internal Balances	10,672	(10,671)	1
Restricted Assets:			
Temp. Restricted Asset (specify)	-	150,020	150,020
Capital Assets:			
Land	3,749,287	25,110	3,774,397
Infrastructure, net	8,893,262	-	8,893,262
Buildings, net	6,137,699	-	6,137,699
Improvements other than Buildings, net	-	15,658,446	15,658,446
Machinery and Equipment, net	1,079,547	304,832	1,384,379
Construction in Progress	368,700	-	368,700
Total Assets	<u>24,883,691</u>	<u>17,189,267</u>	<u>42,072,958</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred Outflow Related to Pension Plan	\$ 513,285	\$ 68,769	\$ 582,054
Total Deferred Outflows of Resources	<u>513,285</u>	<u>68,769</u>	<u>582,054</u>
LIABILITIES			
Accounts Payable	221,726	101,176	322,902
Intergovernmental Payable	63,665	9,714	73,379
Unearned Revenues	115,157	-	115,157
	-	126,939	126,939
Noncurrent Liabilities			
Due Within One Year	1,177,460	20,000	1,197,460
Due in More Than One Year	11,521,269	1,301,881	12,823,150
Net Pension Liability	694,062	-	694,062
Total Liabilities	<u>13,793,339</u>	<u>1,559,710</u>	<u>15,353,049</u>
DEFERRED INFLOW OF RESOURCES			
Unavailable Revenue - Property Taxes	-	-	-
Deferred Inflow Related to Pension Plan	132,802	9,485	142,287
Total Deferred Inflows of Resources	<u>132,802</u>	<u>9,485</u>	<u>142,287</u>
NET POSITION			
Net Investment in Capital Assets	7,661,689	14,692,023	22,353,712
Restricted for:			
Restricted for Capital Acquisition	2,050,028	-	2,050,028
Restricted for Retirement of Long Term Debt	174,587	-	174,587
Restricted for Other Assigned Funds	902,109	-	902,109
Unrestricted Net Position	682,422	996,818	1,679,240
Total Net Position	<u>\$ 11,470,835</u>	<u>\$ 15,688,841</u>	<u>\$ 27,159,676</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, 2017

	Expenses	Program Revenues <u>Charges for Services</u>
Primary Government:		
GOVERNMENTAL ACTIVITIES:		
General Government	\$ 1,403,453	\$ 816,638
Public Safety	2,789,589	-
Public Works	601,284	-
Health and Welfare	151,850	-
Culture and Recreation	250,188	-
Conservation and Development	595,111	-
Bond Interest	163,101	-
Other Debt Interest	174,226	-
Fiscal Agent's Fees	2,400	-
Total Governmental Activities:	6,131,201	816,638
BUSINESS-TYPE ACTIVITIES:		
	1,543,078	1,772,705
	1,369,880	1,532,335
Total Business-Type Activities:	2,912,958	3,305,040
TOTAL PRIMARY GOVERNMENT:	\$ 9,044,159	\$ 4,121,678

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

Sales Taxes

Franchise Taxes

Penalty and Interest

Grants and Contributions Not Restricted

Miscellaneous Revenue

Investment Earnings

Transfers In (Out)

Total General Revenues 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
\$ (586,815)	\$ -	\$ (586,815)
(2,789,589)	-	(2,789,589)
(601,284)	-	(601,284)
(151,850)	-	(151,850)
(250,188)	-	(250,188)
(595,111)	-	(595,111)
(163,101)	-	(163,101)
(174,226)	-	(174,226)
(2,400)	-	(2,400)
<u>(5,314,563)</u>	<u>-</u>	<u>(5,314,563)</u>
-	229,627	229,627
-	162,455	162,455
<u>-</u>	<u>392,082</u>	<u>392,082</u>
<u>(5,314,563)</u>	<u>392,082</u>	<u>(4,922,481)</u>
1,030,457	-	1,030,457
467,897	-	467,897
836,652	-	836,652
287,120	-	287,120
73,452	-	73,452
501,407	-	501,407
1,489,576	3,737	1,493,313
26,232	-	26,232
932,301	(932,301)	-
<u>5,645,094</u>	<u>(928,564)</u>	<u>4,716,530</u>
330,531	(536,482)	(205,951)
11,088,546	16,225,323	27,313,869
51,757	-	51,757
<u>\$ 11,470,835</u>	<u>\$ 15,688,841</u>	<u>\$ 27,159,676</u>

CITY OF ALTON, TX
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	General Fund	Debt Service Fund	Capital Projects
ASSETS			
Cash and Cash Equivalents	\$ 1,035,429	\$ 162,830	\$ 2,001,294
Taxes Receivable	359,921	137,216	-
Allowance for Uncollectible Taxes (credit)	(116,758)	(43,996)	-
Receivables (Net)	82,887	-	-
Intergovernmental Receivables	84,800	-	-
Due from Other Funds	21,909	4,898	70,057
Total Assets	<u>\$ 1,468,188</u>	<u>\$ 260,948</u>	<u>\$ 2,071,351</u>
LIABILITIES			
Accounts Payable	\$ 76,919	\$ -	\$ 26,546
Wages and Salaries Payable	102,790	-	-
Intergovernmental Payable	63,665	-	-
Due to Other Funds	74,954	-	-
Due to Others	-	-	-
Total Liabilities	<u>318,328</u>	<u>-</u>	<u>26,546</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	243,162	93,220	-
Total Deferred Inflows of Resources	<u>243,162</u>	<u>93,220</u>	<u>-</u>
FUND BALANCES			
Capital Acquisition and Contractual Obligation	-	-	2,044,805
Retirement of Long-Term Debt	-	167,728	-
Other Assigned Fund Balance	-	-	-
Unassigned Fund Balance	906,698	-	-
Total Fund Balances	<u>906,698</u>	<u>167,728</u>	<u>2,044,805</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,468,188</u>	<u>\$ 260,948</u>	<u>\$ 2,071,351</u>

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

Other Funds	Total Governmental Funds
\$ 757,563	\$ 3,957,116
1,539	498,676
-	(160,754)
181,798	264,685
-	84,800
-	96,864
<u>\$ 940,900</u>	<u>\$ 4,741,387</u>
\$ 8,298	\$ 111,763
4,860	107,650
-	63,665
11,238	86,192
2,313	2,313
<u>26,709</u>	<u>371,583</u>
-	336,382
-	336,382
5,223	2,050,028
6,859	174,587
902,109	902,109
-	906,698
<u>914,191</u>	<u>4,033,422</u>
<u>\$ 940,900</u>	<u>\$ 4,741,387</u>

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CITY OF ALTON, TX
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

Total Fund Balances - Governmental Funds	\$	4,033,422
<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 \$37,399,811 and the accumulated depreciation was \$17,922,316. 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>		
		9,511,881
<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 2017 capital outlays and debt principal payments is to increase (decrease) net position.</p>		
		(878,237)
<p>The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.</p>		
		(1,063,984)
<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>		
		(132,247)
Net Position of Governmental Activities	<u>\$</u>	<u>11,470,835</u>

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, 2017

	General Fund	Debt Service Fund	Capital Projects
REVENUES:			
Taxes:			
Property Taxes	\$ 1,092,422	\$ 456,472	\$ -
General Sales and Use Taxes	418,326	-	-
Franchise Tax	287,120	-	-
Penalty and Interest on Taxes	52,162	21,290	-
Licenses and Permits	198,125	-	-
Intergovernmental Revenue and Grants	-	-	-
Charges for Services	787,611	-	-
Fines	453,245	-	-
Forfeits	-	-	-
Special Assessments	-	-	-
Investment Earnings	6,602	1,675	14,452
Rents and Royalties	29,027	-	-
Contributions & Donations from Private Sources	-	-	-
Other Revenue	265,415	-	-
Total Revenues	3,590,055	479,437	14,452
EXPENDITURES:			
Current:			
General Government	1,100,692	-	-
Public Safety	2,384,225	-	-
Public Works	713,352	-	-
Health and Welfare	126,554	-	-
Culture and Recreation	204,410	-	-
Conservation and Development	180,899	-	-
Debt Service:			
Bond Principal	-	402,652	-
Other Debt Principal	48,398	80,000	-
Bond Interest	-	63,368	-
Other Debt Interest	1,474	48,966	-
Fiscal Agent's Fees	-	2,200	-
Capital Outlay:			
Capital Outlay	-	-	1,431,501
Total Expenditures	4,760,004	597,186	1,431,501
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,169,949)	(117,749)	(1,417,049)
OTHER FINANCING SOURCES (USES):			
Capital-related Debt Issued (Regular Bonds)	-	-	3,734,053
Sale of Real and Personal Property	-	-	-
Non-Current Loans	-	-	-
Transfers In	955,000	208,000	-
Other Resources	452,199	-	-
Transfers Out (Use)	-	(2,542)	(125,000)
Other (Uses)	-	-	(234,053)
Total Other Financing Sources (Uses)	1,407,199	205,458	3,375,000
Net Change in Fund Balances	237,250	87,709	1,957,951
Fund Balance - October 1 (Beginning)	662,667	80,019	86,854
Prior Period Adjustment	6,781	-	-
Fund Balance - September 30 (Ending)	\$ 906,698	\$ 167,728	\$ 2,044,805

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

Other Funds	Total Governmental Funds
\$ -	\$ 1,548,894
418,326	836,652
-	287,120
-	73,452
-	198,125
477,133	477,133
32,474	820,085
-	453,245
2,107	2,107
182,067	182,067
3,503	26,232
1,075	30,102
24,274	24,274
22,043	287,458
1,163,002	5,246,946
-	1,100,692
4,603	2,388,828
-	713,352
-	126,554
29,190	233,600
318,379	499,278
-	402,652
522,514	650,912
99,733	163,101
123,786	174,226
200	2,400
243,833	1,675,334
1,342,238	8,130,929
(179,236)	(2,883,983)
-	3,734,053
311,210	311,210
209,125	209,125
447,843	1,610,843
-	452,199
(551,000)	(678,542)
-	(234,053)
417,178	5,404,835
237,942	2,520,852
676,249	1,505,789
-	6,781
\$ 914,191	\$ 4,033,422

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, 2017

Total Net Change in Fund Balances - Governmental Funds	\$	2,520,852
<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 2017 capital outlays and debt principal payments is to increase (decrease) the change in net position.</p>		
		(878,237)
<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>		
		(1,063,984)
<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>		
		(248,099)
Change in Net Position of Governmental Activities	\$	330,531

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, 2017

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 1,102,944	\$ 1,089,048	\$ 1,092,422	\$ 3,374
General Sales and Use Taxes	398,000	401,246	418,326	17,080
Franchise Tax	280,000	280,000	287,120	7,120
Penalty and Interest on Taxes	52,162	52,162	52,162	-
Licenses and Permits	259,400	248,702	198,125	(50,577)
Charges for Services	525,578	658,968	787,611	128,643
Fines	508,498	435,745	453,245	17,500
Investment Earnings	-	-	6,602	6,602
Rents and Royalties	44,370	46,021	29,027	(16,994)
Other Revenue	488,228	254,422	265,415	10,993
Total Revenues	3,659,180	3,466,314	3,590,055	123,741
EXPENDITURES:				
Current:				
General Government	1,191,449	1,164,772	1,100,692	64,080
Public Safety	2,504,849	2,394,949	2,384,225	10,724
Public Works	754,645	709,265	713,352	(4,087)
Health and Welfare	115,531	116,942	126,554	(9,612)
Culture and Recreation	216,797	208,464	204,410	4,054
Conservation and Development	239,498	180,455	180,899	(444)
Debt Service:				
Other Debt Principal	-	-	48,398	(48,398)
Other Debt Interest	-	-	1,474	(1,474)
Total Expenditures	5,022,769	4,774,847	4,760,004	14,843
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,363,589)	(1,308,533)	(1,169,949)	138,584
OTHER FINANCING SOURCES (USES):				
Sale of Real and Personal Property	250,000	250,000	-	(250,000)
Transfers In	755,000	755,000	955,000	200,000
Other Resources	368,000	452,099	452,199	100
Total Other Financing Sources (Uses)	1,373,000	1,457,099	1,407,199	(49,900)
Net Change	9,411	148,566	237,250	88,684
Fund Balance - October 1 (Beginning)	662,667	662,667	662,667	-
Prior Period Adjustment	-	-	6,781	6,781
Fund Balance - September 30 (Ending)	\$ 672,078	\$ 811,233	\$ 906,698	\$ 95,465

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, 2017

	Business-Type Activities - Enterprise Funds		
	Water & Sewer Fund	Solid Waste Fund	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 406,895	\$ 149,204	\$ 556,099
Restricted Assets - Current:			
Temporarily Restricted Cash	150,020	-	150,020
Accounts Receivable-Net of Uncollectible Allowance	329,491	175,940	505,431
Total Current Assets	<u>886,406</u>	<u>325,144</u>	<u>1,211,550</u>
Noncurrent Assets:			
Capital Assets:			
Land Purchase and Improvements	25,110	-	25,110
Improvements other than Buildings	18,644,127	-	18,644,127
Accumulated Depreciation - Other Improvements	(2,985,681)	-	(2,985,681)
Machinery and Equipment	2,081	1,110,518	1,112,599
Accumulated Depreciation - Machinery & Equipment	-	(807,767)	(807,767)
Total Noncurrent Assets	<u>15,685,637</u>	<u>302,751</u>	<u>15,988,388</u>
Total Assets	<u>16,572,043</u>	<u>627,895</u>	<u>17,199,938</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow Related to Pension Plan	30,946	37,823	68,769
Total Deferred Outflows of Resources	<u>30,946</u>	<u>37,823</u>	<u>68,769</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	8,894	55,119	64,013
Wages and Salaries Payable	17,777	18,468	36,245
Intergovernmental Payable	-	9,714	9,714
Due to Other Funds	-	10,671	10,671
Due to Others	-	918	918
Notes Payable - Current	35,228	91,711	126,939
Bonds Payable - Current	20,000	-	20,000
Total Current Liabilities	<u>81,899</u>	<u>186,601</u>	<u>268,500</u>
NonCurrent Liabilities:			
Bonds Payable - Non-Current:			
Revenue Bonds Payable	745,000	-	745,000
Notes Payable - Noncurrent	67,157	337,269	404,426
Other Noncurrent Liabilities	68,560	83,895	152,455
Total Noncurrent Liabilities	<u>880,717</u>	<u>421,164</u>	<u>1,301,881</u>
Total Liabilities	<u>962,616</u>	<u>607,765</u>	<u>1,570,381</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflow Related to Pension Plan	4,268	5,217	9,485
Total Deferred Inflows of Resources	<u>4,268</u>	<u>5,217</u>	<u>9,485</u>
NET POSITION			
Net Investment in Capital Assets	14,818,252	(126,229)	14,692,023
Unrestricted Net Position	817,853	178,965	996,818

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, 2017

	Business-Type Activities - Enterprise Funds		
	Water & Sewer Fund	Solid Waste Fund	Total Enterprise Funds
Total Net Position	\$ 15,636,105	\$ 52,736	\$ 15,688,841

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, 2017

	Business-Type Activities - Enterprise Funds		
	Water & Sewer Fund	Solid Waste Fund	Total Enterprise Funds
OPERATING REVENUES:			
Charges for Services	\$ -	\$ 1,394,843	\$ 1,394,843
Charges for Sewerage Service	1,772,705	137,492	1,910,197
Investment Earnings	1,492	635	2,127
Contributions & Donations from Private Source	-	1,350	1,350
Other Revenue	-	260	260
Total Operating Revenues	<u>1,774,197</u>	<u>1,534,580</u>	<u>3,308,777</u>
OPERATING EXPENSES:			
Personnel Services - Salaries and Wages	215,617	238,243	453,860
Personnel Services - Employee Benefits	60,594	84,624	145,218
Purchased Professional & Technical Services	182,119	173,599	355,718
Purchased Property Services	-	161,660	161,660
Other Operating Expenses	647,457	422,933	1,070,390
Supplies	6,615	57,821	64,436
Depreciation	413,940	213,018	626,957
Interest Expense	16,736	17,983	34,719
Total Operating Expenses	<u>1,543,078</u>	<u>1,369,880</u>	<u>2,912,958</u>
Income Before Transfers	231,119	164,700	395,819
Transfers Out	(548,301)	(384,000)	(932,301)
Change in Net Position	(317,182)	(219,300)	(536,482)
Total Net Position - October 1 (Beginning)	<u>15,953,287</u>	<u>272,036</u>	<u>16,225,323</u>
Total Net Position - September 30 (Ending)	<u>\$ 15,636,105</u>	<u>\$ 52,736</u>	<u>\$ 15,688,841</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, 2017

EXHIBIT D-3

	Business-Type Activities		
	60 Capital Projects	60 Capital Projects	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>			
Cash Received from User Charges	\$ 1,708,333	\$ 1,691,736	\$ 3,400,069
Cash Payments to Employees for Services	(273,894)	(318,517)	(592,411)
Cash Payments for Suppliers	(203,774)	(392,431)	(596,205)
Cash Payments for Other Operating Expenses	(581,593)	(422,933)	(1,004,526)
Net Cash Provided by Operating Activities	<u>649,072</u>	<u>557,855</u>	<u>1,206,927</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Operating Transfer Out	(548,301)	(384,000)	(932,301)
<u>Cash Flows from Capital & Related Financing Activities:</u>			
Acquisition of Capital Assets	-	(163,433)	(163,433)
Payment of Long Term Debt	(36,584)	(236,451)	(273,035)
Proceeds from Issuance of Long Term Debt	444,899	178,730	623,629
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>408,315</u>	<u>(221,154)</u>	<u>187,161</u>
<u>Cash Flows from Investing Activities:</u>			
Purchase of Investment Securities	(150,020)	-	(150,020)
Net Increase(Decrease) in Cash and Cash Equivalents	359,066	(47,299)	311,767
Cash and Cash Equivalents at Beginning of the Year:	47,829	196,503	244,332
Cash and Cash Equivalents at the End of the Year:	<u>\$ 406,895</u>	<u>\$ 149,204</u>	<u>\$ 556,099</u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>			
Operating Income:	\$ 231,119	\$ 164,700	\$ 395,819
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	413,940	213,018	626,958
Effect of Increases and Decreases in Current Assets and Liabilities:			
Decrease (increase) in Receivables	-	167,329	167,329
Increase (decrease) in Accounts Payable	1,696	(951)	745
Increase (decrease) in Payroll Deductions	2,317	4,350	6,667
Increase (decrease) in Due to Other Funds	-	9,409	9,409
Net Cash Provided by Operating Activities	<u>\$ 649,072</u>	<u>\$ 557,855</u>	<u>\$ 1,206,927</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, 2017

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 3,466
Accounts Receivable-Net of Uncollectible Allowance	4,883
Total Assets	<u>\$ 8,349</u>
NET POSITION	
Unrestricted Net Position	\$ 8,349
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, 2017

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).

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. 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.

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 fiscal year reporting. 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 from 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	\$3,958,542	0	\$3,958,542	
Buildings	7,429,513	(1,844,614)	5,584,899	

Furniture & Equipment	3,165,469	(2,039,651)	1,125,818
Construction In Progress	374,250	0	374,250
Infrastructure	22,472,037	(14,038,052)	8,433,985

Change in Net Assets \$ 19,477,494

<u>Long-term Liabilities</u>	<u>Payable at the</u>
<u>at the Beginning of the year</u>	<u>Beginning of the</u>
	<u>Year</u>
Bonds Payable	7,307,000
Less Deferred Charges	
Loans Payable	<u>2,424,718</u>
Change in Net Assets	<u>(9,731,718)</u>
Net Adjustment to Net Assets	<u>\$9,745,776</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>\$2,024,241</u>		
Total Capital Outlay	<u>\$2,024,241</u>	<u>\$2,024,241</u>	<u>\$2,024,241</u>
<u>Debt Principal Payments</u>			
Bond Principal	855,569		
Loan Principal	<u>217,844</u>		
Total Principal	<u>\$1,073,413</u>	<u>1,073,413</u>	<u>1,073,413</u>
Payments			
Total Adjustment to Net Assets		<u>\$3,097,654</u>	<u>\$3,097,654</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	\$124,481	\$ (124,481)	
Uncollected taxes(assumed collectible) from Current Year and Prior Levy	231,997	135,245	231,997
Revision of Estimate of Uncollected Taxes	61,304	(61,304)	

<u>Reclassify Proceeds of Bonds, Loans & Capital Leases</u>			
Accrued Vacation	16,559	(16,559)	
Pension		2,467	(180,777)
Sale of Property	209,225	(209,225)	(209,225)
Other		25,758	25,788
	Total	<u>\$ (248,099)</u>	<u>\$(132,217)</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 C-5.

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>
Public Safety	4,087
Public Works	9,612
Culture and Recreation	444
Other Debt Principal	48,398
Other Debt Interest	<u>\$1,474</u>
Total Excess of Expenditures	<u>\$64,015</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, 2017, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) bank balance was \$4,513,215. The City's cash deposits at September 30, 2017 and during the year ended September 30, 2017 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, 2014, 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 From:	
Enterprise Fund	10,671
Special Revenue	<u>11,238</u>
	21,909
Debt Service Fund Due From:	
General Fund	<u>4,898</u>
	4,898
Capital Projects Due From:	
General Fund	<u>70,057</u>
	70,057
Total Due To:	<u><u>96,864</u></u>
General Fund Due To:	
Debt Service Fund	70,057
Capital Projects Fund	<u>4,898</u>
	74,955
Special Revenue Fund Due To:	
General Fund	<u>11,238</u>
	11,238
Enterprise Fund Due From:	
General Fund	<u>10,670</u>
	10,670
Total Due From:	<u><u>96,864</u></u>

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2017, 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	\$ 359,921	\$ 82,887	\$ -	\$ 21,909	\$ 84,800	\$ 549,517
Special Revenue Funds	-	1,539	-	-	181,798	183,337
Debt Service Fund	137,216	-	-	4,898	-	142,114
Capital Projects Fund	-	-	-	70,057	-	70,057
Enterprise Fund	-	-	-	-	535,745	535,745
Total Receivables	\$ 497,137	\$ 84,426	\$ -	\$ 96,864	\$ 802,343	\$ 1,480,770
Less: Allowance for Uncollectible	\$ (160,754)	\$ -	\$ -	\$ -	\$ (30,315)	\$ (190,969)
Net Total Receivable	<u>\$ 336,383</u>	<u>\$ 84,426</u>	<u>\$ -</u>	<u>\$ 96,864</u>	<u>\$ 772,128</u>	<u>\$ 1,289,801</u>

Payables at September 30, 2017, 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	\$ 76,919	\$ -	\$ 102,790	\$ 74,954	\$ 63,665	\$ -	\$ 318,328
Special Revenue Funds	8,298	-	4,860	11,238	-	2,313	26,709
Capital Projects	26,546	-	-	-	-	-	26,546
Debt Service	-	1,177,460	-	-	-	-	1,177,460
Enterprise Fund	64,013	146,939	36,245	10,671	9,714	918	268,500
Total Payable	<u>\$ 175,776</u>	<u>\$ 1,324,399</u>	<u>\$ 143,895</u>	<u>\$ 96,863</u>	<u>\$ 73,379</u>	<u>\$ 3,231</u>	<u>\$ 1,817,543</u>

G. CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended September 30, 2017, was as follows:

	Primary Government				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Governmental Activities:					
Land	\$ 3,958,542	\$ -	\$ (209,254)	\$ -	\$ 3,958,542
Buildings & Improvements	7,429,513	739,961	-	-	8,169,474
Furniture and Equipment	3,165,469	264,332	(141,416)	425	3,288,810
Construction In Progress	374,250	-	-	(5,550)	368,700
Infrastructure	22,472,037	1,019,948	-	5,550	23,497,535
Totals at Historic Cost	<u>\$ 37,399,811</u>	<u>\$ 2,024,241</u>	<u>\$ (350,670)</u>	<u>\$ 425</u>	<u>39,073,807</u>
Less Accumulated Depreciation:					
Total Accumulated Depreciation	<u>(17,922,316)</u>	<u>(1,063,984)</u>	<u>99,622</u>	<u>-</u>	<u>(18,886,679)</u>
Governmental Activities Capital Assets, Net	<u>\$ 19,477,494</u>	<u>\$ 960,257</u>	<u>\$ (251,048)</u>	<u>\$ 425</u>	<u>\$ 20,187,128</u>
Business-type Activities:					
Land	\$ 25,110	-	-	-	25,110
Furniture and Equipment	949,166	402,464	-	-	1,351,630
Infrastructure	16,749,864	377,585	-	-	17,127,449

Buildings and Improvements	<u>1,894,263</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,894,263</u>
Totals at Historic Cost	<u>\$ 19,618,403</u>	<u>\$ 780,049</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,398,452</u>
Less Accumulated Depreciation					
Total Accumulated Depreciation	<u>(3,166,490)</u>	<u>(644,958)</u>	<u>-</u>	<u>-</u>	<u>(3,811,448)</u>
Business-type Activities Capital Assets, Net	<u>\$ 16,451,913</u>	<u>\$ 135,091</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$16,587,004</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$269,294
Public Safety	526,566
Public Works	130,657
Health & Welfare	24,684
Culture and Recreation	16,588
Economic Development & Assistance	<u>96,195</u>
Total Depreciation Expense	<u>\$1,063,984</u>

H. BONDS AND LONG-TERM NOTES PAYABLE

At September 30, 2017, 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.	1,480,000
\$ 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%.	1,285,000
\$ 950,000 Series 2015 General Obligation Refunding Bonds. Original Issue Date is April 21, 2015 Maturity date is February 15, 2027. Annual interest rate of 3.5%.	825,000
\$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%.	720,000
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%	385,693
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%	385,693
CO Series 2016 to USDA, dated May 4, 2016 in the original amount of \$240,000 for the Construction of the Sewer System; Maturity date May 1, 2056 with an interest rate of 1.750%	240,000
Note Payable to Compass Bank, dated August 1, 2014 in the original amount of \$1,955,000 for TIRZ Projects; Maturity date February 25, 2029 with an interest rate of 3.6%.	1,650,000
Note Payable to Motorola, dated in the original amount of \$140,554 for Radios; Maturity Date November 1, 2017 of with an interest rate of 3.19%.	48,330

Note Payable to Schertz Bank and Trust, dated in the amount of \$526,467 for two vehicles; Maturity date with an interest rate of 2.95%.	418,373
Note Payable to Urban County, in the amount of \$1,150,000; Maturity Date July 21, 2021 with an interest rate of 1.5%	735,000
\$3,465,000 General Obligations Series 2016 - A; Original Issuance Date November 30, 2016. Maturity Date of August 15, 2036 with interest rate of 4%.	3,465,000
Note Payable to Frost Bank, dated October 20, 2016 in the amount of \$376,232; Maturity Date December 1, 2021 with an interest rate of 2.160% for City Vehicles	376,232
Note Payable to KS State Bank, dated August 10, 2017 in the amount of \$117,000; Maturity Date August 21, 2021 with an interest rate of 5.390% for LED signs.	90,485
Note Payable to USDA, dated March 4, 2014 in the original amount of \$500,000 for the Construction of the new Fire Station; Maturity date June 15, 2043 with an interest rate of 3.125%.	<u>462,000</u>
Total General Long Term Debt	<u>\$12,566,806</u>
Enterprise Funds General Long Term Debt:	
Note Payable to Lone Star National Bank, dated in the original amount of \$152,603 For the purchase of a; Maturity date of with an interest rate of 6.000%.	105,685
Note Payable to Frost Bank, dated October 20, 2016 in the amount of \$164,242; Maturity Date December 1, 2021 with an interest rate of 2.160% for City Vehicles	164,513
\$500,000 General Obligations Series 2017; Original Issuance Date April 1, 2017. Maturity Date of September 30, 2047 with variable interest rate.	500,000
Note Payable to Schertz Bank and Trust, dated in the original amount of \$300,377 For the purchase of a Brush Truck; Maturity date of with an interest rate of 3.748%.	254,804
Note Payable to Schertz Bank and Trust, dated in the original amount of \$33,934 For the purchase of a Brush Truck; Maturity date of with an interest rate of 5.524%.	11,879
Note Payable to Compass Bank, dated August 1, 2014 in the original amount of \$315,000 for SW Capacity Buy as well as SW improvement & equipment; Maturity date February 25, 2029 with an interest rate of 3.6%	<u>265,000</u>
Total Enterprise Fund Long Term Debt	<u>\$ 1,301,881</u>

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, 2017.

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 City’s financial statements.

The city issued \$3,465,000 in General Obligation Bonds – Series 2016 A to provide resources for improvements to Street, Fire Protection, Parks, and Facilities.

The city issued \$500,000 in General Obligation Bonds – Series 2017 to provide resources for TWDB professional services in the planning of wastewater system improvements project.

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
2018	1,177,460	300,759	2018	155,274	19,714
2019	1,172,681	267,591	2019	150,834	16,598
2020	1,205,757	236,736	2020	153,354	14,039
2021	971,091	195,673	2021	120,729	11,412
2022	974,177	163,218	2022	123,419	8,713
2023-2027	3,706,144	723,001	2023-2027	545,000	21,960
2028-2032	1,754,496	194,891	2028-2032	50,000	2,700
2033-2037	1,311,000	124,970			
2038-2042	157,000	71,495			
2043-2056	137,000	37,571			
Total	12,566,806	2,315,905	Total	1,298,610	95,136

J. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended September 30, 2017, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:						
Bonds and Notes Payable:						
General Obligation Bonds	\$ 7,307,000	\$ 3,465,000	\$ (855,569)	\$ -	\$9,916,731	\$ 911,277
Loans Payable	<u>2,379,419</u>	<u>493,231</u>	<u>(222,275)</u>	<u>-</u>	<u>2,650,375</u>	<u>266,183</u>
Total Bonds and Notes Payable	<u>\$ 9,686,418</u>	<u>\$ 3,958,231</u>	<u>\$ (1,077,844)</u>	<u>\$ -</u>	<u>\$12,566,806</u>	<u>\$ 1,177,460</u>
Enterprise Activities:						
Notes Payable:						
Combination Tax & Rev. Bonds	285,000	\$ 500,000	(20,000)	-	765,000	30,000
Loans Payable	<u>625,403</u>	<u>164,513</u>	<u>(253,035)</u>	<u>-</u>	<u>536,881</u>	<u>125,273</u>
Total Bonds and Notes Payable	<u>\$ 910,403</u>	<u>\$ 664,513</u>	<u>\$ (273,035)</u>	<u>\$ -</u>	<u>\$ 1,301,881</u>	<u>\$ 155,273</u>
Total Enterprises Activities Long-term Liabilities	<u>\$ 910,403</u>	<u>\$ 664,513</u>	<u>\$ (273,035)</u>	<u>\$ -</u>	<u>\$ 1,301,881</u>	<u>\$ 155,273</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 September 30, 2017 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>Enterprise Fund</u>	<u>Total</u>
Deferred Inflow Related to Pension Plan	\$ 132,802	\$ 6,760	\$ 139,562

L. 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 2017, the County of Hidalgo transferred \$123,491 for fiscal years 2017, while the City transferred \$131,709 to meet the requirements of the TIRZ agreement for the fiscal year.

M. DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Alton participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS’s defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

Benefits Provided

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

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

Employees covered by benefit terms.

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	12
Inactive employees entitled to but not yet receiving benefits	77
Active employees	79
Total Employees	168

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Alton were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Alton were 8.7% and 9.19% in calendar years 2016 and 2017, respectively. The city's contributions to TMRS for the year ended September 30, 2017, were \$282,402, and were equal to the required contributions.

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5% per year
Overall payroll growth	3.5% to 10.50% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Retirement Age	Experience-based table based on rates that are specific to the City’s plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 103% and projected on a fully generational basis with scale BB.
Other Information	There were no benefit changes during the year.

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan’s policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ASSET CLASS	TARGET ALLOCATION	LONG TERM EXPECTED RATE OF RETURN
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2015	4,213,334	3,465,906	747,428
Changes for the year:			
Service cost	522,560	-	522,560
Interest	298,556	-	298,556
Change of benefit terms	-	-	-
Difference between expected and actual experience	(48,081)	-	(48,061)
Changes of assumptions	-	-	-
Contributions - employer	-	249,859	(249,859)
Contributions - employee	-	192,623	(192,623)
Net investment income	-	234,353	(234,353)
Benefit payments, including refunds of employee contributions	(103,119)	(103,119)	-
Administrative expense	-	(2,645)	2,645
Other changes	-	(143)	143
Net changes	669,916	570,928	98,988
Balance at 12/31/2016	4,883,250	4,036,833	846,416

Sensitivity of the net pension liability to changes in the discount rate

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

	1% Decrease in Discount Rate 5.75%	Discount Rate 7%	1% Increase in Discount Rate 8%
City's net pension liability	\$1,772,122	\$846,417	\$121,226

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2017, the city recognized pension expense of \$421,573.

At September 30, 2017, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 181,565	\$ 122,994
Changes in actuarial assumptions	\$ 39,720	\$ -
Difference between projected and actual investment earnings	\$ 148,033	\$ 323
Contributions subsequent to the measurement date December 31, 2013	\$ 212,736	
Total	\$ 582,054	\$ 123,317

\$183,220 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

YEAR ENDED DECEMBER 31

2018	\$ 75,202
2019	\$ 75,202
2020	\$ 57,878
2021	\$ 6,844
2022	\$ 6,924
Thereafter	\$ 23,951

N. 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.

O. SUBSEQUENT EVENTS

The City considered all subsequent events through April 5, 2018. The financial statement issuance date.

P. PRIOR PERIOD ADJUSTMENT

The City recognized prior period adjustments in the Government Wide Financial Statements totaling \$51,757 and Governmental Funds totaling \$6,781. The following adjustments were made to beginning fund balances were necessary to reflect the actual balances at beginning of the year:

Government-Wide	
Adjustment to Debt Service	\$ 44,976
Property Tax Receivable	<u>6,781</u>
Total Prior Period Adjustment – Government Wide	\$ 51,757

Governmental Funds	
Property Tax Receivable	<u>\$ 6,781</u>
Total Prior Period Adjustment – Governmental Funds	\$ 6,781

CITY OF ALTON
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Plan Year Ended December 31,		
	2016	2015	2014
Total Pension Liability			
Service cost	\$ 522,560	\$ 489,728	\$ 376,918
Interest (on the total pension liability)	298,556	260,999	234,794
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(48,081)	7,936	(153,570)
Change of assumptions	-	72,960	-
Benefit payments, including refunds of employee contributions	(103,119)	(203,961)	(76,411)
Net Change in Total Pension Liability	669,916	627,662	381,731
Total Pension Liability - Beginning	4,213,334	3,585,672	3,203,941
Total Pension Liability - Ending (a)	<u>\$ 4,883,250</u>	<u>\$ 4,213,334</u>	<u>\$ 3,585,672</u>
 Plan Fiduciary Net Position			
Contributions - employer	\$ 249,859	\$ 229,877	\$ 194,604
Contributions - employee	192,623	187,328	158,584
Net investment income	234,353	4,798	161,110
Benefit payments, including refunds of employee contributions	(103,119)	(203,961)	(76,411)
Administrative expense	(2,645)	(2,922)	(1,681)
Other	(143)	(144)	(138)
Net Change in Plan Fiduciary Net Position	570,928	214,976	436,068
Plan Fiduciary Net Position - Beginning	3,465,905	3,250,930	2,814,862
Plan Fiduciary Net Position - Ending (b)	<u>\$ 4,036,833</u>	<u>\$ 3,465,906</u>	<u>\$ 3,250,930</u>
 Net Pension Liability - Ending (a) - (b)	<u>\$ 846,417</u>	<u>\$ 747,428</u>	<u>\$ 334,742</u>
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	82.67%	82.26%	90.66%
 Covered Employee Payroll	\$ 2,751,763	\$ 2,676,107	\$ 2,265,479
 Net Pension Liability as a Percentage of Covered Employee Payroll	30.76%	27.93%	14.78%

CITY OF ALTON
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Fiscal Year Ended September 30,		
	2017	2016	2015
Actuarially determined contribution	\$ 282,402	\$ 246,558	\$ 220,497
Contributions in relation to actuarially determined contribution	<u>(282,402)</u>	<u>(246,558)</u>	<u>(220,497)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 2,852,409	\$ 2,751,763	\$ 2,534,440
Contributions as a percentage of covered employee payroll	9.90%	8.96%	8.70%

CITY OF ALTON, TX
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2017

	Development Corp 4A	Development Corp 4B	Facilities & Infrastructur Fund	Municipal Court Fund
ASSETS				
Cash and Cash Equivalents	\$ 73,932	\$ 163,277	\$ 32,274	\$ 100
Taxes Receivable	-	-	-	-
Receivables (Net)	10,899	10,899	-	-
Total Assets	<u>\$ 84,831</u>	<u>\$ 174,176</u>	<u>\$ 32,274</u>	<u>\$ 100</u>
LIABILITIES				
Accounts Payable	\$ 994	\$ 7,305	\$ -	\$ -
Wages and Salaries Payable	2,741	2,119	-	-
Due to Other Funds	-	-	-	-
Due to Others	-	-	2,313	-
Total Liabilities	<u>3,735</u>	<u>9,424</u>	<u>2,313</u>	<u>-</u>
FUND BALANCES				
Capital Acquisition and Contractual Obligation	-	-	-	-
Retirement of Long-Term Debt	-	-	-	-
Other Assigned Fund Balance	81,096	164,752	29,961	100
Total Fund Balances	<u>81,096</u>	<u>164,752</u>	<u>29,961</u>	<u>100</u>
Total Liabilities and Fund Balances	<u>\$ 84,831</u>	<u>\$ 174,176</u>	<u>\$ 32,274</u>	<u>\$ 100</u>

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

Urban County Fund	Seizures & Foreitures Fund	Alton Youth Club Activity	TIRZ Fund	PEG Fund	TX Leverage Relief Fund	Volunteer Firefighter Fund	Alton Chamber of Commerce Fund
\$ (919)	\$ 7,346	\$ 50	\$ 69,315	\$ 29,249	\$ 361,351	\$ 8,035	\$ 1,471
-	-	-	-	1,539	-	-	-
-	-	-	-	-	160,000	-	-
<u>\$ (919)</u>	<u>\$ 7,346</u>	<u>\$ 50</u>	<u>\$ 69,315</u>	<u>\$ 30,788</u>	<u>\$ 521,351</u>	<u>\$ 8,035</u>	<u>\$ 1,471</u>
\$ -	\$ -	\$ -	\$ -	\$ (1)	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	11,238	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	11,238	-	(1)	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
(919)	7,346	(11,188)	69,315	30,789	521,351	8,035	1,471
(919)	7,346	(11,188)	69,315	30,789	521,351	8,035	1,471
<u>\$ (919)</u>	<u>\$ 7,346</u>	<u>\$ 50</u>	<u>\$ 69,315</u>	<u>\$ 30,788</u>	<u>\$ 521,351</u>	<u>\$ 8,035</u>	<u>\$ 1,471</u>

CITY OF ALTON, TX
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2017

	Total Nonmajor Special Revenue Funds	Debt Service TIRZ Fund	Debt Service 2016 I & S Fund	Debt Service 2016 Reserve Fund
ASSETS				
Cash and Cash Equivalents	\$ 745,481	\$ 549	\$ 100	\$ 905
Taxes Receivable	1,539	-	-	-
Receivables (Net)	181,798	-	-	-
Total Assets	<u>\$ 928,818</u>	<u>\$ 549</u>	<u>\$ 100</u>	<u>\$ 905</u>
LIABILITIES				
Accounts Payable	\$ 8,298	\$ -	\$ -	\$ -
Wages and Salaries Payable	4,860	-	-	-
Due to Other Funds	11,238	-	-	-
Due to Others	2,313	-	-	-
Total Liabilities	<u>26,709</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Capital Acquisition and Contractual Obligation	-	-	-	-
Retirement of Long-Term Debt	-	549	100	905
Other Assigned Fund Balance	902,109	-	-	-
Total Fund Balances	<u>902,109</u>	<u>549</u>	<u>100</u>	<u>905</u>
Total Liabilities and Fund Balances	<u>\$ 928,818</u>	<u>\$ 549</u>	<u>\$ 100</u>	<u>\$ 905</u>

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

Debt Service 2016-A Fund	Debt Service 2017 Fund	Total Nonmajor Debt Service Funds	Capital Projects Fund	Capital Projects USDA Fund	USDA Sewer Connection Fund	Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
\$ 1,903	\$ 3,402	\$ 6,859	\$ -	\$ 2,195	\$ 3,028	\$ 5,223	\$ 757,563
-	-	-	-	-	-	-	1,539
-	-	-	-	-	-	-	181,798
<u>\$ 1,903</u>	<u>\$ 3,402</u>	<u>\$ 6,859</u>	<u>\$ -</u>	<u>\$ 2,195</u>	<u>\$ 3,028</u>	<u>\$ 5,223</u>	<u>\$ 940,900</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,298
-	-	-	-	-	-	-	4,860
-	-	-	-	-	-	-	11,238
-	-	-	-	-	-	-	2,313
-	-	-	-	-	-	-	26,709
-	-	-	-	2,195	3,028	5,223	5,223
1,903	3,402	6,859	-	-	-	-	6,859
-	-	-	-	-	-	-	902,109
<u>1,903</u>	<u>3,402</u>	<u>6,859</u>	<u>-</u>	<u>2,195</u>	<u>3,028</u>	<u>5,223</u>	<u>914,191</u>
<u>\$ 1,903</u>	<u>\$ 3,402</u>	<u>\$ 6,859</u>	<u>\$ -</u>	<u>\$ 2,195</u>	<u>\$ 3,028</u>	<u>\$ 5,223</u>	<u>\$ 940,900</u>

CITY OF ALTON, TX
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NON MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Development Corp 4A	Development Corp 4B	Facilities & Infrastructur Fund	Municipal Court Fund
REVENUES:				
Taxes:				
General Sales and Use Taxes	\$ 209,163	\$ 209,163	\$ -	\$ -
Intergovernmental Revenue and Grants	-	-	-	-
Charges for Services	-	-	30,400	-
Forfeits	-	-	-	-
Special Assessments	-	-	182,067	-
Investment Earnings	374	320	269	-
Rents and Royalties	-	-	-	-
Contributions & Donations from Private Sources	-	-	-	-
Other Revenue	-	-	-	100
Total Revenues	<u>209,537</u>	<u>209,483</u>	<u>212,736</u>	<u>100</u>
EXPENDITURES:				
Current:				
Public Safety	-	-	-	-
Culture and Recreation	-	-	-	-
Conservation and Development	149,830	168,549	-	-
Debt Service:				
Other Debt Principal	41,257	41,257	-	-
Bond Interest	-	-	-	-
Other Debt Interest	15,708	15,708	-	-
Fiscal Agent's Fees	-	-	-	-
Capital Outlay:				
Capital Outlay	-	-	60,120	-
Total Expenditures	<u>206,795</u>	<u>225,514</u>	<u>60,120</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,742</u>	<u>(16,031)</u>	<u>152,616</u>	<u>100</u>
OTHER FINANCING SOURCES (USES):				
Sale of Real and Personal Property	-	-	-	-
Non-Current Loans	-	117,000	-	-
Transfers In	-	-	-	-
Transfers Out (Use)	-	-	(135,000)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>117,000</u>	<u>(135,000)</u>	<u>-</u>
Net Change in Fund Balance	2,742	100,969	17,616	100
Fund Balance - October 1 (Beginning)	<u>78,354</u>	<u>63,783</u>	<u>12,345</u>	<u>-</u>
Fund Balance - September 30 (Ending)	<u>\$ 81,096</u>	<u>\$ 164,752</u>	<u>\$ 29,961</u>	<u>\$ 100</u>

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

Urban County Fund	Seizures & Foreitures Fund	Alton Youth Club Activity	TIRZ Fund	PEG Fund	TXLeverage Relief Fund	Volunteer Firefighter Fund	Alton Chamber of Commerce Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
221,934	-	-	255,199	-	-	-	-
-	-	2,074	-	-	-	-	-
-	2,107	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	36	3	194	138	1,704	40	2
-	-	1,075	-	-	-	-	-
-	-	-	-	-	-	8,874	15,400
-	-	1,572	-	5,987	8,511	58	5,815
<u>221,934</u>	<u>2,143</u>	<u>4,724</u>	<u>255,393</u>	<u>6,125</u>	<u>10,215</u>	<u>8,972</u>	<u>21,217</u>
-	742	-	-	-	-	3,861	-
-	-	12,191	-	-	-	-	16,999
-	-	-	-	-	-	-	-
215,000	-	-	-	-	-	-	-
6,934	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	178,867	-	-
<u>221,934</u>	<u>742</u>	<u>12,191</u>	<u>-</u>	<u>-</u>	<u>178,867</u>	<u>3,861</u>	<u>16,999</u>
-	1,401	(7,467)	255,393	6,125	(168,652)	5,111	4,218
-	-	-	-	-	311,210	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	125,000	-	-
-	-	-	(216,000)	-	(200,000)	-	-
-	-	-	(216,000)	-	236,210	-	-
-	1,401	(7,467)	39,393	6,125	67,558	5,111	4,218
(919)	5,945	(3,721)	29,922	24,664	453,793	2,924	(2,747)
<u>\$ (919)</u>	<u>\$ 7,346</u>	<u>\$ (11,188)</u>	<u>\$ 69,315</u>	<u>\$ 30,789</u>	<u>\$ 521,351</u>	<u>\$ 8,035</u>	<u>\$ 1,471</u>

CITY OF ALTON, TX
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Total Nonmajor Special Revenue Funds	Debt Service TIRZ Fund	Debt Service 2016 I & S Fund	Debt Service 2016 Reserve Fund
REVENUES:				
Taxes:				
General Sales and Use Taxes	\$ 418,326	\$ -	\$ -	\$ -
Intergovernmental Revenue and Grants	477,133	-	-	-
Charges for Services	32,474	-	-	-
Forfeits	2,107	-	-	-
Special Assessments	182,067	-	-	-
Investment Earnings	3,080	49	-	4
Rents and Royalties	1,075	-	-	-
Contributions & Donations from Private Sources	24,274	-	-	-
Other Revenue	22,043	-	-	-
Total Revenues	<u>1,162,579</u>	<u>49</u>	<u>-</u>	<u>4</u>
EXPENDITURES:				
Current:				
Public Safety	4,603	-	-	-
Culture and Recreation	29,190	-	-	-
Conservation and Development	318,379	-	-	-
Debt Service:				
Other Debt Principal	297,514	225,000	-	-
Bond Interest	6,934	-	2,442	-
Other Debt Interest	31,416	92,370	-	-
Fiscal Agent's Fees	-	-	-	-
Capital Outlay:				
Capital Outlay	238,987	-	-	-
Total Expenditures	<u>927,023</u>	<u>317,370</u>	<u>2,442</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>235,556</u>	<u>(317,321)</u>	<u>(2,442)</u>	<u>4</u>
OTHER FINANCING SOURCES (USES):				
Sale of Real and Personal Property	311,210	-	-	-
Non-Current Loans	117,000	-	-	-
Transfers In	125,000	316,000	2,542	901
Transfers Out (Use)	(551,000)	-	-	-
Total Other Financing Sources (Uses)	<u>2,210</u>	<u>316,000</u>	<u>2,542</u>	<u>901</u>
Net Change in Fund Balance	237,766	(1,321)	100	905
Fund Balance - October 1 (Beginning)	<u>664,343</u>	<u>1,870</u>	<u>-</u>	<u>-</u>
Fund Balance - September 30 (Ending)	<u>\$ 902,109</u>	<u>\$ 549</u>	<u>\$ 100</u>	<u>\$ 905</u>

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

Debt Service 2016-A Fund	Debt Service 2017 Fund	Total Nonmajor Debt Service Funds	Capital Projects Fund	Capital Projects USDA Fund	USDA Sewer Connection Fund	Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 418,326
-	-	-	-	-	-	-	477,133
-	-	-	-	-	-	-	32,474
-	-	-	-	-	-	-	2,107
-	-	-	-	-	-	-	182,067
335	2	390	-	17	16	33	3,503
-	-	-	-	-	-	-	1,075
-	-	-	-	-	-	-	24,274
-	-	-	-	-	-	-	22,043
<u>335</u>	<u>2</u>	<u>390</u>	<u>-</u>	<u>17</u>	<u>16</u>	<u>33</u>	<u>1,163,002</u>
-	-	-	-	-	-	-	4,603
-	-	-	-	-	-	-	29,190
-	-	-	-	-	-	-	318,379
-	-	225,000	-	-	-	-	522,514
90,357	-	92,799	-	-	-	-	99,733
-	-	92,370	-	-	-	-	123,786
200	-	200	-	-	-	-	200
-	-	-	-	4,846	-	4,846	243,833
<u>90,557</u>	<u>-</u>	<u>410,369</u>	<u>-</u>	<u>4,846</u>	<u>-</u>	<u>4,846</u>	<u>1,342,238</u>
<u>(90,222)</u>	<u>2</u>	<u>(409,979)</u>	<u>-</u>	<u>(4,829)</u>	<u>16</u>	<u>(4,813)</u>	<u>(179,236)</u>
-	-	-	-	-	-	-	311,210
92,125	-	92,125	-	-	-	-	209,125
-	3,400	322,843	-	-	-	-	447,843
-	-	-	-	-	-	-	(551,000)
<u>92,125</u>	<u>3,400</u>	<u>414,968</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>417,178</u>
1,903	3,402	4,989	-	(4,829)	16	(4,813)	237,942
-	-	1,870	-	7,024	3,012	10,036	676,249
<u>\$ 1,903</u>	<u>\$ 3,402</u>	<u>\$ 6,859</u>	<u>\$ -</u>	<u>\$ 2,195</u>	<u>\$ 3,028</u>	<u>\$ 5,223</u>	<u>\$ 914,191</u>

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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 the City Council of the
City of Alton, Tx
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 the City of Alton, Tx, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Alton, Tx's basic financial statements, and have issued our report thereon dated April 5, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the City of Alton, Tx's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2017-01 & 2017-02.

City of Alton, Tx's Response to Findings

City of Alton, Tx's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Alton, Tx's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Noel Garza, CPA PC

Edinburg, Tx
April 5, 2018

CITY OF ALTON
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

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. The Corporation did not qualify for a Single Audit as defined by the Uniform Guidance (2 CFR section 200.516(a)) . | |

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

2017-01 Bid Law Compliance

Criteria: The State of Texas Procurement laws require all purchases from a vendor that exceed \$50,000 during a fiscal year, be obtained using a prescribed competitive manner.

Condition: While testing the City's compliance with the applicable State of Texas bid laws, we noted an instance where purchases from vendors exceeded the maximum \$50,000 and no competitive bids or the allowable alternative methods for the procurement of construction services were utilized in the securing of the services.

Cause: The City did not monitor the total purchases from the vendors in question, which therefore allowed the total purchased from these vendors to exceed the State Bid law restrictions.

Effect: The City is in possible violation of State Bid laws.

Recommendation: The City should review and improve the procedures used to monitor the compliance with all applicable State Bid laws.

Auditee: The City shall review, monitor and improve procedures to ensure compliance with all applicable State Bid laws. Contact name: Jorge Arcaute, phone number (956)432-0760.

2017-02 Expenditures over Appropriations

Criteria: Texas Local Government Code, Title 4, Subtitle A., Chapter 102 Municipal Budget establishes the law governing the annual General Fund budget requirements for the City.

Condition: The City's General Fund had excess expenditures over appropriations totaling \$64,015, for the year ended September 30, 2017.

Cause: The City did not properly amend the budget to allow for the expenditures.

Effect: The City was not in compliance with the Texas Local Government Code.

Recommendation: The City should review their budget throughout the year and propose amendments to ensure compliance with State Law.

Auditee's Response: The City will review and update internal procedures to ensure full compliance with all applicable Local Government Code requirements. Contact: Mrs. Rosie Tello, Finance Director, (956)432-0760.

III. Findings Related to Federal Awards.

None

CITY OF ALTON
SCHEDULE OF PRIOR FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

2016-01 Expenditures over Appropriations

Status: See Current Finding

CITY OF ALTON, TX
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			
<u>Passed through US Department of Hidalgo County Urb</u>			
Community Development Block Grant	14.218		\$ 221,934
Total Passed through US Department of Hidalgo County Urb			<u>221,934</u>
TOTAL DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			<u>221,934</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 221,934</u></u>

CITY OF ALTON, TX
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2017

- 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, Uniform Guidance.

City of Alton, Tx
Corrective Action Plan
09/30/2017

Finding: 2017-01 Bid Compliance

Corrective Action: The City will review and update internal procedures to ensure full compliance with all applicable Government Code Bid Compliance requirements. The City will monitor vendor contract and purchases throughout the fiscal year to ensure that the City is in compliance with the Government Code. Contact name: Rosie Tello, Finance Director (956)432-0760.

Finding: 2017-02 Expenditures over Appropriations

Corrective Action: The City will review and update internal procedures to ensure full compliance with all applicable Government Code requirements. The City will review the City's budget on a monthly basis and prepare the necessary budget amendments to ensure that the City is in compliance with the Government Code. Contact name: Rosie Tello, Finance Director (956)432-0760.