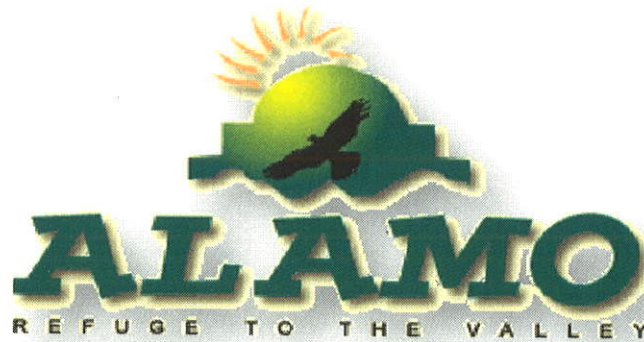


CITY OF ALAMO, TEXAS



AUDITED ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2012

CITY OF ALAMO, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2012

**City of Alamo, Texas
Annual Financial Report
For the Year Ended September 30, 2012**

Principal Officials

MAYOR

Diana Martinez

CITY COMMISSION

Trinidad Medina - Mayor Pro-Tem

Eleazar Escobedo - Commissioner

Victor Perez - Commissioner

Pilar Garza - Commissioner

OTHER OFFICIALS

Luciano Ozuna, Jr. - City Manager

Enrique Guzman - Finance Director

City of Alamo, Texas
Annual Financial Report
For the Year Ended September 30, 2012

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FINANCIAL SECTION

 *Oscar R. González, CPA*
&
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Oscar R. González
Melissa González

INDEPENDENT AUDITOR'S REPORT

To the City Commissioners of the,
City of Alamo, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate blended component units, each major fund, and the aggregate remaining fund information of the City of Alamo, Texas as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Alamo, Texas's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, the aggregate blended component units, each major fund, and the aggregate remaining fund information of the City of Alamo, Texas, as of September 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2013, on our consideration of the City of Alamo, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 40 through 41 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Alamo, Texas's financial statements as a whole. The other supplementary information section is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The other supplementary information section has not been subject to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.


Oscar R. Gonzalez, CPA & Associates, PLLC
Certified Public Accountants
Pharr, Texas

February 26, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of Alamo, Texas (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Alamo, Texas for the fiscal year ended September 30, 2012. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- The City's combined assets from governmental and business-type activities exceeded its liabilities at the close of the most recent fiscal year by over \$39,591,234, compared to \$37,817,449 in the prior year.
- The City's total net assets increased by \$1,816,343, including prior year adjustment of \$42,558; of which 72 percent of the increase is attributed to governmental activities, and 28 percent to business-type activities.
- The City's governmental funds assets exceeded its liabilities at the close of the most recent fiscal year by \$6,417,610 (net assets) and \$6,554,671 (net assets) in the prior year.
- The assets of the City's business-type activities exceeded its liabilities at the close of the most recent fiscal year by \$21,766,100 (net assets) and \$21,229,106 (net assets) in the prior year. Of this amount, \$3,020,232 (unrestricted net assets), may be used to meet the water and sewer systems ongoing obligations to citizens and creditors.
- Unreserved fund balance for the general fund was \$2,644,468 and \$2,788,776 for 2012 and 2011 respectively, or 22.42 percent of total general fund expenditures.
- The City's governmental activities debt increased by \$402,627; and business-type activities debt increased by \$55,313 in the current fiscal year. The increase for the current fiscal year included the financing of additional equipment for the police department, fire department, parks department, streets department, storm water management department, and the water department.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Management's Discussion and Analysis

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, sanitation, drainage, health and welfare, culture and recreation, and economic development. The business-type activities of the City include the water and sewer fund activities. The government-wide financial statements include itself (known as primary government). The government-wide financial statements can be found on pages 10 through 13 of this report.

Fund financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains multiple governmental funds. Information for the major funds is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund. The General Fund is the only major governmental fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for all of its governmental funds with the exception of grant funded special revenue funds and capital projects funds, if any.

The basic governmental fund financial statements can be found on pages 14 through 17 of this report.

Proprietary funds – The City maintains one type of proprietary fund, an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses one enterprise funds to account for its collection of water and sewer services provided for residents. There are no internal service funds being used by the City at this time.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise fund is presented in a single, aggregate presentation in the proprietary fund

Management's Discussion and Analysis

financial statements. Individual fund data for the enterprise fund is provided in this report on pages 18 through 20.

Notes to financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 through 39 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$39,591,234 and \$37,818,446 for 2012 and 2011 as adjusted, respectively, for governmental activities.

By far the largest portion of the City's net assets (75.55 percent) reflects its investment in capital assets (e.g., land building, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At the end of the current fiscal year, the City is able to report positive balances in the investment in capital asset and in the unrestricted net assets.

The City's condensed Statement of Net Assets along with the last fiscal year's numbers are presented for comparison in the table below.

City of Alamo, Texas Net Assets

	Governmental Activities		Business-type Activities		Totals		Increase (Decrease)
	2012	2011	2012	2011	2012	2011	
Current and other assets	\$ 8,211,174	\$ 7,909,067	\$ 7,990,712	\$ 3,367,821	\$ 16,201,886	\$ 11,276,888	\$ 4,924,998
Capital assets	19,947,453	18,077,821	24,950,091	24,422,444	44,897,544	42,500,265	2,397,279
Total Assets	<u>28,158,627</u>	<u>25,986,888</u>	<u>32,940,803</u>	<u>27,790,265</u>	<u>61,099,430</u>	<u>53,777,153</u>	<u>7,322,277</u>
Long-term debt due in more than one year	2,151,811	1,517,488	5,189,775	624,870	7,341,586	2,142,358	5,199,228
Other liabilities	8,181,681	7,568,557	5,984,928	5,936,289	14,166,609	13,504,846	661,763
Total Liabilities	<u>10,333,492</u>	<u>9,086,045</u>	<u>11,174,703</u>	<u>6,561,159</u>	<u>21,508,195</u>	<u>15,647,204</u>	<u>5,860,991</u>
Net Assets							
Invested in capital assets							
net of related debt	11,196,310	9,234,188	18,745,868	18,267,355	29,942,178	27,501,543	2,440,635
Restricted	3,717,842	2,952,447	-	-	3,717,842	2,952,447	765,395
Unrestricted	2,910,982	4,714,208	3,020,232	2,961,751	5,931,214	7,675,959	(1,744,745)
Total Net Assets	<u>\$ 17,825,134</u>	<u>\$ 16,900,843</u>	<u>\$ 21,766,100</u>	<u>\$ 21,229,106</u>	<u>\$ 39,591,234</u>	<u>\$ 38,129,949</u>	<u>\$ 1,461,285</u>

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Management's Discussion and Analysis

The City's net assets increased by \$1,816,343 during the current fiscal year. This increase represents revenues of \$9,906,176 and expenses of \$8,924,972 in governmental funds. Revenues for the business-type funds were \$3,515,752 of which \$77,118 are operating grants and \$1,346 are interest, compared to \$2,680,613 in operating and interest expenses.

The business-type activities increased net assets to \$21,766,100 in 2012. This was an increase of \$536,993 in net assets from the prior year amount of \$21,229,106.

City of Alamo, Texas						
Changes in Net Assets						
	Governmental		Business-Type		Totals	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Revenues						
<u>Program revenues</u>						
Charges for services	\$ 2,226,554	\$ 1,769,827	\$ 3,437,288	\$ 3,318,492	\$ 5,663,842	\$ 5,088,319
Operating grants and contributions	517,019	444,561	-	716,219	517,019	1,160,780
Capital grants and contributions	250,000	221,150	77,118	-	327,118	221,150
<u>General revenues</u>						
Property tax	2,752,818	2,809,375	-	-	2,752,818	2,809,375
Sales tax	3,357,024	3,139,704	-	-	3,357,024	3,139,704
Other tax	618,140	604,996	-	-	618,140	604,996
Other Revenues	184,621	445,694	1,346	2,025	185,967	447,719
Total revenues	<u>\$ 9,906,176</u>	<u>\$ 9,435,307</u>	<u>\$ 3,515,752</u>	<u>\$ 4,036,736</u>	<u>\$ 13,421,928</u>	<u>\$ 13,472,043</u>
Expenses						
General government	\$ 3,285,674	\$ 3,276,750	\$ -	\$ -	\$ 3,285,674	\$ 3,276,750
Public safety	3,295,121	3,000,252	-	-	3,295,121	3,000,252
Highways/streets	618,195	244,195	-	-	618,195	244,195
Health & welfare	251,043	662,955	-	-	251,043	662,955
Culture & recreation	858,249	678,787	-	-	858,249	678,787
Economic Development	294,059	470,935	-	-	294,059	470,935
Interest -Long-term debt	322,631	323,293	-	-	322,631	323,293
Waterworks/Sewer systems	-	-	2,680,613	2,384,117	2,680,613	2,384,117
Total expenses	<u>8,924,972</u>	<u>8,657,167</u>	<u>2,680,613</u>	<u>2,384,117</u>	<u>11,605,585</u>	<u>11,041,284</u>
Non-Operating Transfers (Net)	323,850	289,152	(323,850)	(289,152)	-	-
Increase (decrease) in net assets	1,305,054	1,067,292	511,289	1,363,467	1,816,345	2,430,759
Prior Period Adjustment	(68,259)	-	25,704	-	(42,555)	-
Net assets - beginning	<u>16,588,339</u>	<u>15,521,051</u>	<u>21,229,107</u>	<u>19,865,639</u>	<u>37,817,446</u>	<u>35,386,690</u>
Net assets - ending	<u>\$ 17,825,134</u>	<u>\$ 16,588,343</u>	<u>\$ 21,766,100</u>	<u>\$ 21,229,106</u>	<u>\$ 39,591,234</u>	<u>\$ 37,817,449</u>

Governmental activities. Governmental activities increased the City's net assets by \$1,773,785, including prior period adjustments.

Management's Discussion and Analysis

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, fund balance of the General Fund had a balance of \$2,648,319, and the Special Revenue Fund (Alamo Economic Development Corporation) had \$2,000,456. The Debt Service Fund had a fund balance of \$686,552 of which \$622,528 is assigned and \$64,024 is restricted.

Proprietary funds. Since the City has only one proprietary fund, the Water and Sewer Fund, an individual financial statement is presented to provide more detail information for the statement of revenues, expenses and changes in net assets.

The Water & Sewer Fund consist of operating expenses of \$2,680,613 for 2012 and \$2,384,117 for 2011 with revenues of \$3,437,290 for 2012 and \$3,318,492 for 2011, with grants of \$77,118 for 2012 and \$716,219 in 2011, resulting in an increase in net assets of \$511,291 for 2012 and \$1,363,467 for 2011.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$3,020,232, and total net assets to net assets of \$21,766,100. By far the largest portion of the City's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide water and sewer service to citizens. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt come from revenues generated from the sale of water and providing sewer collection services.

General Fund Budgetary Highlights

The original budget was amended during the year. Expenditures exceeded appropriations of the general government functions in the following functions: Public Safety by \$20,504; Capital Outlay by \$111,839; and in Debt Service Principal by \$42,117. Actual expenditures for the year exceeded actual revenues by \$114,893. Actual revenues exceeded budgeted revenues by \$398,794, while actual expenditures exceeded appropriations by \$61,141.

Capital Assets and Debt Administration

Capital Assets

The City of Alamo's investments in capital assets for its governmental and business-type activities amount to \$44,897,546 and \$41,446,136 (net of accumulated depreciation) for 2012 and 2011. This investment in capital assets includes land, buildings, and systems improvements, machinery and equipment.

Management's Discussion and Analysis

City of Alamo, Texas Capital Assets

	Governmental Activities		Business-Type Activities		Total		Increase (Decrease)
	2012	2011	2012	2011	2012	2011	
Capital assets, not being depreciated:							
Land	\$ 1,731,590	\$ 1,359,299	\$ 2,943,078	\$ 2,943,078	\$ 4,674,668	\$ 4,302,377	\$ 372,291
Construction-in-progress	3,184,373	2,148,555	689,863	4,222,568	3,874,236	6,371,123	(2,496,887)
	<u>4,915,963</u>	<u>3,507,854</u>	<u>3,632,941</u>	<u>7,165,646</u>	<u>8,548,904</u>	<u>10,673,500</u>	<u>(2,124,596)</u>
Capital assets, being depreciated:							
Buildings	10,211,401	10,579,483	4,757,868	4,757,868	14,969,269	15,337,351	(368,082)
Vehicles	2,606,454	2,076,340	112,410	100,782	2,718,864	2,177,122	541,742
Machinery & Equipment	1,923,331	1,822,698	1,017,689	684,353	2,941,020	2,507,051	433,969
Infrastructure	7,020,471	6,501,801	21,011,710	16,895,154	28,032,181	23,396,955	4,635,226
	<u>21,761,657</u>	<u>20,980,322</u>	<u>26,899,677</u>	<u>22,438,157</u>	<u>48,661,334</u>	<u>43,418,479</u>	<u>5,242,855</u>
Accumulated Depreciation	<u>(6,730,166)</u>	<u>(6,410,355)</u>	<u>(5,638,519)</u>	<u>(5,241,084)</u>	<u>(12,368,685)</u>	<u>(11,651,439)</u>	<u>(717,246)</u>
Total Capital Assets, being Depreciated, net	<u>15,031,491</u>	<u>14,569,967</u>	<u>21,261,158</u>	<u>17,197,073</u>	<u>36,292,649</u>	<u>31,767,040</u>	<u>4,525,609</u>
Capital Assets, Net	<u>\$ 19,947,454</u>	<u>\$ 18,077,821</u>	<u>\$ 24,894,099</u>	<u>\$ 24,362,719</u>	<u>\$ 44,841,553</u>	<u>\$ 42,440,540</u>	<u>\$ 2,401,013</u>

Long-Term Debt

State statutes limit the amount general obligation debt that the City may issue to 10% of its total assessed valuation (\$477,293,393). The City's general obligation debt maximum is \$47,729,339, compared to the City's debt of \$13,466,111. The City's governmental activities debt increased by \$77,627; and business-type activities debt increased by \$55,313 in the current fiscal year.

City of Alamo, Texas Long-Term Obligations

	Governmental Activities		Business-Type Activities		Total		Increase (Decrease)
	2012	2011	2012	2011	2012	2011	
Long-Term Obligations							
General Obligation Bonds	\$ 7,285,000	\$ 8,000,000	\$ 6,181,111	\$ 6,127,000	\$ 13,466,111	\$ 14,127,000	\$ (660,889)
Capital Leases	828,643	65,542	23,222	28,089	851,865	93,631	758,234
Loan Payables	637,500	312,500	-	-	637,500	312,500	325,000
Compensated Absences	313,083	283,557	40,358	34,289	353,441	317,846	35,595
Total Long-Term Obligations	<u>\$ 9,064,226</u>	<u>\$ 8,661,599</u>	<u>\$ 6,244,691</u>	<u>\$ 6,189,378</u>	<u>\$ 15,308,917</u>	<u>\$ 14,850,977</u>	<u>\$ 457,940</u>

Additional information on the City's debt service can be found in the notes to the financial statements.

Management's Discussion and Analysis

Economic Factors and Next Year's Budget And Rates

During the budget process for the fiscal year 2012-2013, the Mayor, City Commissioners and staff considered many factors.

- The ad valorem property tax rate was set at \$0.59897 to generate the revenues necessary for the operation of the City. The City is relying on the increase of the tax base to increase revenues.
- This tax rate should generate \$22,823 of additional tax revenues; an increase of 1% over the previous year.
- The City will continue to review and evaluate its water and sewer operations including rates and make proper changes as consideration is given for a future water plant and infrastructure improvements to be financed by federal financial assistance and debt.

All of these factors were considered in preparing the City's budget for fiscal year 2012-2013.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City of Alamo, Texas, Finance Director, 420 N. Tower Road, Alamo, Texas 78516.

BASIC FINANCIAL STATEMENTS

City of Alamo, Texas
Statement of Net Assets
September 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,899,106	\$ 1,886,663	\$ 3,785,769
Restricted Cash -Cash In Escrow	77,526	4,400,000	4,477,526
Investments	3,566,700	878,957	4,445,657
Note Receivables	900,148	-	900,148
Accounts Receivable			-
Property Taxes	563,184	-	563,184
City Services	181,251	352,213	533,464
Fines and Fees	147,243	-	147,243
Other	202,001	5,921	207,922
Due From Other Governmental Entities	536,409	-	536,409
Prepaid and Other Assets	3,851	-	3,851
Other Assets	2,283	-	2,283
Due from Other Funds	131,472	466,958	598,430
Total Current Assets:	8,211,174	7,990,712	16,201,886
Noncurrent Assets:			
Land	1,731,590	2,943,078	4,674,668
Construction In Progress	3,184,373	689,863	3,874,236
Building and Improvements (net)	7,954,125	3,739,492	11,693,617
Vehicles (net)	1,027,023	33,602	1,060,625
Furniture and Equipment (net)	1,286,809	491,129	1,777,938
Infrastructure (net)	4,763,533	16,996,935	21,760,468
Bond Issuance Cost (net)	-	55,992	55,992
Total Non Current Assets:	19,947,453	24,950,091	44,897,544
Total Assets	\$ 28,158,627	\$ 32,940,803	\$ 61,099,430

City of Alamo, Texas
Statement of Net Assets
September 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 548,054	\$ 8,246	\$ 556,300
Payroll Liabilities	10,059	453	10,512
Customer Deposits		363,302	363,302
Deferred Revenue			-
Grants	10,000	4,400,000	4,410,000
Fines and Fees	147,243	-	147,243
Other	47,958	-	47,958
Accrued Interest	38,886	26,650	65,536
Matured Debt Payable (net)	882,545	259,652	1,142,197
Due to Others	108	-	108
Due to Other Funds	466,958	131,472	598,430
Total Current Liabilities:	2,151,811	5,189,775	7,341,586
Noncurrent Liabilities:			
Compensation Absences	313,083	40,358	353,441
Due in more than one year (net)	7,868,598	5,944,570	13,813,168
Total Noncurrent Liabilities:	8,181,681	5,984,928	14,166,609
Total Liabilities	10,333,492	11,174,703	21,508,195
NET ASSETS			
Invested In Fixed Assets Net of Related I	11,196,310	18,745,868	29,942,178
<i>Restricted for:</i>			-
Capital Projects	593,197	-	593,197
Debt Service	651,452	-	651,452
Tourism	476,523	-	476,523
Economic Development Corporation	1,996,670	-	1,996,670
Restricted Fund Balance	-	-	-
<i>Unrestricted</i>	2,910,982	3,020,232	5,931,214
Total Net Assets	17,825,134	21,766,100	39,591,234
Total Liabilities and Net Assets	\$ 28,158,626	\$ 32,940,803	\$ 61,099,429

City of Alamo, Texas
Statement of Activities
For the Year Ended September 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General Government	\$ 3,285,674	\$ 71,605	\$ 206,664	\$ -
Public Safety	3,295,121	522,662	221,940	-
Highways and Streets	618,195	10,890	42,236	-
Health and Welfare	251,043	1,545,700	-	-
Culture and Recreation	858,249	56,267	46,179	-
Economic Development	294,059	19,430	-	250,000
Interest	322,631	-	-	-
Total Governmental Activities	8,924,972	2,226,554	517,019	250,000
Business-type Activities:				
Water & Sewer Fund	2,680,613	3,437,288	-	77,118
Total Business-type Activities	2,680,613	3,437,288	-	77,118
Total Primary Government	\$ 11,605,585	\$ 5,663,842	\$ 517,019	\$ 327,118

General Purpose Revenues and Transfers:

Revenues

- Property taxes
- Sales taxes
- Franchise taxes
- Gain (loss) on sale of capital assets
- Miscellaneous revenue
- Interest revenue
- Other taxes

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets at Beginning of Period, As Restated

Prior year adjustment

Net Assets at End of Period

Net (Expense) Revenue		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (3,007,405)	\$ -	\$ (3,007,405)
(2,550,519)	-	(2,550,519)
(565,069)	-	(565,069)
1,294,657	-	1,294,657
(755,803)	-	(755,803)
(24,629)	-	(24,629)
(322,631)	-	(322,631)
<u>(5,931,399)</u>	<u>-</u>	<u>(5,931,399)</u>
-	833,793	833,793
-	833,793	833,793
<u>(5,931,399)</u>	<u>833,793</u>	<u>(5,097,606)</u>
2,752,818	-	2,752,818
3,357,024	-	3,357,024
479,688	-	479,688
153,283	-	153,283
26,465	-	26,465
4,874	1,346	6,220
138,451	-	138,451
323,850	(323,850)	-
<u>7,236,453</u>	<u>(322,504)</u>	<u>6,913,949</u>
1,305,054	511,289	1,816,343
16,588,339	21,229,107	37,817,446
(68,259)	25,704	(42,555)
<u>\$ 17,825,134</u>	<u>\$ 21,766,100</u>	<u>39,591,234</u>

GOVERNMENTAL FUNDS

City of Alamo, Texas
Balance Sheet
Governmental Funds
September 30, 2012

	<u>General</u>	<u>Special Revenue AEDC</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and Cash Equivalents	\$ 630,570	\$ 583,346	\$ 408,585	\$ 276,605	\$ 1,899,106
Restricted Cash - Escrow	77,526	-	-	-	77,526
Investments	2,348,693	402,934	77,916	737,158	3,566,701
Note Receivables	-	900,148	-	-	900,148
Accounts Receivable					
Property Taxes	461,572	-	101,612	-	563,184
City Services	181,251	-	-	-	181,251
Fines and Fees	147,243	-	-	-	147,243
Other	136,865	-	-	65,136	202,001
Due From Other Governments	402,307	134,102	-	-	536,409
Prepaid and Other Assets	3,851	-	-	-	3,851
Other Assets	2,283	-	-	-	2,283
Due From Other Funds	541,000	42	200,051	10,115	751,208
Total Assets	\$ 4,933,161	\$ 2,020,572	\$ 788,164	\$ 1,089,014	\$ 8,830,911
LIABILITIES					
Accounts Payable	\$ 529,851	\$ 18,203	\$ -	\$ -	\$ 548,054
Payroll Liabilities	10,059	-	-	-	10,059
Deferred Revenue					
Property Taxes	461,572	-	101,612	-	563,184
Fines and Fees	147,243	-	-	-	147,243
Grants	10,000	-	-	-	10,000
Other	42,777	-	-	5,181	47,958
Due to Others	108	-	-	-	108
Due to Other Funds	1,083,232	1,913	-	1,550	1,086,695
Total Liabilities	2,284,842	20,116	101,612	6,731	2,413,301
FUND BALANCE					
Nonspendable					
Inventory	3,851	-	-	-	3,851
Restricted					
Debt Service	-	-	64,024	-	64,024
Assigned					
Debt Service	-	-	622,528	-	622,528
Economic Development	-	2,000,456	-	-	2,000,456
Capital Projects	-	-	-	593,197	593,197
Tourism	-	-	-	476,523	476,523
Unassigned	2,644,468	-	-	12,563	2,657,031
Total Fund Balance	2,648,319	2,000,456	686,552	1,082,283	6,417,610
Total Liabilities & Fund Balance	\$ 4,933,161	\$ 2,020,572	\$ 788,164	\$ 1,089,014	\$ 8,830,911

City of Alamo, Texas
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2012

Amounts reported for governmental activities in the statement of net assets are different because:

Total Fund Balance - Governmental Funds Balance Sheet	\$	6,417,610
Compensated absences expensed as paid in governmental fund statements, expensed as incurred in entity wide statements, and reflected as liability on Statement of Net Assets.		(313,083)
Fixed assets are capitalized in the Statement of Net Assets and depreciated in the Statement of Activities. These are expensed when acquired in the Statement of Revenues, Expenditures, and Changes in Fund Balance.		19,947,452
Long term debt reflected on Statement of Net Assets not in governmental funds balance sheet, therefore accrued interest payable on it will only be reflected in the Statement of Net Assets.		(38,886)
Revenue deferred in governmental fund statements if not received within sixty days.		563,184
Long term debt reflected on Statement of Net Assets not in governmental funds balance sheet.		(8,751,143)
Total Net Assets of governmental activities- Statement of Net Assets		\$ 17,825,134

City of Alamo, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended September 30, 2012

	<u>General</u>	<u>Special Revenue AEDC</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Property Taxes	\$ 2,266,321	\$ -	\$ 540,764	\$ -	\$ 2,807,085
Sales Taxes	2,517,768	839,256	-	-	3,357,024
Franchise Taxes	479,688	-	-	-	479,688
Other Taxes	210	-	-	138,242	138,452
Federal Grants	-	-	-	-	-
Intergovernmental Revenues	238,119	250,000	-	278,900	767,019
Licenses and Permits	105,652	-	-	-	105,652
Fines and Fees	368,652	-	-	-	368,652
Interest Revenue Note Receivable	-	26,465	-	-	26,465
Charges for Services	1,724,128	19,430	-	8,693	1,752,251
Interest Revenue	2,822	588	149	1,314	4,874
Total Revenues	7,703,360	1,135,739	540,913	427,149	9,807,161
Expenditures					
General Government	3,005,173	-	2,257	1,550	3,008,980
Public Safety	3,030,459	-	-	14,536	3,044,995
Highways and Streets	571,269	-	-	-	571,269
Health and Welfare	231,987	-	-	-	231,987
Culture and Recreation	763,101	-	-	30,000	793,101
Capital Outlay	1,346,156	372,291	-	1,047,228	2,765,675
Economic Development	-	271,737	-	-	271,737
Principal	121,925	-	520,000	195,000	836,925
Interest	14,726	2,795	295,636	11,664	324,821
Total Expenditures	9,084,796	646,823	817,893	1,299,978	11,849,490
Excess of Revenues Over (Under) Expenditures	(1,381,436)	488,916	(276,980)	(872,829)	(2,042,329)
Other Financing Sources (Uses)					
Transfers from Other Funds	381,517	-	370,436	-	751,953
Transfers to Other Funds	-	(428,103)	-	-	(428,103)
IRP Loan Proceeds	-	325,000	-	-	325,000
Note Proceeds	885,026	-	-	-	885,026
Proceeds from Sale of Assets	-	398,580	-	-	398,580
Total Other Financing Sources (Uses)	1,266,543	295,477	370,436	-	1,932,456
Net Change in Fund Balance	(114,893)	784,393	93,456	(872,829)	(109,873)
<i>Fund Balance at Beginning of Period</i>	2,790,399	1,216,064	593,096	1,955,112	6,554,671
<i>Prior Period Adjustment (Note II, G)</i>	(27,188)	-	-	-	(27,188)
Fund Balance at End of Period	\$ 2,648,318	\$ 2,000,456	\$ 686,552	\$ 1,082,283	6,417,610

City of Alamo, Texas
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended September 30, 2012

Amounts reported for governmental activities in the statement of activities are different because:

Total Net Change in Fund Balances Total Governmental Funds	\$ (109,873)
Revenue earned but not collected within sixty days deferred in governmental fund statements, recognized as revenue in Statement of Activities.	(54,267)
Compensated absences expensed as paid in governmental fund statements, expensed as incurred in government-wide statements, and reflected as liability on Statement of Net Assets.	(29,526)
Principal payments on long-term debt expensed in governmental fund statements, treated as reductions of outstanding debt in government-wide statements.	836,925
The issuance of long-term debt provides current financial resource to governmental funds and is treated as an increase in outstanding debt in government-wide statements.	(885,026)
Proceeds from IRP loans are reported as other financing sources in the governmental funds, but increase in the liabilities in the statement of net assets	(325,000)
Fixed assets expensed as capital outlay in governmental fund statements, capitalized as fixed assets in Statement of Net Assets.	2,765,675
Governmental funds do not report retirement of fixed assets; however, in the government-wide statements the costs of the assets is allocated over their estimated useful lives as depreciation expense.	(245,297)
(Increase)/Decrease in accrued interest from beginning of period to end of period.	2,190
Depreciation expense reflected in government-wide statements, not reflected in governmental fund statements.	(650,746)
Changes in Net Assets of Governmental Activities	<u>\$ 1,305,054</u>

PROPRIETARY FUNDS

City of Alamo, Texas
Statement of Net Assets
Proprietary Funds
September 30, 2012

	Business-type Activities -	
	Enterprise Funds	
	Water & Sewer	Total Enterprise
	Fund	Funds
ASSETS		
<i>Current Assets</i>		
Cash and Cash Equivalents	\$ 1,886,663	\$ 1,886,663
Restricted Cash - TWDB Grant Escrow	4,400,000	4,400,000
Investments	878,957	878,957
Accounts Receivable - Customers	352,213	352,213
Accounts Receivable - Other	5,921	5,921
Due From Other Funds	466,958	466,958
Total Current Assets	7,990,712	7,990,712
<i>Noncurrent Assets</i>		
Land	2,943,078	2,943,078
Construction In Progress	689,863	689,863
Building and Improvements (net of accumulated depreciation)	3,739,492	3,739,492
Vehicles (net of accumulated depreciation)	33,602	33,602
Furniture and Equipment (net of accumulated depreciation)	491,129	491,129
Infrastructure (net of accumulated depreciation)	16,996,935	16,996,935
Bond Issuance Cost (net)	55,992	55,992
Total Noncurrent Assets	24,950,091	24,950,091
Total Assets	\$ 32,940,803	\$ 32,940,803
LIABILITIES		
<i>Current Liabilities</i>		
Other Current Liabilities	\$ 8,246	\$ 8,246
Accrued Interest	26,650	26,650
Payroll Liabilities	453	453
Customer Deposits	363,302	363,302
Matured Debt Payable (net)	259,652	259,652
Deferred Revenue - Grants	4,400,000	4,400,000
Due to Other Funds	131,472	131,472
Total Current Liabilities	5,189,775	5,189,775
<i>Noncurrent Liabilities</i>		
Compensated Absences	40,358	40,358
Due in More than One Year (net)	5,944,570	5,944,570
Total Liabilities	11,174,703	11,174,703
NET ASSETS		
Invested In Fixed Assets Net of Related Debt	18,745,868	18,745,868
Restricted Net Assets	-	-
Unrestricted	3,020,232	3,020,232
Total Net Assets	\$ 21,766,100	\$ 21,766,100

City of Alamo, Texas
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the Year Ended September 30, 2012

	Business-type Activities -	
	Enterprise Funds	
	Water & Sewer Fund	Total Enterprise Funds
Operating Revenues		
Charges for Services	\$ 3,437,288	\$ 3,437,288
<i>Total Operating Revenues</i>	3,437,288	3,437,288
Operating Expenses		
Water Department	547,436	547,436
Sewer Department	437,213	437,213
Water Plant Department	540,844	540,844
Water Billing	174,229	174,229
General Administration	359,243	359,243
Depreciation	410,773	410,773
Amortization	3,733	3,733
Other Debt Fees	1,400	1,400
<i>Total Operating Expenses</i>	2,474,871	2,474,871
<i>Operating Income (Loss)</i>	962,417	962,417
Non-Operating Revenues (Expenses)		
Interest Revenue	1,346	1,346
Capital Grant	77,118	77,118
Interest Expense	(205,742)	(205,742)
<i>Net Non-Operating Revenues (Expenses)</i>	(127,278)	(127,278)
<i>Income Before Contributions and Transfers</i>	835,139	835,139
Transfers from Other Funds	-	-
Transfers to Other Funds	(323,850)	(323,850)
<i>Change In Net Assets</i>	511,289	511,289
<i>Net Assets at Beginning of Period</i>	21,229,107	21,229,107
<i>Prior year adjustment</i>	25,704	25,704
<i>Net Assets at End of Period</i>	\$ 21,766,100	\$ 21,766,100

City of Alamo, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2012

	Business-type Activities - Enterprise Funds	
	Water & Sewer Fund	Total Enterprise Funds
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 3,553,236	\$ 3,553,236
Cash Received from Grants	-	-
Cash Payments to Employees	(751,039)	(751,039)
Cash Payments to Other Suppliers for Goods and Services	(1,294,677)	(1,294,677)
Net Cash Provided (Used) by Operating Activities	1,507,520	1,507,520
Cash Flows from Non-capital Financing Activities:		
Transfer From (To) Primary Government	(323,850)	(323,850)
Transfer From (To) Other Funds	(151,654)	(151,654)
Net Cash Provided (Used) by Non-capital Financing Activities	(475,504)	(475,504)
Cash Flows from Capital and Related Financing Activities:		
Bond/Note Proceeds	303,966	303,966
Principal Paid	(254,833)	(254,833)
Interest Paid	(205,766)	(205,766)
Capital Asset Acquisition	(942,153)	(942,153)
Capital Grant Proceeds	4,477,118	4,477,118
Net Cash Provided (Used) for Capital and Related Financing Activities	3,378,332	3,378,332
Cash Flows from Investing Activities:		
Interest and Dividends on Investments	1,346	1,346
Investment Redemption Proceeds	615,791	615,791
Net Cash Provided (Used) for Investing Activities	617,137	617,137
Net Increase (Decrease) in Cash and Cash Equivalents	5,027,485	5,027,485
Cash and Cash Equivalents at Beginning of Year (Restated)	1,259,178	1,259,178
Cash and Cash Equivalents at End of Year	\$ 6,286,663	\$ 6,286,663
Reconciliation of Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Operating Income (Loss)	962,417	962,417
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities		
Depreciation and Amortization	414,506	414,506
Change in Assets and Liabilities:		
(Increase) Decrease in Receivables	97,633	97,633
Increase (Decrease) in Accounts Payables	8,246	8,246
Increase (Decrease) in Deferred Revenues	-	-
Increase (Decrease) in Customer Deposits	18,315	18,315
Increase (Decrease) in Wages and Salaries Payables	334	334
Increase (Decrease) in Compensated Absences	6,069	6,069
Total Adjustments	130,597	130,597
Net Cash Provided (Used) by Operating Activities	\$ 1,507,520	\$ 1,507,520

NOTES TO BASIC FINANCIAL STATEMENTS

City of Alamo, Texas
Notes to Financial Statements
For the year ending September 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City of Alamo, Texas (City) was incorporated as a general law city in 1924. The charter established a City Manager form of government. The municipal government provided by the Charter of the City of Alamo shall be known as the Board of Commissioners. The Board of Commissioners shall consist of a Mayor and five Commissioners and which shall enact local legislation, adopt budgets, determine policies, and appoint the City Manager, who is held responsible to the Board of Commissioners for the execution of the laws and the administration of the government of the City.

The general governmental functions include law enforcement, fire and other public safety activities, streets, sanitation, public improvements, public charities, parks and recreation, library services, zoning and general administrative services. Enterprise fund is used to account for the operation of its utility operations.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units by the Financial Accounting Standards Board (FASB), when applicable.

B. Financial Reporting Entity

The City's financial reporting entity comprises the following:

Primary Government: City of Alamo

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units with the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental and Financial Reporting Standards, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The City holds the corporate powers of the organization
- The City appoints a voting majority of the organization's board
- The City is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the City
- There is fiscal dependency by the organization on the City

Blended Component Unit

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Commission or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation.

The City has one blended component unit, the Alamo Economic Development Corporation (AEDC). AEDC information is stated below:

Alamo Economic Development Corporation – (AEDC) is a nonprofit industrial development corporation organized for the purpose of promoting, assisting and enhancing economic development activities for the City as provided by the Development Corporation Act of 1979. Sales Taxes are collected under Section 4B of the Development Corporation Act of 1979 for these purposes. AEDC was incorporated on January 8, 1999. The AEDC board is fully appointed by the City Board of Commissioners. The reason it is a blended component unit is, because the City appoints all AEDC board members and can remove them at will, the AEDC board is substantially the same as the City governing body.

City of Alamo, Texas
Notes to Financial Statements
For the year ending September 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of the net assets and the statement of activities. These statements report information on all of the non-fiduciary financial information for the City and its component units. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Eliminations have been made to minimize the double-counting of internal activities. Individual funds are not displayed, but the statements distinguish governmental activities (generally supported by taxes and the city general revenue) from business-type activities (generally financed in whole or in part with fees charged to external customers). The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues includes 1) charges to customers or applicants whose purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operations or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements provide reports on the financial condition and results of operations about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant GASB pronouncements and applicable FASB pronouncements and accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increase (revenues) and decrease (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred. 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 are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of current period. The City considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

City of Alamo, Texas
Notes to Financial Statements
For the year ending September 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The revenues susceptible to accrual are property taxes, franchise taxes, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods and services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

E. Fund Types and Major Funds

Governmental Funds

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations

- *General Fund* – reports the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.
- *Alamo Economic Development Corporation* – is a nonprofit industrial development corporation organized for the purpose of promoting, assisting and enhancing economic development activities for the City.

Proprietary Funds

The City reports the following major enterprise funds:

- *Water & Sewer Fund* – accounts for the provision of water and sewer services to the residents of the City.

Other Fund Types

Additionally, the city reports internal service funds which are used to account for the financing of goods or services provided by one department to other departments within the City on a cost-reimbursement basis. These services include fleet management. These are proprietary funds that are reported with governmental activities in the government-wide financial statements, because the majority of activity is for governmental activities. Direct expenses are not eliminated from the various functional categories, whereas indirect expenses are. Reimbursements are treated as reduction of expenses.

F. Assets, Liabilities and Net Assets or Equity

1. Cash and Investments

Cash of all funds, including restricted cash, are pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash accounts has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month end. An individual fund's pooled cash are available upon demand and are considered to be "cash equivalents" when preparing financial statements. All investments are recorded at fair value based on quoted market prices. Fair Value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

2. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all

City of Alamo, Texas
Notes to Financial Statements
For the year ending September 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Taxable property includes real property and certain personal property situated in the City. Certain properties of religious, educational and charitable organizations, including the federal government and the State of Texas, are exempt from taxation. Additionally, there are other exemptions as noted below in arriving at the total assessed valuation of taxable property. The valuations are subject to county-wide revaluation every five years. The effective rate is based upon the previous year's total assessed valuation.

Allowances for uncollectible tax receivables within the General and Debt Service funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and included as part of the allowance for uncollectible; except for tax receivables over 20 year, the city is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. The City does not write off tax receivable greater than 20 years.

3. Inventories

The inventories are recorded at cost and are accounted for by the consumption method.

4. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances." All trade and property tax receivables are shown net of an allowance for uncollectible.

5. Transactions between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

6. Capital Assets

Capital assets include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are capital assets valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized have an original cost of \$5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	50 Years
Infrastructure	30 Years
Improvements	20 Years
Water and Sewer System	30-50 Years
Machinery and Equipment	3-15 Years

City of Alamo, Texas
Notes to Financial Statements
For the year ending September 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated annual and sick leave balances. The City's policy allows employees to accumulate unused sick leave and extra compensation time on an unlimited basis and vacation leave based on the number of years of full time employment with the City in accordance with the following chart:

Years of Employment	Pro-Rata Accrual Rate per Month
0-19 Years	10 hours (15 days per year)
20 & Over	13.33 hours (20 days per year)

Non-exempt employees may accumulate no more than a maximum of two years allotment of vacation leave as set above. Exempt employees can accumulate more than the maximum. Sick leave may be accrued but will not be paid out to employees that leave before retirement.

8. Long-Term Obligations

In the government-wide, proprietary and component unit financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance cost are deferred and amortized over the life of the bonds using the straight line method as the amount is immaterial against the effective interest method. Unamortized bond premium and discount, issuance cost and gain or loss on refunding are not netted against the liability, but recorded in the asset portion of the financial statements. In the fund financial statements, long-term liabilities are not recorded in the governmental funds as the payment of the obligations will not be made by current financial resources. The governmental fund financial statements recognize the proceeds of debt as other financing resources.

9. Restricted Assets

The proceeds and required reserves of debt issuances are recorded as restricted assets as they are restricted for debt service and/or capital projects, payments and /or purchases.

10. Net Assets / Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available or are legally restricted by outsource parties for use for a specific purpose.

11. Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates by management.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

The city follows the procedures outlined below in establishing budgetary data reflected in the financial statements:

Annual Budgets are legally adopted for all City funds with revenue and expense/expenditure activity. The City Charter states that between sixty (60) and ninety (90) days prior to the end of the fiscal year, the City Manager is required to submit to the Board of Commissioners a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes the proposed expenditures/expenses and the proposed method to finance them.

City of Alamo, Texas
Notes to Financial Statements
For the year ending September 30, 2012

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Dates for public hearings, the purpose of which are to obtain taxpayer's comments are set by the Board of Commissioners at the same time the budget is submitted to that body. The Board of Commissioners may add to, subtract from or change appropriations, but may not change the form of the proposed budget.

Any changes must be within the revenue and reserves estimated as available by the City Manager. Prior to September 25 of each year, the budget is legally enacted through the passage of an ordinance.

The appropriated budget is prepared by fund, function, and department. The City's department head's may make transfers of appropriations between/within a department in the same fund with the City Administrator's approval. Transfers of appropriations between funds require the approval of the Board of Commissioners. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

At any time during the fiscal year, the City Manager can reallocate expenditures within a fund without the approval of the Board of Commissioners. However, any revisions to the budget which increase the total budgeted expenditures/expenses within any fund must be approved by the Board of Commissioners.

The Board of Commissioners made several budget amendments during the fiscal year. The major reasons for the amendment were to increase or decrease the budget for revenues increase or decrease the budget for expenditures.

B. Budget Basis of Accounting

The City prepares its annual budget on a basis (budget basis), which differs from generally accepted accounting principles (GAAP Basis). The budget and all transactions are presented in accordance with the City's method (budget basis) in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General fund to provide a meaningful comparison of actual results with the budget. The major differences between budget and GAAP basis are stated in the statement and schedules associated with the analysis of actual results to the budgeted expectations.

C. Excess of General Fund Expenditures over Appropriations

General Fund total expenditures exceeded appropriations (budgets) by \$61,142 at September 30, 2012.

Actual revenues exceeded budgeted revenues by \$398,760, while actual expenditures for the year exceeded actual revenues by \$114,893, after other financing sources.

D. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures", violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None	Not Applicable

E. Deficit Fund Equity / Net Assets

There were not any funds with a deficit fund balance/net assets

City of Alamo, Texas
Notes to Financial Statements
For the year ending September 30, 2012

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

F. General Fund's Fund Balance Policy

The City has adopted GASB 54 as part of its fiscal year ending September 30, 2011. Implementation of GASB 54 is required for all cities for the fiscal year ending 2011. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the City's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the use of those resources. GASB 54 provides for two major types of fund balances which are non-spendable and spendable.

Non-spendable: Fund balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, noncurrent advances to other funds that are not expected to be collected in the next fiscal year, and the principal (corpus) of an endowment fund. The City has inventories that are considered non-spendable, an encumbrance, and a non-current advance to the Hotel/Motel Fund. The City does not have any prepaid items or non-spendable funds related to an endowment. In addition to non-spendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

Restricted: Fund balances constrained by external parties, constitutional provisions, or enabling legislation. All of the City's restricted funds are from Special Revenue Funds, whose funds are revenues legally restricted for expenditures for a particular purpose.

Committed: Fund balances that contain self-imposed constraints of the government from its highest level of decision-making authority. The responsibility to commit funds rests with the elected City Commissioners and Mayor. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. The City formally approved the recording of its self-named "contingency" fund balance as committed. The contingency fund balance policy is as follows:

The City shall strive to maintain the General Fund (not the combined reporting General Fund which consists of the Payroll, Contingency, and the General funds) committed fund balance at 90 days (25%) of the current year's original budget appropriation for operations and maintenance, which is defined as the total budget less capital outlay purchase and the annual transfer from the General Fund to the other funds (Charter mandated contingency funding will not take place so long as the contingency fund is fully funded).

These funds shall be used only for emergencies, non-recurring expenditures, or major capital purchased that cannot be accommodated through current year savings. The use of funds will be approved by the City Commission. Use of these funds will be disclosed to the City Commission. If the required amount goes below the stated policy amount, the City will set aside a sufficient portion of the upcoming fiscal year's budget to meet the required reserve amount. Any surpluses realized at year end shall be used first to meet reserve policies, the capital replacement purposes, then retirement/extinguishing of debt.

Assigned: Fund balances that contain self-imposed constraints of the government to be used for a particular purpose. The responsibility to assign funds rests with the City Manager. The only funds assigned relate to the accumulation of funds for future capital projects,

Unassigned: Fund balances of the general fund that is not constrained for any particular purpose. This is also where negative amounts from the other categories of fund balance are recognized. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City typically first applies restricted resources, as appropriate opportunities arise, but reserves the right to selectively defer the use thereof to a future project or replacement equipment acquisition. When an expense is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of assigned then unassigned, and finally committed funds.

City of Alamo, Texas
Notes to Financial Statements
For the year ending September 30, 2012

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

G. Prior Period Adjustment

Prior period adjustments were needed in several funds in order to properly state the correct financial position of the City. The prior period adjustment amounts and the reason are as follows:

<u>General Fund</u>	
Adjustment to correct prior year TMRS liability.	\$ 4,211
Adjustment to correct prior year receivables.	(31,399)
Total General Fund	<u>(27,188)</u>
<u>Government-Wide Adjustments</u>	
Adjustment to record prior period accrued interest payable	(41,071)
Total Governmental Funds	<u>(68,259)</u>
Total Prior Period Adjustment (Changes in Fund Balance)	<u>(68,259)</u>
<u>Water and Sewer Fund</u>	
Adjustment to correct prior year accrued interest.	25,704
Total Water and Sewer Fund	<u>25,704</u>
Total Prior Period Adjustment (Changes in Net Assets)	<u>\$ (42,555)</u>

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS

A. Cash and Cash Equivalents

1. Deposits and Investments

City's funds are required to be deposited and invested under the terms of a depository contract and investment policy pursuant to state statute. The depository bank deposits for safekeeping and trust with its agent approved pledged securities authorized by Chapter 2257 Collateral for Public Funds of the Government Code 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 dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At September 30, 2012, the carrying amount of the City's deposits was \$3,863,295, in addition the City has \$4,400,000 in an escrow account fully insured by pledged securities as required by the state statutes at September 30, 2012. The City has one depository account:

Frost Bank

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has a policy of maintaining contact with the trust department of its depository agency to eliminate all custodial credit risk.

As of September 30, 2012, the City's bank balance of \$8,260,123 was not exposed to custodial credit risk and was insured and over-collateralized.

B. Restricted Cash –Escrow Account

This account represents funds (cash receipts) held in escrow for TWDB Contract #G12004, for TWDB Project #10406, authorized with Resolution #11-105 on February 7, 2012. The City does not have ownership of this account and cannot write checks from it. The Executive Administrator from the TWDB is the only individual authorized to disburse funds from the Escrow Account, for eligible expenditures. The City is responsible to ensure that the funds are property invested and properly secured. Funds were 100% secured by the FDIC and

City of Alamo, Texas
Notes to Financial Statements
For the year ending September 30, 2012

pledged securities. Total funds were \$4,400,000. No expenditures had been made from this account at September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS (Continued)

2. Investments

The City is required by Government code Chapter 2256, the public Funds Investment Act (“Act”), to adopt, implement, and publicize an investment policy. That policy must be written, primarily emphasize safety of principal and liquidity, address investment diversification, yield, and maturity and the quality and capability of investment management, and include a list of the types of authorized investments in which the investing entity’s funds may be invested, and the maximum allowable stated maturity of any individual investment owned by the entity.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as part of the audit of the general purposes financial statements disclosed that in the areas of investment practices, management reports and establish appropriate policies. The City adheres to the requirements of the Act. Additionally, investment practices of the City are in accordance with local policies.

Due to the extremely low interest rates, the City does not have any investments at September 30, 2012. The City’s depository provides a greater savings rate according to the depository contract entered into. The funds are available immediately as needed.

Analysis of Specific Deposit and Investment Risks:

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

- a. Interest Rate Risk
This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk. The City’s investment policy states that no investment shall exceed 24 months in maturity. By limiting the exposure of its investments, the City reduces its risk to the rising or decreasing interest rates.
- b. Credit Risk
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized agencies are designed to an indication of credit risk. At year end, the City was not significantly exposed to credit risk.
- c. Custodial Credit Risk
Deposits and investments are exposed to custodial credit risk if they are not covered by the depository insurance and the deposits and investments are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution’s trust department or agent but not in the City’s name. At year end, the City was not exposed to custodial credit risk.
- d. Concentration of Credit Risk
This risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. At year end, the City was exposed to concentration of credit risk, but highly collateralized. With the City’s investment policy, diversification is stressed. The City was in compliance with its diversification investment guidelines.
- e. Foreign Currency Risk
This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

City of Alamo, Texas
Notes to Financial Statements
For the year ending September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS (Continued)

C. Receivables

Receivables for the City at September 30, 2012, were as follows:

Governmental Funds	Accounts		Total (Net)
	Receivable	Uncollectible	
Property Taxes	\$ 625,760	\$ (62,576)	\$ 563,184
Sales Taxes	536,409	-	536,409
Court Fines and Fees	294,486	(147,243)	147,243
Note Receivables	900,148	-	900,148
Utility Customers	181,251	-	181,251
Other Sources	202,001	-	202,001
	<u>\$ 2,740,055</u>	<u>\$ (209,819)</u>	<u>\$ 2,530,236</u>

Business-Type Funds	Accounts		Total (Net)
	Receivable	Uncollectible	
Utility Customers	\$ 469,428	\$ (117,215)	\$ 352,213
Other Sources	5,920	-	5,920
	<u>\$ 475,348</u>	<u>\$ (117,215)</u>	<u>\$ 358,133</u>

D. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the year, the various components of deferred revenue and unearned revenue reported in the fund financial statements were as follows:

Deferred Revenue Description	General Fund	Debt Service Fund	Asset Forfeitures	Water & Sewer	Total
Property Taxes	\$ 461,572	\$ 101,612	\$ -	\$ -	\$ 563,184
Grant Advance	10,000	-	-	4,400,000	4,410,000
Court Fines	147,243	-	-	-	147,243
Paving Liens	42,777	-	-	-	42,777
Asset Forfeiture	-	-	5,181	-	5,181
Total	<u>\$ 661,592</u>	<u>\$ 101,612</u>	<u>\$ 5,181</u>	<u>\$ 4,400,000</u>	<u>\$ 5,168,385</u>

Less Deferred Revenue-Property Taxes	(563,184)
Total Deferred Revenue for Primary Government	<u>\$ 4,605,201</u>

City of Alamo, Texas
Notes to Financial Statements
For the year ending September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS (Continued)

E. Due from Other Funds

The City reports interfund balances between many of its funds. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheets for governmental and enterprise funds. The interfund balances are operational and short-term in nature. Interfund balances at September 30, 2012 consisted of the following:

		Due from					
		General Fund	Economic Development	Debt Service	Hotel/Motel Fund	Water & Sewer Fund	Totals
Due To	General Fund	\$ 416,222	\$ 1,913	\$ -	\$ 1,550	\$ 131,472	\$ 551,157
	Debt Service Funds	200,051					200,051
	Total Governmental Funds	616,273	1,913	-	1,550	131,472	751,208
	Water and Sewer Fund	466,959					466,959
	Total Enterprise Funds	466,959	-	-	-	-	466,959
	Totals	\$ 1,083,232	\$ 1,913	\$ -	\$ 1,550	\$ 131,472	\$ 1,218,167

F. Interfund Transfers

The City reports interfund transfers between many of its funds. Interfund transfers for the year ended September 30, 2012, consisted of the following:

		Transfers Out				
		General Fund	Economic Development	Capital Projects	Water & Sewer Fund	Totals
Transfers In	General Fund	\$ -	\$ 57,667	\$ -	\$ 323,850	\$ 381,517
	Capital Project Funds	-	-	-	-	-
	Debt Service Funds	-	370,436	-	-	370,436
	Total Governmental Funds	-	428,103	-	323,850	751,953
	Water and Sewer Fund	-	-	-	-	-
	Totals	\$ -	\$ 428,103	\$ -	\$ 323,850	\$ 751,953

City of Alamo, Texas
Notes to Financial Statements
For the year ending September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS (Continued)

G. Capital Assets

Capital asset activity for the year ended September 30, 2012 was as follows:

Primary Government	Restated			Ending
Governmental Activities:	Beginning			Balances
<i>Capital Assets not being depreciated:</i>	Balances	Increases	Decreases	Balances
Land and right of way	\$ 1,359,299	\$ 372,291	\$ -	\$ 1,731,590
Construction in Progress	2,148,555	1,035,818	-	3,184,373
Total capital assets, not being depreciated	<u>3,507,854</u>	<u>1,408,109</u>	<u>-</u>	<u>4,915,963</u>
<i>Capital assets, being depreciated:</i>				
Building and Improvements	10,579,483	-	(368,082)	10,211,401
Vehicles	2,076,340	738,263	(208,149)	2,606,454
Machinery & Equipment	1,822,698	100,633	-	1,923,331
Infrastructure	6,501,801	518,670	-	7,020,471
Total capital assets, being depreciated	<u>20,980,322</u>	<u>1,357,566</u>	<u>(576,231)</u>	<u>21,761,657</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Improvement	(2,141,856)	(238,204)	122,785	(2,257,275)
Vehicles	(1,658,657)	(128,923)	208,149	(1,579,431)
Machinery & Equipment	(555,140)	(81,383)	-	(636,523)
Infrastructure	(2,054,703)	(202,235)	-	(2,256,938)
Total accumulated depreciation	<u>(6,410,356)</u>	<u>(650,745)</u>	<u>330,934</u>	<u>(6,730,167)</u>
Total capital assets, being depreciated, net	<u>14,569,966</u>	<u>706,821</u>	<u>(245,297)</u>	<u>15,031,490</u>
Governmental activities capital assets, net	<u>\$ 18,077,820</u>	<u>\$ 2,114,930</u>	<u>\$ (245,297)</u>	<u>\$ 19,947,453</u>
Business-Type Activities	Beginning			Ending
<i>Capital Assets not being depreciated:</i>	Balances	Increases	Decreases	Balances
Land and right of way	\$ 2,943,078	\$ -	\$ -	\$ 2,943,078
Construction in Progress	4,222,568	708,004	(4,240,709)	689,863
Total capital assets, not being depreciated	<u>7,165,646</u>	<u>708,004</u>	<u>(4,240,709)</u>	<u>3,632,941</u>
<i>Capital assets, being depreciated:</i>				
Building and Improvements	4,757,868	-	-	4,757,868
Vehicles	100,782	24,966	(13,338)	112,410
Machinery & Equipment	684,353	333,336	-	1,017,689
Infrastructure	16,895,154	4,116,556	-	21,011,710
Total capital assets, being depreciated	<u>22,438,157</u>	<u>4,474,858</u>	<u>(13,338)</u>	<u>26,899,677</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Improvement	(917,255)	(101,122)	-	(1,018,377)
Vehicles	(85,024)	(7,122)	13,338	(78,808)
Machinery & Equipment	(445,898)	(80,662)	-	(526,560)
Infrastructure	(3,792,907)	(221,867)	-	(4,014,774)
Total accumulated depreciation	<u>(5,241,084)</u>	<u>(410,773)</u>	<u>13,338</u>	<u>(5,638,519)</u>
Total capital assets, being depreciated, net	<u>17,197,073</u>	<u>4,064,085</u>	<u>-</u>	<u>21,261,158</u>
Business-Type capital assets, net	<u>\$ 24,362,719</u>	<u>\$ 4,772,089</u>	<u>\$ (4,240,709)</u>	<u>\$ 24,894,098</u>
Total Primary Government Total	<u>\$ 42,440,539</u>	<u>\$ 6,887,018</u>	<u>\$ (4,486,006)</u>	<u>\$ 44,841,551</u>

City of Alamo, Texas
Notes to Financial Statements
For the year ending September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS (Continued)

F. Capital Assets (Continued)

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

Governmental Activities	
General Government	\$ 247,168
Public Safety	250,126
Highways and Streets	46,926
Health and Welfare	19,056
Culture and Recreation	65,148
Economic Development	22,321
Total Governmental Activities	<u>\$ 650,746</u>

H. Long Term Obligations

The following schedule summarizes the changes in long-term debt during year ended September 30, 2012 with compensated absences:

<u>Governmental Activities</u> Description	Original Issue	Final Maturity	Coupon Rate %	Original Issue	Outstanding Balance 9/30/12
Bond Series 1998	10/1/1998	2/1/2013	4.83%	\$ 1,500,000	\$ 135,000
Bond Series 2003	6/15/2003	2/15/2021	2.00% - 4.00%	2,090,000	1,190,000
Bond Series 2003 - A	8/15/2003	2/15/2013	3.50% - 3.95%	1,715,000	200,000
Bond Series 2004	9/15/2004	2/15/2006	1.50% - 5.00%	4,300,000	3,165,000
Bond Series 2008	4/17/2008	2/15/2028	3.75%	3,000,000	2,595,000
				<u>\$ 12,605,000</u>	<u>\$ 7,285,000</u>

Interest paid on bonded indebtedness during the current year was \$ 324,821

<u>Business-Type Activities</u> Description	Original Issue	Final Maturity	Coupon Rate %	Original Issue	Outstanding Balance 9/30/12
W & S, Bond Series 2000	6/1/2000	8/1/2040	4.50%	\$ 2,967,000	\$ 2,592,000
Bond Series 2007	10/18/2007	3/1/2027	2.20% - 2.75%	4,000,000	3,310,000
Bond Series 2012	4/2/2012	3/1/2022	0.008% - 2.48%	279,000	279,000
				<u>\$ 7,246,000</u>	<u>\$ 6,181,000</u>

Interest paid on bonded indebtedness during the current year was \$ 205,742

<u>Governmental Activities</u> Description	Outstanding Balance 10/01/11	Issued Current	Retired Current	Outstanding Balance 9/30/12	Amounts Due Within One year
Bond Series 1998	\$ 265,000	\$ -	\$ 130,000	\$ 135,000	\$ 135,000
Bond Series 2003	1,300,000	-	110,000	1,190,000	115,000
Bond Series 2003 - A	395,000	-	195,000	200,000	200,000
Bond Series 2004	3,330,000	-	165,000	3,165,000	170,000
Bond Series 2008	2,710,000	-	115,000	2,595,000	120,000
Total Bonds Payable	<u>\$ 8,000,000</u>	<u>\$ -</u>	<u>\$ 715,000</u>	<u>\$ 7,285,000</u>	<u>\$ 740,000</u>

City of Alamo, Texas
Notes to Financial Statements
For the year ending September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS (Continued)

G. Long Term Obligations (Continued)

<u>Business-Type Activities</u> Description	Outstanding Balance 10/01/11	Issued Current	Retired Current	Outstanding Balance 9/30/2012	Amounts Due Within One year
W & S, Bond Series 2000	\$ 2,637,000	\$ -	\$ 45,000	\$ 2,592,000	\$ 47,000
Bond Series 2007	3,490,000	-	180,000	3,310,000	185,000
Bond Series 2012	-	279,000	-	279,000	24,000
Total Bonds Payable	\$ 6,127,000	\$ 279,000	\$ 225,000	\$ 6,181,000	\$ 256,000

<u>Governmental Activities</u> Obligation	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One year
General Obligation Bonds	\$ 8,000,000	\$ -	\$ 715,000	\$ 7,285,000	\$ 740,000
Capital Leases	65,542	885,026	121,925	828,643	118,072
Loan Payables	312,500	325,000	-	637,500	24,473
Sick and Vacation Leave	283,557	213,188	183,662	313,083	-
Total Governmental Activities	\$ 8,661,599	\$ 1,423,214	\$ 1,020,587	\$ 9,064,226	\$ 882,545

<u>Business-Type Activities</u> Obligation	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One year
General Obligation Bonds	\$ 6,127,000	\$ 279,000	\$ 225,000	\$ 6,181,000	\$ 256,000
Capital Leases	28,089	24,966	29,833	23,222	3,652
Sick and Vacation Leave	34,289	33,713	27,644	40,358	-
Total Business-Type Activities	\$ 6,189,378	\$ 337,679	\$ 282,477	\$ 6,244,580	\$ 259,652

I. Certificate of Obligation & Capital Leases

Debt service requirements of bonds and capital leases payables at September 30, 2012 are as follows:

Certificates of Obligation Payable

Year Ended	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
September 30,						
2013	\$ 740,000	\$ 275,254	\$ 1,015,254	\$ 256,000	\$ 207,137	\$ 463,137
2014	425,000	256,034	681,034	264,000	199,899	463,899
2015	435,000	240,480	675,480	272,000	192,345	464,345
2016	450,000	224,030	674,030	275,000	184,461	459,461
2017	470,000	206,487	676,487	283,000	176,292	459,292
2018-2032	4,765,000	984,898	5,749,898	4,831,000	1,663,550	6,494,550
Total Certificates of Obligation Payable	\$ 7,285,000	\$ 2,187,183	\$ 9,472,183	\$ 6,181,000	\$ 2,623,684	\$ 8,804,684

Capital Leases Payable

Year Ended	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
September 30,						
2013	\$ 118,072	\$ 21,372	\$ 139,444	\$ 3,652	\$ 661	\$ 4,313
2014	121,258	18,186	139,444	3,750	562	4,313
2015	124,529	14,915	139,444	3,851	461	4,313
2016	127,889	11,555	139,444	3,955	357	4,312
2017	131,339	8,104	139,444	4,062	251	4,313
2018-2019	205,556	5,943	211,499	3,952	184	4,136
Total Capital Leases Payable	\$ 828,643	\$ 80,075	\$ 908,718	\$ 23,222	\$ 2,476	\$ 25,698

City of Alamo, Texas
Notes to Financial Statements
For the year ending September 30, 2012

<u>Loan Payable</u> Year Ended September 30,	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 24,473	\$ 6,374	\$ 30,847
2014	24,717	6,130	30,847
2015	24,964	5,883	30,847
2016	25,214	5,633	30,847
2017	25,466	5,381	30,847
2018-2022	131,202	23,035	154,237
2023-2027	137,895	16,343	154,238
2028-2032	144,929	9,309	154,238
2033-2036	98,640	2,142	100,782
Total Capital Leases Payable	<u>\$ 637,500</u>	<u>\$ 80,230</u>	<u>\$ 717,731</u>

City of Alamo, Texas
Notes to Financial Statements
For the year ending September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS (Continued)

J. Notes Receivable – AEDC Blended Component Unit

Notes receivable for the Alamo Economic Development Corporation at September 30, 2012 are as follows:

Note	Outstanding Balance As of 10/1/2011	Increases	Decreases	Outstanding Balance As of 9/30/2012
Los Alamos Imaging Center, LP Loan #1 Dated, August 18, 2009, for the amount of \$150,000 at an interest rate of 3.25% with maturity on September 1, 2016.	\$ 118,342	\$ -	\$ 16,184	\$ 102,158
Los Alamos Imaging Center, LP Loan #2 Dated, October 18, 2009, for the amount of \$150,000 at an interest rate of 3.25% with maturity on November 1, 2016.	118,366	-	16,024	102,342
New Generation Loan Dated, December 13, 2010, for the amount of \$150,000 at an interest rate of 5.00% with maturity on January 1, 2021.	142,722	-	10,880	131,842
V Day Spa Loan Dated, January 25, 2011, for the amount of \$125,000 at an interest rate of 5.00% with maturity on February 1, 2021.	119,615	-	9,104	110,511
Soleil Rehab Loan Dated, January 14, 2011, for the amount of \$150,000 at an interest rate of 5.00% with maturity on February 1, 2021.	143,554	-	10,755	132,799
NIKODEE II, LLC Loan Dated, April 17, 2012, for the amount of \$150,000 at an interest rate of 5.00% with maturity on May 1, 2019.		150,000	4,504	145,496
Poncho's Central Kitchen, LLC Loan Dated, September 30, 2012, for the amount of \$175,000 at an interest rate of 5.00% with maturity on October 1, 2022.	-	175,000	-	175,000
Totals \$	<u>642,599</u>	<u>325,000</u>	<u>67,451</u>	<u>900,148</u>

City of Alamo, Texas
Notes to Financial Statements
For the year ending September 30, 2012

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees (workman's compensation), and natural disasters. During the fiscal year, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years. A copy of TML's comprehensive annual report may be obtained by request at the following address;

Texas Municipal League
1821 Rutherford Lane, Suite 400
Austin, TX 78754-5128

B. Commitments

1. Grant Programs

The City participates in several federal and state assisted grant programs. Under the terms of these grants, the City is subject to program compliance audits by the grantors or their representatives. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. If future program compliance audits result in questioned or disallowed costs, reimbursements would be made to the grantor agencies. The amounts of expenditures which might be disallowed by the grantor agencies cannot be determined at this time; however, management believes such amounts, if any, would be immaterial.

2. Litigation

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's legal counsel and management that resolution of these matters will not have a material adverse effect on the financial condition of the City at September 30, 2012.

C. Employee Retirement Benefits

1. Plan Description

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System.

This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com

City of Alamo, Texas
Notes to Financial Statements
For the year ending September 30, 2012

IV. OTHER INFORMATION (Continued)

C. Employee Retirement Benefits (Continued)

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

	<u>Plan Year 2012</u>	<u>Plan Year 2011</u>
Employee deposit rate	5.00%	5.00%
Matching ratio (city to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 20/0	60/5, 20/0
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

2. Contributions

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

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

Three-Year Trend Information				
Fiscal Year Ending	Annual Pension Cost(APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
2009	\$ 239,465	\$ 239,465	100%	\$ -
2010	\$ 272,417	\$ 272,417	100%	\$ -
2011	\$ 306,878	\$ 306,878	100%	\$ -

The funded status as of December 31, 2011, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2011	\$4,693,873	\$6,307,303	74.4%	\$1,613,430	\$3,711,823	43.5%

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

City of Alamo, Texas
Notes to Financial Statements
For the year ending September 30, 2012

IV. OTHER INFORMATION (Continued)

D. Urban County

The City of Alamo and other municipalities in Hidalgo County participate in Hidalgo County's "Urban County" Program. By being designated as an "Urban County," Hidalgo County and the participating cities are entitled to receive a formula share of entitlement CDBG program funds from U.S. Department of Housing and Urban Development (HUD).

Monies received from HUD are allocated to the cities participating in the program based on agreed upon formulas. The County is responsible for the administration of the program and is ultimately responsible for including the grant activity related to the "Urban County Program" in its audit report (s) as per CDBG guidelines. All monies received from HUD on this program are handled by the County. The County pays the vendors or contractors directly for goods or services which benefit the different cities. The County also reimburses the cities for general administration cost incurred by those cities.

E. Subsequent Events

For the purposes of reporting subsequent events, management has considered events occurring up to February 26, 2013, the date the report was available to be issued. No subsequent events were noted.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

City of Alamo, Texas
Texas Municipal Retirement System
Schedule of Funding Progress for Retirement Plan (Unaudited)
For the Year Ended September 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Excess of Assets Over/Unfunded AAL (UAAL)	Covered Payroll
12/31/2007	\$ 2,415,507	\$ 3,983,993	60.63%	\$ 1,568,486	\$2,882,247
12/31/2008	2,863,495	4,481,876	63.89%	1,618,381	2,996,415
12/31/2009	3,239,222	4,891,044	66.23%	1,651,822	3,201,420
12/31/2010	4,037,306	5,723,745	70.54%	1,686,439	3,461,557
12/31/2011	4,693,873	6,307,303	74.42%	1,613,430	3,711,823

City of Alamo, Texas
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Year Ended September 30, 2012

	Budgeted Amounts		Actual Budget Basis	Variance Favorable (Unfavorable) Final to Actual
	Original	Final		
Revenues				
Property Taxes	\$ 2,287,054	\$ 2,287,054	\$ 2,266,321	\$ (20,733)
Sales Taxes	2,409,848	2,409,848	2,517,768	107,920
Franchise Taxes	426,018	426,018	479,688	53,670
Other Taxes	550	550	210	(340)
Licenses and Permits	95,580	95,580	105,652	10,072
Fines and Fees	234,350	234,350	368,652	134,302
Charges for Services	1,715,203	1,715,203	1,724,128	8,925
State drug Forfeitures	-	-	-	-
Intergovernmental Revenues	-	127,197	238,119	110,922
Interest Revenue	8,800	8,800	2,822	(5,978)
Miscellaneous Revenue	-	-	-	-
Total Revenues	7,177,403	7,304,600	7,703,360	398,760
Expenditures				
General Government	2,994,523	3,023,886	3,005,173	18,713
Public Safety	2,931,995	3,009,955	3,030,459	(20,504)
Highways and Streets	559,080	602,380	571,269	31,111
Health and Welfare	240,981	240,981	231,987	8,994
Culture and Recreation	702,862	814,807	763,101	51,706
Capital outlay	894,820	1,234,317	1,346,156	(111,839)
Economic Development	-	-	-	-
Principal	55,958	79,808	121,925	(42,117)
Interest	17,520	17,520	14,726	2,794
Total Expenditures	8,397,739	9,023,654	9,084,796	(61,142)
Excess of Revenues Over (Under) Expenditures	(1,220,336)	(1,719,054)	(1,381,436)	337,618
Other Financing Sources (Uses)				
Transfers from Other Funds	381,517	381,517	381,517	-
Transfers to Other Funds	-	-	-	-
IRP loan proceeds	-	-	-	-
Note Proceeds	884,992	884,992	885,026	34
Proceeds from Sale of Assets	-	-	-	-
Net Other Financing Sources (Uses)	1,266,509	1,266,509	1,266,543	34
Net Change in Fund Balance	\$ 46,173	\$ (452,545)	(114,893)	\$ 337,652
Prior Period Adjustment (Note II, G)			(27,188)	
Fund Balance at Beginning of Period			2,790,399	
Fund Balance at End of Period			\$ 2,648,318	

OTHER SUPPLEMENTARY INFORMATION

Other supplementary information includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

City of Alamo, Texas
Schedule of Revenues and Expenses to Indicate
Net Revenue Available for Debt Service
Proprietary Funds
For the Year Ended September 30, 2012

	Business-type Activities - Enterprise Funds	
	Water & Sewer Fund	Total Enterprise Funds
Operating Revenues		
Charges for Services	\$ 3,437,288	\$ 3,437,288
<i>Total Operating Revenues</i>	3,437,288	3,437,288
Operating Expenses		
Water Department	547,436	547,436
Sewer Department	437,213	437,213
Water Plant Department	540,844	540,844
Water Billing	174,229	174,229
General Administration	359,243	359,243
Depreciation	410,773	410,773
Amortization	3,733	3,733
Other Debt Fees	1,400	1,400
<i>Total Operating Expenses</i>	2,474,871	2,474,871
<i>Operating Income (Loss)</i>	962,417	962,417
Non-Operating Revenues (Expenses)		
Interest Revenue	1,346	1,346
Interest Expense	(205,742)	(205,742)
<i>Net Non-Operating Revenues (Expenses)</i>	(204,396)	(204,396)
<i>Net Revenue Available for Debt Service</i>	\$ 758,021	\$ 758,021

City of Alamo, Texas
Schedule of Delinquent Taxes Receivable
For the Year Ended August 31, 2012

<u>Year Ended August 31,</u>	<u>1 Tax Rates Maintenance</u>	<u>2 Debt Service</u>	<u>3 Assessed/ Appraised Value for City Tax Purposes</u>
2003 & Prior Years	\$ Various	\$ Various	\$ Various
2004	0.4756	0.0478	293,870,575
2005	0.4195	0.1343	318,667,626
2006	0.4014	0.1524	337,815,384
2007	0.4457	0.1472	363,816,329
2008	0.4457	0.1472	339,374,302
2009	0.4684	0.1235	439,311,243
2010	0.4839	0.1079	466,885,353
2011	0.4751	0.1167	452,905,402
2012 (Unaudited)	0.4711	0.11438	477,293,393

City of Alamo, Texas
Schedule of Delinquent Taxes Receivable
For the Year Ended August 31, 2012

<u>Year Ended August 31,</u>	<u>1 Tax Rates Maintenance</u>	<u>2 Debt Service</u>	<u>3 Assessed/ Appraised Value for City Tax Purposes</u>
2003 & Prior Years	\$ Various	\$ Various	\$ Various
2004	0.4756	0.0478	293,870,575
2005	0.4195	0.1343	318,667,626
2006	0.4014	0.1524	337,815,384
2007	0.4457	0.1472	363,816,329
2008	0.4457	0.1472	339,374,302
2009	0.4684	0.1235	439,311,243
2010	0.4839	0.1079	466,885,353
2011	0.4751	0.1167	452,905,402
2012 (Unaudited)	0.4711	0.11438	477,293,393

SINGLE AUDIT SECTION

 *Oscar R. González, CPA*
&
Associates, P.L.L.C.
Certified Public Accountants

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Oscar R. González
Melissa González

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 City Commissioners of the,
City of Alamo, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate blended component units, each major fund, and the aggregate remaining fund information of City of Alamo, Texas, as of and for the year ended September 30, 2012, which collectively comprise the City of Alamo, Texas's basic financial statements and have issued our report thereon dated February 26, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of City of Alamo, Texas, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Alamo, Texas's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Alamo, Texas's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Alamo, Texas's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Alamo, Texas's financial statements are free of 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*.

This report is intended solely for the information and use of management, City Commission, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Oscar R. Gonzalez, CPA & Associates, PLLC
Oscar R. Gonzalez, CPA & Associates, PLLC
Certified Public Accountants
Pharr, Texas

February 26, 2013



Oscar R. González, CPA
&
Associates, P.L.L.C.
Certified Public Accountants

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Oscar R. González
Melissa González

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the City Commissioners of the,
City of Alamo, Texas

Compliance

We have audited City of Alamo, Texas's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Alamo, Texas's major federal programs for the year ended September 30, 2012. City of Alamo, Texas's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Alamo, Texas's management. Our responsibility is to express an opinion on City of Alamo, Texas's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Alamo, Texas's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Alamo, Texas's compliance with those requirements.

In our opinion, City of Alamo, Texas, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control over Compliance

Management of City of Alamo, Texas, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Alamo, Texas's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Alamo, Texas's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent,

or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of City of Alamo's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on City of Alamo's compliance but not to provide an opinion on the effectiveness of City of Alamo's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Alamo's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.


Oscar R. Gonzalez, CPA & Associates, PLLC
Certified Public Accountants
Pharr, Texas

February 26, 2013

CITY OF ALAMO, TEXAS
Schedule of Findings and Questioned Costs
For the Year ended September 30, 2012

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? _____ YES X NO

One or more significant deficiencies identified that are not considered to be material weaknesses? _____ YES X None Reported

Non-compliance material to financial statements noted? _____ YES X NO

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? _____ YES X NO

One or more significant deficiencies identified that are not considered to be material weaknesses? _____ YES X

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of Circular A-133? _____ YES X NO

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.769	Rural Business Enterprise Grants
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as a low-risk auditee? _____ YES X NO

CITY OF ALAMO, TEXAS
Schedule of Findings and Questioned Costs
For the Year ended September 30, 2012

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Cost

NONE

City of Alamo, Texas
Schedule of Expenditures of Federal and State Awards
For the Year Ended September 30, 2012

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>FEDERAL GRANTS</u>			
<u>U.S. Environmental Protection Agency</u>			
Passed through Texas Water Development Board:			
Capitalization Grants for Clean Water State Revolving I	66.458	72138	\$ 442,048
Total U.S. Environmental Protection Agency			<u>442,048</u>
<u>U.S. Department of Justice</u>			
Direct Program:			
Public Safety Partnership and Community Policing Gra	16.710	2009-RK-WX-0824	51,684
Total U.S. Department of Justice			<u>51,684</u>
<u>U.S. Department of Homeland Security</u>			
Passed through Texas Homeland Security Office:			
State Homeland Security Program	97.067	2009-SS-T9-0064	51,177
State Homeland Security Program	97.067	2010-SS-T0-0008	33,309
State Homeland Security Program	97.067	2011-SS-00019	7,593
Total U.S. Department of Homeland Security			<u>92,079</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed through Housing and Urban Development:			
TDRA Disaster Recovery Program	14.218	DRS010003	36,093
Total U.S. Department of Housing and Urban Development			<u>36,093</u>
<u>U.S. Department of Energy</u>			
Passed through Energy:			
Energy Efficiency and Conservation Block Grant	81.128	DE-EE0000893	57,575
Total U.S. Department of Agriculture			<u>57,575</u>
<u>U.S. Department of Agriculture</u>			
Passed through Rural Development:			
Intermediary relending Program	10.767	742914955	325,000
Rural Business Enterprise Grants	10.769	742914955	250,000
Total U.S. Department of Agriculture			<u>575,000</u>
Total Expenditures of Federal Awards			<u>\$ 1,254,479</u>
<u>STATE GRANTS</u>			
<u>Governor's Division of Emergency Management</u>			
Local Border Security Program		LSBP 1110013	18,336
Total Expenditures of State Awards			<u>18,336</u>
Total Expenditures of Federal & State Awards			<u>\$ 1,272,815</u>

City of Alamo, Texas
Notes to Schedule of Expenditures of Federal and State Awards
For the Year Ended September 30, 2012

Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal grant activity of City of Alamo, Texas, is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

CITY OF ALAMO TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Schedule Reference (2011-1) CONTROLS OVER SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Finding/Recommendation: Finance Department should ensure their Schedule of Expenditures of Federal Awards is accurate and that incorporates all required elements.

Current Status: Corrected

Schedule Reference (2011-2) SPECIAL TESTS AND PROVISIONS – GRANTS REQUIRING SEPARATE FUNDS

Finding/Recommendation: Finance Department should immediately create an IRP Revolving Fund and transfer all activities from IRP program out of the Alamo Economic Development Corporation and into its appropriate fund.

Current Status: Corrected

CITY OF ALAMO TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2012