

CITY OF ALPINE, TEXAS

Annual Financial and Compliance Reports

For the Year Ended September 30, 2014

CITY OF ALPINE, TEXAS

Avinash Rangra

Mayor

Angie Bermudez

City Council Member

Cynthia Salas

City Council Member

Jim "Fitz" Fitzgerald

City Council Member

Julian Gonzales

City Council Member

Rick Stephens

City Council Member

Erik Zimmer

City Manager

Margaret "Molly" Taylor

City Secretary

Megan Antrim

Director of Finance

Russell Scown

City Police Chief

CITY OF ALPINE, TEXAS

Annual Financial and Compliance Reports
For the Year Ended September 30, 2014

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CITY OF ALPINE, TEXAS

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FINANCIAL SECTION

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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, 2014, 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. 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 14 and 56, 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 and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2015, 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 the City of Alpine, Texas' internal control over financial reporting and compliance.

Gibson, Ruddock, Patterson LLC
El Paso, Texas
March 31, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

City Manager
Erik Zimmer
City Secretary
Margaret "Molly" Taylor



Mayor
Avinash "Avi" Rangra
City Attorney
McKamie & Krueger
Bart Medley
Municipal Court

100 North 13th Street Phone 432-837-3301 Fax 432-837-2044

"To provide quality service to the citizens of Alpine"

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 fiscal year ended September 30, 2014.

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 15-17) 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 18. For governmental funds, 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 Position 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 position and changes in net position. You can think of the City's net position (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 position 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, condition of the City's buildings 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 18 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 other funds to help it control and manage money for particular purposes to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like grants received from the Texas Department of Agriculture). 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 only includes current assets and current liabilities and recognizes revenues and expenditures when measurable and available or incurred. 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 which is full accrual basis of accounting. In fact, the City's enterprise funds (a component of proprietary funds) are 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 \$965,988 from \$21,730,841 to \$22,696,829. In comparison, last year's net position increased by \$173,852. Looking at the net positions and net expenses of governmental and business type activities separately helps us further understand how each division is contributing to this result. 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

**Statement of Net Position
September 30, 2014**

Government and Business Type Activities		
	2014	2013
ASSETS:		
Current and other assets	2,621,848	2,021,858
Capital assets, net	28,775,513	29,110,628
Total assets	31,397,361	31,132,486
LIABILITIES:		
Current Liabilities	1,665,660	1,770,917
Long-Term Liabilities	7,034,875	7,630,728
Total Liabilities	8,700,535	9,401,645
NET POSITION:		
Net investment in capital assets	21,740,638	21,722,680
Restricted	619,537	639,276
Unrestricted	336,651	(631,115)
Total Net Position	\$ 22,696,826	\$21,730,841

Net position for the City of Alpine governmental and business-type activities increased by 4.4% (\$22,696,826 compared to \$21,730,841) last fiscal year. This is compared to an increase of only 0.8% the prior 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 -\$631,115 deficit at September 30, 2013 to a positive \$336,651 at the end of this year.

Previous years deficits were a result of prior administration not transferring funds from the enterprise accounts to government activities for services provided. The process has been updated

to include Administrative and Franchise fee payments back to the government funds. This, along with sound fiscal management have allowed the government funds to fully operate on their own revenues.

Table 2 – Change in Net Position

	Governmental & Business Type Activities	
	2014	2013
Revenue - Governmental		
Program Revenue:		
Charges for Services	\$862,503	\$186,385
Operating Grants & Contributions	\$155,159	\$151,468
Capital Grants & Contributions	\$397,768	\$151,884
General Revenues:		
Property Taxes	\$1,468,364	\$1,486,265
Sales Tax	\$1,827,203	\$1,711,630
Other & Interest	\$116,891	\$114,293
Revenue - Business-type		
Charges for services	\$6,643,753	\$6,120,339
Operating Grants & Contributions		\$39,218
Capital Grants & Contributions	\$80,514	
Other & Interest	\$1,518	\$3,445
Total Revenues	\$11,553,673	\$9,964,927
Program Expense:		
General Government	\$1,240,916	\$1,404,263
Public Works	\$667,301	\$827,331
Health and Human Services	\$191,584	\$195,808
Culture and Recreation	\$732,708	\$738,092
Public Safety	\$1,365,085	\$1,259,485
Municipal Court	\$103,528	\$78,700
Interest on Long-Term Debt	\$84,432	\$97,216
Total Governmental Activities	\$4,385,554	\$4,600,895
Business-type		
Water, Sewer & Sanitation	\$3,489,847	\$3,290,440
Natural Gas	\$1,876,521	\$1,563,886
Airport	\$668,223	\$545,710
Total Business-type Activities	\$6,034,591	\$5,400,036
Total Expenses	\$10,420,145	\$10,000,931
Increase (decrease) in Net Position	\$1,133,527	-\$36,004
Net Position Beginning	\$21,730,841	\$22,590,639
Prior Period Adjustment	-\$167,542	-\$823,794
Ending Net Position	\$22,696,826	\$21,730,841

The City of Alpine's total revenues increased by \$1,588,746. The total cost of all programs and services increased by \$419,214. Steady increase in water usage, gas usage and aircraft fuel prices and usage drove the majority of the increase in revenues. The increase in business-type activity expenses was primarily driven by the addition of the administrative fee charge that resulted in the positive increase in Program Revenue/Charges for Services with the Governmental fund activities.

For the year ended September 30, 2014, net position changed as follows:

	Government Activities	Business- Type Activities	Total
Beginning Net Assets	\$6,511,004	\$15,219,837	\$21,730,841
Prior Period Adjustment	\$29,052	-\$196,594	-\$167,542
Change in Net Position	\$442,333	\$691,194	\$1,133,527
Ending Net Assets	\$6,982,389	\$15,714,437	\$22,696,826

That reflects an increase of 7.2% for governmental activities and an increase of 3.3% for business-type activities.

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 entities like TDA and CDBG. |
| Public Safety | Fines and charges for services; HIDTA grants are Categorized as operating grants. |
| Health and Human Services | 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 \$691,194; 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. This past year the City did not have to perform this type of transfer due to two key components: 1. Implementation of the Administrative and Franchise Fee's and 2. Sound fiscal management and implementation of new policies to help control spending.

LANDFILL

The fiscal year 2014 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 \$586,214 to \$595,008. We have accumulated funds of \$75,954 to provide for this liability.

THE CITY'S FUNDS

All of the City primary funds have seen an increase in the change in Fund balance this year. The general fund reported an increase in fund balance of \$130,950 as compared to a decrease of (\$788,724) in the prior year. The City has continued to focus on avoiding a tax increase by controlling expenditures – previous administration had taken on additional debt as a solution. Current administration continues to focus on accountability at the department level and clarity in the data presented to Council and made available to the public. Appropriate processes and procedures continue to be implemented through this year and it has given the elected officials and citizens a clearer picture of what a constricted spending pattern for the City of Alpine should look like. Current Administration is now able to focus on Asset management and rebuilding our core assets owned by the City.

Alpine continues to have a tax rate that is among the lowest of any city its size in Texas. There are also state pressures on our School District to ensure property appraised values match the states expectation. This past year showed an increase in general assessed property values and the City was able to maintain the current tax rate percentage. This did result in an increased expectation on revenues, though we were able to refrain from raising the percentage.

The following schedule presents a summary of general fund revenues for the fiscal year ended September 30, 2014, and the amount and percentage of increases and decreases in relation to the prior year.

	2014	Percent of Income	2013	Percent of Income	Increase (Decrease)	% Increase (Decrease)
Taxes	\$2,635,206	75.3%	\$2,296,717	92.5%	\$338,489	14.7%
Fees, Fines and Forfeitures	\$696,147	19.9%	\$100,871	4.1%	\$595,276	590.1%
Licenses and Permits	\$88,444	2.5%	\$59,585	2.4%	\$28,859	48.4%
Interest	\$1,757	0.1%	\$3,558	0.1%	-\$1,801	-50.6%
Miscellaneous	\$77,913	2.2%	\$21,229	0.9%	\$56,684	267.0%
Total	\$3,499,467	100.0%	\$2,481,960	100.0%	\$1,017,507	41.0%

Sales taxes experienced a 3.10% increase this year. Tourism continues to excel in our community and drive additional visitors to the area annually.

City Administration also set up proper debt servicing funds this fiscal year for accumulation of dollars related to property tax that must be set-aside to service the debt payments.

The following schedule presents a summary of general fund expenditures for the fiscal year ended September 30, 2014, and the amount and percentage of increases and decreases in relation to the prior year.

	2014	Percent of Exp.	2013	Percent of Exp.	Increase (Decrease)	% Increase (Decrease)
General Government	\$1,113,552	33.1%	\$794,408	22.6%	\$319,144	40.17%
Public Works	\$546,623	16.2%	\$704,801	20.0%	-\$158,178	-22.44%
Health and Human Svcs	\$170,140	5.1%	\$176,571	5.0%	-\$6,431	-3.64%
Culture & Recreation	\$236,583	7.0%	\$221,994	6.3%	\$14,589	6.57%
Public Safety	\$1,040,375	30.9%	\$1,029,515	29.2%	\$10,860	1.05%
Municipal Court	\$87,930	2.6%	\$70,968	2.0%	\$16,962	23.90%
Non Departmental		0.0%	\$474,201	13.5%	-\$474,201	-100.00%
Debt Service	\$29,753	0.9%	\$49,487	1.4%	-\$19,734	-39.88%
Capital Outlays	\$143,561	4.3%	\$0	0.0%	\$143,561	n/a
Total	\$3,368,517	100.0%	\$3,521,945	100.0%	-\$153,428	-4.36%

GENERAL FUND BUDGETARY HIGHLIGHTS

The fiscal year budget was modified, by Ordinance, during the middle of the fiscal year. The Council and Administration believed that the current expenditures would meet, or be below, the budgeted amounts. Revenues exceeded budgetary expectations and expenses were less than budgetary expectations which allowed for the increase in the general fund balance.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of September 30, 2014, the City had a net investment of \$28,775,513 in capital assets net of related accumulated depreciation, including police and fire equipment, buildings, park facilities, roads, and water and sewer lines. This represents a net decrease of \$335,115. Depreciation expense was \$471,814 in the general fund and \$499,019 in the enterprise fund. No major additions were made during this year.

At year-end, the City had \$7,034,875 outstanding bonds and capital leases compared to \$7,630,728 last year. That is a net decrease of 8 % as shown in the following table.

	Government	Activities	Business	Activities
	FYE 2014	FYE 2013	FYE 2014	FYE 2013
Bonds and C/O Payable	\$1,885,004	\$2,102,200	\$4,958,844	\$5,318,644
Equipment Leases	\$ 191,031	\$ 209,884		
Total	\$2,076,031	\$2,312,084	\$4,958,844	\$5,318,644

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Alpine experienced several changes in their key administrative staff at the beginning of Fiscal 2013-14, which jump started the recovery process for the City. With the new administrative team in place, greater controls on expenditures and a heightened reporting structure back to the Council were implemented. These efforts allowed the City to begin restoring it's financial health and rebuilding their fund balances and reserves.

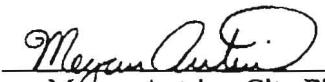
Tourism across the Region and in our community continued to increase during the fiscal year. Our Hotel Occupancy Tax numbers continue to climb year over year. The University named a new President during the last quarter of our Fiscal Year and we anticipate further student growth at their institution over the next few years. 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 \$0.5385). City Administration continues to work diligently at Asset Maintenance and understanding the appropriate dollars and allocations necessary to keep our City growing positively. By restoring fiscal health for the City, it allows our elected officials and community members to redirect efforts towards economic and business development growth initiatives for the future.

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 13th Street, Alpine, Texas 79830.



Erik M. Zimmer, City Manager



Megan Antrim, City Finance Director

CITY OF ALPINE, TEXAS

Statement of Net Position

September 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 26,954	\$ 1,189,103	\$ 1,216,057
Receivables, net of allowance	260,723	497,183	757,906
Inventories		111,048	111,048
Internal balances	(665,756)	665,756	-
Due from joint venture investment		68,730	68,730
Restricted assets:			
Cash and cash equivalents	275,255	192,852	468,107
Capital assets, net	10,156,634	18,618,879	28,775,513
Total assets	10,053,810	21,343,551	31,397,361
LIABILITIES:			
Accounts payable and accrued liabilities	919,050	334,438	1,253,488
Due to others	-	303,505	303,505
Unearned revenue	-	32,327	32,327
Accrued vacation	76,340	-	76,340
Noncurrent liabilities:			
Due within one year	240,034	366,800	606,834
Due in more than one year	1,835,997	4,592,044	6,428,041
Total Liabilities	3,071,421	5,629,114	8,700,535
NET POSITION:			
Net investment in capital assets	8,080,603	13,660,035	21,740,638
Restricted for:			
Federal or state restrictions	91,031	-	91,031
Debt service	26,156	116,898	143,054
Landfill closure	-	75,954	75,954
Other	309,498	-	309,498
Unrestricted	(1,524,899)	1,861,550	336,651
Total Net Position	\$ 6,982,389	\$ 15,714,437	\$ 22,696,826

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, 2014

	Expenses	Charges for Services	Program Revenues		
			Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$ 1,240,916	\$ 713,462	\$ -	\$ -	-
Public works	667,301	8,018	-	-	-
Health and human services	191,584	31,101	-	-	-
Culture and recreation	732,708	24,411	-	-	-
Public safety	1,365,085	48,630	154,149	397,768	
Municipal court	103,528	36,881	1,010	-	-
Interest on long-term debt	84,432	-	-	-	-
Total governmental activities	<u>4,385,554</u>	<u>862,503</u>	<u>155,159</u>	<u>397,768</u>	
Business-type Activities					
Water sewer and sanitation	3,489,847	3,815,045	-	80,514	
Natural gas	1,876,521	2,204,320	-	-	-
Airport	668,223	624,388	-	-	-
Total business-type activities	<u>6,034,591</u>	<u>6,643,753</u>	<u>-</u>	<u>80,514</u>	
Total	\$ 10,420,145	\$ 7,506,256	\$ 155,159	\$ 478,282	

General Revenues:

Taxes:

Property

Sales

Other

Interest

Total general revenues

Change in net position

Net position - beginning

Prior period adjustment

Net position - ending

**Net (Expense) Revenue and
Changes in Net Postion**

Governmental Activities	Business-type Activities	Total
\$ (527,454)	\$ -	\$ (527,454)
(659,283)	-	(659,283)
(160,483)	-	(160,483)
(708,297)	-	(708,297)
(764,538)	-	(764,538)
(65,637)	-	(65,637)
(84,432)	-	(84,432)
<u>(2,970,124)</u>	<u>-</u>	<u>(2,970,124)</u>

-	405,712	405,712
-	327,799	327,799
-	(43,835)	(43,835)
-	689,676	689,676
<u>(2,970,124)</u>	<u>689,676</u>	<u>(2,280,448)</u>

1,468,364	-	1,468,364
1,827,203	-	1,827,203
114,859	-	114,859
2,031	1,518	3,549
<u>3,412,457</u>	<u>1,518</u>	<u>3,413,975</u>
442,333	691,194	1,133,527
6,511,004	15,219,837	21,730,841
29,052	(196,594)	(167,542)
<u>\$ 6,982,389</u>	<u>\$ 15,714,437</u>	<u>\$ 22,696,826</u>

CITY OF ALPINE, TEXAS

Balance Sheet
 Governmental Funds
 September 30, 2014

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ 26,954	\$ -	\$ -	\$ 26,954
Property taxes receivable	105,647	28,150	-	133,797
Allowance for uncollectible taxes	(35,927)	(9,573)	-	(45,500)
Receivables from other governments	-	-	20,736	20,736
Due from other funds	55,720	20,828	76,032	152,580
Other receivables	62,532	-	89,158	151,690
Restricted assets:				
Cash and cash equivalents	14,174	2,524	258,557	275,255
Total assets	\$ 229,100	\$ 41,929	\$ 444,483	\$ 715,512
LIABILITIES:				
Accounts payable and accrued liabilities	\$ 285,888	\$ -	\$ 23,726	\$ 309,614
Due to other funds	783,934	-	34,402	818,336
Total Liabilities	1,069,822	-	58,128	1,127,950
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue- property taxes	62,190	15,773	-	77,963
Total Deferred Inflows of Resources	62,190	15,773	-	77,963
FUND BALANCES:				
Restricted fund balance:				
Federal or state grant restrictions	-	-	91,031	91,031
Debt service	-	26,156	-	26,156
Other	14,174	-	295,324	309,498
Committed fund fund balance:				
Capital improvements	88,000	-	-	88,000
Assigned fund balance:				
Unassigned	(1,005,086)	-	-	(1,005,086)
Total fund balances	(902,912)	26,156	386,355	(490,401)
Total liabilities and fund balances	\$ 229,100	\$ 41,929	\$ 444,483	\$ 715,512

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, 2014

Total Fund Balance - Governmental Funds	\$ (490,401)
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 \$18,551,501 and the accumulated depreciation was \$8,422,713. 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.	7,862,890
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 2014 capital outlays and debt principal payments is to increase net position.	736,273
The GASB 65 requires that the unamortized debit issuance costs be written off from prior periods. The net effect is to decrease net position.	(46,185)
The 2014 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(471,814)
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, 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.	(608,374)
Net Position of Governmental Activities	<u>\$ 6,982,389</u>

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, 2014

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
Revenues:				
Taxes - property	\$ 1,149,100	\$ 313,449	\$ -	\$ 1,462,549
Taxes - sales	1,371,247	-	455,956	1,827,203
Taxes - other	114,859	-	-	114,859
Licenses and permits	88,444	-	-	88,444
Fees, fines, and forfeitures	696,147	-	3,660	699,807
Intergovernmental	-	-	151,499	151,499
Interest	1,757	-	274	2,031
Miscellaneous	77,913	-	-	77,913
Total revenues	3,499,467	313,449	611,389	4,424,305
Expenditures:				
Current:				
General government	1,114,848	-	-	1,114,848
Public works	664,175	-	-	664,175
Health and human services	170,140	-	-	170,140
Culture and recreation	255,721	-	414,060	669,781
Public safety	1,045,950	-	182,126	1,228,076
Municipal court	87,930	-	4,516	92,446
Debt service:				
Principal	18,853	217,200	-	236,053
Interest	10,900	75,033	-	85,933
Total expenditures	3,368,517	292,233	600,702	4,261,452
Excess (deficiency) of revenues over expenditures	130,950	21,216	10,687	162,853
Other Financing Sources (Uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	130,950	21,216	10,687	162,853
Fund Balances - Beginning	(975,109)	4,940	241,678	(728,491)
Prior period adjustments	(58,753)	-	133,990	75,237
Fund Balances - Ending	\$ (902,912)	\$ 26,156	\$ 386,355	\$ (490,401)

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
For the Year Ended September 30, 2014**

Total Net Change in Fund Balances - Governmental Funds	\$ 162,853
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 2014 capital outlays and debt principal payments is to increase net position.	736,273
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.	(471,814)
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.	15,021
Change in Net Position of Governmental Activities	<u>\$ 442,333</u>

CITY OF ALPINE, TEXAS

Statement of Net Position

Proprietary Funds

September 30, 2014

	Water, Sewer and Sanitation Fund	Gas Fund	Airport Fund	Total Proprietary Funds
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 591,167	\$ 549,233	\$ 48,703	\$ 1,189,103
Accounts receivable	380,891	134,665	7,301	522,857
Allowance for uncollectible accounts	(52,112)	(54,136)	-	(106,248)
Receivables from other governments	80,574	-	-	80,574
Due from other funds	1,196,401	30,678		1,227,079
Inventories	-	78,383	32,665	111,048
Due from joint venture	-	68,730	-	68,730
Total current assets	2,196,921	807,553	88,669	3,093,143
Noncurrent assets:				
Restricted pooled cash and cash equivalents	192,852	-	-	192,852
Total noncurrent assets	192,852	-	-	192,852
Capital assets, net:				
Water, sewer and sanitation	14,483,629	-	-	14,483,629
Gas utility		1,705,405	-	1,705,405
Airport		-	2,429,845	2,429,845
Total capital assets	14,483,629	1,705,405	2,429,845	18,618,879
Total assets	\$ 16,873,402	\$ 2,512,958	\$ 2,518,514	\$ 21,904,874
LIABILITIES:				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 260,249	\$ 70,218	\$ 3,971	\$ 334,438
Due to other funds		540,005	21,318	561,323
Unearned revenue		32,327	-	32,327
Current portion of long-term debt	366,800	-	-	366,800
Total current liabilities	627,049	642,550	25,289	1,294,888
Noncurrent liabilities:				
Customer deposits	189,703	113,802	-	303,505
Long-term debt net of current maturities	4,592,044	-	-	4,592,044
Total noncurrent liabilities	4,781,747	113,802	-	4,895,549
Total Liabilities	5,408,796	756,352	25,289	6,190,437
NET POSITION				
Net investment in capital assets	9,524,785	1,705,405	2,429,845	13,660,035
Restricted for:				
Debt service	116,898			116,898
Landfill closure	75,954			75,954
Unrestricted	1,746,969	51,201	63,380	1,861,550
Total net position	11,464,606	1,756,606	2,493,225	15,714,437
Total liabilities and net position	\$ 16,873,402	\$ 2,512,958	\$ 2,518,514	\$ 21,904,874

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, 2014

	Water, Sewer and Sanitation Fund	Gas Fund	Airport Fund	Total Proprietary Funds
Operating Revenues:				
Water services	\$ 1,480,630	\$ -	\$ -	\$ 1,480,630
Sewer services	680,013	-	-	680,013
Sanitation services	1,654,402	-	-	1,654,402
Gas services	-	2,204,320	-	2,204,320
Other operating revenue	-	-	624,388	624,388
Total operating revenues	3,815,045	2,204,320	624,388	6,643,753
Operating Expenses:				
Water operation and maintenance:				
Personnel	289,955	-	-	289,955
Depreciation	240,283	-	-	240,283
Other	416,376	-	-	416,376
Total water expense	946,614	-	-	946,614
Sewer operation and maintenance:				
Personnel	261,307	-	-	261,307
Depreciation	135,159	-	-	135,159
Other	281,418	-	-	281,418
Total sewer expense	677,884	-	-	677,884
Sanitation operation and maintenance:				
Personnel	33,909	-	-	33,909
Waste collection fees	1,260,606	-	-	1,260,606
Other	249,502	-	-	249,502
Total sanitation expense	1,544,017	-	-	1,544,017
Gas operation and maintenance:				
Personnel	-	473,130	-	473,130
Natural gas purchases	-	787,348	-	787,348
Depreciation	-	67,931	-	67,931
Other	-	548,112	-	548,112
Total Gas expense	-	1,876,521	-	1,876,521
Airport operation and maintenance:				
Personnel	-	-	73,556	73,556
Depreciation	-	-	55,646	55,646
Other	-	-	539,021	539,021
Total airport expense	-	-	668,223	668,223
Nondepartmental	239,997	-	-	239,997
Total operating expenses	3,408,512	1,876,521	668,223	5,953,256
Operating income (loss)	406,533	327,799	(43,835)	690,497
Nonoperating Revenues (Expenses)				
Interest income	1,518	-	-	1,518
Interest expense	(81,335)	-	-	(81,335)
Total nonoperating revenue (expense)	(79,817)	-	-	(79,817)
Increase in net position, before contributions	326,716	327,799	(43,835)	610,680
Grant contributions	80,514	-	-	80,514
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Change in net position	407,230	327,799	(43,835)	691,194
Total net position - beginning	11,253,970	1,428,807	2,537,060	15,219,837
Prior period adjustment	(196,594)	-	-	(196,594)
Total net position - ending	\$ 11,464,606	\$ 1,756,606	\$ 2,493,225	\$ 15,714,437

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, 2014

	Total Proprietary Funds
Cash flows from operating activities	
Cash received from customers	\$ 6,633,086
Cash paid to suppliers	(4,228,694)
Cash paid to employees, and related	<u>(1,131,857)</u>
Net cash provided by operating activities	<u>1,272,535</u>
Cash flows from capital and related financing activities	
Cash received for capital grants	22,709
Acquisition and construction of capital assets	(136,058)
Principal payments on long-term debt	(359,800)
Interest and fees on long-term debt	<u>(81,335)</u>
Net cash provided (used) by capital and related financing activities	<u>(554,484)</u>
Cash flows from noncapital financing activities	
Change in due to/from other funds	<u>259,380</u>
Net cash provided (used) by noncapital financing activities	<u>259,380</u>
Cash flows from investing activities	
Interest and other income received	<u>1,518</u>
Net cash provided by investing activities	<u>1,518</u>
Net change in cash and cash equivalents	978,949
Cash and cash equivalents	
Beginning of year	<u>403,006</u>
End of year	<u>\$ 1,381,955</u>
 Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 690,497
Depreciation	499,019
(Increase) decrease in assets:	
Accounts receivable	(4,467)
Inventories	39,135
Increase (decrease) in liabilities:	
Accounts payable and other accruals	56,874
Unearned revenue	<u>(8,523)</u>
Net cash provided by operating activities	<u>\$ 1,272,535</u>

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

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

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 City Manager form of government.

The City prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. 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 that are legally separate but for which the City is financially accountable or closely related.

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. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus on the accrual basis of accounting, which includes long-term assets and receivables as well as long-term liabilities and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities in the fiscal period.

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources, if applicable. This separate financial statement category represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources, if applicable. This separate financial statement category represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. If a revenue is not a program revenue, it is a general revenue used to support all of the City’s functions.

Interfund activities between governmental funds and between governmental and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as other financing sources and uses 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 from on the government-wide Statement of Activities.

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, deferred outflows of resources, current liabilities, deferred inflows of resources 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).

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Property 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.

Unavailable revenue from property taxes arises only under the modified accrual basis of accounting. The governmental funds report this unavailable revenue as a deferred inflow of resources and recognize revenue in the period that the amounts become available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as 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 deferred outflows of resources and all liabilities and deferred inflows of resources 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.

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.

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Additionally, the City reports the following other 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. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund.

E. ASSETS, LIABILITIES, AND EQUITY ACCOUNTING POLICIES

Cash, Cash Equivalents 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.

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 unearned in the fund financial statements in accordance with modified accrual, but not unearned 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.

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 reports jet fuel and supplies inventories for the gas department at weighted average cost. Supplies inventories for all other departments are reported at cost.

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. Capital assets are defined by the City as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year.

Such 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. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

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

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted Assets

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

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, 2014, the liability for this compensated absence amounted to \$76,340 compared to \$93,399 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 or business-type activities 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 in the year received and payment of principal and interest are reported as expenditures in the year they are paid. Bond issue costs are recognized during the current period. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Net Position

Net investment in capital assets – this component of net position consists of capital assets, net accumulated depreciation, reduced by the outstanding balances of bonds or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Unrestricted net position – this component of net position is the net amount of assets and liabilities that are not included in the determination of net investment in capital assets or the restricted components of net position.

Restricted for federal and state programs – this component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets, which are restricted by federal and state granting agencies.

Restricted for Debt Service – this component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. The assets arise from bond issuances which have constraints placed on them by the bond covenants for the purpose of future debt service payments.

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The following classifications describe the relative strength of the spending constraints:

- 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.
- 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.

The City has implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities (“GASB 65”), which establishes accounting and financial reporting standards that reclassify and recognize certain items that were previously reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. The City’s financial statements as of September 30, 2014 are presented in accordance with the guidance provided by this Statement. See Note IV. II Prior Period Adjustments, for more information regarding implementation of this new pronouncement.

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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.

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

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

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, 2014 by FDIC coverage of \$250,000 and one irrevocable letter of credit #8817000245 in the amount of \$2,000,000 dated January 27, 2014 and expiring December 31, 2014, issued by Federal Home Loan Bank of Dallas. The following is disclosed as of September 30, 2014:

	General Fund	Debt Service Fund	Non Major Funds	Total Governmental Activities
Cash and Cash Equivalents	\$ 26,954	\$ -	\$ -	\$ 26,954
Restricted Cash and Cash Equivalents	<u>14,174</u>	<u>2,524</u>	<u>258,557</u>	<u>275,255</u>
Total Cash and Cash Equivalents	<u><u>\$ 41,128</u></u>	<u><u>\$ 2,524</u></u>	<u><u>\$ 258,557</u></u>	<u><u>\$ 302,209</u></u>

	Water Sanitation	Sewer Gas Fund	Airport Fund	Total Business Type Activities
Cash and Cash Equivalents	\$ 591,167	\$ 549,233	\$ 48,703	\$ 1,189,103
Restricted Cash and Cash Equivalents	<u>192,852</u>	<u>-</u>	<u>-</u>	<u>192,852</u>
Total Cash and Cash Equivalents	<u><u>\$ 784,019</u></u>	<u><u>\$ 549,233</u></u>	<u><u>\$ 48,703</u></u>	<u><u>\$ 1,381,955</u></u>

The bank balance as of September 30, 2014 was \$1,779,932. 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, 2014

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. Management intends to pay out these balances usually within one year. Following is a summary of due (to) and from balances as of September 30, 2014:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund:		
Debt Service Fund	\$ -	\$ 20,828
Nonmajor Funds	34,402	76,032
Gas Fund	-	30,678
Airport Fund	21,318	-
Water, Sewer & Sanitation Fund	-	656,396
Total General Fund	55,720	783,934
Debt Service Fund:		
General Fund	20,828	-
Total Debt Service Fund	20,828	-
Nonmajor Funds:		
General Fund	76,032	34,402
Gas Fund:		
General Fund	30,678	-
Water, Sewer, & Sanitation Fund	-	540,005
Total Gas Fund	30,678	540,005
Airport Fund:		
General Fund	-	21,318
Water, Sewer, & Sanitation Fund		
General Fund	656,396	-
Gas Fund	540,005	-
Total Water, Sewer, & Sanitation Fund	1,196,401	-
	\$ 1,379,659	\$ 1,379,659

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. There were no interfund transfers during the fiscal year.

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

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, 2013	Additions	Transfers/ Deductions	Balance Sept. 30, 2014
Land	\$ 806,665	\$ -	\$ -	806,665
Landscaping	58,517	-	(2,134)	56,383
Buildings and Improvements	2,689,251	8,905	-	2,698,156
Infrastructure	8,844,088	9,033	-	8,853,121
Improvements Other than buildings	2,188,637	-	-	2,188,637
Vehicles	3,041,664	-	(9,532)	3,032,132
Furniture & Equip.	618,910	482,282	(308,762)	792,430
Construction Work in Progress	303,769	-	-	303,769
	<u>18,551,501</u>	<u>500,220</u>	<u>(320,428)</u>	<u>18,731,293</u>
Less: Accumulated Landscaping	(33,661)	(3,994)	1,574	(36,081)
Buildings & Improvements	(901,012)	(85,862)	-	(986,874)
Infrastructure	(3,565,313)	(201,505)	-	(3,766,818)
Improvements Other than buildings	(1,471,446)	(53,769)	-	(1,525,215)
Vehicles	(1,974,948)	(99,151)	9,532	(2,064,567)
Furniture & Equip.	(476,333)	(27,533)	308,762	(195,104)
	<u>\$ (8,422,713)</u>	<u>\$ (471,814)</u>	<u>\$ 319,868</u>	<u>\$ (8,574,659)</u>
Net governmental assets	<u>\$ 10,128,788</u>	<u>\$ 28,406</u>	<u>\$ (560)</u>	<u>\$ 10,156,634</u>

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 4 – CHANGES IN CAPITAL ASSETS (continued)

Governmental Fund depreciation by function:

	<u>Depreciation</u>
General Government	\$ 142,567
Public Works	68,894
Health and Human Services	21,444
Culture and Recreation	80,870
Public Safety	146,957
Municipal Court	<u>11,082</u>
	<u>\$ 471,814</u>

Depreciation expense totaled \$471,814 for the year ended September 30, 2014 as reported in the government wide financial statements.

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

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, 2013	Additions	Transfers/ Deductions	Balance Sept. 30, 2014
Land	\$ 99,584	\$ -	\$ -	\$ 99,584
Buildings	2,640	-	-	2,640
Improvements other than Buildings	3,302,067	-	-	3,302,067
Total Assets	3,404,291	-	-	3,404,291
Less: Accumulated Depreciation				
Buildings	(2,640)	-	-	(2,640)
Improvements other than Buildings	(916,160)	(55,646)	-	(971,806)
Total Depreciation	(918,800)	(55,646)	-	(974,446)
Net Airport Assets	\$ 2,485,491	\$ (55,646)	\$ -	\$ 2,429,845

Gas

	Balance Oct. 1, 2013	Additions	Transfers/ Deductions	Balance Sept. 30, 2014
Land	\$ 45,000	\$ -	\$ -	\$ 45,000
Buildings	217,000	-	-	217,000
Gas Distribution System	1,348,456	-	-	1,348,456
Vehicles	158,912	-	-	158,912
Furniture and Equipment	93,332	13,688	3,676	103,344
Total Assets	1,862,700	13,688	3,676	1,872,712
Less: Accumulated Depreciation				
Buildings	(13,743)	(8,680)	-	(22,423)
Gas Distribution System	(43,162)	(29,851)	-	(73,013)
Vehicles	(19,601)	(13,927)	-	(33,528)
Furniture and Equipment	(25,802)	(15,473)	(2,932)	(38,343)
Total Depreciation	(102,308)	(67,931)	(2,932)	(167,307)
Net Gas Assets	\$ 1,760,392	\$ (54,243)	\$ 744	\$ 1,705,405

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 4 – CHANGES IN CAPITAL ASSETS (continued)

Water and Sewer

	Balance		Transfers/		Balance	
	Oct. 1, 2013	Additions	Deductions		Sept. 30, 2014	
Land	\$ 192,397	\$ -	\$ -	\$ -	\$ 192,397	
WIP	90,136	80,514	-	-	170,650	
Buildings and Improvements	1,019,207	-	-	-	1,019,207	
Furniture, Equipment, and Vehicles	1,358,419	33,792	7,403	-	1,384,808	
Water System	13,764,278	3,850	-	-	13,768,128	
Wastewater System	6,621,557	4,957	-	-	6,626,514	
Total Assets	23,045,994	123,113	7,403	-	23,161,704	
Less: Accumulated Depreciation						
Buildings and Improvements	(357,613)	(38,346)	-	-	(395,959)	
Furniture, Equipment, and Vehicles	(738,161)	(40,103)	7,403	-	(770,861)	
Water System	(4,638,407)	(201,769)	-	-	(4,840,176)	
Wastewater System	(2,575,855)	(95,224)	-	-	(2,671,079)	
Total Depreciation	(8,310,036)	(375,442)	7,403	-	(8,678,075)	
Net Water & Wastewater Assets	\$ 14,735,958	\$ (252,329)	\$ -	\$ -	\$ 14,483,629	

Depreciation expense for enterprise fund capital assets totaled \$499,018 for the year ended September 30, 2014 as reported in the proprietary and government wide financial statements.

NOTE 5– GOVERNMENTAL ACTIVITIES LONG-TERM DEBT

For the year ended September 30, 2014, the City had the following governmental activities debt:

A. Lease Purchase Commitments:

- 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, 2014 was \$ 191,031.

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

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, 2014, the outstanding balance in the governmental activities was \$ 625,000.
- 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, 2014, the outstanding balance in the governmental activities was \$ 1,260,000.

Changes in governmental activities long-term debt follows:

	Balance Oct. 1, 2013	New Issues	Payments	Balance Sept. 30, 2014	Due Within One Year
Lease obligations	\$ 209,884	\$ -	\$ 18,853	\$ 191,031	\$ 19,834
Certificates of Obligation:					
56% series 2011	650,200	-	25,200	625,000	25,200
General Obligation Bond:					
60% Series 2011	<u>1,452,000</u>	<u>-</u>	<u>192,000</u>	<u>1,260,000</u>	<u>195,000</u>
	<u>\$ 2,312,084</u>	<u>\$ -</u>	<u>\$ 236,053</u>	<u>\$ 2,076,031</u>	<u>\$ 240,034</u>

The future principal and interest maturities of long-term debt for Governmental Activities as of September 30, 2014 are as follows:

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

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

Governmental Activities

A. Lease Obligations

Year Ending September 30,	Principal	Interest	Total
2015	19,834	9,919	29,753
2016	20,865	8,888	29,753
2017	21,950	7,803	29,753
2018	23,091	6,661	29,752
2019	24,292	5,461	29,753
2020-2024	80,999	8,537	89,536
Total	\$ 191,031	47,269	\$ 238,300

B. Certificates of Obligation

C/O Series 2011(56%)

Year Ending September 30,	Principal	Interest	Total
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	30,800	20,905	51,705
2020-2024	170,800	83,796	254,596
2025-2029	210,000	43,645	253,645
2030-2031	104,200	4,205	108,405
Total	\$ 625,000	248,191	\$ 873,191

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

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

B. Future Maturities - General Obligation Bond

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

Year Ending September 30,	Principal	Interest	Total
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	78,000	17,213	95,213
2020-2024	444,000	40,947	484,947
Total	<u>\$ 1,260,000</u>	<u>182,283</u>	<u>\$ 1,442,283</u>

Total Governmental Long-Term Debt

Year Ending Period Ended	Principal	Interest	Total
2015	240,034	76,989	317,023
2016	252,865	67,723	320,588
2017	244,950	58,345	303,295
2018	195,091	49,977	245,068
2019	133,092	43,579	176,671
2024 - 2028	695,799	133,280	829,079
2025 - 2029	210,000	43,645	253,645
2030 - 2031	104,200	4,205	108,405
Total	<u>\$ 2,076,031</u>	<u>477,743</u>	<u>\$ 2,553,774</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 Water Sewer and Sanitation fund.

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, 2014, only \$74,844 of the certificates had been spent. A principal payment of \$9,000 is required each fiscal year leaving the remaining balance owed of \$56,844 as of September 30, 2014.

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

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, 2014, the outstanding balance in the Water, Sewer, and Sanitation fund was \$480,000.

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, 2014, the outstanding balance in the Water, Sewer, and Sanitation fund was \$840,000.

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, 2014, the outstanding balance was \$555,000.

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, 2014 was \$3,027,000.

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

	Balance Oct. 1, 2013	New Issues	Payments	Balance Sept. 30, 2014	Due Within One Year
C/O 2012 Series	\$ 65,844	\$ -	\$ 9,000	\$ 56,844	\$ 9,000
44% of C/O 2011	499,800	-	19,800	480,000	19,800
40% of G/O Series 2011	968,000	-	128,000	840,000	130,000
Series 2003A	620,000	-	65,000	555,000	70,000
TWDB Series 2005	3,165,000	-	138,000	3,027,000	138,000
	<u>\$ 5,318,644</u>	<u>\$ -</u>	<u>\$ 359,800</u>	<u>\$ 4,958,844</u>	<u>\$ 366,800</u>

Bonds payable for the Water, Sewer and Sanitation Fund are equally and ratably secured by and payable from a pledge of the net revenue of the Water, Sewer and Sanitation Fund. The pledge of net revenue is in effect until the bonds are extinguished.

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

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, 2014 are as follows:

**Tax and Revenue Certificates of Obligation
C/O Series 2012**

Year Ending September 30,	Principal	Interest	Total
2015	9,000	1,676	10,676
2016	10,000	1,564	11,564
2017	10,000	1,421	11,421
2018	10,000	1,247	11,247
2019	11,000	1,028	12,028
2020 - 2024	6,844	451	7,295
Total	<u>\$ 56,844</u>	<u>7,387</u>	<u>\$ 64,231</u>

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

Year Ending September 30,	Principal	Interest	Total
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	24,200	16,425	40,625
2020 - 2024	134,200	65,840	200,040
2025 - 2029	165,000	34,293	199,293
2030 - 2031	<u>70,800</u>	<u>3,304</u>	<u>74,104</u>
Total	<u>\$ 480,000</u>	<u>195,007</u>	<u>\$ 675,007</u>

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

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

**Certificates of Obligation
G/O Series 2011 (40%)**

Year Ending September 30,	Principal	Interest	Total
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	52,000	11,475	63,475
2020 - 2024	296,000	27,298	323,298
Total	\$ 840,000	121,522	\$ 961,522

**Certificates of Obligation
Series 2003-A**

Year Ending September 30,	Principal	Interest	Total
2015	70,000	23,813	93,813
2016	75,000	21,048	96,048
2017	75,000	17,898	92,898
2018	80,000	14,748	94,748
2019	80,000	11,268	91,268
2020 - 2021	175,000	11,793	186,793
Total	\$ 555,000	100,568	\$ 655,568

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

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

**Certificates of Obligation
Texas Water Development Board**

Year Ending September 30,	Principal	Interest	Total
2015	138,000	-	138,000
2016	138,000	-	138,000
2017	138,000	-	138,000
2018	138,000	-	138,000
2019	138,000	-	138,000
2020 - 2024	690,000	-	690,000
2025 - 2029	687,000	-	687,000
2030 - 2034	685,000	-	685,000
2035 - 2036	275,000	-	275,000
Total	<u>\$ 3,027,000</u>	-	<u>\$ 3,027,000</u>

**Total Business Type Activities
Long Term Debt**

Year Ending September 30,	Principal	Interest	Total
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	305,200	40,196	345,396
2020 - 2024	1,302,044	105,382	1,407,426
2025 - 2029	852,000	34,293	886,293
2030 - 2034	755,800	3,304	759,104
2035 - 2036	275,000	-	275,000
Total	<u>\$ 4,958,844</u>	<u>\$ 424,485</u>	<u>\$ 5,383,329</u>

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

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 850 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 Entry Age Normal 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, 2014

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.

Schedule of Actuarial Liabilities and Funding Progress

	<u>12/31/13</u>	<u>12/31/12</u>	<u>12/31/11</u>	<u>12/31/10</u>	<u>12/31/09</u>
Actuarial valuation date					
Actuarial value of plan assets	6,189,181	5,960,413	5,629,161	5,326,358	3,370,940
Actuarial determined benefit obligation	5,393,707	4,868,993	4,595,512	4,369,322	3,029,725
Percent Funded	114.7%	122.4%	122.5%	121.9%	111.3%
Under (Over) Funded					
Actuarial determined					
Accrued (Asset)/UAAL	(795,474)	(1,091,420)	(1,033,649)	(957,036)	(341,215)
Annual covered payroll	2,342,933	2,246,477	1,949,501	1,936,572	1,956,503
UAAL as a % of Covered Payroll	-34.00%	-48.6%	-53.0%	-49.4%	-17.4%
Annual Pension Cost/					
Annual required contribution (ARC)	24,531	19,120	59,242	59,126	65,211
Contributions Made	24,531	19,120	59,242	59,126	65,211
Actuarial Assumptions:					
Actuarial Cost Method -					
Amortization Method -					
Remaining Amortization Period -					
Asset Valuation Method -					
Investment Rate of Return -					
Projected Salary Increase -					
Includes Inflation At -					
Cost-of-Living Adjustment -					
	Entry Age Normal				
	Level Percent of Payroll				
	25 Years				
	Smoothed Value				
	7.5% in 2009 and 7% in 2010, 2011, 2012 and 2013				
	Varies by age and service				
	3%				
	0%				

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 7 – PENSION PLAN (continued)

For the employer's fiscal year ending September 30, 2014, the City contributed \$ 27,914 for the TMRS plan, and the total contributions for employee were \$ 109,648.

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.

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 \$1,500 for in network and \$2,250 for out of network, maximum out-of-pocket of \$3,000, and \$30/\$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:

	2014	2013
Beginning Accrual	\$ 174,740	\$ 134,634
Contributions made	498,275	550,629
Payments made	<u>(492,064)</u>	<u>(510,523)</u>
Ending Accrual	<u>\$ 180,951</u>	<u>\$ 174,740</u>

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 9 – FUND BALANCE REPORTING

The following schedule discloses the details of fund balance classifications at September 30, 2014:

	General	Debt Service	Nonmajor	Total
Fund Balances:				
Restricted for:				
Federal or State Grants	\$ -	\$ -	\$ 91,031	\$ 91,031
Other	14,174	-	-	14,174
Debt service	-	26,156	-	26,156
Tourism activities	-	-	295,324	295,324
Total restricted	14,174	26,156	386,355	426,685
Committed:				
Capital Improvements	88,000	-	-	88,000
Unassigned	(1,005,086)	-	-	(1,005,086)
Total fund balances	\$ (902,912)	\$ 26,156	\$ 386,355	\$ (490,401)

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 was part of an ongoing investigation related to previous members of management and activities that occurred while they were employed at the City. Recent updates to the investigations have been released to the public and the media. 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, 2014 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, 2014

NOTE 11 – LANDFILL (continued)

At September 30, 2014, total closure and postclosure costs were estimated to be approximately \$461,102 and \$133,906, 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 \$75,954 and these funds are restricted to finance the estimated closure and post-closure costs.

At September 30, 2014, 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 12 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, 2014, for each of the next five years and in the aggregate are:

Water and Wastewater Utility

<u>Year ended September</u>	<u>Amount</u>
2015	10,325
2016	10,325
2017	10,325
2018	10,325
2019	10,325
2020 - 2024	45,305
2025 - 2029	44,639
2030 - 2034	42,882
2035 - 2039	25,524
2040 - 2044	6,284
2045 - 2047	872
Total minimum future rentals	\$ 217,131

CITY OF ALPINE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 13 – RELATED PARTY TRANSACTIONS

From time to time, the City may enter into transactions with related parties through the normal course of business. If a council member has a conflict of interest, proper documentation is completed and he/she is required to abstain from any discussion or voting regarding the matter. Management is not aware of any material related party transactions that occurred during the year ending September 30, 2014.

NOTE 14 – PRIOR PERIOD ADJUSTMENTS

Prior period adjustments were recorded in the General Fund, Nonmajor funds, and the Water Sewer and Sanitation Fund, in the amounts of \$58,753 decrease, \$133,990 increase, and \$196,594 decrease, respectively.

In the general fund, there was a prior period adjustment to write off a grant receivable that was not requested or reimbursed totaling \$44,922. Another component was to reclassify proceeds that are restricted for specific purposes to special revenue funds totaling of \$61,427. The remaining amount was to clean up old balances that had been carried over. There was also a prior period adjustment, of \$72,563 in the Hotel and Motel fund to properly present revenue on the accrual basis for fiscal year 2014.

The prior period adjustment in the Water, Sewer, and Sanitation fund was a result of implementing GASB 65 in which bond issue costs are no longer amortized but are expensed in the year they occur.

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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, 2014

	Budgeted Amounts			
	Original	Final	Actual	Variance
Revenues:				
Taxes - property	\$ 1,517,300	\$ 1,516,800	\$ 1,149,100	\$ (367,700)
Taxes - sales	1,308,000	1,330,000	1,371,247	41,247
Taxes - other	111,000	111,000	114,859	3,859
Licenses and permits	68,370	64,520	88,444	23,924
Fees, fines, and forfeitures	82,780	714,727	696,147	(18,580)
Interest	2,430	2,430	1,757	(673)
Miscellaneous	33,640	62,694	77,913	15,219
Total revenues	3,123,520	3,802,171	3,499,467	(302,704)
Expenditures:				
Current:				
General government				
Personnel	543,515	545,925	492,607	53,318
Operating	362,845	296,080	267,594	28,486
Nondepartmental	358,300	372,100	354,647	17,453
Total general government	1,264,660	1,214,105	1,114,848	99,257
Public works				
Personnel	494,650	451,300	399,533	51,767
Operating	247,890	296,690	264,642	32,048
Total public works	742,540	747,990	664,175	83,815
Health and human services				
Personnel	133,140	134,500	126,309	8,191
Operating	49,295	45,095	43,831	1,264
Total health and human services	182,435	179,595	170,140	9,455
Culture and recreation				
Personnel	172,390	166,790	160,127	6,663
Operating	134,175	135,725	95,594	40,131
Total culture and recreation	306,565	302,515	255,721	46,794
Public safety				
Personnel	811,920	803,130	811,325	(8,195)
Operating	237,890	258,465	234,625	23,840
Total public safety	1,049,810	1,061,595	1,045,950	15,645
Municipal court				
Personnel	69,950	65,510	65,013	497
Operating	9,050	10,450	22,917	(12,467)
Total municipal court	79,000	75,960	87,930	(11,970)
Debt service:				
Principal	217,200	217,200	18,853	198,347
Interest	75,150	75,150	10,900	64,250
Total expenditures	3,917,360	3,874,110	3,368,517	505,593
Excess (deficiency) of revenues over expenditures	(793,840)	(71,939)	130,950	202,889
Other Financing Sources (Uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	(793,840)	(71,939)	130,950	202,889
Fund Balances - Beginning	(975,109)	(975,109)	(975,109)	
Prior period adjustment			(58,753)	
Fund Balances - Ending	\$ (1,768,949)	\$ (1,047,048)	\$ (902,912)	

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, 2014

	Hotel and Motel Tax Fund	Community Development Fund	HUD Library Grant Fund	Municipal Court Technology Fund
ASSETS:				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Property taxes receivable	- -	- -	- -	- -
Allowance for uncollectible taxes	- -	- -	- -	- -
Receivables from other governments	- -	- -	3,600	- -
Due from other funds	8,442	66,202	- -	- -
Other receivables	89,158	- -	- -	- -
Restricted assets:				
Cash and cash equivalents	219,137	3,297	- -	3,093
Total assets	<u>\$ 316,737</u>	<u>\$ 69,499</u>	<u>\$ 3,600</u>	<u>\$ 3,093</u>
LIABILITIES:				
Accounts payable and accrued liabilities	21,413	- -	- -	- -
Bank overdraft	- -	- -	- -	- -
Due to other funds	- -	- -	3,600	3,093
Unearned revenue	- -	- -	- -	- -
Total Liabilities	<u>21,413</u>	<u>- -</u>	<u>3,600</u>	<u>3,093</u>
FUND BALANCES:				
Restricted fund balance:				
Federal or state grant restrictions	- -	69,499	- -	- -
Debt service	- -	- -	- -	- -
Landfill closure	- -	- -	- -	- -
Other	295,324	- -	- -	- -
Committed fund fund balance:				
Capital improvements	- -	- -	- -	- -
Assigned fund balance:				
Unassigned	- -	- -	- -	- -
Total fund balances	<u>295,324</u>	<u>69,499</u>	<u>- -</u>	<u>- -</u>
Total liabilities and fund balances	<u>\$ 316,737</u>	<u>\$ 69,499</u>	<u>\$ 3,600</u>	<u>\$ 3,093</u>

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

HIDTA Grant Fund	PD Fed Equity Share Fund	PD Abandon Vehicle Fund	Municipal Court Security Fund	Stonegarden Grant Fund	Total Nonmajor Governmental Funds
\$ - \$	- \$	- \$	- \$	- \$	- -
- -	- -	- -	- -	- -	- -
- -	- -	- -	- -	- -	- -
9,263	- -	- -	- -	7,873	20,736
- -	378	1,010	- -	- -	76,032
- -	- -	- -	- -	- -	89,158
12,886	14,854	5,290	- -	- -	258,557
<u>\$ 22,149</u>	<u>\$ 14,854</u>	<u>\$ 5,668</u>	<u>\$ 1,010</u>	<u>\$ 7,873</u>	<u>\$ 444,483</u>

2,313	-	-	-	-	23,726
- -	- -	- -	- -	- -	- -
19,836	- -	- -	- -	7,873	34,402
- -	- -	- -	- -	- -	- -
22,149	- -	- -	- -	7,873	58,128

-	14,854	5,668	1,010	-	91,031
- -	- -	- -	- -	- -	- -
- -	- -	- -	- -	- -	- -
- -	- -	- -	- -	- -	295,324
- -	- -	- -	- -	- -	- -
- -	- -	- -	- -	- -	- -
- -	- -	- -	- -	- -	- -
- -	- -	- -	- -	- -	- -
- -	- -	- -	- -	- -	- -
- -	- -	- -	- -	- -	- -
-	14,854	5,668	1,010	-	386,355
<u>\$ 22,149</u>	<u>\$ 14,854</u>	<u>\$ 5,668</u>	<u>\$ 1,010</u>	<u>\$ 7,873</u>	<u>\$ 444,483</u>

CITY OF ALPINE, TEXAS
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
 Nonmajor Governmental Funds
 For the Year Ended September 30, 2014

	Hotel and Motel Tax Fund	Community Development Fund	HUD Library Grant Fund	Municipal Court Technology Fund
Revenues:				
Taxes - property	\$ -	\$ -	\$ -	\$ -
Taxes - sales	455,956	-	-	-
Taxes - other	-	-	-	-
Licenses and permits	-	-	-	-
Fees, fines, and forfeitures	-	-	-	-
Intergovernmental	-	-	8,671	1,426
Interest	-	15	-	12
Miscellaneous	-	-	-	-
Total revenues	455,956	15	8,671	1,438
Expenditures:				
Current:				
General government	-	-	-	-
Public works	-	-	-	-
Health and human services	-	-	-	-
Culture and recreation	405,389	-	8,671	-
Public safety	-	-	-	-
Municipal court	-	-	-	4,516
Total expenditures	405,389	-	8,671	4,516
Excess (deficiency) of revenues over expenditures	50,567	15	-	(3,078)
Other Financing Sources (Uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	50,567	15	-	(3,078)
Fund Balances - Beginning	172,194	69,484	-	
Prior period adjustment	72,563			3,078
Fund Balances - Ending	\$ 295,324	\$ 69,499	\$ -	\$ -

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

HIDTA Grant Fund	PD Fed Equity Share Fund	PD Abandon Vehicle Funds	Municipal Court Security Fund	Stonegarden Fund	Total Nonmajor Governmental Funds
\$ - \$ - \$ - \$ - \$ - \$ -					
- - - - - -					455,956
- - - - - -					-
- - - - - -					-
- - - - 2,650 1,010 - 3,660					
114,961 12,000 - 14,441 151,499					
- 205 42 - 274 -					
- - - - - -					
114,961 12,205 2,692 1,010 14,441 611,389					
- - - - - -					-
- - - - - -					-
- - - - - -					-
- - - - - -					414,060
114,961 46,257 6,467 - 14,441 182,126					
- - - - - 4,516					
114,961 46,257 6,467 - 14,441 600,702					
- (34,052) (3,775) 1,010 - 10,687					
- - - - - -					-
- - - - - -					-
- (34,052) (3,775) 1,010 - 10,687					
- - - - - 241,678					
48,906 9,443 - 133,990					
\$ - \$ 14,854 \$ 5,668 \$ 1,010 \$ - \$ 386,355					

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, 2014, 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 31, 2015.

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 2014-1 and 2014-4.

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 2014-2, 2014-3.

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 31, 2015

CITY OF ALPINE, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

For Fiscal Year Ended September 30, 2014

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 – Finding 2014-1 and 2014-4
• Significant deficiency(ies) identified that are not considered to be material weaknesses	Yes – Finding 2014-2 and 2014-3

Noncompliance material to financial
Statements noted? No

CITY OF ALPINE, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

For Fiscal Year Ended September 30, 2014

Section II – Financial Statement Findings

2014-1 –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 activity is presented properly.

Condition Found: The City did not properly reconcile numerous funds and accounts throughout the year including various grant activity.

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

Cause: Finance staff did not receive adequate training on the new accounting software which made it more difficult to understand the reconciliation process. In addition, staff members were continuously reassigned duties until a permanent Finance Director was appointed.

Recommendation: The City should implement procedures and assign staff to prepare monthly reconciliations of general ledger accounts to supporting documentation. This will help ensure that the data is recorded correctly and is properly reported for all funds, including grants.

2014-2 – Ineffective Accounting for Due To/From Other Funds

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 encompasses the activity which occurs between two or more funds, and the balances represent receivables and payables between the funds. These due to/from accounts should always net to zero across all funds.

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 accounts.

Effect: Inappropriate posting of interfund activity can allow financial reports to present incomplete activity which could result in reporting an over/understated performance in the individual funds.

Cause: It appears that many procedures were truncated when the City encountered significant turnover of finance personnel. Also, it appears that the new accounting system which implemented during the previous fiscal year may not have been initially set up properly.

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 all activity is properly classified. In addition, a review of the accounting system setup should be conducted and corrections made.

CITY OF ALPINE, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

For Fiscal Year Ended September 30, 2014

2014-3 – Ineffective Year-End Cut-Off Procedures

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

Condition: The City did not 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 which indicated incorrect balances in the various revenue and expense accounts. 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: Inadequate performance of cut-off procedures and a lack of a thorough analysis of the year-end general ledger accounts increases the risk of material errors going undetected and unresolved.

Cause: The previous financial personnel were responsible for this activity and apparently the training has not been provided to current staff. In addition, no formal policies or procedures were in place at that time.

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

2014-4 – Improper Closing of Fiscal Year and Roll-Forward

Criteria: The accounting system should be closed out at the end of each year and the resulting balance sheet accounts should be rolled over intact as the beginning balances to the subsequent year.

Condition: The beginning balance for several accounts of the 2014 general ledger was different than the pre-audit balances that were provided to us for the 2013 audit.

Effect: A proper flow of account balances is a required element of every internal control structure. This lack of a complete closing and roll-forward caused significant delays in the City's staff providing a complete general ledger to the auditors, and caused the auditors significant additional work to attempt to identify the elements of the differences. This additional audit work caused a significant delay in the completion of the current audit.

Cause: The exact cause of the improper closing is not known. However, the City's previous financial personnel were responsible for this activity at that time. In addition, the City was still in the process of implementing the new accounting system and the IT consultant was making various adjustments during that process.

Recommendation: The City should adopt procedures to ensure that a proper closing and roll-forward occurs without exception. In addition, no activity should be posted to the general ledger after a final version has been provided to the auditors.

CITY OF ALPINE, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

For Fiscal Year Ended September 30, 2014

Federal Award Findings

There are no current year findings.

CITY OF ALPINE, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

For Fiscal Year Ended September 30, 2014

Section III – Summary Schedule of Prior Year Findings

Financial Statement Findings

- 2013-1** Condition: 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.
- Status: A similar finding is repeated in the current year.
- 2013-2** Condition: During the prior 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.
- Status: There were no instances of this noted during the current year.
- 2013-3** Condition: During the course of our prior year's audit we noted several instances where disbursements were processed by the accounts payable department without proper documentation or approval.
- Status: Although this situation existed during the year, significant improvement was noted in this area.
- 2013-4** 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.
- Status: In the previous fiscal year, the City purchased new accounting software which has not been set up properly. A similar finding is repeated in current year.
- 2012-5** Condition: In performing the prior 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.
- Status: There were no instances of this noted during the current year.

CITY OF ALPINE, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

For Fiscal Year Ended September 30, 2014

Section III – Summary Schedule of Prior Year Findings (Continued)

Financial Statement Findings

- 2013-6** 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 did 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.

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

- 2013-7** Condition: Financial transactions were not properly identified and recorded and reported in the proper fund and reporting period in accordance with the accrual and modified accrual basis of accounting. Unrecorded liabilities and receivables were identified as well as ineffective year end cut-off procedures. Internal controls should be in place to identify and resolve accounting errors on a timely basis.

Status: This finding is repeated in the current year.

CITY OF ALPINE, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

For Fiscal Year Ended September 30, 2014

Response to 2014-1 –Internal Control over Financial Reporting

The Finance department will continue to implement internal controls to ensure proper reporting. Reconciliations procedures are continuously being updated and are will be performed on a monthly basis. Personnel has been assigned accordingly to review and reconcile accounts. Additional training is being provided to accurately monitor the various accounts.

Response to 2014-2 – Ineffective accounting for due from/to other funds and interfund transfers

The Finance department has developed a better understanding of the due from/to process within the City. Continuous changes are being made to properly record and maintain these accounts, and the changes will be made to the software to ensure it properly posts interfund transactions. Monthly reconciliations will be implemented to ensure accuracy and documentation. When available training will be provided to staff.

Response to 2014-3 – Ineffective year-end cut-off procedures

The Finance department will work more closely with department heads to prepare for the end of each fiscal year. A more detailed checklist has been created to assist departments with end of year procedures and necessary materials. Quarterly reviews have also been implemented to further assist. A schedule of needed documents/reports has been created.

Response to 2014-4 – Improper Closing of Fiscal Year and Roll-Forward

The Finance Director will verify at the ending and beginning of each fiscal year that all assets, liabilities and fund balances roll forward properly to ensure the amounts reported are accurate.