

**CITY OF ALPINE, TEXAS**

Annual Financial and Compliance Reports

For the Year Ended September 30, 2013

**CITY OF ALPINE, TEXAS**

Avinash Rangra	Mayor
Angie Bermudez	City Council Member
Mike Davidson	City Council Member
Jim "Fitz" Fitzgerald	City Council Member
Julian Gonzales	City Council Member
Michael Castelli	City Council Member
Erik Zimmer	City Manager
Molly Taylor	City Secretary
Megan Antrim	Director of Finance
Russell Scown	City Police Chief

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For the Year Ended September 30, 2013

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## **FINANCIAL SECTION**

## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council of  
The City of Alpine, Texas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The City of Alpine, Texas, (the City) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, as of September 30, 2013, and the respective changes in financial position 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 and budgetary comparison information on pages 5 through 12 and 54, 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 Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining 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 financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2014, on our consideration of the City of Alpine, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Alpine, Texas' internal control over financial reporting and compliance.

Gibson, Ruddock, Patterson LLC  
El Paso, Texas  
March 10, 2014

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Alpine's financial performance provides an overview of the City's financial activities for the year ended September 30, 2013.

### USING THIS ANNUAL REPORT

This annual report consists of two parts: management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 13 and 14) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 16. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For business-type activities, these statements report City charges to customers to help it cover all or most of the cost of certain services it provides.

### Reporting the City as a Whole

#### The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets (the difference between assets and liabilities) as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base, condition of the City's parks and the condition of the City's roads, to assess the overall health of the City.

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 the police, fire, general administration, streets, parks, and ambulance. Property taxes, sales taxes, franchise fees, fines, 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 certain services it provides. The City's water, sewer, sanitation systems, gas enterprise and airport are reported here.

### Reporting the City's Most Significant Funds

#### Fund Financial Statements

The fund financial statements begin on page 16 and provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes (like the Airport) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like grants received from the Texas Parks and Wildlife

Department). 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, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in the form of reconciliation. See Exhibits 3.1 and 4.1 in the fund financial statements.
- Proprietary funds—When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise fund is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

### THE CITY AS A WHOLE

The City of Alpine's combined net position increased by \$ 173,852 from \$21,556,989 to \$21,730,841. In contrast, last year net position increased by \$301,843. Looking at the net positions and net expenses of governmental and business-type activities separately, however, two very different stories emerge. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City of Alpine's governmental and business-type activities.

Table 1 – Net Position

	Governmental & Business-type Activities	
	2013	2012
Current and other assets	\$2,021,858	\$1,849,431
Capital assets	<u>\$ 29,110,628</u>	<u>\$ 29,669,635</u>
Total Assets	<u>\$31,132,486</u>	<u>\$ 31,519,066</u>
Current Liabilities	\$ 1,770,917	\$ 1,812,959
Long-Term liabilities	<u>\$ 7,630,728</u>	<u>\$ 8,149,118</u>
Total Liabilities	<u>\$ 9,401,645</u>	<u>\$ 9,962,077</u>
Net Position		
Net invested in capital assets, net of debt	\$ 21,722,680	\$21,745,422
Restricted	\$639,276	\$249,737
Unrestricted	<u>-\$631,115</u>	<u>-\$438,170</u>
Total net position	<u>\$21,730,841</u>	<u>\$ 21,556,989</u>

Net position for the City of Alpine governmental activities increased by .8 % (\$ 21,730,841 compared to \$ 21,556,989) last fiscal year. Unrestricted net position – the part of net position that can be used to finance day – to- day operations without constraint established by debt covenants, enabling legislation, or

other legal requirements – changed from -\$ 438,170 deficit at September 30, 2012 to a - \$ 631,115 at the end of this year.

The deficit in unrestricted governmental net position arose primarily because of the following factors: previous year's management transferred funds from the enterprise accounts to governmental activities for services provided, however, due to turn over in financial and management staff, these transfers were not made in 2013.

Table 2 – Change in Net Position

	Governmental & Business-type Activities	
	2013	2012
<b>Revenue - Governmental</b>		
<u>Program Revenue:</u>		
Charges for services	\$186,385	\$695,319
Operating Grants & Contributions	\$151,468	\$228,151
Capital Grants & Contributions	\$151,884	\$503,291
<u>General revenues:</u>		
Property taxes	\$1,486,265	\$1,473,290
Sales Tax	\$1,711,630	\$1,309,083
Other & Interest	\$114,293	\$ 161,902
<b>Revenue - Business-type</b>		
Charges for services	\$6,120,339	\$4,852,599
Operating Grants & contributions	\$39,218	
Capital Grants & contributions		\$1,312,512
Other & Interest	<u>\$3,445</u>	<u>\$359,072</u>
<b>Total revenues</b>	<b><u>\$ 9,964,927</u></b>	<b><u>\$10,895,219</u></b>
<b>Program expenses</b>		
General government	\$1,404,263	\$1,359,849
Public works	\$827,331	\$881,035
Health and human services	\$195,808	\$322,633
Culture and recreation	\$738,092	\$571,857
Public Safety	\$1,259,485	\$1,078,170
Municipal court	\$78,700	\$71,830
Interest on long-term debt	\$97,216	\$110,938
Airport/Community Development	<u>0</u>	<u>\$268</u>
Total Governmental Activities	<u>\$4,600,895</u>	<u>\$4,396,580</u>
<b>Business-type</b>		
Water & Sewer & Sanitation	\$3,290,440	\$4,366,513
Natural Gas	\$1,563,886	\$877,415
Airport	\$545,710	\$667,926
Total Business Type Activities	<u>\$5,400,036</u>	<u>\$5,911,854</u>
<b>Total expenses</b>	<b><u>\$10,000,931</u></b>	<b><u>\$ 10,308,434</u></b>
<b>Increase (decrease) in net position</b>	-\$36,004	\$ 586,785
Net Position Beginning	\$21,556,989	\$22,003,853
Prior Period Adjustment	-209,856	-1,033,649
<b>Ending net position</b>	<b><u>\$21,730,841</u></b>	<b><u>\$21,556,989</u></b>

The City of Alpine's total revenues decreased by \$ 574,665. The total cost of all programs and services decreased by \$307,503.

For the year ended September 30, 2013, net position changed as follows:

	Government Activities	Business-Type Activities	Total
Beginning Net Position as previously reported	\$10,633,918	\$11,956,721	\$22,590,639
Prior Period Adjustment	-\$3,381,687	\$2,557,893	-\$823,794
Change in Net Assets	-\$741,227	\$705,223	-\$36,004
Ending Net Assets	\$6,511,004	\$15,219,837	\$21,730,841

That reflects a decrease of 38.8% for governmental activities and an increase of 27.3% for business-type activities. It should be noted that \$2,541,137 was re-allocated to the Business-Type activities as assets related to our Airport. Previously, the Airport had been identified as a Government Activity instead of an Enterprise Activity.

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants. Some of the individual line item revenues reported for each function are:

General government	Building permits, alley cut permits, occupational licenses, and plumbing/electric inspections.
Culture and recreation	Rent and swimming pool receipts.
Public Works	Includes capital improvement grants with HUD, TX Parks and Wildlife, and Texas Water Development Board to improve the water distribution and supply system in Alpine.
Police and Fire	Fines and charges for services; HIDTA grants are categorized as operating grants.
Community development	Operating grants to improve residences of low income citizens.
Municipal Court	Court fees and fines

All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue even if restricted for a specific purpose.

## Business-type Activities

In reviewing the departmental net (expense)/revenue, there are three primary departments that can be examined more closely. The water/sewer/sanitation, gas and airport departments reported a change in net position of \$723,748; before contributions and transfers. The City has historically transferred excess revenues from the proprietary fund to the general fund to assist with general government activities.

## LANDFILL

The fiscal year 2013 annual landfill report to the TECQ includes two different types of basis adjustments. They are the volume of in-place waste and the in-place compaction rate. Based upon the latest recalculation of closure and post-closure care cost our liability has increased from approximately \$543,561 to \$586,214. We have accumulated funds of \$75,608 to provide for this liability.

## THE CITY'S FUNDS

Some funds have seen a decrease in fund balance due to various reasons. The general and special revenue funds reported a decrease in fund balance of (\$788,724) as compared to a decrease of (\$361,035) in the prior year. The City has tried for a number of years to avoid a tax increase by controlling expenditures – the previous staff was unable to meet that challenge. Appropriate processes and procedures have and will continue to be implemented in FY2013/2014 to give the elected officials and citizens a clearer picture of what a normal spending pattern for the City of Alpine should look like. Alpine continues to have a tax rate that is among the lowest of any city its size in Texas. Before approaching an increase in taxes, the city needs to understand if a tax increase is even necessary based on seeing a normal spending pattern across expenses.

The following schedule presents a summary of general fund revenues for the fiscal year ended September 30, 2013, and the amount and percentage of increases and decreases in relation to the prior year.

	2013	Percent of Income	2012	Increase (Decrease)	% Increase (Decrease)
Taxes	\$2,186,015	92.5%	\$2,912,734	-\$616,017	-21.1%
Charges for Services		0.0%	\$15,134	-\$15,134	-100.0%
Fines and Forfeitures	\$100,871	4.1%	\$17,270	\$83,601	484.1%
Licenses and Permits	\$59,585	2.4%	\$44,316	\$15,269	34.5%
Intergovernmental	\$303,352	0.0%	\$111,887	-\$111,887	-100.0%
Interest	\$3,558	0.1%	\$4,710	-\$1,152	-24.5%
Municipal Court		0.0%	\$8,807	-\$8,807	-100.0%
Miscellaneous	\$21,229	0.9%	\$16,855	\$4,374	26.0%
Total	\$2,481,960	100.0%	\$3,131,713	\$37,442	-20.7%

Sales taxes experienced a 1.59% increase this year.

The following schedule presents a summary of general fund expenditures for the fiscal year ended September 30, 2013, and the amount and percentage of increases and decreases in relation to the prior year.

	2013	Percent of Income	2012	Increase (Decrease)	% Increase (Decrease)
General Government	\$1,268,609	22.6%	\$1,309,399	-\$514,991	-39.3%
Public Works	\$704,801	20.0%	\$866,335	-\$156,834	-18.6%
Health and Human Svcs	\$176,571	5.0%	\$280,126	-\$103,555	-37.0%
Culture & Recreation	\$221,994	6.3%	\$283,954	\$351,781	21.8%
Public Safety	\$1,029,515	29.2%	\$959,387	\$187,273	7.3%
Municipal Court	\$70,968	2.0%	\$73,414	-\$2,446	-3.3%
Debt Service	\$49,487	1.4%	\$289,483	\$48,125	-82.9%
Total	\$3,521,945	100.0%	\$4,062,098	\$587,323	13.3%

### GENERAL FUND BUDGETARY HIGHLIGHTS

In analyzing the annual current budget – actual comparison, both revenues and expenditures were considerably lower than the final approved budget. The Final Approved Budget intended for all income items in the General Fund to increase but the General Fund expenditures would still be higher than the income. Consequently, the general fund balance decreased by (\$1,039,985) due to actual expenditures exceeding revenues.

### CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of September 30, 2013, the City had a net investment of \$29,110,628 in capital assets net of related accumulated depreciation, including police and fire equipment, buildings, park facilities, roads, and water and sewer lines (see Notes to financial statements). This represents a net decrease of \$559,007. Depreciation expense was \$473,814 in the general fund and \$498,796 in the enterprise fund. Major additions included park and pool improvements of \$303,769.

At year-end, the City had \$7,630,728 outstanding bonds and capital leases compared to \$8,149,118 last year. That is a net decrease of 7.21 % as shown in the following table.

	<u>Governmental Type Activities</u>		<u>Business Type Activities</u>	
	<u>FYE 2013</u>	<u>FYE 2012</u>	<u>FYE 2013</u>	<u>FYE 2012</u>
Bonds and C/O Payable	\$ 2,102,200	\$ 2,307,600	\$ 5,318,644	\$ 5,595,400
Equipment Leases	\$ 209,884	\$ 246,118	-	-
	\$ 2,312,084	\$ 2,553,718	\$ 5,318,644	\$ 5,595,400

The Water/Sewer/Sanitation Enterprise Fund incurred additional debt in the amount of \$74,844 from the 2012 Tax and Revenue Series in fiscal year 2013.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Alpine experienced several changes in their key administrative staff for FY2012/2013 and this helped to prolong the recovery efforts for the City's financial standing. With the new administrative team put in place during the first quarter of the new year's fiscal, there will be greater controls on expenditures

and a heightened reporting structure back to the Council. These efforts will further allow the City to begin restoring its financial health and building reserves for the future.

Tourism to the area continues to increase year over year – introducing new people (both visitors and potential future residents) to the City. The University has been recently named a Top 5 least cost facility in the Country – which will further drive student population to the area. The City of Alpine still has one of the lowest tax rates for any city its size in Texas (the City's tax rate is \$0.5423). We anticipate a determination on the future of that rate can only be made post-stabilization of the fiscal spending habits. City staff is targeting this assessment to be done during the next fiscal cycle.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, 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 Manager's Office at 100 North 13<sup>th</sup> Street, Alpine, Texas 79830.

Erik M. Zimmer, City Manager

Megan Antrim, City Finance Director

## CITY OF ALPINE, TEXAS

## Statement of Net Position

September 30, 2013

	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 137,155	\$ 215,947	\$ 353,102
Receivables, net of allowance	211,318	434,911	646,229
Inventories		150,183	150,183
Internal balances	(925,136)	925,136	-
Due from joint venture investment		68,730	68,730
Restricted assets:			
Cash and cash equivalents	373,775	187,059	560,834
Bond issuance costs, net	46,186	196,594	242,780
Capital assets, net	10,128,788	18,981,840	29,110,628
Total assets	<u>9,972,086</u>	<u>21,160,400</u>	<u>31,132,486</u>
<b>LIABILITIES:</b>			
Accounts payable and accrued liabilities	883,987	279,887	1,163,874
Bank overdraft	171,612	-	171,612
Due to others	-	301,182	301,182
Unearned revenue	-	40,850	40,850
Accrued vacation	93,399	-	93,399
Noncurrent liabilities:			
Due within one year	236,053	359,800	595,853
Due in more than one year	2,076,031	4,958,844	7,034,875
Total Liabilities	<u>3,461,082</u>	<u>5,940,563</u>	<u>9,401,645</u>
<b>NET POSITION:</b>			
Net investment in capital assets	7,862,890	13,859,790	21,722,680
Restricted for:			
Federal or state restrictions	69,484	-	69,484
Debt service	4,940	111,451	116,391
Landfill closure	-	75,608	75,608
Other	377,793	-	377,793
Unrestricted	(1,804,103)	1,172,988	(631,115)
Total Net Position	<u>\$ 6,511,004</u>	<u>\$ 15,219,837</u>	<u>\$ 21,730,841</u>

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

**CITY OF ALPINE, TEXAS**  
Statement of Activities  
For the Year Ended September 30, 2013

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General government	\$ 1,404,263	\$ 7,673	\$ -	\$ -
Public works	827,331	8,739	-	-
Health and human services	195,808	17,043	-	-
Culture and recreation	738,092	17,769	34,323	151,884
Public safety	1,259,485	112,475	117,145	-
Municipal court	78,700	22,686	-	-
Interest on long-term debt	97,216	-	-	-
<b>Total governmental activities</b>	<b>4,600,895</b>	<b>186,385</b>	<b>151,468</b>	<b>151,884</b>
<b>Business-type Activities</b>				
Water sewer and sanitation	3,290,440	3,694,512	39,218	-
Natural gas	1,563,886	1,889,537	-	-
Airport	545,710	536,290	-	-
<b>Total business-type activities</b>	<b>5,400,036</b>	<b>6,120,339</b>	<b>39,218</b>	<b>-</b>
<b>Total</b>	<b>\$ 10,000,931</b>	<b>\$ 6,306,724</b>	<b>\$ 190,686</b>	<b>\$ 151,884</b>

General Revenues:

Taxes:
Property
Sales
Other
Interest
Transfers
Total general revenues
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 Postion		
Governmental Activities	Business-type Activities	Total
\$ (1,396,590)	\$ -	\$ (1,396,590)
(818,592)	-	(818,592)
(178,765)	-	(178,765)
(534,116)	-	(534,116)
(1,029,865)	-	(1,029,865)
(56,014)	-	(56,014)
(97,216)	-	(97,216)
(4,111,158)	-	(4,111,158)
-	443,290	443,290
-	325,651	325,651
-	(9,420)	(9,420)
-	759,521	759,521
(4,111,158)	759,521	(3,351,637)
1,486,265	-	1,486,265
1,711,630	-	1,711,630
110,702	-	110,702
3,591	3,445	7,036
57,743	(57,743)	-
3,369,931	(54,298)	3,315,633
(741,227)	705,223	(36,004)
10,633,918	11,956,721	22,590,639
(3,381,687)	2,557,893	(823,794)
\$ 6,511,004	\$ 15,219,837	\$ 21,730,841

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

## CITY OF ALPINE, TEXAS

Balance Sheet  
Governmental Funds  
September 30, 2013

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 137,155	\$ -	\$ -	\$ 137,155
Property taxes receivable	74,408	55,716	-	130,124
Allowance for uncollectible taxes	(26,018)	(19,482)	-	(45,500)
Receivables from other governments	-	-	110,460	110,460
Due from other funds	367,255	633,122	76,199	1,076,576
Other receivables	16,234	-	-	16,234
Restricted assets:				
Cash and cash equivalents	205,599	-	168,176	373,775
Total assets	\$ 774,633	\$ 669,356	\$ 354,835	\$ 1,798,824
<b>LIABILITIES:</b>				
Accounts payable and accrued liabilities	247,820	-	\$ 34,023	\$ 281,843
Bank overdraft	171,612	-	-	\$ 171,612
Due to other funds	1,289,054	633,524	79,134	2,001,712
Unearned revenue	41,256	30,892	-	72,148
Total Liabilities	1,749,742	664,416	113,157	2,527,315
<b>FUND BALANCES:</b>				
Nonspendable - Inventories	-	-	-	-
Restricted fund balance:				
Federal or state grant restrictions	-	-	69,484	69,484
Debt service	-	4,940	-	4,940
Landfill closure	-	-	-	-
Other	205,599	-	172,194	377,793
Committed fund fund balance:				
Capital improvements	88,000	-	-	88,000
Assigned fund balance:	-	-	-	-
Unassigned	(1,268,708)	-	-	(1,268,708)
Total fund balances	(975,109)	4,940	241,678	(728,491)
Total liabilities and fund balances	\$ 774,633	\$ 669,356	\$ 354,835	\$ 1,798,824

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

**CITY OF ALPINE, TEXAS**  
 Reconciliation of the Governmental Funds Balance Sheet  
 to the Statement of Net Position  
 September 30, 2013

Total Fund Balance - Governmental Funds	\$ (728,491)
<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 \$18,231,358 and the accumulated depreciation was \$7,948,899. 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 net position.</p>	
	7,777,872
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2013 capital outlays and debt principal payments is to increase net position.</p>	
	561,776
<p>The 2013 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.</p>	
	(473,814)
<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 unavailable revenue from property taxes 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 net position.</p>	
	(626,339)
Net Position of Governmental Activities	\$ 6,511,004

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

**CITY OF ALPINE, TEXAS**  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Governmental Funds  
For the Year Ended September 30, 2013

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes - property	\$ 856,053	\$ 638,464	\$ -	\$ 1,494,517
Taxes - sales	1,329,962	-	381,668	1,711,630
Taxes - other	110,702	-	-	110,702
Licenses and permits	59,585	-	-	59,585
Fines and forfeitures	100,871	-	-	100,871
Intergovernmental	-	-	303,352	303,352
Interest	3,558	-	33	3,591
Miscellaneous	21,229	-	4,700	25,929
Total revenues	<u>2,481,960</u>	<u>638,464</u>	<u>689,753</u>	<u>3,810,177</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	1,268,609	-	-	1,268,609
Public works	704,801	-	4,700	709,501
Health and human services	176,571	-	-	176,571
Culture and recreation	221,994	-	413,741	635,735
Public safety	1,029,515	-	117,145	1,146,660
Municipal court	70,968	-	-	70,968
<b>Debt service:</b>				
Principal	36,234	205,400	-	241,634
Interest	13,253	82,721	-	95,974
Capital outlays	-	-	303,769	303,769
Total expenditures	<u>3,521,945</u>	<u>288,121</u>	<u>839,355</u>	<u>4,649,421</u>
Excess (deficiency) of revenues over expenditures	<u>(1,039,985)</u>	<u>350,343</u>	<u>(149,602)</u>	<u>(839,244)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	480,861	-	151,885	632,746
Transfers out	(229,600)	(345,403)	-	(575,003)
Total other financing sources (uses)	<u>251,261</u>	<u>(345,403)</u>	<u>151,885</u>	<u>57,743</u>
Net change in fund balances	(788,724)	4,940	2,283	(781,501)
Fund Balances - Beginning	203,643		(343,732)	(140,089)
Prior period adjustment	(390,028)		583,127	193,099
Fund Balances - Ending	<u>\$ (975,109)</u>	<u>\$ 4,940</u>	<u>\$ 241,678</u>	<u>\$ (728,491)</u>

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

**CITY OF ALPINE, TEXAS**

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,  
and Changes in Fund Balance to the Statement of Activities  
September 30, 2013

Total Net Change in Fund Balances - Governmental Funds	\$ (781,501)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2013 capital outlays and debt principal payments is to increase net position.	561,776
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 net position.	(473,814)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes 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 decrease net position.	(47,688)
Change in Net Position of Governmental Activities	<u>\$ (741,227)</u>

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

**CITY OF ALPINE, TEXAS**  
Statement of Net Position  
Proprietary Funds  
September 30, 2013

	Water, Sewer and Sanitation Fund	Gas Fund	Airport Fund	Total Proprietary Funds
<b>ASSETS:</b>				
Current assets:				
Cash and cash equivalents	\$ 117,231	\$ 98,516	\$ 200	\$ 215,947
Accounts receivable	357,856	132,926	-	490,782
Allowance for uncollectible accounts	(40,177)	(38,463)	-	(78,640)
Receivables from other governments	22,769	-	-	22,769
Due from other funds	1,376,651	58,208	30,282	1,465,141
Inventories	-	100,379	49,804	150,183
Due from joint venture	-	68,730	-	68,730
Total current assets	<u>1,834,330</u>	<u>420,296</u>	<u>80,286</u>	<u>2,334,912</u>
Noncurrent assets:				
Restricted pooled cash and cash equivalents	187,059	-	-	187,059
Bond issuance costs	196,594	-	-	196,594
Total noncurrent assets	<u>383,653</u>	<u>-</u>	<u>-</u>	<u>383,653</u>
Capital assets, net:				
Water, sewer and sanitation	14,735,957	-	-	14,735,957
Gas utility	-	1,760,392	-	1,760,392
Airport	-	-	2,485,491	2,485,491
Total capital assets	<u>14,735,957</u>	<u>1,760,392</u>	<u>2,485,491</u>	<u>18,981,840</u>
Total assets	<u>\$ 16,953,940</u>	<u>\$ 2,180,688</u>	<u>\$ 2,565,777</u>	<u>\$ 21,700,405</u>
<b>LIABILITIES:</b>				
Current liabilities:				
Accounts payable and accrued liabilities	192,808	58,362	28,717	279,887
Due to other funds	-	540,005	-	540,005
Unearned revenue	-	40,850	-	40,850
Current portion of long-term debt	359,800	-	-	359,800
Total current liabilities	<u>552,608</u>	<u>639,217</u>	<u>28,717</u>	<u>1,220,542</u>
Noncurrent liabilities:				
Customer deposits	188,518	112,664	-	301,182
Long-term debt net of current maturities	4,958,844	-	-	4,958,844
Total noncurrent liabilities	<u>5,147,362</u>	<u>112,664</u>	<u>-</u>	<u>5,260,026</u>
Total Liabilities	<u>5,699,970</u>	<u>751,881</u>	<u>28,717</u>	<u>6,480,568</u>
<b>NET POSITION</b>				
Net investment in capital assets	9,613,907	1,760,392	2,485,491	13,859,790
Restricted for:				
Debt service	111,451	-	-	111,451
Landfill closure	75,608	-	-	75,608
Unrestricted	1,453,004	(331,585)	51,569	1,172,988
Total net position	<u>11,253,970</u>	<u>1,428,807</u>	<u>2,537,060</u>	<u>15,219,837</u>
Total liabilities and net position	<u>\$ 16,953,940</u>	<u>\$ 2,180,688</u>	<u>\$ 2,565,777</u>	<u>\$ 21,700,405</u>

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

**CITY OF ALPINE, TEXAS**  
Statement of Revenues, Expenses, and Changes in Fund Net Position  
Proprietary Funds  
For the Year Ended September 30, 2013

	Water, Sewer and Sanitation Fund	Gas Fund	Airport Fund	Total Proprietary Funds
<b>Operating Revenues:</b>				
Water services	\$ 1,409,130	\$ -	\$ -	\$ 1,409,130
Sewer services	733,017	-	-	733,017
Sanitation services	1,552,365	-	-	1,552,365
Gas services	-	1,889,537	-	1,889,537
Other operating revenue	-	-	536,290	536,290
Total operating revenues	<u>3,694,512</u>	<u>1,889,537</u>	<u>536,290</u>	<u>6,120,339</u>
<b>Operating Expenses:</b>				
Water operation and maintenance:				
Personnel	328,348	-	-	328,348
Depreciation	239,896	-	-	239,896
Other	260,252	-	-	260,252
Total water expense	<u>828,496</u>	<u>-</u>	<u>-</u>	<u>828,496</u>
Sewer operation and maintenance:				
Personnel	339,460	-	-	339,460
Depreciation	134,500	-	-	134,500
Other	216,430	-	-	216,430
Total sewer expense	<u>690,390</u>	<u>-</u>	<u>-</u>	<u>690,390</u>
Sanitation operation and maintenance:				
Personnel	30,404	-	-	30,404
Waste collection fees	1,209,080	-	-	1,209,080
Other	126,023	-	-	126,023
Total sanitation expense	<u>1,365,507</u>	<u>-</u>	<u>-</u>	<u>1,365,507</u>
Gas operation and maintenance:				
Personnel	-	554,718	-	554,718
Natural gas purchases	-	604,056	-	604,056
Depreciation	-	68,754	-	68,754
Other	-	336,358	-	336,358
Total Gas expense	<u>-</u>	<u>1,563,886</u>	<u>-</u>	<u>1,563,886</u>
Airport operation and maintenance:				
Personnel	-	-	76,464	76,464
Depreciation	-	-	55,646	55,646
Other	-	-	413,600	413,600
Total airport expense	<u>-</u>	<u>-</u>	<u>545,710</u>	<u>545,710</u>
Nondepartmental	259,826	-	-	259,826
Total operating expenses	<u>3,144,219</u>	<u>1,563,886</u>	<u>545,710</u>	<u>5,253,815</u>
Operating income (loss)	<u>550,293</u>	<u>325,651</u>	<u>(9,420)</u>	<u>866,524</u>
<b>Nonoperating Revenues (Expenses)</b>				
Interest income	1,355	2,090	-	3,445
Interest expense	(131,414)	-	-	(131,414)
Amortization of bond issuance costs	(14,807)	-	-	(14,807)
Total nonoperating revenue (expense)	<u>(144,866)</u>	<u>2,090</u>	<u>-</u>	<u>(142,776)</u>
Increase in net position, before contributions	405,427	327,741	(9,420)	723,748
Grant contributions	39,218	-	-	39,218
Transfers in	423,118	-	-	423,118
Transfers out	(816)	(480,045)	-	(480,861)
Change in net position	<u>866,947</u>	<u>(152,304)</u>	<u>(9,420)</u>	<u>705,223</u>
Total net position - beginning	9,874,462	1,581,111	-	11,455,573
Prior period adjustment	512,561	-	2,546,480	3,059,041
Total net position - ending	<u>\$ 11,253,970</u>	<u>\$ 1,428,807</u>	<u>\$ 2,537,060</u>	<u>\$ 15,219,837</u>

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

**CITY OF ALPINE, TEXAS**  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended September 30, 2013

	<u>Total Proprietary Funds</u>
Cash flows from operating activities	
Cash received from customers	\$ 6,054,405
Cash paid to suppliers	(3,255,435)
Cash paid to employees, and related	(1,329,394)
Net cash provided by operating activities	<u>1,469,576</u>
Cash flows from capital and related financing activities	
Proceeds from the issuance of debt	33,207
Cash received from grants	39,218
Acquisition and construction of capital assets	(93,463)
Principal payments on long-term debt	(351,600)
Interest and fees on long-term debt	(131,414)
Customer deposits	10,874
Net cash provided (used) by capital and related financing activities	<u>(493,178)</u>
Cash flows from noncapital financing activities	
Change in due to/from other funds	(894,082)
Transfers to/from other funds	(57,743)
Net cash provided (used) by noncapital financing activities	<u>(951,825)</u>
Cash flows from investing activities	
Joint venture	95,570
Interest and other income received	3,445
Net cash provided by investing activities	<u>99,015</u>
Net change in cash and cash equivalents	123,588
Cash and cash equivalents	
Beginning of year	279,418
End of year	<u>\$ 403,006</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 866,524
Depreciation	498,796
(Increase) decrease in assets:	
Accounts receivable	(51,315)
Inventories	(49,804)
Increase (decrease) in liabilities:	
Accounts payable and other accruals	219,994
Unearned revenue	(14,619)
Net cash provided by operating activities	<u>\$ 1,469,576</u>
Noncash activity:	
Prior period adjustments to record capital assets	<u>\$ 2,541,137</u>

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

# CITY OF ALPINE

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Alpine, Texas (City) is a municipal corporation governed under the Home Rule City Act pursuant to the passage of the Home Rule Charter (Charter) by the citizens of Alpine at the general city election on May 1, 1993. Under the Charter, the City operates under a Council Manager form of government.

The City prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

#### **A. FINANCIAL REPORTING ENTITY**

The City's financial reporting entity comprises the following:

- Primary Government: City of Alpine
- Component Units: None

In determining the financial reporting entity, the City complies with the provisions of GASB and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

#### **B. BASIC FINANCIAL STATEMENTS**

The Statement of Net Position and Statement of Activities are government-wide financial statements. They report information on all of the City's nonfiduciary activities with most of the interfund activities removed. The statements distinguish between governmental and business-type activities. Governmental activities, include programs supported by taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities include operations that rely on, to a significant extent, 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 of the City. The "grants and contributions" columns include amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function.

Interfund activities between governmental funds and between governmental and proprietary funds appear as due to/due froms on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as transfers in and transfers out on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Net Position. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain as due to/due froms on the government-wide Statement of Activities.

**CITY OF ALPINE**

**NOTES TO THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2013

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The fund financial statements report on the financial condition and results of operations for two fund categories – governmental and proprietary. The City considers some governmental 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 goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

**C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

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 unmatured 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, other than property tax revenues, available if they are collectible within one year after year end.

Revenues from local sources consist primarily of property and sales taxes. Tax revenues 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.

**CITY OF ALPINE**

**NOTES TO THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2013

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 unearned revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the City to refund all or part of the unused amount.

The Proprietary Fund Types 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. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted, and unrestricted.

The City has implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position, which provides financial reporting guidance for deferred outflows and inflows of resources and identifies net position as the residual of all other elements presented in a statement of financial position. The City's Statements of Net Position as of September 30, 2013 are presented in accordance with the guidance provided by this Statement.

**D. FUND ACCOUNTING**

The City uses funds to report its financial position and activities. Fund accounting segregates funds according to their intended purpose and is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund balances, revenues and expenditures.

The City reports the following major governmental funds:

1. General Fund - The General Fund is the City's primary operating fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.
2. Debt Service Fund – The Debt Service Fund is used to account for the property taxes which have been levied to fund the City's long-term debt obligations.

The City reports the following major enterprise funds:

1. Water, Sewer, and Sanitation - This enterprise fund is used to account for the activity related to the management of the City's Water, Sewer, and Sanitation utility.
2. Gas Fund - This enterprise fund is used to account for the activity related to the management of the City's Natural Gas utility.
3. Airport Fund - This enterprise fund is used to account for the activity related to operation of the City's Airport including aviation operations and leasing activities on Airport properties.

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Additionally, the City reports the following fund types:

Governmental funds:

1. Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted for expenditures for certain purposes.

**E. ASSETS, LIABILITIES, AND EQUITY ACCOUNTING POLICIES**

Cash and Investments

For the purpose of the proprietary fund Statement of Cash Flows, the City considers all highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased. Cash and cash equivalents also includes all demand and savings accounts.

All investments with an original maturity greater than one year from date of purchase are stated at fair value based on quoted market prices as of year-end. Investments with an original maturity of less than one year are reported at amortized cost. If applicable, premiums and discounts on investments are amortized or accreted using the straight-line method, which approximates the interest method, over the terms of the related securities.

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.

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. Management asserts that the City is in substantial compliance with the requirements of the Act and with local policies.

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Additional policies and contractual provisions governing deposits and investments for the City are specified below:

***Credit Risk:***

Deposits - Credit risk is not applicable to deposits.

***Custodial Credit Risk:***

Deposits - 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 has a contract that complies with this law, it has minimal custodial credit risk for deposits.

***Concentration of Credit Risk:***

Deposits - Concentration of credit risk is not applicable to the deposits.

***Interest Rate Risk:***

Deposits - Interest rate risk is not applicable to deposits.

***Foreign Currency Risk:***

Deposits - The City limits the risk that changes in exchange rates will adversely affect a deposit by not having any deposits denominated in a foreign currency.

**Receivables**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes, franchise taxes, grants, police fines, and ambulance fees. Business-type activities major receivables are related to services rendered to customers.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

**CITY OF ALPINE**

**NOTES TO THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2013

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds.” Short-term interfund loans are reported as “interfund receivables and payables.” Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. See Note 3 for details of interfund transactions, including receivables and payables at year-end.

Inventories

The City inventories, jet fuel and supplies for the gas department, are reported at cost. Supplies inventories for all other departments are not inventoried but are expended when purchased.

Capital Assets

Capital assets, which include land, buildings, furniture, vehicles, and equipment, are reported in the governmental activities column in the government-wide financial statements. In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value many of the infrastructure assets acquired prior to October 1, 2003. Prior to October 1, 2003, governmental funds’ infrastructure assets were not capitalized. These assets (back to October 1, 1939) have been valued at estimated historical cost. Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets’ estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

<u>Assets</u>	<u>Years</u>
Buildings	25-50
Improvements	20-50
Machinery and Equipment	3-20
Utility System	25-75
Infrastructure	25-75

Restricted Assets

Restricted assets include cash and cash equivalents of the various funds which are legally restricted as to their use.

**CITY OF ALPINE**

**NOTES TO THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2013

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Compensated Absences

The City's policies regarding vacation and sick leave time permit employees to accumulate earned but unused vacation leave. Employees may carry over a maximum of 120 hours from the end of one fiscal year to the beginning of the next fiscal year. Any vacation time accrued but not taken in excess of 120 hours is forfeited at the end of each fiscal year. As of September 30, 2013, the liability for this compensated absence amounted to \$93,399 compared to \$97,858 last year. There was a decrease of 5% from last year to this year. This is recorded in the governmental wide statements. The government and proprietary funds report the liability as it is incurred. No liability is recorded on the fund basis financial statements considering the timing of the estimated expenditures and inability to estimate the expenditure.

Long-term Debt

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 position. The long-term debt consists primarily of bonds, certificates of obligation, and capital leases.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Fund Balance Classification Policies and Procedures

The City reports the following fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. Fund balances are classified as nonspendable, restricted, committed, assigned and unassigned based on the circumstances that apply, in accordance with City policy:

- Nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted fund balance classification includes funds with constraints placed on the use of resources which are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balances include amounts that can only be used for specific purposes pursuant to constraints imposed by court resolution/formal action of the City Council which is the government's highest level of decision-making authority.
- Assigned fund balances include amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the City Council action or (b) by the City Manager who is the official delegated by the City Council with the authority to assign amounts to be used for specific purposes.

**CITY OF ALPINE**

**NOTES TO THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2013

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

- Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance which has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

For the classification of fund balances the City considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available and (2) the City considered committed and assigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used. The City has not formally adopted a minimum fund balance policy.

**F. REVENUES, EXPENDITURES, AND EXPENSES ACCOUNTING POLICIES**

Property Tax

The City's property tax is levied each October 1 on the assessed value listed as of January 1 for all real and personal property located in the City. A receivable for property taxes is recognized and recorded at the levy date. Taxes are due by January 31 following the October 1 levy date.

The methods of property assessment and tax collection are determined by Texas statute. The statutes provide for a property tax code, countywide appraisal districts and certain exemptions from taxation, such as intangible personal property, household goods and family-owned automobiles.

The City is authorized to set tax rates on property within the City limits. However, if the adopted tax rate for operations exceeds the effective operating rate as calculated pursuant to the property tax code for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate increase to no more than 8%.

The Brewster County Tax Collector bills and collects the property taxes and remits to the City its portion. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end.

Sales Tax

The City presently levies a 1% sales tax on taxable sales within the City. The sales tax is collected by the Texas Comptroller of Public Accounts and remitted to the City in the month following receipt by the Comptroller. The Comptroller receives the sales tax approximately one month after collection by vendors. The sales tax is recorded entirely in the General Fund.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

**CITY OF ALPINE**

**NOTES TO THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2013

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

In the fund financial statements, expenditures are classified as follows:

Governmental Funds—By Character: Current (further classified by function)

- General fund
- Special revenue funds
- Debt Service

Proprietary Fund—By Operating and Non-operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purposes of the government-wide Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Budgets and Budgetary Basis

As set forth in the city charter, the city council adopts an annual budget for all funds at the department level. The annual budget is prepared on the modified accrual basis of accounting. The city manager is authorized to transfer budgeted amounts within and among departments, offices, or agencies, but no amounts may be transferred to increase a salary appropriation without the approval of the council. Upon written request by the city manager, the council may, by ordinance, transfer part or all of any unencumbered appropriation from one department, office or agency to another. Budgeted amounts shown in the financial statements represent the final budget, after any amendments.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. There were no encumbrances outstanding at fiscal year-end.

Use of Estimates

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

Subsequent Events

Management has made a review for subsequent events through the date of the Independent auditor's report.

**CITY OF ALPINE**

**NOTES TO THE FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2013**

**NOTE 2 – CASH AND CASH EQUIVALENTS**

The City’s total cash deposits were held with the contracted depository institution West Texas National Bank in interest bearing accounts. The accounts were secured at September 30, 2013 by FDIC coverage of \$250, 000 and one irrevocable letter of credit #8817000055 in the amount of \$2,000,000 dated November 1, 2010 and expiring October 31, 2013 issued by Federal Home Loan Bank of Dallas. The following was disclosed at September 30, 2013:

	General Fund	Non Major Funds	Total Governmental Activities	Water Sewer Sanitation	Gas Fund	Airport Fund	Total Business Type Activities
Cash and Cash Equivalents	\$ 137,155	\$ -	\$ 137,155	\$ 117,231	\$ 98,516	\$ 200	\$ 215,947
Restricted Cash and Cash Equivalents	<u>205,599</u>	<u>168,176</u>	<u>373,775</u>	<u>187,059</u>	<u>-</u>	<u>-</u>	<u>187,059</u>
Total Cash and Cash Equivalents	<u>\$ 342,754</u>	<u>\$ 168,176</u>	<u>\$ 510,930</u>	<u>\$ 304,290</u>	<u>\$ 98,516</u>	<u>\$ 200</u>	<u>\$ 403,006</u>

The bank balance as of September 30, 2013 was \$1,106,361. The difference between book and bank balances represent items in transit at year-end, usually outstanding checks that clear in the following month.

The cash deposits held at financial institutions can be categorized according to three levels of risk. The three levels of risk are:

Category 1 – Deposits that are insured or collateralized with securities held by the entity or by its agent in the entity’s name.

Category 2 – Deposits that are collateralized with securities held by the pledging financial institution’s trust department or agent in the entity’s name.

Category 3 – Deposits that are not collateralized. (This includes any bank balances that are collateralized with securities held by the pledging financial institution, or its trust department or agent but no in the entity’s name.)

Based on these three levels of risk, the City’s cash deposits are in Category 1.

**CITY OF ALPINE**

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

**NOTE 3 – INTERFUND BALANCES AND TRANSFERS**

Current and prior year transactions resulted in the following amounts due (to) and from other funds which have been reported as assets or liabilities in the fund basis and government wide financial statements. Following is a summary of due (to) and from balances as of September 30, 2013:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
<b>General Fund:</b>		
Debt Service Fund	\$ 288,121	\$ 633,122
Nonmajor Funds	79,134	76,199
Gas Fund	-	58,208
Airport Fund	-	30,282
Water, Sewer & Sanitation Fund	-	491,243
Total General Fund	367,255	1,289,054
<b>Debt Service Fund:</b>		
General Fund	633,122	288,121
Water, Sewer & Sanitation Fund	-	345,403
Total Debt Service Fund	633,122	633,524
<b>Nonmajor Funds:</b>		
General Fund	76,199	79,134
<b>Gas Fund:</b>		
General Fund	58,208	-
Water, Sewer, & Sanitation Fund	-	540,005
Total Gas Fund	58,208	540,005
<b>Airport Fund:</b>		
General Fund	30,282	-
<b>Water, Sewer, &amp; Sanitation Fund</b>		
General Fund	491,243	-
Debt Service Fund	345,403	-
Gas Fund	540,005	-
Total Water, Sewer, & Sanitation Fund	1,376,651	-
	<u>\$ 2,541,717</u>	<u>\$ 2,541,717</u>

Interfund transfers generally fall within two categories: (1) transfers to cover debt service payments to comply with debt covenants, and (2) transfers to charge other funds fees or a permanent reallocation of resources.

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

**NOTE 3 – INTERFUND BALANCES AND TRANSFERS (continued)**

Interfund transfers for the year ended September 30, 2013, consisted of the following amounts:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Water, Sewer & Sanitation Fund	\$ -	\$ 77,715
Nonmajor fund	-	151,885
Gas Fund	480,861	-
	<hr/>	<hr/>
Total General Fund	480,861	229,600
	<hr/>	<hr/>
Debt Service Fund:		
Water, Sewer & Sanitation Fund	-	345,403
	<hr/>	<hr/>
Water, Sewer & Sanitation Fund		
General Fund	77,715	816
Debt Service	345,403	-
	<hr/>	<hr/>
Total Water, Sewer & Sanitation Fund	423,118	816
	<hr/>	<hr/>
Gas Fund:		
General Fund	-	480,045
	<hr/>	<hr/>
Nonmajor Fund:		
General Fund	151,885	-
	<hr/>	<hr/>
Total	\$ 1,055,864	\$ 1,055,864
	<hr/>	<hr/>

**CITY OF ALPINE**

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

**NOTE 4 – CHANGES IN CAPITAL ASSETS**

The following is a summary of changes to capital assets in the government wide financial statements relative to governmental fund activities:

	Balance Oct. 1, 2012	Additions	Transfers/ Deductions	Balance Sept. 30, 2013
Land	\$ 806,665	\$ -	\$ -	\$ 806,665
Landscaping & Buildings	58,517	-	-	58,517
Improvements	2,686,151	3,100	-	2,689,251
Infrastructure	8,844,088	-	-	8,844,088
Improvements Other than buildings	2,188,637	-	-	2,188,637
Vehicles	3,037,939	3,725	-	3,041,664
Furniture & Equip.	609,363	9,547	-	618,910
Construction Work in Progress	-	303,769	-	303,769
	<u>18,231,360</u>	<u>320,141</u>	<u>-</u>	<u>18,551,501</u>
Less: Accumulated				
Landscaping & Buildings	(29,560)	(4,101)	-	(33,661)
Buildings & Improvements	(817,092)	(83,920)	-	(901,012)
Infrastructure	(3,365,614)	(199,699)	-	(3,565,313)
Improvements Other than buildings	(1,415,629)	(55,817)	-	(1,471,446)
Vehicles	(1,874,828)	(100,120)	-	(1,974,948)
Furniture & Equip.	(446,176)	(30,157)	-	(476,333)
	<u>\$ (7,948,899)</u>	<u>\$ (473,814)</u>	<u>\$ -</u>	<u>\$ (8,422,713)</u>
Net governmental assets	<u>\$ 10,282,461</u>	<u>\$ (153,673)</u>	<u>\$ -</u>	<u>\$ 10,128,788</u>

**CITY OF ALPINE**

**NOTES TO THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2013

**NOTE 4 – CHANGES IN CAPITAL ASSETS (continued)**

Governmental Fund Expenditures by function:

	<u>Capital Additions</u>	<u>Depreciation</u>
General Government	\$ -	\$ 86,549
Public Works	4,272	79,449
Health and Human Services	3,725	19,237
Culture and Recreation	303,769	102,357
Non Departmental	-	53,564
Public Safety	8,375	124,926
Municipal Court	-	7,732
	<u>\$ 320,141</u>	<u>\$ 473,814</u>

Depreciation expense totaled \$473,814 for the year ended September 30, 2013 as reported in the government wide financial statements.

**CITY OF ALPINE**

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

**NOTE 4 – CHANGES IN CAPITAL ASSETS (continued)**

The following is a summary of changes to capital assets in the proprietary fund financials:

**Airport**

	Balance Oct. 1, 2012	Additions	Transfers/ Deductions	Balance Sept. 30, 2013
Land	\$ 99,584	\$ -	\$ -	\$ 99,584
Buildings	2,640	-	-	2,640
Improvements other than Buildings	3,302,067	-	-	3,302,067
<b>Total Assets</b>	<b>3,404,291</b>	<b>-</b>	<b>-</b>	<b>3,404,291</b>
Less: Accumulated Depreciation				
Buildings	(2,640)	-	-	(2,640)
Improvements other than Buildings	(860,514)	(55,646)	-	(916,160)
<b>Total Depreciation</b>	<b>(863,154)</b>	<b>(55,646)</b>	<b>-</b>	<b>(918,800)</b>
<b>Net Airport Assets</b>	<b>\$ 2,541,137</b>	<b>\$ (55,646)</b>	<b>\$ -</b>	<b>\$ 2,485,491</b>

**Gas**

	Balance Oct. 1, 2012	Additions	Transfers/ Deductions	Balance Sept. 30, 2013
Land	\$ 45,000	\$ -	\$ -	\$ 45,000
Buildings	217,000	-	-	217,000
Gas Distribution Sytem	1,348,456	-	-	1,348,456
Vehicles	158,912	-	-	158,912
Furniture and Equipment	93,332	-	-	93,332
<b>Total Assets</b>	<b>1,862,700</b>	<b>-</b>	<b>-</b>	<b>1,862,700</b>
Less: Accumulated Depreciation				
Buildings	(5,063)	(8,680)	-	(13,743)
Gas Distribution Sytem	(13,311)	(29,851)	-	(43,162)
Vehicles	(5,674)	(13,927)	-	(19,601)
Furniture and Equipment	(9,506)	(16,296)	-	(25,802)
<b>Total Depreciation</b>	<b>(33,554)</b>	<b>(68,754)</b>	<b>-</b>	<b>(102,308)</b>
<b>Net Gas Assets</b>	<b>\$ 1,829,146</b>	<b>\$ (68,754)</b>	<b>\$ -</b>	<b>\$ 1,760,392</b>

**CITY OF ALPINE**

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

**NOTE 4 – CHANGES IN CAPITAL ASSETS (continued)**

**Water and Sewer**

	Balance Oct. 1, 2012	Additions	Transfers/ Deductions	Balance Sept. 30, 2013
Land	\$ 192,397	\$ -	\$ -	\$ 192,397
WIP	10,000	80,136	-	90,136
Buildings and Improvements	1,019,207	-	-	1,019,207
Furniture, Equipment, and Vehicles	1,358,419	-	-	1,358,419
Water System	13,753,902	10,376	-	13,764,278
Wastewater System	6,618,607	2,950	-	6,621,557
Total Assets	<u>22,952,532</u>	<u>93,462</u>	<u>-</u>	<u>23,045,994</u>
Less: Accumulated Depreciation				
Buildings and Improvements	(319,267)	(38,346)	-	(357,613)
Furniture, Equipment, and Vehicles	(697,753)	(40,409)	-	(738,162)
Water System	(4,436,760)	(201,647)	-	(4,638,407)
Wastewater System	(2,481,861)	(93,994)	-	(2,575,855)
Total Depreciation	<u>(7,935,641)</u>	<u>(374,396)</u>	<u>-</u>	<u>(8,310,037)</u>
Net Water & Wastewater Assets	<u>\$ 15,016,891</u>	<u>\$ (280,934)</u>	<u>\$ -</u>	<u>\$ 14,735,957</u>

Depreciation expense for enterprise fund capital assets totaled \$498,796 for the year ended September 30, 2013 as reported in the proprietary and government wide financial statements.

**NOTE 5– GOVERNMENTAL ACTIVITIES LONG-TERM DEBT**

For the year ended September 30, 2013, the City had the following governmental activities debt:

**A. Lease Purchase Commitments:**

- In August 2008, the City acquired road equipment costing \$84,879. The lease terms require 5 annual payments of \$19,476 including interest accrued at 4.76% beginning August 2009. This lease was paid in full as of September 30, 2013.
- In 2010, the City acquired a fire truck costing \$260,756. The lease terms require 12 annual payments of \$29,753 including interest at 5.2%. The unpaid principal balance at September 30, 2013 was \$209,884.

**CITY OF ALPINE**

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

**NOTE 5 – GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (continued)**

**B. Certificates of Obligations and Bonds Payable:**

- Certificates of Obligation – Series 2011 - 56% of the bond is reported with long-term debt in the governmental activities and the balance (44%) is reported with the Water, Sewer, and Sanitation Enterprise fund. The bond yield is 4.230%. As of September 30, 2013, the outstanding balance in the governmental activities was \$650,200.
- General Obligation Refunding Bonds – Series 2011 - 60% of the bond is reported with long-term debt in the governmental activities and the balance (40%) is reported with the Water, Sewer, and Sanitation Enterprise fund. The bond yield is 3.5637%. As of September 30, 2013, the outstanding balance in the governmental activities was \$1,452,000.

Changes in governmental activities long-term debt follows:

	Balance Oct. 1, 2012	New Issues	Payments	Balance Sept. 30, 2013	Due Within One Year
Lease obligations	\$ 246,118	\$ -	\$ 36,234	\$ 209,884	18,853
Certificates of Obligation:					
56% series 2011	672,600	-	22,400	650,200	25,200
General Obligation Bond:					
60% Series 2011	<u>1,635,000</u>	-	<u>183,000</u>	<u>1,452,000</u>	<u>192,000</u>
	<u>\$ 2,553,718</u>	<u>\$ -</u>	<u>241,634</u>	<u>\$ 2,312,084</u>	<u>\$ 236,053</u>

The future principal and interest maturities of long-term debt for Governmental Activities as of September 30, 2013 are as follows:

**CITY OF ALPINE**

**NOTES TO THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2013

**NOTE 5 – GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (continued)**

**Governmental Activities**

**A. Lease Obligations**

Year Ending September 30,	Principal	Interest	Total
2014	\$ 18,853	10,900	\$ 29,753
2015	19,834	9,919	29,753
2016	20,865	8,888	29,753
2017	21,950	7,803	29,753
2018	23,091	6,662	29,753
2019 - 2022	105,291	13,999	119,290
Total	<u>\$ 209,884</u>	<u>58,171</u>	<u>\$ 268,055</u>

**B. Certificates of Obligation  
C/O Series 2011(56%)**

Year Ending September 30,	Principal	Interest	Total
2014	\$ 25,200	26,708	\$ 51,908
2015	25,200	25,642	50,842
2016	28,000	24,517	52,517
2017	28,000	23,333	51,333
2018	28,000	22,148	50,148
2019 - 2023	165,200	90,903	256,103
2024 - 2028	201,600	52,351	253,951
2029 - 2031	149,000	9,298	158,298
Total	<u>\$ 650,200</u>	<u>274,900</u>	<u>\$ 925,100</u>

**CITY OF ALPINE**

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

**NOTE 5 – GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (continued)**

General Obligation Refunding  
G/O Series 2011(60%)

Year Ending September 30,	Principal	Interest	Total
2014	\$ 192,000	48,324	\$ 240,324
2015	195,000	41,428	236,428
2016	204,000	34,318	238,318
2017	195,000	27,209	222,209
2018	144,000	21,168	165,168
2019 - 2023	426,000	56,449	482,449
2024	96,000	1,711	97,711
Total	<u>\$ 1,452,000</u>	<u>230,607</u>	<u>\$ 1,682,607</u>

**Total Governmental Long-Term Debt**

Year Ending Period Ended	Principal	Interest	Total
2014	\$ 236,053	85,932	\$ 321,985
2015	240,034	76,989	317,023
2016	252,865	67,723	320,588
2017	244,950	58,345	303,295
2018	195,091	49,978	245,069
2019 - 2023	696,491	161,351	857,842
2024 - 2028	297,600	54,062	351,662
2029 - 2031	149,000	9,298	158,298
Total	<u>\$ 2,312,084</u>	<u>563,678</u>	<u>\$ 2,875,762</u>

**NOTE 6 –BUSINESS TYPE ACTIVITIES LONG-TERM DEBT**

Bonds Payable - The greatest portion of the long-term indebtedness of the City is reflected in the Enterprise Fund since that is the fund paying for combination tax and revenue bonds.

In December 2012, the City issued combination Tax and Revenue Certificates of Obligation Series 2012 for up to \$102,000 with interest ranging from .27% to 2.82%. The proceeds are being used to fund improvements to the wastewater system. As of September 30, 2013, only \$74,844 of the certificates had been spent and was either received or requested for draw down. A principal payment of \$9,000 was made during the fiscal year leaving the remaining balance owed of \$65,844 as of September 30, 2013.

**CITY OF ALPINE**

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

**NOTE 6 – BUSINESS TYPE ACTIVITIES LONG-TERM DEBT (continued)**

As previously discussed, in March 2011 the City issued \$1,230,000 in Tax and Revenue Certificates of Obligation Series 2011 of which 44% (\$535,000) was allocated to the Water, Sewer, and Sanitation Enterprise fund and the balance 56% (\$695,000) is reported as governmental activities debt based on the use of bond proceeds. This Certificate of Obligation bears interest at 4.23% and matures in years 2012 through 2031. The proceeds were primarily used for equipment acquisitions and building and street improvements. As of September 30, 2013, the outstanding balance in the Water, Sewer, and Sanitation fund was \$499,800.

The City also issued \$3,150,000 in General Obligation Refunding Bonds Series 2011 of which 40% (\$1,260,000) was allocated to the Water, Sewer, and Sanitation Enterprise fund and the balance 60% (\$1,890,000) is reported as governmental activities debt based on the use of bond proceeds. These bonds bear interest at 3.5637% and mature in years 2012 through 2024. The bond proceeds were used to pay off Certificates of Obligation Series 1997, 1999, 2001 and 2009 and General Obligation Refunding Bonds Series 2001. As of September 30, 2013, the outstanding balance in the Water, Sewer, and Sanitation fund was \$968,000.

In March 2003, Series 2003A Waterworks and Sewer System Revenue Bonds were issued bearing interest at 3.00-4.45% and maturing in years 2004 through 2021. The bond proceeds were to fund improvements and extensions to the City’s combined waterworks and sewer system and to fund reserve funds and pay bond issuance costs. As of September 30, 2013, the outstanding balance was \$620,000.

In 2010 the Texas Water Development Board completed funding its \$4,131,000 loan commitment to the City for the purpose of funding water system improvements. The City’s outstanding balance as of September 30, 2013 was \$3,165,000.

Changes in the Water, Sewer, and Sanitation enterprise fund long-term debt follows:

Series/Rate	Balance 10/1/2012	New Issues	Payments	Balance 9/30/2013	Due Within One Year
C/O 2012 Series	\$ -	\$ 74,844	\$ 9,000	\$ 65,844	\$ 9,000
44% of C/O 2011	517,400	-	17,600	499,800	19,800
40% of G/O Series 2011	1,090,000	-	122,000	968,000	128,000
Series 2003 A	685,000	-	65,000	620,000	65,000
TWDB Series 2005	3,303,000	-	138,000	3,165,000	138,000
	<u>\$ 5,595,400</u>	<u>\$ 74,844</u>	<u>\$ 351,600</u>	<u>\$ 5,318,644</u>	<u>\$ 359,800</u>

**CITY OF ALPINE**

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

**NOTE 6 – BUSINESS TYPE ACTIVITIES LONG-TERM DEBT (continued)**

The future principal and interest maturities of long term debt for the Business Type Activities as of September 30, 2013 are as follows:

Tax and Revenue Certificates of Obligation  
C/O Series 2012

Year Ending September 30,	Principal	Interest	Total
2014	\$ 9,000	\$ 1,755	\$ 10,755
2015	9,000	1,676	10,676
2016	10,000	1,565	11,565
2017	10,000	1,422	11,422
2018	10,000	1,247	11,247
2019 - 2023	17,844	1,479	19,323
Total	<u>\$ 65,844</u>	<u>9,144</u>	<u>\$ 74,988</u>

Certificates of Obligation  
C/O Series 2011(44%)

Year Ending September 30,	Principal	Interest	Total
2014	\$ 19,800	\$ 20,985	\$ 40,785
2015	19,800	20,147	39,947
2016	22,000	19,263	41,263
2017	22,000	18,333	40,333
2018	22,000	17,402	39,402
2019 - 2023	129,800	71,424	201,224
2024 - 2028	158,400	41,133	199,533
2029 - 2031	106,000	7,305	113,305
Total	<u>\$ 499,800</u>	<u>215,992</u>	<u>\$ 715,792</u>

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

**NOTE 6 – BUSINESS TYPE ACTIVITIES LONG-TERM DEBT (continued)**

General Obligation Refunding  
G/O Series 2011(40%)

Year Ending September 30,	Principal	Interest	Total
2014	\$ 128,000	\$ 32,216	\$ 160,216
2015	130,000	27,619	157,619
2016	136,000	22,879	158,879
2017	130,000	18,139	148,139
2018	96,000	14,112	110,112
2019 - 2023	284,000	37,633	321,633
2024 - 2027	<u>64,000</u>	<u>1,140</u>	<u>65,140</u>
Total	<u>\$ 968,000</u>	<u>153,738</u>	<u>\$ 1,121,738</u>

Certificates of Obligation  
Series 2003-A

Year Ending September 30,	Principal	Interest	Total
2014	\$ 65,000	\$ 26,380	\$ 91,380
2015	70,000	23,813	93,813
2016	75,000	21,048	96,048
2017	75,000	17,897	92,897
2018	80,000	14,748	94,748
2019 - 2022	<u>255,000</u>	<u>23,058</u>	<u>278,058</u>
Total	<u>\$ 620,000</u>	<u>126,944</u>	<u>\$ 746,944</u>

**CITY OF ALPINE**

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

**NOTE 6 –BUSINESS TYPE ACTIVITIES LONG-TERM DEBT (continued)**

Certificates of Obligation  
Texas Water Development Board

Year Ending September 30,	Principal	Interest	Total
2014	\$ 138,000	-	\$ 138,000
2015	138,000	-	138,000
2016	138,000	-	138,000
2017	138,000	-	138,000
2018	138,000	-	138,000
2019 - 2023	690,000	-	690,000
2024 - 2028	688,000	-	688,000
2029 - 2033	685,000	-	685,000
2034 - 2036	412,000	-	412,000
Total	<u>\$ 3,165,000</u>	<u>-</u>	<u>\$ 3,165,000</u>

**Total Business Type Activities  
Long Term Debt**

Year Ending September 30,	Principal	Interest	Total
2014	\$ 359,800	\$ 81,336	\$ 441,136
2015	366,800	73,255	440,055
2016	381,000	64,755	445,755
2017	375,000	55,791	430,791
2018	346,000	47,509	393,509
2019 - 2023	1,376,644	133,594	1,510,238
2024 - 2028	910,400	42,273	952,673
2029-2033	791,000	7,305	798,305
2034-2037	412,000	-	412,000
Total	<u>\$ 5,318,644</u>	<u>\$ 505,818</u>	<u>\$ 5,824,462</u>

**CITY OF ALPINE**

**NOTES TO THE FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2013**

**NOTE 7 – PENSION PLAN**

Plan Description

The City provides pension benefits to all of its full-time employees, with the exception of firefighters, through a nontraditional, joint contributory, defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of over 849 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee’s contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee’s accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee’s accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee’s salary had always been the average of his salary in the last three years that is one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee’s accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

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

Deposit Rate:	5%
Matching Ratio (City to Employee)	2-1
A member is vested after	5 years

Members can retire at certain ages, based on years of service with the City.  
The Service Retirement Eligibilities for the City are: 5 yrs. /age 60, 20 yrs. /any age.

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee’s retirement date, not at the time the employee’s contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan’s 25-year amortization period.

**CITY OF ALPINE**

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

**NOTE 7 – PENSION PLAN (continued)**

When the City periodically adopts updated service credits and increases its annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

Actuarial valuation date	<u>12/31/12</u>	<u>12/31/11</u>	<u>12/31/10</u>	<u>12/31/09</u>	<u>12/31/08</u>
Actuarial value of plan assets	5,960,413	5,629,161	5,326,358	3,370,940	3,474,192
Actuarial determined benefit obligation	4,868,993	4,595,512	4,369,322	3,029,725	3,140,051
Percent Funded	122.4%	122.5%	121.9%	111.3%	110.6%
Under (Over) Funded					
Actuarial determined					
Accrued (Asset)/UAAL	(1,091,420)	(1,033,649)	(957,036)	(341,215)	(334,141)
Annual covered payroll	2,246,477	1,949,501	1,936,572	1,956,503	1,863,805
UAAL as a % of Covered Payroll	-48.6%	-53.0%	-49.4%	-17.4%	-17.9%
Annual Pension Cost/					
Annual required contribution (ARC)	19,120	59,242	59,126	65,211	106,119
Contributions Made	19,120	59,242	59,126	65,211	106,119
Actuarial Assumptions:					
Actuarial Cost Method -					Projected Unit Credit
Amortization Method -					Level Percent of Payroll
Remaining Amortization Period -					25 Years
Asset Valuation Method -					Smoothed Value
Investment Rate of Return -					7.5% in 2008 and 2009 and 7% in 2010, 2011 and 2012
Projected Salary Increase -					Varies by age and service
Includes Inflation At -					3%
Cost-of-Living Adjustment -					0%

**CITY OF ALPINE**

**NOTES TO THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2013

**NOTE 7 – PENSION PLAN (continued)**

For the employer’s fiscal year ending September 30, 2013, the City contributed \$29,107 for the TMRS plan, and the total contributions for employee were \$121,634.

TMRS issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information (RSI) for TMRS: the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153. The report is also available on TMRS website at [www.TMRS.com](http://www.TMRS.com).

**NOTE 8 – SELF INSURANCE**

The City has a self-insured health plan covering substantially all employees. The plan covers major medical expenses, dental and vision. Individual covered members have an annual deductible of \$500, maximum out-of-pocket of \$2,000, and \$15/\$50 copay for services provided by network providers. Maximum lifetime benefit is \$2,000,000. After expenses on a single covered member reach \$35,000 the City has purchased an overline insurance policy for expenses.

The following is a summary of changes to the self-insurance accrual:

	2013	2012
Beginning Accrual	\$ 134,634	\$ 48,497
Costs Incurred	550,629	750,922
Payments made	<u>(510,523)</u>	<u>(664,785)</u>
Ending Accrual	<u>\$ 174,740</u>	<u>\$ 134,634</u>

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

**NOTE 9 – FUND BALANCE REPORTING**

The following schedule discloses the details of fund balance classifications at September 30, 2013:

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances:				
Restricted for:				
Federal or State Grants	\$ -	\$ -	\$ 69,484	\$ 69,484
Other	205,599	-	-	205,599
Debt service	-	4,940	-	4,940
Tourism activities	-	-	172,194	172,194
Total restricted	205,599	4,940	241,678	452,217
Committed:				
Capital Improvements	88,000	-	-	88,000
Unassigned	(1,268,708)	-	-	(1,268,708)
Total fund balances	\$ (975,109)	\$ 4,940	\$ 241,678	\$ (728,491)

**NOTE 10 – CONTINGENCIES**

From time-to-time the City is party to various legal claims in the ordinary course of governmental operations. The ultimate outcome of these matters cannot be determined. The City is also exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, environmental claims and natural disasters. The City purchases insurance through the Texas Municipal League Intergovernmental Risk Pool to mitigate the effect of potential risks. The City is part of an ongoing investigation related to previous members of management and activities that occurred while they were employed at the City. Management believes the outcome will not have a material adverse effect on the City.

**Federal and State Funding**

The City participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at September 30, 2013 may be impaired.

**NOTE 11 – LANDFILL**

Numerous state and federal laws and regulations require the City to place a final cover on its landfill site when no longer accepting waste and to perform certain monitoring and maintenance functions at the site for thirty years after closure. Such closure and postclosure costs will be incurred near or after the effective date that the landfill stops accepting deposits. Consequently, the City must begin reporting a portion of these costs as an operating expense when the Texas Commission on Environmental Quality releases final regulations.

**CITY OF ALPINE**

**NOTES TO THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2013

**NOTE 11 – LANDFILL (continued)**

At September 30, 2013, total closure and postclosure costs were estimated to be approximately \$454,287 and \$131,927, respectively. The liability for closure and postclosure care costs is based on landfill capacity used to date. The cost components are based on federal, state, or local laws or regulations concerning closure and post-closure care that have been approved as of the balance sheet date. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The City has set aside \$75,608 and designated these funds to finance the estimated closure and post-closure costs.

At September 30, 2013, the city was operating 5 cells utilizing approximately 25 acres of the 71 acres in the designated landfill area as follows:

Cell #1 and 2	approximately 85% full
Cell #3	approximately 36% full
Cell #7	approximately 90% full
Cell #8	approximately 33% full

There are 16 cells in this landfill and the remaining estimated life is approximately 42 years.

**NOTE 12 - LEASING ARRANGEMENTS WITH CITY AS LESSOR**

The City leases hangers under various long-term lease agreements under the operating method of accounting for leases. Minimum future rentals to be received on non-cancelable leases as of September 30, 2013, for each of the next five years and in the aggregate are:

**Water and Wastewater Utility**

<u>Year ended February</u>	<u>Amount</u>
2014	\$ 6,582
2015	6,582
2016	6,582
2017	6,582
2018	6,582
2019 - 2023	29,574
2024 - 2028	29,908
2029 - 2033	27,419
2034 - 2037	<u>12,029</u>
Total minimum future rentals	<u>\$ 131,840</u>

**CITY OF ALPINE**

**NOTES TO THE FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2013**

**NOTE 13 – PRIOR PERIOD ADJUSTMENTS**

Prior period adjustments were recorded in the General Fund, Nonmajor funds, the Water Sewer and Sanitation Fund, and the Airport Fund in the amounts of \$390,028 decrease, \$583,127 increase, \$512,561 increase and \$2,546,480 increase, respectively. These prior period adjustments were mainly due to reclassification of funds to a different fund type and to close out special revenue funds where the respective grants had been completed.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF ALPINE, TEXAS**  
Statement of Revenues, Expenditures, and Changes in Fund Balance- Budget and Actual  
General Fund  
For the Year Ended September 30, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>Revenues:</b>				
Taxes - property	\$ 1,505,000	\$ 1,505,000	\$ 856,053	\$ (648,947)
Taxes - sales	1,300,000	1,300,000	1,329,962	29,962
Taxes - other	120,000	120,000	110,702	(9,298)
Licenses and permits	49,000	49,000	59,585	10,585
Fines and forfeitures	53,600	53,600	100,871	47,271
Interest	4,000	4,000	3,558	(442)
Miscellaneous	22,950	22,950	21,229	(1,721)
Total revenues	<u>3,054,550</u>	<u>3,054,550</u>	<u>2,481,960</u>	<u>(572,590)</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General government				
Personnel	544,175	544,175	536,520	7,655
Operating	937,425	937,425	257,888	679,537
Nondepartmental	545,750	545,750	474,201	71,549
Total general government	<u>2,027,350</u>	<u>2,027,350</u>	<u>1,268,609</u>	<u>758,741</u>
Public works				
Personnel	521,750	521,750	482,813	38,937
Operating	296,200	296,200	221,988	74,212
Total public works	<u>817,950</u>	<u>817,950</u>	<u>704,801</u>	<u>113,149</u>
Health and human services				
Personnel	140,700	140,700	135,049	5,651
Operating	47,500	47,500	41,522	5,978
Total health and human services	<u>188,200</u>	<u>188,200</u>	<u>176,571</u>	<u>11,629</u>
Culture and recreation				
Personnel	184,800	184,800	151,110	33,690
Operating	99,500	99,500	70,884	28,616
Total culture and recreation	<u>284,300</u>	<u>284,300</u>	<u>221,994</u>	<u>62,306</u>
Public safety				
Personnel	802,850	802,850	822,991	(20,141)
Operating	267,500	267,500	206,524	60,976
Total public safety	<u>1,070,350</u>	<u>1,070,350</u>	<u>1,029,515</u>	<u>40,835</u>
Municipal court				
Personnel	70,900	70,900	66,946	3,954
Operating	7,250	7,250	4,022	3,228
Total municipal court	<u>78,150</u>	<u>78,150</u>	<u>70,968</u>	<u>7,182</u>
Debt service:				
Principal	354,000	354,000	36,234	317,766
Interest	-	-	13,253	(13,253)
Capital outlays	84,000	84,000	-	84,000
Total expenditures	<u>4,904,300</u>	<u>4,904,300</u>	<u>3,521,945</u>	<u>1,382,355</u>
Excess (deficiency) of revenues over expenditures	<u>(1,849,750)</u>	<u>(1,849,750)</u>	<u>(1,039,985)</u>	<u>809,765</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	-	480,861	480,861
Transfers out	-	-	(229,600)	(229,600)
Proceeds from debt	395,400	395,400	-	(395,400)
Total other financing sources (uses)	<u>395,400</u>	<u>395,400</u>	<u>251,261</u>	<u>(144,139)</u>
Net change in fund balances	<u>(1,454,350)</u>	<u>(1,454,350)</u>	<u>(788,724)</u>	<u>665,626</u>
Fund Balances - Beginning	203,643	203,643	203,643	
Prior period adjustment			<u>(390,028)</u>	
Fund Balances - Ending	<u>\$ (1,250,707)</u>	<u>\$ (1,250,707)</u>	<u>\$ (975,109)</u>	

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

**OTHER SUPPLEMENTAL INFORMATION**

**CITY OF ALPINE, TEXAS**  
Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2013

	Hotel and Motel Tax Fund	Community Development Fund	HUD Library Grant Fund
<b>ASSETS:</b>			
Cash and cash equivalents	\$ -	\$ -	\$ -
Property taxes receivable	-	-	-
Allowance for uncollectible taxes	-	-	-
Receivables from other governments	-	-	34,323
Due from other funds	9,997	66,202	-
Other receivables	-	-	-
Restricted assets:			
Cash and cash equivalents	164,894	3,282	-
Total assets	<u>\$ 174,891</u>	<u>\$ 69,484</u>	<u>\$ 34,323</u>
<b>LIABILITIES:</b>			
Accounts payable and accrued liabilities	2,697	-	-
Bank overdraft	-	-	-
Due to other funds	-	-	34,323
Unearned revenue	-	-	-
Total Liabilities	<u>2,697</u>	<u>-</u>	<u>34,323</u>
<b>FUND BALANCES:</b>			
Restricted fund balance:			
Federal or state grant restrictions	-	69,484	-
Debt service	-	-	-
Landfill closure	-	-	-
Other	172,194	-	-
Committed fund fund balance:			
Capital improvements	-	-	-
Assigned fund balance:	-	-	-
Unassigned	-	-	-
Total fund balances	<u>172,194</u>	<u>69,484</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 174,891</u>	<u>\$ 69,484</u>	<u>\$ 34,323</u>

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

Texas Parks & Wildlife Fund	HIDTA Grant Fund	RGCOG Tire Disposal Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
44,921	31,216	-	110,460
-	-	-	76,199
-	-	-	-
-	-	-	168,176
<u>\$ 44,921</u>	<u>\$ 31,216</u>	<u>\$ -</u>	<u>\$ 354,835</u>
22,948	8,378	-	34,023
-	-	-	-
21,973	22,838	-	79,134
-	-	-	-
<u>44,921</u>	<u>31,216</u>	<u>-</u>	<u>113,157</u>
-	-	-	-
-	-	-	69,484
-	-	-	-
-	-	-	-
-	-	-	172,194
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	241,678
<u>\$ 44,921</u>	<u>\$ 31,216</u>	<u>\$ -</u>	<u>\$ 354,835</u>

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

**CITY OF ALPINE, TEXAS**  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance  
Nonmajor Governmental Funds  
For the Year Ended September 30, 2013

	Hotel and Motel Tax Fund	Community Development Fund	HUD Library Grant Fund
<b>Revenues:</b>			
Taxes - property	\$ -	\$ -	\$ -
Taxes - sales	381,668	-	-
Taxes - other	-	-	-
Licenses and permits	-	-	-
Fines and forfeitures	-	-	-
Intergovernmental	-	-	34,323
Interest	-	33	-
Miscellaneous	-	-	-
Total revenues	<u>381,668</u>	<u>33</u>	<u>34,323</u>
<b>Expenditures:</b>			
Current:			
General government	-	-	-
Public works	-	-	-
Health and human services	-	-	-
Culture and recreation	379,418	-	34,323
Public safety	-	-	-
Municipal court	-	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Capital outlays	-	-	-
Total expenditures	<u>379,418</u>	<u>-</u>	<u>34,323</u>
Excess (deficiency) of revenues over expenditures	<u>2,250</u>	<u>33</u>	<u>-</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	2,250	33	-
Fund Balances - Beginning	-	-	-
Prior period adjustment	169,944	69,451	-
Fund Balances - Ending	<u>\$ 172,194</u>	<u>\$ 69,484</u>	<u>\$ -</u>

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

Texas Parks & Wildlife Fund	HIDTA Grant Fund	RGCOG Tire Disposal Fund	Other Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	381,668
-	-	-	-	-
-	-	-	-	-
151,884	117,145	-	-	303,352
-	-	-	-	33
-	-	4,700	-	4,700
151,884	117,145	4,700	-	689,753
-	-	-	-	-
-	-	4,700	-	4,700
-	-	-	-	-
-	-	-	-	413,741
-	117,145	-	-	117,145
-	-	-	-	-
-	-	-	-	-
303,769	-	-	-	303,769
303,769	117,145	4,700	-	839,355
(151,885)	-	-	-	(149,602)
151,885	-	-	-	151,885
-	-	-	-	-
151,885	-	-	-	151,885
-	-	-	-	2,283
-	-	-	(343,732)	(343,732)
-	-	-	343,732	583,127
\$ -	\$ -	\$ -	\$ -	\$ 241,678

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

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## **COMPLIANCE SECTION**

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  
Members of the City Council of  
The City of Alpine, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Alpine, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Alpine, Texas' basic financial statements and have issued our report thereon dated March 10, 2014.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompany schedule of findings and responses costs to be material weaknesses. See 2013-1 and 2013-2.

A *significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and responses costs to be significant deficiencies. See 2013-3, 2013-4, 2013-5, 2013-6, and 2013-7.

### **Compliance and Other Matters**

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

### **The City of Alpine, Texas' Response to Findings**

The City of Alpine, Texas' responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City of Alpine, Texas' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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.

Gibson, Ruddock, Patterson LLC  
El Paso, Texas  
March 10, 2014

**CITY OF ALPINE, TEXAS**

**SCHEDULE OF FINDINGS AND RESPONSES**

For Fiscal Year Ended September 30, 2013

**Section I - Summary of Auditor's Results**

Financial Statements

Type of auditor's report: Unmodified

Internal control of financial reporting:

- Material Weakness(es) identified? Yes – Findings 2013-1 and 2013-2
- Significant deficiency(ies) identified that are not considered to be material weaknesses Yes – Findings 2013-3, 2013-4, 2013-5, 2013-6, and 2013-7

Noncompliance material to financial Statements noted? No

**CITY OF ALPINE, TEXAS**

**SCHEDULE OF FINDINGS AND RESPONSES**

For Fiscal Year Ended September 30, 2013

**Section II – Financial Statement Findings**

**2013-1 – Internal Control over Financial Reporting**

Criteria: The City is required to maintain internal controls over financial reporting to provide a high level of assurance that the financial records are recorded properly and that related financial reports are presented properly.

Condition Found: The City did not properly reconcile numerous funds and accounts throughout the year including grants and did not prepare and present monthly financial reports with a budget comparison.

Effect: The City operated with inadequate controls over several aspects of the financial operation which resulted in not properly reconciling accounts. Whenever accurate monthly financial reports are not consistently prepared and presented, poor financial decisions and overspending can occur. These issues caused a significant delay in the generation of valid and accurate year-end financial information.

Cause: The City implemented a new software program during the course of the fiscal year and there was significant turnover in key accounting and management positions.

Recommendation: The City should implement procedures and assign staff to prepare monthly reconciliations of general ledger accounts to supporting documentation to ensure that the data is correct and properly reported for all funds, including grants. In addition, management should prepare monthly financial reports with a budget comparison and present the information to the City Council.

**2013-2 – Inadequate segregation of duties**

Criteria: The segregation of duties is an element of internal control that should be implemented by every governmental entity to reduce the risk of unethical behavior.

Condition: During the year there was inadequate segregation of duties, with no separation between custody of assets, authorization of transactions, and the recording of transactions. Additionally, there were inadequate IT (information technology) and computer controls, as staff responsible for asset control, transaction authorization, and transaction recording also had access to the financial reporting system computer program source code. There was little to no oversight on the performance of any of these functions.

Effect: This lack of segregation of duties combined with a lack of oversight created an environment conducive to abuse, as well as a material weakness in the internal controls. This situation could allow unscrupulous and/or unauthorized changes to the City's financial reporting and utility billing, which subjects the City to the risk of reporting errors to the City Council and the public.

Cause: Over the years it appears that the City had placed much trust in a few individuals and did not review the overall internal control structure on a consistent basis.

## CITY OF ALPINE, TEXAS

### SCHEDULE OF FINDINGS AND RESPONSES

For Fiscal Year Ended September 30, 2013

Recommendation: We recommend that Management and City Council continue to monitor the new accounting system the City implemented during the year to ensure that the individuals charged with authorization of transactions is separate from those responsible for the recording and reconciliation of transactions.

#### **2013-3 – Transactions were not being approved, reviewed, or adequately documented**

Criteria: All disbursements should be reviewed by the appropriate personnel for adequate documentation, reasonableness and adequate budget, prior to payment being issued.

Condition: During the course of our audit we noted several instances where disbursements were processed by the accounts payable department without proper documentation or approval.

Effect: There is an increased risk of processing unauthorized disbursements when the City's policies do not specifically address the required documentation and approval process.

Cause: It appears that many procedures were truncated when the City encountered significant turnover of finance personnel.

Recommendation: We recommend the City document and implement procedures and controls which require a review of all supporting documentation by the accounts payable department prior to any payment being processed

#### **2013-4 – Ineffective accounting for due to/from other funds and interfund transfers**

Criteria: The City's internally generated financial statements should be representative of the financial activities of each fund. The due to/from other funds accounts represent receivables and payables between the funds, and the interfund transfers represent charges between funds or funds transferring money to another fund. The due to/from accounts should net to zero and the interfund transfers should also net to zero.

Condition: The City's year-end closing procedures did not result in a verification and balancing of the balances in the due from/to other funds, and interfund transfers were not always used appropriately.

Effect: Inappropriate posting of interfund activity can allow for over/understated performance in the individual funds.

Cause: It appears that many procedures were truncated when the City encountered significant turnover of finance personnel.

Recommendation – We recommend the appropriate financial staff reconcile the due to/from other fund accounts on a monthly basis to verify that they net to zero and are properly classified.

**CITY OF ALPINE, TEXAS**

**SCHEDULE OF FINDINGS AND RESPONSES**

For Fiscal Year Ended September 30, 2013

**2012-5 – Improper calculation of employee’s timesheet hours resulting in incorrect payment**

Criteria: Employee’s hours reported on timesheets should be verified and approved in order to ensure the payments to employees are accurate and authorized.

Condition: In performing the current year testwork we noted multiple instances where the hours calculated on the timesheet had been added incorrectly which resulted in incorrect payments to the employees. In addition we noted that timesheets were not always approved by a supervisor.

Effect: When timesheets are not reviewed by supervisors, and the total hours worked are not recalculated and verified, employees may be paid incorrectly and could result in a loss of funds for the City.

Cause: It appears that many procedures were truncated when the City encountered significant turnover of finance personnel.

Recommendation: We recommend the City implement procedures to verify the total of hours reported on timesheets and ensure that each timesheet is approved by a supervisor prior to processing payroll payments.

**2013-6 – Vacation and Sick-Leave Taken**

Criteria: To maintain accurate records of personal leave available, all employees must report vacation and sick-leave hours taken and adjustments to vacation and sick time accruals should be reviewed periodically by someone other than the person posting the adjustments.

Condition: The payroll system accumulates compensated absence hours for salaried employees each pay period, however there was an employee that used vacation hours, but the hours were not deducted on their paystub. These employees do not report vacation or sick time taken and the hours continue to accumulate. We also noted that adjustments to vacation and sick-leave hours were not reviewed and mistakes were not detected in the normal course of business.

Effect: The City is at risk of overpaying employees upon termination and could also be providing an opportunity for abuse.

Cause: It appears that many procedures were truncated when the City encountered significant turnover of finance personnel.

Recommendation: All salaried employees should report vacation and sick time hours taken each pay period in order to ensure the accumulated balance is accurate. In addition, adjustments to the vacation and sick-leave accruals should be reviewed periodically by management to detect mistakes made during the normal course of business.

**CITY OF ALPINE, TEXAS**

**SCHEDULE OF FINDINGS AND RESPONSES**

For Fiscal Year Ended September 30, 2013

**2013-7 – Ineffective year-end cut-off procedures**

Criteria: Financial transactions should be recorded and reported in the proper fund and reporting period, and internal controls should be in place to identify and resolve accounting errors on a timely basis.

Condition: The City failed to perform effective procedures to properly identify and record accounting transactions in the proper fund and accounting period in accordance with the accrual and modified accrual basis of accounting. Specifically the audit identified unrecorded liabilities and grant receivables as well as ineffective year end cut-off, resulting in misstatements of related revenues and expenses. As a result of this internal control deficiency, numerous adjustments were proposed to properly report grant receivables, accounts payable and related revenues and expenses. These misstatements were resolved by management approved audit adjustments.

Effect: Failure to perform cut-off procedures and failure to analyze general ledger accounts increases the risk of material errors going undetected and unresolved.

Cause: In addition to the significant turnover in financial personnel, the City implemented a new accounting system prior to year-end. Both of these issues contributed to the lack of year-end procedures.

Recommendation – We recommend the City Finance Director conduct a training meeting with appropriate city personnel to reemphasize city procedures for reporting period cut-off procedures. The importance of recording revenue and expenses in the proper fund and accounting period using the modified accrual basis of accounting should be emphasized.

**CITY OF ALPINE, TEXAS**

**SCHEDULE OF FINDINGS AND RESPONSES**

For Fiscal Year Ended September 30, 2013

**Section III – Summary Schedule of Prior Year Findings**

Financial Statement Findings

**2012-1**      Condition: The City posted budgeted grant revenue and expenses against related actual grant revenues and expenses causing material understatements of amounts reported.

Status: There were no instances noted during the current year. Changes in the software and changes in staff as of the date of issuance have helped in the monitoring and accurate recording of grant revenues and expenses. The finance department continues to work in ensuring proper records are recorded and kept.

**2012-2**      Condition: The City did not have adequate segregation of duties between custody of assets, authorization of transactions and recording of transactions. There were also inadequate computer controls.

Status: Although this situation existed during the year, several procedures have been subsequently implemented as of the date of issuance to increase internal controls over assets, authorization of transactions, and recording of transactions. The new software implementation was effective July 2013, which allows for the tracking of entries by employees, and not all employees have access to the same financial records and reports. Financial software issues are no longer handled by individual employees, but addressed by the new software company (Hill Country Software). See current year finding 2013-2.

**2012-3**      Condition: It was noted that there were instances where disbursements were processed by the accounts payable department prior to invoices, contracts, or other documentation being received and prior to the proper approval being performed.

Status: This finding is repeated in the current year.

**2012-4**      Condition: The City did not maintain proper controls over the general ledger in accounting for checks that were issued, voided and cleared the bank.

Status: The City purchased new accounting software which provides additional controls on check dates, issuing, voiding, and cashing checks. In addition, as of the date of issuance, reconciliations are being prepared at the beginning of each month to ensure proper handling of checks.

**2012-5**      Condition: There were unauthorized and excessive payroll advances given during the fiscal year.

Status: Effective March 2013, payroll advances are no longer allowed.

**CITY OF ALPINE, TEXAS**

**SCHEDULE OF FINDINGS AND RESPONSES**

For Fiscal Year Ended September 30, 2013

- 2012-6**      Condition: There were improper postings of transfers of cash between bank accounts through accounts payable.
- Status: There were no instances of this noted during the current year. In addition, as of the date of issuance, the finance department continues to review and check deposits to ensure they are properly recorded into the right accounts/line items. Deposits are monitored and corrected as needed.
- 2012-7**      Condition: The City's finance personnel did not properly reconcile interfund receivables, payables, and transfers.
- Status: This finding is repeated in the current year.
- 2012-8**      Condition: Overtime was calculated improperly and the proper approval and documentation was not always obtained.
- Status: There were no instances solely related to overtime during the current year testwork. However there is a current year finding related to improper calculation of employee timesheets which sometimes included overtime. See current year finding 2013-5.
- 2012-9**      Condition: There were paychecks issued in advance prior to the employees performing the work and completing timesheets.
- Status: There were no instances noted during the current year testwork and paychecks are no longer allowed to be issued in advance.
- 2012-10**     Condition: Vacation and sick leave usage was not being reported by employees and deducted in the payroll system and adjustments to the balances were not being reviewed and approved.
- Status: This finding is repeated in the current year.
- 2012-11**     Condition: It was noted that a salaried employee was accumulating compensatory time even though salaried employees are not eligible for it.
- Status: There were no instances noted during the current year testwork.
- 2010-1**      Condition: Management was not performing effective year-end and cut-off procedures to properly identify and record liabilities and receivables.
- Status: This finding is repeated in the current year.

**CITY OF ALPINE, TEXAS**

**SCHEDULE OF FINDINGS AND RESPONSES**

For Fiscal Year Ended September 30, 2013

**Federal Award Findings**

**2012-1**      Condition: The City posted budgeted grant revenue and expenses against related actual grant revenues and expenses causing material understatements of amounts reported.

Status: There were no instances noted during the current year.

**2010-1**      Condition: Management was not performing effective year end and cut-off procedures to properly identify and record liabilities and receivables.

Status: See current year finding 2013-7.

## CITY OF ALPINE, TEXAS

### SCHEDULE OF FINDINGS AND RESPONSES

For Fiscal Year Ended September 30, 2013

#### **Section IV – Management’s Response to Current Year Findings**

##### **Response to 2013-1 – Internal Control over Financial Reporting**

The finance department has now implemented internal controls to insure proper reporting and reconciliations are performed on a monthly basis. Reconciliations have been assigned to one staff member with the support of the Finance Director. Starting with February 2014, Financial reports are being provided to the City Manager and Council at the monthly council meeting. The reports include statements of revenue and expenditures, along with budget variances. Brief explanations and plans of action are provided by each department to acknowledge and explain their budget variances. As the finance department moves forward additional reports will be provided to provide the City Manager and Council of the financial status of the City.

##### **Response to 2013-2 – Inadequate segregation of duties**

The change in software (July 2013) allows for additional internal controls to monitor personnel and issuance of payments. Reconciling accounts on a monthly basis has allowed for additional monitoring of invoices and payments as well as proper recording of expenses to correct line items. Corrective measures are made in a timely manner to ensure proper reporting of finances.

##### **Response to 2013-3 – Transactions are not being approved, reviewed or adequately documented**

Management and the finance department continue to implement procedures to ensure proper documentation is obtained for the processing of invoices. Supervisor/City Manager signatures of approval (January 2014) are being required on invoices submitted for payment. Account information is also requested to ensure proper recording of payments to expense accounts.

##### **Response to 2013-4 – Ineffective accounting for due from/to other funds and interfund transfers**

Starting in April 2014, due from/due to accounts will be properly reconciled to a zero balance on a monthly basis. New procedures are being implemented to monitor the usage of these line items by the finance department. Proper documentation will be obtained to verify the amounts in each fund’s line item.

##### **Response to 2012-5 – Improper calculation of employee’s timesheet hours resulting in incorrect payment**

As of October 2013, payroll is no longer handled by one employee. Time sheets are initially input into the accounting system by the payroll clerk. After all time sheets have been processed, another staff member assists with verification and review of the timesheets with the trial run from the payroll system. Corrections are made as needed during the review process. In addition, questions about particular times are addressed with the supervisor/employee for clarification. The finance department continues to work on the development of uniform documentation standards for overtime. Before actual payroll checks are printed, the City Manger reviews and initials each trial check.

**CITY OF ALPINE, TEXAS**

**SCHEDULE OF FINDINGS AND RESPONSES**

For Fiscal Year Ended September 30, 2013

**Response to 2013-6 – Vacation and Sick Leave Taken**

As of October 2013, payroll is no longer handled by one employee. To ensure proper recording of vacation and sick leave, as well as pay, two employees review and verify timesheets with the trial run from the payroll system. Corrections are made as needed during the review process.

**Response to 2013-7 – Ineffective year-end cut-off procedures**

Towards the end of FY14, the Finance Director and staff will work with all departments to properly prepare for the end of the City's fiscal year. Expenses will be reviewed and entered based on modified accrual practices. The September 30, 2014 ending reports and documentation will be properly recorded and maintained. Revenues, expenses, liabilities, and assets will be addressed prior and after the end of the fiscal year. The finance department will establish a checklist to ensure needed procedures and documentation are properly maintained.