

**CITY OF ALVARADO, TEXAS**  
**SEPTEMBER 30, 2010**

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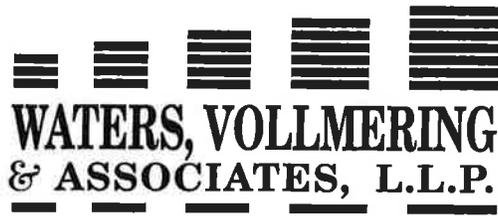
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**INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and City Council,  
City of Alvarado, Texas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Alvarado, Texas (the City) as of and for the year then ended September 30, 2010, 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's management. Our responsibility is to express an opinion 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 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, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, 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 April 21, 2011, on our consideration of the City of Alvarado, Texas' internal control over financial reporting and 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 the 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 read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 15, and the budgetary comparison information on pages 48 through 50 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 assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

  
Waters, Vollmering & Associates, LLP

Mansfield, Texas

April 21, 2011

# *City of Alvarado*

104 W. College  
Alvarado, Texas 76009

Phone 817-790-3351  
FAX 817-783-7925

April 15, 2011

The Honorable Mayor, City Council and the Citizens of the City of Alvarado

The City council of the City of Alvarado requires that the City's Finance Department prepare a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Accordingly, the Annual Audited Financial Report for the City of Alvarado, Texas for the fiscal year ended September 30, 2010, is hereby issued.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making representations, the City has designed a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatements. As management, we assert, that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Waters, Vollmering & Associates, Independent Certified Public Accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements for the City for the fiscal year ended September 30, 2010, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended September 30, 2010, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

GAAP requires the management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report

## **Profile of the City**

The oldest town in Johnson County, Texas, Alvarado was incorporated in 1889 and is located at the intersection of Interstate Highway 35 and U.S. Highway 67, 20 miles south of Fort Worth. The City occupies approximately 4.67 square miles and serves a population of about 4,000. The City is empowered by state statute to levy a tax on both real and business personal property located within its boundaries.

The City operates under a council-manager form of government. Policy-making and legislative authority are vested in a governing Council consisting of the mayor and six (6) Council members. The City is divided into three (3) wards and two (2) Council members represent each ward. The Council members must live in the ward they serve. The City Council is responsible for, among other things, passing ordinances, adopting the budget, appointing committees, and hiring the City Manager. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and appointing heads of various departments. The Mayor and City Council members serve two-year terms.

The basic financial statements of the City include governmental activities, organizations and functions for which the City is financially accountable as defined by the Government Accounting Standards Board (GASB). Based on these criteria, no other governmental organizations are included in this report.

**Services Provided.** The City provides a full range of services, including public safety (police, fire, animal control), maintenance of streets, drainage and infrastructure, sanitation services, maintenance of the treated water distribution system and both sanitary and storm water collection and treatment systems, recreational activities and cultural activities and general administrative services.

**Economic Conditions and Outlook**

The information presented in the financial statements is perhaps best understood when it is considered from the broader aspect of the specific environment within which the City operates.

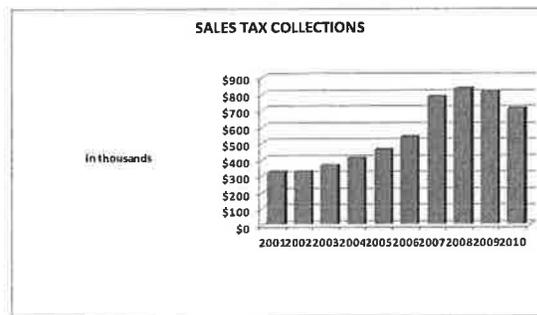
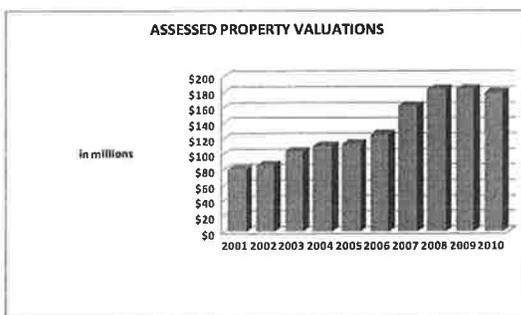
**Local Economy.** Like all other cities in the nation and in the state and surrounding areas the City of Alvarado is showing a significant economic downturn. Much of the downturn can be attributed to the slowing down of natural gas drilling in the area.

The following facts reflect Alvarado’s economic condition and outlook:

Property valuations were \$180M, showing a decrease of approximately \$5M from the previous year.

The property tax rate was increased from \$0.697313 to \$.0722313. Alvarado, like many of the taxing entities in the area found it necessary to increase their tax rate this year because of the decrease in property valuations.

Sales tax collections decreased by \$362,900 from \$1,085,269 to \$722,369. On the positive side, 2011 sales taxes are providing a 15% increase over the previous year.



## **Accounting System and Budgetary Control**

The City's accounting records and general government operations are maintained on a modified accrual basis, with the revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities incurred. Accounting records for the City utilities are maintained on the accrual basis.

The annual budget serves as a foundation of the City's financial planning and control. State law provides that the City Council shall adopt the annual budget prepared by the City Manager. The proposed budget must be submitted to the City Secretary no later than August 1<sup>st</sup>. The City Manager is authorized to transfer budgeted amounts between line items and departments; however any revisions that alter the total expenditures of any fund must be approved by the City Council.

Budgetary control has been established at the departmental level. Financial reports are produced showing budget and actual expenditures by line item, and are distributed monthly to the departmental management and to others by request.

Individual line items are reviewed and analyzed for budgetary compliance. Personnel expenditures are monitored and controlled at a position level and capital expenditures are monitored and controlled item by item. Revenue budgets are reviewed monthly.

Budget-to-actual comparisons are provided in this report for the General Fund on page 48.

**Debt Management.** The City issues debt only for the purpose of acquiring or constructing capital assets for the general benefit of its citizens, and to allow the fulfillment of its various missions as a City. Debt may be issued for the purposes of purchasing land or right-of-way and/or improvements to land, for construction projects to provide for the general good, or for capital equipment. The City will uphold all related bond covenant agreements associated with bond issues. Bond issues are only conducted after consultation with an outside financial advisor. The City's currently contracted with Southwest Securities to provide these services.

**Cash Management.** The City utilizes its bank depository contract and its investment policy in the management of all cash. Under the Bank depository contract, the City operating account earns the bank's public fund interest rate. The City's investment policy embraces current state regulations on the investment of public funds and authorizes the City to invest in certificates of deposits, direct obligations of the United States Government or the State of Texas, obligations of an agency of the United States Government or the State of Texas, Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States and state government investment pools. The City requires all deposits and investments of City funds other than direct purchases of U.S. Treasuries or Agencies shall be secured by pledged collateral. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC or FSLIC. Evidence of pledged collateral is maintained by the Director of Finance. Repurchase agreements are documented by a specific agreement noting the collateral pledge in each agreement. Collateral is reviewed weekly to assure that the market value of the pledged securities is adequate.

**Tax Appraisal/Tax Collection Responsibilities.** The appraised value of taxable property in Alvarado is established by the Johnson County Appraisal District. The City of Alvarado and other taxing jurisdictions in Johnson County provide a pro-rata share of the budgeted expenditures incurred by the Appraisal District, based on individual levy. The Johnson County Tax Assessor-Collector provides tax collection services for the City and other taxing jurisdictions with Johnson County.

**Risk Management.** Risk management within the City is a joint effort of all City departmental heads in coordination with the City's property and casualty provider. Under a contractual arrangement, the City's facilities, procedures and claims are reviewed by a loss prevention representative with an insurance provider. The representative and department heads address area of needs as identified through both external and internal analysis.

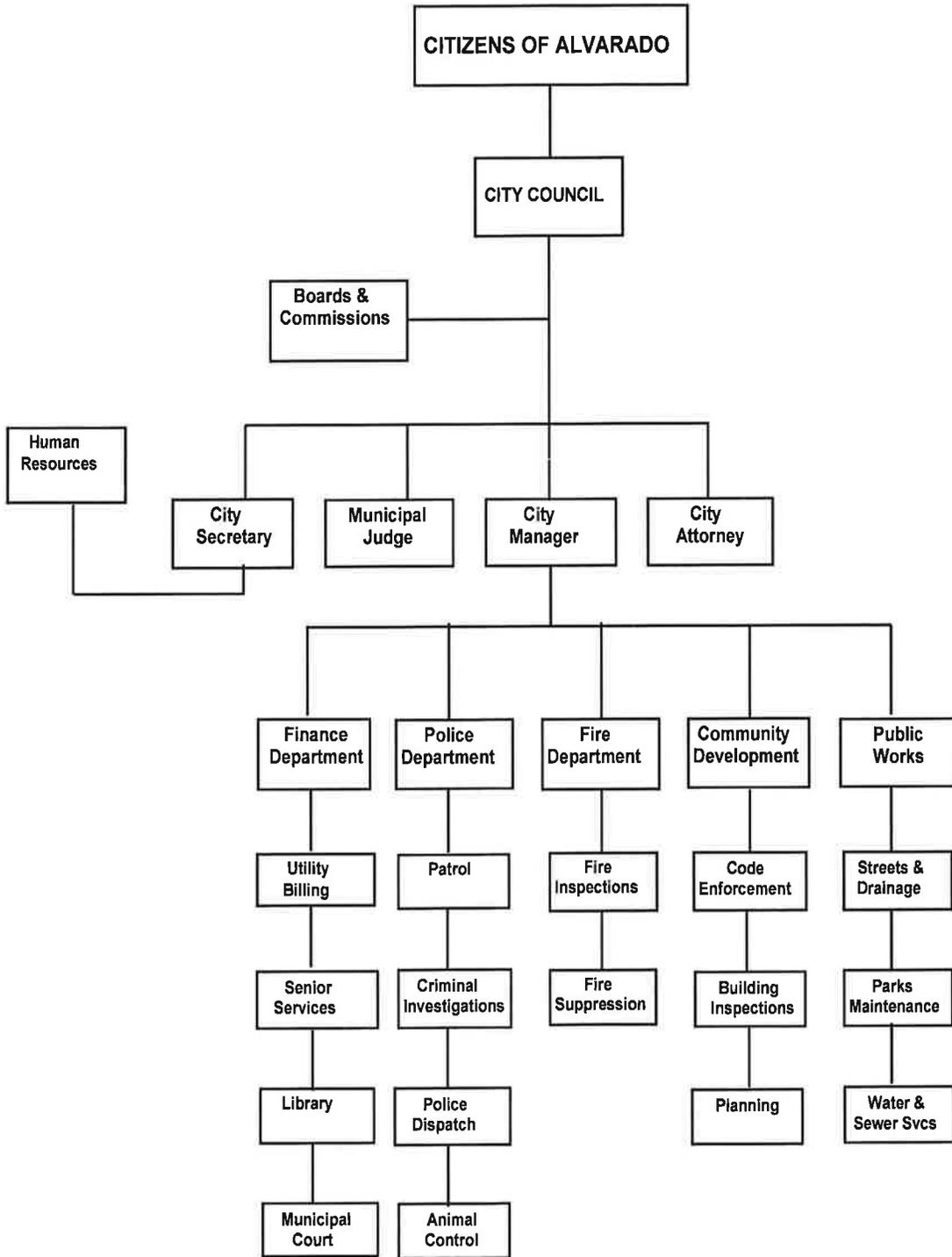
The City purchase liability insurance with limits of \$2M for all exposures. The City also purchases workers' compensation coverage through a public entity insurance pool.

**Acknowledgements.** The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the City. We would like to express our appreciation to all staff members who assisted and contributed to its preparation. We would also like to thank the Mayor and City Council members for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully Submitted,

Kelle Whitfill  
Acting City Manager  
Director of Finance and Administration

**CITY OF ALVARADO  
ORGANIZATIONAL CHART**



**CITY OF ALVARADO  
PRINCIPAL CITY OFFICIALS  
SEPTEMBER 30, 2010**

Mayor

Dewayne Richters

Council Members

Joe Sain

Tom Moore

Bruce Clark

David Bayless

Jacob Wheat

Arrdeen Vaughan

City Manager (Acting)

Kelle Whitfill

City Secretary

Debbie Thomas

City Attorney

Bryn D. Meredith

Director of Finance and Administration

Kelle Whitfill

Director of Public Works

Terry Hafer

Police Chief

Brad Anderson

Fire Chief

Richard VanWinkle

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Alvarado, we offer readers of the City of Alvarado's financial statements this narrative overview and analysis of the financial activities of the City of Alvarado for the fiscal year ended September 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal. Comparative data is included for comparative analysis of government wide activities.

### Financial Highlights

- The assets of the City of Alvarado exceeded its liabilities at the close of the most recent fiscal year by \$13,582,182 (net assets). Of this amount, \$3,275,495 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased this fiscal year by \$631,293.
- As of the close of the current fiscal year, the City of Alvarado's governmental funds reported combined ending fund balances of \$1,539,325. Approximately 90% or \$1,394,472 is available for spending at the City's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$75,775.
- The City's total debt decreased by \$638,160 during the current fiscal year. The key factor in this decrease was the scheduled retirement of debt.

### Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the City of Alvarado'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 of Alvarado's finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all of the City of Alvarado's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decrease 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.)

Both of the government-wide financial statements distinguish functions of the City of Alvarado 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 of Alvarado include general government, public safety, public works, and culture and recreation. The business-type activity of the City of Alvarado includes a Water and Sewer Fund.

**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 of Alvarado, 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 of Alvarado can be divided into three categories: governmental funds, proprietary funds, and 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 *balance 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 balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Alvarado maintains 7 individual funds for governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the general fund, the royalties fund, and the debt service fund, all of which are considered major funds. Data from the other 4 funds are combined into a single, aggregated presentation.

**Proprietary funds.** The City of Alvarado maintains one type of proprietary fund. *Enterprise funds* are used to report same functions presented as *business-type activities* in the government-wide financial statements. The City of Alvarado uses an enterprise fund to account for its Water and Sewer Fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund, which is considered to be a major fund of the City of Alvarado.

**Notes to the financial statement.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### **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 of Alvarado, assets exceeded liabilities by \$13,582,182 at the close of the most recent fiscal year. This represents an increase of \$631,293 from the previous fiscal year.

The largest portion of the City of Alvarado's net assets is reflected by its investments in capital assets (e.g. land, buildings, equipment, improvements, construction in progress and infrastructure) less any related debt used to acquire those assets that is still outstanding. The City of Alvarado uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Alvarado'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.

#### City of Alvarado's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2009	2010	2009	2010	2009	2010
Current Assets	\$ 2,576,974	\$ 2,550,328	\$ 2,459,943	\$ 2,371,138	\$ 5,036,917	\$ 4,921,466
Noncurrent Assets	6,308,405	6,304,517	13,044,277	13,543,161	19,352,682	19,847,678
Total Assets	8,885,379	8,854,845	15,504,220	15,914,299	24,389,599	24,769,144
Current Liabilities	441,062	1,479,205	736,272	711,314	1,177,334	2,190,519
Long-term Liabilities	5,879,453	4,932,474	4,381,923	4,063,969	10,261,376	8,996,443
Total Liabilities	6,320,515	6,411,679	5,118,195	4,775,283	11,438,710	11,186,962
Invested in capital assets, net of related debt	4,641,136	903,841	8,701,994	9,257,993	13,343,130	10,161,834
Restricted	654,948	144,853	-	-	654,948	144,853
Unrestricted	(2,731,220)	1,394,472	1,684,031	1,881,023	(1,047,189)	3,275,495
Total Net Assets	\$ 2,564,864	\$ 2,443,166	\$ 10,386,025	\$ 11,139,016	\$ 12,950,889	\$ 13,582,182

An additional portion of the City of Alvarado's net assets, \$144,853 represents resources that are subject to external restrictions on how they may be used. Unrestricted net assets are \$3,275,495 which may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2010, the City of Alvarado 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.

**Governmental Activities.** Governmental activities reflected a decrease in the City's net assets by \$121,698, from \$2,564,864 to \$2,443,166.

**Business-type Activities.** Net assets from business-type activities increased by \$752,991 from \$10,386,025 to \$11,139,016.

The following table provides a summary of the City's operations for the year ended September 30, 2010, with the comparative totals for the year ended September 30, 2009.

### City of Alvarado's Changes in Net Assets

#### City of Alvarado's Changes in Net Assets

	Governmental Activities		Business Activities		Total	
	2009	2010	2009	2010	2009	2010
<b>REVENUES:</b>						
Program Revenues:						
Charges for Services	\$ 1,522,071	\$ 1,370,273	\$ 2,013,793	\$ 2,293,258	\$ 3,535,864	\$ 4,906,137
Operating Grants/Contributions	20,370		-	996,737	20,370	20,370
Capital Grants/Contributions	895,876	444	639,905		1,535,781	1,536,225
General Revenues:						
Property Taxes	1,234,873	1,276,862	-		1,234,873	2,511,735
Sales Tax	1,085,269	722,369	-		1,085,269	1,807,638
Franchise Tax	434,468	416,144	-		434,468	850,612
Alcoholic beverage taxes	1,246	1,178	-		1,246	2,424
Unrestricted investment earnings	18,612	3,874	19,741	5,371	38,353	42,227
Other revenue	134,418	355,824	29,715		164,133	519,957
Special item inflow	-		4,255,000		4,255,000	4,255,000
<b>Total Revenue</b>	<b>5,347,203</b>	<b>4,146,968</b>	<b>6,958,154</b>	<b>3,295,366</b>	<b>12,305,357</b>	<b>16,452,325</b>
<b>EXPENSES:</b>						
General government	468,752	968,667	-		468,752	968,667
Public safety	2,069,367	2,081,578	-		2,069,367	2,081,578
Public works	404,410	147,512	-		404,410	147,512
Community development	326,734	260,818	-		326,734	260,818
Cultural & recreational	322,565	353,756	-		322,565	353,756
Social & welfare	73,305	60,987	-		73,305	60,987
Economic development	46,533	68,656	-		46,533	68,656
Interest on long-term debt	308,442	293,766	-	184,317	308,442	478,083
Water & sewer operations	-		1,951,229	2,365,776	1,951,229	2,365,776
Special item outflow	4,255,000		-		4,255,000	-
<b>Total Expenses</b>	<b>8,275,108</b>	<b>4,235,740</b>	<b>1,951,229</b>	<b>2,550,093</b>	<b>10,226,337</b>	<b>6,785,833</b>
Change in net assets before transfers	(2,927,905)	(113,980)	5,006,925	745,273	2,079,020	631,293
Transfers	90,000	(7,718)	(90,000)	7,718	-	0
<b>Change in net assets</b>	<b>(2,837,905)</b>	<b>(121,698)</b>	<b>4,916,925</b>	<b>752,991</b>	<b>2,079,020</b>	<b>631,293</b>
Net assets - Beginning	5,402,769	2,564,864	5,469,100	10,386,025	10,871,869	12,950,889
<b>Net assets - Ending</b>	<b>\$ 2,564,864</b>	<b>\$ 2,443,166</b>	<b>\$ 10,386,025</b>	<b>\$ 11,139,016</b>	<b>\$ 12,950,889</b>	<b>\$ 13,582,182</b>

## **Financial Analysis of Government'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.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,539,325. Approximately 90% of this amount, \$1,394,472 constitutes unreserved fund balance. Refer to page 18 of this report for a more detailed presentation of governmental fund balances.

**Proprietary Funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the City's Proprietary Funds at the end of the year amounted to \$1,881,023. The increase in net assets was \$752,991.

## **General Fund Budgetary Highlights**

In the General Fund, revenues collected were \$463,367 less than budgeted. This decrease could be contributed to lower sales tax collections and municipal traffic fines. The economic downturn in the local economy caused from slower natural gas well drilling activity resulted in sales tax revenues being down \$175,214. The police department experienced a large turnover in patrol officers, operating less than full staff most of the year which contributed to the revenues from traffic fines being \$458,170 less than budgeted.

Actual expenditures were \$65,509 less than the budgeted amounts.

These factors were the main result of the General Fund balance decreasing by \$547,578.

## **Capital Assets**

The City of Alvarado's investment in capital assets for its governmental and business-type activities as of September 30, 2010, amounts to \$19,656,232 (net of accumulated depreciation.). This investment in capital assets includes land, buildings, equipment, infrastructure and construction in progress.

Major capital asset events occurring during the current fiscal year included the following:

- Purchased additional Incode Software for the City \$18,724;
- Purchased a golf cart to use for reading water meters at \$5,300;
- Continuation of the street improvement program for \$212,600;
- Constructed new Deceleration & Acceleration lanes on Hwy 67 for Sabre Industries with a Texas Capital Grant for \$267,000;
- Completed the parking lot for Parkway Park (to share with AISD);
- The new Wastewater Treatment Plant became operational during this budget;
- The lagoons at the old Wastewater Treatment Plant are in the process of being closed.

The following table provides a summary of the City's capital assets for the year ended September 30, 2010 as compared to the summary of capital assets for the year ended September 30, 2009:

**CAPITAL ASSETS AT YEAR-END**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	2009	2010	2009	2010	2009	2010
Land	429,021	462,548	446,083	602,949	875,104	1,065,497
Buildings & Improvements	1,870,582	1,878,709	21,150	19,350	1,891,732	1,898,059
Infrastructure	2,625,527	2,892,391	-	-	2,625,527	2,892,391
Vehicles	500,847	406,767	24,216	15,392	525,063	422,159
Improvements other than buildings	224,511	184,873	-	-	224,511	184,873
Water System	-	-	3,790,440	3,571,808	3,790,440	3,571,808
Sewer System	-	-	2,445,785	8,341,129	2,445,785	8,341,129
Other Equipment	423,725	341,428	75,256	98,575	498,981	440,003
Construction in Progress	234,192	25,367	6,241,347	814,946	6,475,539	840,313
Total	<u>6,308,405</u>	<u>6,192,083</u>	<u>13,044,277</u>	<u>13,464,149</u>	<u>19,352,682</u>	<u>19,656,232</u>

**Debt Administration**

**Total Debt.** The City of Alvarado's total debt outstanding at the end of the current fiscal year is \$9,623,216. This amount is a decrease of \$638,160 from the previous fiscal year.

**Long-term Debt.** At the end of the current fiscal year, the City of Alvarado had total long-term debt outstanding of \$9,623,216. Of this amount, \$9,255,887 is comprised of combination tax and revenue certificate of obligations debt to be paid from property tax revenue, as well as water and sewer revenues from the City. The remainder of the debt, \$260,496, is comprised of various notes for vehicles, equipment and buildings. Compensated absences for the year ended are \$106,833.

**Current Debt.** At the end of the current fiscal year, the City of Alvarado had total current liabilities of \$2,190,519 including current bonds payable, current notes payable, compensated absences, accounts payable and other accrued liabilities.

The following table provides a summary of the City's outstanding debt for the year ended September 30, 2010 as compared to the summary of capital assets for the year ended September 30, 2009:

## OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-Type Activities		Totals	
	2009	2010	2009	2010	2009	2010
Certificates of Obligation	\$ 4,490,000	\$ 4,245,000	\$ 4,356,000	\$ 4,207,000	\$ 8,846,000	\$ 8,452,000
Tax Anticipation Notes	1,000,000	850,000	-	-	1,000,000	850,000
Capital Leases	163,191	129,483	23,972	13,107	187,163	142,590
Notes Payable	157,441	117,906	-	-	157,441	117,906
Bond premium/discount	(33,364)	(32,162)	(13,717)	(13,951)	(47,081)	(46,113)
Compensated Absences	102,185	90,449	15,668	16,384	117,853	106,833
Total	<u>\$ 5,879,453</u>	<u>\$ 5,400,676</u>	<u>\$ 4,381,923</u>	<u>\$ 4,222,540</u>	<u>\$ 10,261,376</u>	<u>\$ 9,623,216</u>

### Economic Factors and Next Year's Budget

The following factors were considered in preparing the City of Alvarado's budget for the 2011 fiscal year:

- The City benefits from its strategic location, which is approximately 20 miles from Fort Worth and 35 miles from Dallas.
- Local inflation factors remain low while the median income continues to rise.
- Alvarado's fifth motel, Holiday Inn Express opened this year..
- The City is now receiving royalties from 11 gas wells.
- The Reel Grill Movie Tavern opened with 5 retail spaces available.
- 5 single family homes and 1 duplex requested permits with an average value of \$111,650 per structure.
- The City is continuing to work cleaning up substandard buildings around town.
- The City's new wastewater treatment plant became operational in April 2010.
- New water lines were completed with the assistance of a Grant from TXCDBG.
- New Acceleration & Deceleration lanes at Sabre on 67 were completed with a Texas Capital Fund Grant.
- The Police Department moved into the building at 600 S. Parkway to share facilities with the public works department.
- Public Works continues to repair City streets.
- Owners of a large manufactured home subdivision in the City are bringing in newer homes and cleaning up the subdivision, with plans to open an RV facility and storage units.
- The City installed a stone entrance sign welcoming people to Alvarado on 67 South.

All of these factors were considered in preparing the City of Alvarado's budget for the 2011 fiscal year. The City estimated that its General Fund Operating Budget for fiscal year 2011 will decrease approximately 19.4% or \$762,009 over fiscal year 2010 budget. This decrease is in anticipation of lower revenues.

### Requests for Information

This financial report is designed to provide a general overview of the City of Alvarado'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 City of Alvarado, Office of the Finance Director, 104 West College, Alvarado, Texas 76009.

## BASIC FINANCIAL STATEMENTS

CITY OF ALVARADO, TEXAS  
STATEMENT OF NET ASSETS  
September 30, 2010

ASSETS	Governmental Activities	Business-type Activities	Total
<b>Current assets:</b>			
Cash	\$200,442	\$627,506	\$827,948
Investments	1,430,618	1,089,288	2,519,906
Receivables			
Taxes receivable	180,928	-	180,928
Accounts receivable	158,284	287,124	445,408
Other	120,924	150	121,074
Inventory	-	39,156	39,156
<b>Restricted assets</b>			
Cash	-	50,099	50,099
Deposits	25	118,217	118,242
Investments	459,107	159,598	618,705
Receivables from certificates of obligations	-	-	-
Total current assets	<u>2,550,328</u>	<u>2,371,138</u>	<u>4,921,466</u>
<b>Noncurrent assets:</b>			
Capital assets, net	6,192,083	13,464,149	19,656,232
Deferred bond issuance costs	112,434	79,012	191,446
Total noncurrent assets	<u>6,304,517</u>	<u>13,543,161</u>	<u>19,847,678</u>
<b>Total assets</b>	<u>8,854,845</u>	<u>15,914,299</u>	<u>24,769,144</u>
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Accounts payable	519,675	421,591	941,266
Accrued liabilities	70,131	10,891	81,022
Due to other governments	165,499		165,499
Deferred tax revenue	255,698	-	255,698
Deposits	-	120,261	120,261
<b>Current portion</b>			
Revenue bonds payable	408,797	155,234	564,031
Notes payable	27,279	-	27,279
Capital leases	32,126	3,337	35,463
Total current liabilities	<u>1,479,205</u>	<u>711,314</u>	<u>2,190,519</u>
<b>Noncurrent liabilities:</b>			
Revenue bonds payable	4,654,041	4,037,815	8,691,856
Notes payable	90,627	-	90,627
Capital leases	97,357	9,770	107,127
Compensated absences	90,449	16,384	106,833
Total noncurrent liabilities	<u>4,932,474</u>	<u>4,063,969</u>	<u>8,996,443</u>
Total liabilities	<u>6,411,679</u>	<u>4,775,283</u>	<u>11,186,962</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	903,841	9,257,993	10,161,834
Restricted			
Debt service	63,869	-	63,869
Public Safety	80,984		80,984
Unrestricted	<u>1,394,472</u>	<u>1,881,023</u>	<u>3,275,495</u>
Total net assets	<u>\$2,443,166</u>	<u>\$11,139,016</u>	<u>\$13,582,182</u>

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended September 30, 2010

Functions/Programs	Program Revenues				Net (Expense) Revenue and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>							
<b>General government:</b>							
General government	\$968,667	\$554,883	-	-	(\$413,784)	-	(\$413,784)
Public safety	2,081,578	418,174	\$0	\$444	(1,662,960)	-	(1,662,960)
Public works	147,512	-	-	-	(147,512)	-	(147,512)
Cultural and recreational	353,756	10,232	-	-	(343,524)	-	(343,524)
Economic development	68,656	311,504	-	-	242,848	-	242,848
Community development	260,818	41,725	-	-	(219,093)	-	(219,093)
Social and welfare	60,987	33,755	-	-	(27,232)	-	(27,232)
Interest on long-term debt	293,766	-	-	-	(293,766)	-	(293,766)
Total governmental activities	\$4,235,740	\$1,370,273	-	\$444	(\$2,865,023)	-	(\$2,865,023)
<b>Business-type activities:</b>							
Water and sewer	\$2,550,093	\$2,293,258	\$996,737	-	-	\$739,902	\$739,902
<b>General revenues:</b>							
<b>Taxes:</b>							
General property taxes					1,276,862	-	1,276,862
Sales tax					723,547	-	723,547
Franchise tax					416,144	-	416,144
Interest income					3,874	5,371	9,245
Administrative fee					170,307	-	170,307
Miscellaneous					160,309	-	160,309
Transfers					(7,718)	7,718	-
Total general revenues and proceeds					2,743,325	13,089	2,756,414
Change in net assets					(121,698)	752,991	631,293
Net assets- beginning					2,564,864	10,386,025	12,950,889
Net assets- ending					2,443,166	11,139,016	13,582,182

See accompanying notes and independent auditor's report



CITY OF ALVARADO, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
For the Fiscal Year Ended September 30, 2010

	General Fund	Debt Service Fund	Royalty Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUE:</b>					
General property taxes, interest and penalties	\$811,583	\$465,279	-	-	\$1,276,862
Sales tax	635,808	-	-	311,504	947,312
Hotel tax	-	-	-	86,561	86,561
Fines and forfeitures	416,030	-	-	-	416,030
Franchise tax	416,144	-	-	-	416,144
Mixed beverage tax	1,178	-	-	-	1,178
Rental fees	33,755	-	-	-	33,755
Intergovernmental	206,737	-	\$0	-	206,737
Licenses, fees and permits	95,356	-	-	33,590	128,946
Interest	1,677	116	923	1,158	3,874
Proceeds from disposition of property	-	-	-	-	-
Contributions and donations	444	-	-	-	444
Water/Sewer administrative fee	170,307	-	-	-	170,307
Oil and gas royalties	-	-	428,490	-	428,490
Miscellaneous	178,247	-	-	-	178,247
<b>Total Revenue</b>	<b>2,967,266</b>	<b>465,395</b>	<b>429,413</b>	<b>432,813</b>	<b>4,294,887</b>
<b>EXPENDITURES:</b>					
Current operating	-	-	-	-	-
General government	458,720	-	34,434	13,200	506,354
Public safety	2,062,204	-	-	19,374	2,081,578
Community development	222,988	-	-	37,830	260,818
Public works	147,512	-	-	-	147,512
Cultural and recreational	353,756	-	-	-	353,756
Social and welfare	60,987	-	-	-	60,987
Economic development	-	-	-	68,656	68,656
Capital Outlay	145,957	-	190,355	9,680	345,992
Debt Service	-	475,732	-	-	475,732
Principal	-	282,701	-	-	282,701
Interest	-	-	-	-	-
Paying agent	-	1,778	-	-	1,778
<b>Total Expenditures</b>	<b>3,452,124</b>	<b>760,211</b>	<b>224,789</b>	<b>148,740</b>	<b>4,585,864</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(484,858)	(294,816)	204,624	284,073	(290,977)
<b>OTHER FINANCING SOURCES:</b>					
Transfers in	1,372	258,008	-	-	259,380
Transfers out	(64,092)	(1,372)	(181,257)	(20,377)	(267,098)
<b>NET CHANGE IN FUND BALANCES</b>	<b>(547,578)</b>	<b>(38,180)</b>	<b>23,367</b>	<b>263,696</b>	<b>(298,695)</b>
<b>FUND BALANCE - October 1, 2009</b>	<b>623,353</b>	<b>102,049</b>	<b>421,292</b>	<b>691,326</b>	<b>1,838,020</b>
<b>FUND BALANCE - September 30, 2010</b>	<b>75,775</b>	<b>63,869</b>	<b>444,659</b>	<b>\$955,022</b>	<b>1,539,325</b>

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS  
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2010

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

Net change in fund balances - total governmental funds	(\$298,695)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of assets acquired during the year.	345,991
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount for depreciation in the current period.	(462,315)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and interfund transfers) is to decrease net assets.	(91,962)
Governmental funds report principle reductions as expenditures. However, in the statement of activities the payment of the debt principal reduces the outstanding liability. This is the amount of principal payments during the current period.	475,732
Governmental funds do not report compensated absences as expenditures. However, in the statement of activities the accrual of compensated absences increases the expenditure accounts. This is the amount of compensated absences expenditures for the current period.	<u>(90,449)</u>
Changes in net assets of governmental activities	<u><u>(\$121,698)</u></u>

CITY OF ALVARADO, TEXAS  
STATEMENT OF NET ASSETS  
WATER AND SEWER PROPRIETARY FUND  
September 30, 2010

ASSETS

Current assets:	
Cash	\$627,506
Investments	1,089,288
Accounts receivable (net of allowance for uncollectible amounts)	287,124
Due from employees	150
Inventory	39,156
Restricted assets	
Cash	50,099
Deposits	118,217
Investments	159,598
Total current assets	2,371,138
Noncurrent assets:	
Capital assets, net	13,464,149
Deferred bond issuance costs	79,012
Total noncurrent assets	13,543,161
Total assets	15,914,299

LIABILITIES

Current liabilities:	
Accounts payable	421,591
Accrued liabilities	10,891
Deposits	120,261
Current portion	
Revenue bonds payable	155,234
Capital leases	3,337
Total current liabilities	711,314
Noncurrent liabilities:	
Revenue bonds payable	4,037,815
Capital lease payable	9,770
Compensated absences payable	16,384
Total noncurrent liabilities	4,063,969
Total liabilities	4,775,283

NET ASSETS

Invested in capital assets, net of related debt	9,257,993
Restricted for:	
Capital Improvements	
Unrestricted	1,881,023
Total net assets	\$11,139,016

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
WATER AND SEWER PROPRIETARY FUND  
For the Fiscal Year Ended September 30, 2010

OPERATING REVENUES:	
Water service	\$1,079,661
Sewer service	737,185
Garbage service	424,496
Late charges	50,381
Miscellaneous income	1,535
Total operating revenues	2,293,258
OPERATING EXPENSES:	
Personnel services	419,546
Contractual services	798,134
Supplies and maintenance	505,127
Administrative fees	237,107
Depreciation and amortization	405,862
Total operating expenses	2,365,776
Operating income (loss)	(72,518)
NON-OPERATING REVENUES (EXPENSES)	
Grant revenue	996,737
Interest income	5,371
Interest expense	(184,317)
Net non-operating revenues (expenses)	817,791
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	745,273
Operating transfers in	987,045
Operating transfers out	(979,327)
Net transfers	7,718
CHANGE IN NET ASSETS	752,991
NET ASSETS, October 1, 2009	10,386,025
NET ASSETS, September 30, 2010	\$11,139,016

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS  
STATEMENT OF CASH FLOWS  
WATER AND SEWER PROPRIETARY FUND  
For the Fiscal Year Ended September 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from:	
Customers	\$2,302,161
Interfund payments	34,976
Cash paid to/for:	
Employees	(466,495)
Suppliers	(1,767,448)
Net cash flows provided by operating activities	103,194

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating transfers out	(\$979,327)	
Operating transfers in	987,045	
Net cash flows used by noncapital financing activities		7,718

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition and construction of capital assets	(819,747)	
Principal paid on bonds, notes and lease obligations	(159,865)	
Intergovernmental grants	996,737	
Interest paid on bonds, notes and lease obligations	(184,317)	
Net cash flows used in capital and related financing activities		(167,192)

CASH FLOWS FROM INVESTING ACTIVITIES:

Amount received from interest income	5,371	
Net cash flows provided by investing activities		5,371
Net decrease in cash and cash equivalents		(50,909)
Cash and cash equivalents, October 1, 2009		2,095,617
Cash and cash equivalents, September 30, 2010		\$2,044,708

RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating income (loss)		(\$72,518)
Adjustments for transactions not requiring cash		
Depreciation and amortization	\$405,862	
Miscellaneous expense	(\$31,196)	
Change in current assets and current liabilities		
(Increase) decrease in accounts receivable	9,445	
(Increase) decrease in inventory	(2,767)	
(Increase) decrease in other receivables	150	
Increase (decrease) in accounts payable	(158,291)	
Increase (decrease) in accrued liabilities	(47,665)	
Increase (decrease) in customer deposits	(542)	
Increase (decrease) in compensated absences payable	716	
Total adjustments and changes		175,712
Net cash provided by operating activities		\$103,194

**CITY OF ALVARADO, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Alvarado, Texas (the “City”), have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

**1. Reporting Entity**

The City is a municipal corporation formed in 1893 by charter as a general law city. The City is governed by an elected mayor and six-member Council. Two council members are elected for each of three wards while the mayor is elected at large. As required by generally accepted accounting principles, these financial statements present the City and its component units, for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the City’s operations, and data from these units are combined with data from the primary government. Information regarding blended component units can be obtained at City Hall.

**Blended Component Units**

Alvarado Economic Development Corporation (“AEDC”) – This entity was created in May of 2001. It began collecting sales and use tax in October of 2001. The entity’s board of directors is appointed by the City Council and the City Management maintains significant continuing management oversight with respect to policies. Additionally, the City is ultimately responsible for all fiscal matters. The AEDC was formed for the purpose of benefiting and accomplishing public purposes for the promotion and development of industrial and manufacturing enterprises and to promote and encourage employment and public welfare of the City by issuing bonds on behalf of the City for financing as stated in the Development Corporation Act of 1979. The AEDC provides these services exclusively to the City and does not issue separate financial statements. Results of operations are combined with data from the primary government in the Other Governmental Funds.

## **2. Government-wide and Fund Financial Statements**

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a functional category (Police, Public Works, etc.) or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment, and 3) grants and contributions that are restricted to meeting capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The City does not allocate indirect costs. An administrative service fee is charges by the General Fund to the proprietary fund to recover the direct costs of General Fund services provided (finance, personnel, purchasing, legal, technology management, etc.)

The net cost (by function or business-type activity) is normally covered by general revenue (property, sales, franchise taxes, intergovernmental revenues, interest income, etc.). Separate fund based financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The major governmental funds are the general fund, debt service fund, and royalty fund. The major enterprise fund is the water and sewer fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major category funds. The City has four non-major funds, which are the capital projects fund, hotel and occupancy tax fund, grant fund and the AEDC special revenue fund. The non-major funds are combined in a separate column in the fund financial statements.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by category) and the component units. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

### **3. Measurement Focus and Basis of Accounting**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are susceptible to accrual, as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues (except grant revenues) to be available if they are collected within 30 days of the end of the current fiscal period. The City considers the availability period for grants to be one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgment, are recorded only when the obligation has matured and will be paid shortly after year end (not to exceed one month).

Ad valorem, franchise and sales tax revenues recorded in the General Fund and ad valorem tax revenues recorded in the Debt Service Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is immaterial. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, as soon as all eligibility requirements have been met, including monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if all eligibility requirements are met.

Business type activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-

type operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The principal operating revenues of the City's water and sewer are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The government reports the following major governmental funds:

The General Fund is the operating fund of the City. All general tax revenues and other receipts that are not restricted by law or contractual agreements to some other fund are accounted for in this fund. General operating expenditures, the fixed charges, and the capital improvement costs that are not paid through other funds are paid from the General Fund.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of principal, interest and related costs on general long-term debt. The primary source of revenue is ad valorem taxes, which are levied by the City.

The Royalty Fund is used to account for the accumulation of royalties from oil and gas leases on land held by the city. The primary source of revenue is royalty income. Expenses are decided by the City.

The Other Governmental Funds column is a summarization of all the non-major governmental fund types. These are as follows:

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Alvarado Economic Development Corporation Fund (AEDC) – is used to account for the revenues collected for economic development and related expenditures.

The Grant Fund – is used to account for the proceeds of grants that are restricted to expenditures for specified purposes.

The Hotel Occupancy Tax Fund is used to account for the revenues collected for hotel and occupancy tax and related expenditures.

The government reports the following major proprietary fund:

The Water and Sewer Fund accounts for the operation of the City's water and sewer utility. Activities of the Fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for

general obligation and revenue bonds. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.

#### **4. Assets, Liabilities, and Net Assets or Equity**

##### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the proprietary fund type considers all highly liquid investments within a maturity of three months or less when purchased to be cash equivalents.

##### **Inventory**

Inventory consists primarily of water and sewer plant parts and supplies, valued at estimated FIFO. Inventory is expensed when purchased and adjusted to actual at year-end. Inventory as of September 30, 2010 was \$39,156.

##### **Prepaid Expenditures/Expenses**

Payments made to vendors for services that will benefit periods beyond are recorded as prepaid items.

##### **Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are recorded in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized, while improvements and betterments are capitalized.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Building and Improvements	20-30 years
Water Systems	10-33 years
Sewer Systems	50 years
Vehicles, Machinery and Equipment	3-5 years
Infrastructure	30 years

Interest is capitalized on capital assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with the interest earned on invested proceeds over the same period. The City capitalized no interest during the fiscal year 2010.

**Property Tax**

Property taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on October 1 and are due and payable on or before January 31st of the following year. All unpaid taxes become delinquent on February 1 of the following year. The Johnson County Central Appraisal District bills and collects property taxes on behalf of the City.

**Compensated Absences**

Vested or accumulated vacation leave is accrued in the government-wide and proprietary fund financial statements when incurred. No liability is recorded for nonvesting, accumulating rights to receive sick pay benefits. Vacation is earned in varying amounts up to a maximum of twenty (20) days for city employees with twelve (12) or more years of service and up to a maximum of approximately twenty-eight (28) days for fire suppression personnel with twelve (12) or more years of service. Employee vacation policy allows for the accrual and carryover of 240 hours. In addition, the City allows for the accrual of compensatory time for non-department heads. Compensatory and vacation time can either be paid or used. As of September 30, 2010, the liability for accrued vacation and compensatory time, calculated in accordance with GASB Statements 16, "Accounting for Compensated Absences," was \$90,449 in the general fund. The amount applicable to the Proprietary Fund was \$16,384 and has been recorded in that fund.

**Deferred Bond Issuance Costs**

In Government Fund types, bond issuance costs are amortized equally over the term of the bond. Bond issuance costs for Proprietary Fund types are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. In the proprietary fund, amortization expense is presented on the Statement of Revenue, Expense and Change in Fund Net Assets – Water and Sewer Proprietary Fund.

**Fair Value of Financial Instruments**

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of AU Section 312, "Disclosures about Fair Value of Financial Instruments." The City, using available market information and appropriate valuation methodologies, has determined the estimated fair value amounts. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the companies could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Cash and Cash Equivalents, Investments, Accounts Receivable, Accounts Payable and Accrued Expenses – The carrying amounts of these items are a reasonable estimate of their value.

Long-term Debt – Interest rates that are currently available to the City for issuance of debt with similar terms and remaining maturities are used to estimate fair value for debt issues for which no market quotes are available. The carrying amount of this item is a reasonable estimate of fair value.

The fair value estimates presented herein are based on pertinent information available to management as of September 30, 2010. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

### **Interfund Transfers and Charges**

Short-term advances between funds are accounted for in the appropriate interfund receivable and payable on the Balance Sheet – Governmental Funds and the Statement of Fund Net Assets – Proprietary Fund. All legally authorized transfers are appropriately treated as operating transfers and are included in the results of operations on the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds and Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund. In the past, the City allocates to the Water and Sewer Fund a portion of the salaries and wages and related costs of personnel who perform administrative services for the fund but are not paid through the General Fund. During the year ended September 30, 2010, the City chose to allocate a portion of the administrative services to the Water and Sewer Fund which totaled \$170,307.

### **Restricted Assets**

Certain proceeds of Enterprise Fund Revenue Bonds, as well as certain resources set aside for their repayment are classified as Restricted Assets on the balance sheet because their use is limited by applicable bond covenants.

### **Long-term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Final settlement amounts could differ from those estimates.

## **Budget Control**

The City operates as a Type A General Law Municipality under the Texas Local Government Code. The City Council adopts an annual budget prepared in accordance with generally accepted accounting principles in the United States of America. The City Council may transfer part or all of any unencumbered appropriation balance among programs within a specific fund, and, any revisions that alter the total expenditures must be approved by the City Council. The City Council may require their approval of these transfers above a limit they wish to establish. The current City Council has not established a limit that they wish to approve on transfers. Council approval is needed only if the expenditures exceed the certain thresholds set by the Council.

The City, for management purposes, adopts budgets for all funds. Legal budgets are adopted for all funds. Capital Projects are funded through the issuance of general obligation debt authorized for a specific purpose.

## **5. Implementation of New Accounting Principle**

In fiscal year 2010, the City implemented the following GASB statements:

Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets.*" This Statement establishes accounting and financial reporting requirement for intangible assets to reduce inconsistencies in reporting of these types of assets. The Statement requires that all intangible assets not specifically excluded by its scope and provisions be classified as capital assets. There was no current effect on the financial statements as a result of implementing this Statement.

Statement No. 53, "*Accounting and Financial Reporting for Derivative Instruments.*" This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. There was no current effect on the financial statements as a result of implementing this Statement.

Statement No. 55, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*" The objective of this Statement is to incorporate the GAAP for state and local governments into the GASB's authoritative literature. There was no change in current practice as a result of implementing this Statement.

Statement No. 56, "*Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards.*" The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles-related party transactions, going concern considerations, and subsequent events. This Statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) in the GASB standards.

The GASB has issued the following Statements which will become effective in future years as shown below:

Statement No. 54, *“Fund Balance Reporting and Governmental Fund Type Definitions.”* The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement will become effective for the City in fiscal year 2011. Management has not yet determined the effect of this statement on financial statements.

**NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:

The government fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the governmental-wide statement of net assets. One element of that reconciliation explains, “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$5,197,793 difference are as follows:

Bonds payable	\$4,950,404
Capital lease payable	55,877
Notes payable	<u>191,512</u>
 Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	 <u>\$5,197,793</u>

**NOTE C – CASH AND INVESTMENTS**

The City maintains separate cash and investment accounts. Each fund type's portion is reflected on the combined balance sheet as "Cash" and "Investments" under each fund's caption. Except for bond-related and other restricted transactions, the City conducts all its banking and investment transactions with the depository bank, First Financial Bank, Alvarado.

**Deposits**

State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The City’s deposits, including certificates of deposit, were fully insured or collateralized as required by the state statutes at September 30, 2010. At year-end, the carrying amount of the City’s deposits was \$427,498, with respective bank balances of \$577,831. Included in the bank balances are Certificates of Deposit totaling \$118,217.

**Investments**

State statutes, city bond ordinances and city resolutions authorize the City’s investments. The City is authorized to invest idle funds with the external government investment pool administered by the State of Texas, which is entitled the TexPool Fund. TexPool operates in a manner consistent with the SEC Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares. The City’s investment policy does not contain any specific provisions intended to limit the City’s exposure to interest rate risk or credit risk.

The City’s investments carried at fair value as of September 30, 2010 are:

<u>Investments:</u>	<u>Fair Value</u>	<u>Effective Duration</u>	<u>Credit Risk</u>
Government Pools			
Unrestricted	\$2,519,906	N/A	AAAM
Restricted	618,705	N/A	AAAM

TexPool is an external investment pool operated by the Texas Comptroller of Public Accounts and is not SEC registered. The Texas Interlocal Cooperation Act and the Texas Public Funds Investments Act provide for creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments. The State Comptroller has established an advisory board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

Interest Rate Risk – The City minimizes its interest rate risk by only investing in government investment pools.

Credit Risk – The City minimizes its credit risk by only investing in government investment pools. As noted in the above table, TexPool is rated AAAM by Standard & Poors. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as the office of the Comptroller of Public Accounts for review.

**NOTE D – RECEIVABLES**

Receivables at September 30, 2010, consisted of the following:

	Governmental Funds				Proprietary Fund
	General	Debt Service	Nonmajor	Total	Water & Sewer Enterprise
<b>Taxes Receivable</b>					
Ad valorem taxes	\$83,640	\$71,169	-	\$154,809	-
Allowance for uncollectible accounts	(10,663)	(9,085)	-	(19,748)	-
Sales taxes	320		\$45,547	45,867	-
<b>Total Taxes Receivable</b>	<u>73,297</u>	<u>62,084</u>	<u>45,547</u>	<u>180,928</u>	
<b>Services Receivable</b>					
Service accounts	158,284	-	-	158,284	\$295,329
Allowance for uncollectible accounts	-	-	-	-	(8,205)
<b>Total Services Receivable</b>	<u>158,284</u>	<u>-</u>	<u>-</u>	<u>158,284</u>	<u>287,124</u>
<b>Other Receivables</b>					
Court fees & other	366,605	-	-	366,605	150
Allowance for uncollectible accounts	(245,681)	-	-	(245,681)	-
	<u>120,924</u>	<u>-</u>	<u>-</u>	<u>120,924</u>	<u>150</u>
<b>Total Receivables</b>	<u>\$352,505</u>	<u>\$62,084</u>	<u>\$45,547</u>	<u>\$460,136</u>	<u>\$287,274</u>

**NOTE E – CHANGES IN CAPITAL ASSETS****Primary Government**

Capital asset activity for the year ended September 30, 2010 is as follows:

	<u>Balance 9/30/09</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance 9/30/10</u>
Land	\$429,022	\$13,200	\$(-0-)	\$20,326	\$462,548
Construction in progress	234,192	(-0-)	(-0-)	(208,827)	25,367
Building & improvements	2,132,228	52,762	(-0-)	(-0-)	2,184,990
Infrastructure	3,057,433	183,421	(-0-)	188,501	3,429,355
Vehicles	1,260,719	59,338	(-0-)	(-0-)	1,320,057
Parks improvements	320,345	17,180	(-0-)	(-0-)	337,525
Equipment	1,056,502	20,090	(-0-)	(-0-)	1,076,592
Total capital assets	<u>8,490,441</u>	<u>345,991</u>	<u>(-0-)</u>	<u>-0-</u>	<u>8,836,434</u>
Less accumulated depreciation:					
Building & improvements	261,645	44,636	(-0-)	(-0-)	306,281
Infrastructure	431,906	105,058	(-0-)	(-0-)	536,964
Vehicles	759,872	153,418	(-0-)	(-0-)	913,290
Parks improvements	95,837	56,815	(-0-)	(-0-)	152,652
Equipment	632,776	102,388	(-0-)	(-0-)	735,164
Total accumulated depreciation	<u>2,182,036</u>	<u>462,315</u>	<u>(-0-)</u>	<u>(-0-)</u>	<u>2,644,351</u>
Governmental activities capital assets, net	<u>\$6,308,405</u>	<u>\$(-116,324)</u>	<u>\$(-0-)</u>	<u>\$(-0-)</u>	<u>\$6,192,083</u>

**Business-Type Activities**

Capital asset activity for the year ended September 30, 2010 is as follows:

	Balance 9/30/09	Additions	Retirements	Transfers	Balance 9/30/10
Land	\$446,083	\$-0-	\$(-0-)	\$156,866	\$602,949
Construction in Progress	6,241,347	672,041	(186,177)	(5,912,265)	814,946
Building & Improvements	36,000	-0-	(-0-)	-0-	36,000
Water System	6,536,847	32,536	(-0-)	-0-	6,569,383
Sewer System	3,671,670	281,618	(-0-)	5,727,491	9,680,779
Equipment	225,127	19,729	(-0-)	27,908	272,764
Vehicles	111,232	-0-	(-0-)		111,232
<b>Total capital assets</b>	<b>17,268,306</b>	<b>1,005,924</b>	<b>(186,177)</b>	<b>-0-</b>	<b>18,088,053</b>
Less accumulated depreciation:					
Building & Improvements	14,850	1,800	(-0-)	-0-	16,650
Water System	2,746,408	251,167	(-0-)	-0-	2,997,575
Sewer System	1,225,885	113,765	(-0-)	-0-	1,339,650
Equipment	149,870	24,319	(-0-)	-0-	174,189
Vehicles	87,016	8,824	(-0-)	-0-	95,840
<b>Total accumulated depreciation</b>	<b>4,224,029</b>	<b>399,875</b>	<b>(-0-)</b>	<b>-0-</b>	<b>4,623,904</b>
<b>Governmental activities capital assets, net</b>	<b>\$13,044,277</b>	<b>\$606,049</b>	<b>\$(-186,177)</b>	<b>\$-0-</b>	<b>\$13,464,149</b>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$173,032
Public safety	216,360
Public works	30,742
Cultural and recreational	41,764
Social and welfare	417
<b>Total depreciation expense – governmental activities</b>	<b>\$462,315</b>
Business-type activities:	
Water and sewer	<b>\$399,875</b>

**NOTE F – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

For the year ended September 30, 2010, expenditures exceeded revenues in the General Fund by \$484,858.

**NOTE G – INTERFUND BALANCES AND TRANSFERS**

The composition of Interfund balances as of September 30, 2010, is as follows:

<u>Fund</u>	<u>General Fund</u>	<u>Grant Fund</u>
General Fund	\$ -0-	\$ 14,909
Capital Projects Fund	-0-	-0-
Debt Service Fund	-0-	-0-
AEDC Fund	-0-	-0-
Grant Fund	(14,909)	-0-
Water & Sewer Fund	-0-	-0-
	<u>\$(14,909)</u>	<u>\$14,909</u>

The purpose of interfund balances is to transfer cash to support daily operations.

The composition of interfund operating transfers for the year ended September 30, 2010, is as follows:

<u>Fund</u>	<u>Transfer to Other Funds</u>	<u>Transfer from Other Funds</u>
General Fund	\$64,092	\$1,372
Debt Service Fund	1,372	258,008
Royalty Fund	181,257	-0-
Nonmajor Governmental Funds	20,377	-0-
Water and Sewer Fund	979,327	987,045
	<u>\$1,246,425</u>	<u>\$1,246,425</u>

The purpose of interfund operating transfers is to appropriately classify capital assets expenditures and debt expenditures in the correct fund.

## NOTE H - LONG TERM DEBT

### 1. Governmental activities –

#### Combination Tax and Revenue Certificate of Obligation:

Combination tax and revenue certificate of obligation are serial debt collateralized by the full faith and credit of the City and are payable from property tax and sales tax revenue. The debt matures annually in varying amounts through 2013, and interest is payable semi-annually. Certificates of obligation proceeds are recorded in the appropriate fund for which the debt was issued and approved by the City. The ordinances authorizing the issuance of the bonds created an interest and sinking fund (Debt Service Fund).

Certificates of obligation debt outstanding and Tax anticipation note at September 30, 2010, is comprised of the following:

<u>Description of Debt</u>	<u>Amount</u>
\$1,000,000 Combination Tax Revenue Certificate of Obligation, Series 1994, for improving and extending the City's sewer system due in annual installments of \$55,000 to \$105,000 beginning July, 2001 through July, 2013; interest payments of \$53,990 until 2001 then accruing interest at 4.8% to 5.75% in the remaining periods.	\$290,000
\$4,505,000 Combination Tax Revenue Certificate of Obligation, Srs 2001 for construction and equipment of streets, improvements to the waterworks and sewer system due in annual installments ranging from \$35,000 to \$355,000 beginning Feb. 2005 - 2026, interest payments ranging from \$17,750 to \$300,000 from Feb. 2005 - 2026 with interest rates ranging from 4.85% to 5.5%.	3,955,000
\$1,000,000 2008 Tax Anticipation Note for city improvements, due in annual installments ranging from \$150,000 to \$185,000 beginning August 2010 through August 2015, interest payments ranging from \$4,172 to \$22,550 from February 2009 through August 2015 with interest rate of 4.51%	850,000
Total Certificate of obligation and tax anticipation	<u>\$5,095,000</u>

Annual debt service requirements to maturity for certificates of obligation debt, before netting of bond discounts and premiums are as follows:

Year Ending September 30	Principal	Interest	Total
2011	\$ 410,000	\$ 248,261	\$ 658,261
2012	435,000	226,863	661,863
2013	455,000	206,219	661,219
2014	365,000	184,324	549,324
2015	385,000	167,596	552,596
2016 – 2020	1,175,000	643,778	1,818,778
2021 – 2025	1,515,000	323,612	1,838,612
2026 – 2030	355,000	17,750	372,750
Total	\$5,095,000	\$2,018,403	\$7,113,403

Notes Payable:

Note payable debt outstanding at September 30, 2010, is comprised of the following:

Description of Debt	Amount
Note payable to a financial institution secured by equipment costing \$105,257 maturing March 2012, requiring monthly installments of \$1,488 including interest at 5.5%.	\$ 25,642
Note payable to a financial institution secured by land costing \$116,000 maturing April 2018, requiring monthly installments of \$1,235 including interest at 5%	92,264
Total	\$117,906

Annual debt service requirements to maturity for notes payable debt are as follows:

Year Ending September 30	Principal	Interest	Total
2011	\$ 27,279	\$ 5,396	\$ 32,675
2012	19,799	3,975	23,774
2013	11,547	3,268	14,815
2014	12,138	2,677	14,815
2015	12,758	2,057	14,815
2016 - 2018	34,385	1,991	36,376
Total	\$117,906	\$ 19,364	\$137,270

Capital Lease:

Capital lease debt outstanding at September 30, 2010, is comprised of the following:

<u>Description of Debt</u>	<u>Amount</u>
Capital lease obligation secured by a vehicle costing \$30,858 maturing October 2010, requiring monthly installments of \$942 including interest accruing at 6.6% with a purchase option of \$1 at conclusion of the lease.	\$ 937
Capital lease obligation secured by equipment costing \$89,129 maturing July 2014, requiring monthly installments of \$20,016 including interest accruing at 3.99% with a purchase option of \$1 at conclusion of the lease.	72,669
Capital lease obligation secured by software costing \$86,968 maturing June 2014, requiring monthly installments of \$1,652 including interest accruing at 4.00% with a purchase option of \$1 at conclusion of the lease	55,877
Total	<u>\$129,483</u>

Annual debt service requirements to maturity for capital lease debt are as follows:

Year Ending September 30	Principal	Interest	Total
2011	\$32,126	\$4,736	\$36,863
2012	32,470	3,602	36,071
2013	33,787	2,284	36,071
2014	31,100	956	32,056
Total	<u>\$129,483</u>	<u>\$11,578</u>	<u>\$141,061</u>

Changes in long-term liabilities:

Long-term debt activity for the year ended September 30, 2010, was as follows:

	Amounts payable at beginning of year	Amounts added during year 2010	Amounts retired during fiscal year 2010	Amounts payable at end of year	Amounts due within one year
Certificates of obligation	\$4,456,636	\$ -0-	\$(243,798)	\$4,212,838	\$253,797
Tax anticipation notes	1,000,000	-0-	(150,000)	850,000	155,000
Notes payable	157,441	-0-	(39,535)	117,906	27,279
Capital lease obligation	163,191	-0-	(33,708)	129,483	32,126
Compensated Absences	102,185	-0-	(11,736)	90,449	90,449
<b>Total</b>	<b>\$5,879,453</b>	<b>\$ -0-</b>	<b>\$(478,777)</b>	<b>\$5,400,676</b>	<b>\$558,651</b>

2. Business-type activities -

Combination Tax and Revenue Certificate of Obligation:

Combination tax and revenue certificate of obligation are serial debt collateralized by the full faith and credit of the City and are payable from the gross revenues of the water and sewer system. Gross revenues are to be used first to pay operating and maintenance expenses of the system, and second, to maintain revenue bond funds in accordance with the bond covenants. Remaining revenues may then be used for any lawful purpose. The debt matures annually in varying amounts through 2045, and interest is payable semi-annually. Certificates of obligation proceeds are recorded in the appropriate fund for which the debt was issued and approved by the City. The ordinances authorizing the issuance of the bonds created an interest and sinking fund.

Certificates of obligation debt outstanding at September 30, 2010, is comprised of the following:

<u>Description of Debt</u>	<u>Amount</u>
\$2,200,000 Combination Tax Revenue Certificate of Obligation Series 2008B for construction of the waste water treatment plant due in annual installments ranging from \$35,000 to \$195,000, beginning September 2008 through 2022, interest payments ranging from \$7,605 to \$28,123 from September 2008 through 2022 with interest rate at 3.9%	\$2,287,000
\$2,346,000 Combination Tax Revenue Certificate of Obligation Series 2008A for construction of the waste water treatment plant due in annual installments ranging from \$12,000 to \$122,000 beginning September 2008 through 2047, interest payments ranging from \$5,490 to \$105,030 from September 2008 through 2022 with interest rate at 4.5%	1,920,000
<b>Total</b>	<b>\$4,207,000</b>

Annual debt service requirements to maturity for certificates of obligation debt, before netting of bond discounts and premiums, are as follows:

Year Ending September 30	Principal	Interest	Total
2011	\$ 155,000	\$ 177,796	\$ 332,796
2012	161,000	171,600	332,600
2013	167,000	165,166	332,166
2014	174,000	158,492	332,492
2015	180,000	151,530	331,530
2016 – 2020	1,011,000	507,060	1,518,060
2021 – 2025	595,000	448,980	1,043,980
2026 – 2030	267,000	373,905	640,905
2031 – 2035	331,000	308,295	639,295
2036 – 2040	413,000	226,755	639,755
2041 – 2045	753,000	125,190	878,190
<b>Total</b>	<b>\$4,207,000</b>	<b>\$2,814,769</b>	<b>\$7,021,769</b>

Changes in long-term liabilities:

Long-term debt activity for the year ended September 30, 2010, was as follows:

	Amounts payable at beginning of year	Amounts added during year 2010	Amounts retired during fiscal year 2010	Amounts payable at end of year	Amounts due within one year
Certificates of Obligation	\$4,342,283	\$ -0-	\$(149,234)	\$4,193,049	\$155,234
Capital Lease	23,972	-0-	(10,865)	13,107	3,337
Compensated Absences	15,668	716	(-0-)	16,384	16,384
<b>Total</b>	<b>\$4,381,923</b>	<b>\$716</b>	<b>\$(160,099)</b>	<b>\$4,222,540</b>	<b>\$174,955</b>

**NOTE I – RESTRICTED ASSETS**

Restricted assets balance at September 30, 2010, was as follows:

Fund	Cash & Deposits	Investments	Intergovernmental Receivable
Government Activities:			
Court	\$-0-	\$98,881	\$-0-
Retainage	-0-	32,936	-0-
Animal Shelter	-0-	-0-	25
Debt Service Fund	-0-	327,290	-0-
Water and Sewer Fund	168,316	159,598	-0-
	\$168,316	\$618,705	25

**NOTE J - RETIREMENT PLAN**

The City participates in the Texas Municipal Retirement System.

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of the 827 administered by the 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.

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides

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 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, Texas, 78714-9153, or by calling 800-924-8677; in addition, the report is available on the TMRS website at [www.tmrs.com](http://www.tmrs.com)

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and with the actuarial constraints also in the statutes. Plan provisions for the City were as follows (as of 4/04/07):

Deposit Rate: 6%  
 Matching Ratio (city to Employee) 2 to 1  
 A member is vested after 5 years  
 Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City are: 5yrs/age 60, 20 yrs/any age.

Contributions

Under the state law governing TMRS, the City is required to contribute at an actuarially determined rate; these rates are provided to the city on an annual basis, following the completion of the actuarial evaluation. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rates finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee’s retirement date, not at the time the employee’s contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan’s 25-year amortization period. The Projected Unit Credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance 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 (i.e. December 31, 2009 valuation is effective for rates beginning January 2010).

Actuarial Valuation Date	<u>12/31/09</u>	<u>12/31/08</u>	<u>12/31/07</u>
Actuarial Value of Assets	\$915,288	\$733,422	\$508,434
Actuarial Accrued Liability	\$1,232,819	\$1,017,621	\$738,497
Percentage Funded	74.2%	72.1%	68.80%
Unfunded Actuarial Accrued Liability (UAAL)	\$317,531	\$284,199	\$230,063
Annual Covered Payroll	\$2,113,261	\$1,928,937	\$1,715,098
UAAL as a Percentage of Covered Payroll	15.0%	14.7%	13.40%

Net Pension Obligation (NPO) at the Beginning of the Period	-0-	-0-	-0-
Annual Pension Cost:			
Annual required contribution (ARC)	\$102,036	\$103,839	\$57,001
Contributions Made	(102,036)	(103,839)	(57,001)
NPO at the end of the period	\$0	\$0	\$0

Actuarial Assumptions

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	23 Years – Closed Period
Asset Valuation Method	10-year Smoothed Market
Investment Rate of Return	7.50%
Projected Salary Increased	Varies by Age and Service
Includes Inflation At	3.0%
Cost-of-Living Adjustments	None
Payroll Growth Assumption	3.0%
Withdrawal rates for Male/Female	Mid/Mid-Low

**NOTE K - COMMITMENTS AND CONTINGENCIES**

Audits of Grant Activities

The City receives Federal and State grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement by the Federal and State grantor agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of the City management, such disallowances, if any, will not be significant.

**NOTE L – RISK MANAGEMENT**

The City manages its risk through the purchasing of insurance policies through the Texas Municipal League. Significant losses are covered by commercial insurance for all major programs. For such insured programs, there have been no significant reductions in insurance coverage, and settlement amounts have not exceeded insurance coverage for the current year or three prior years.

**NOTE M – FAIR VALUE MEASUREMENTS**

Financial Accounting Standards Codification No. 820, *Fair Value* Measurements (ASC 820), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The

hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

- Level 1 – quoted market prices in active markets for identical assets or liabilities
- Level 2 – inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

As of September 30, 2010, the City’s investments measured at fair value consisted of the following instruments and classifications within the fair value hierarchy:

	Fair Value Measurements Using Input Types			Total
	Level 1	Level 2	Level 3	
Governmental Activities				
Investments in Texpool (Note C)	\$1,889,725	\$ -0-	\$ -0-	\$1,889,725
Business-type Activities				
Investments in Texpool (Note C)	1,248,886	-0-	-0-	1,248,886
Total	\$3,138,611	\$ -0-	\$ -0-	\$3,138,611

The City employs the following approaches in valuing its investments:

- Investments in registered investment companies are valued using quoted market prices, as all have active markets.

**NOTE O – SUBSEQUENT EVENTS**

The City evaluated subsequent events through April 21, 2011, which is the same date that the financial statements were issued and the following was determined:

The City hired a new City Manager in April 2011.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF ALVARADO, TEXAS  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
For the Fiscal Year Ended September 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUE:</b>				
General Property Taxes, Interest and Penalties	\$836,375	\$836,375	\$811,583	(\$24,792)
Sales tax	812,200	812,200	636,986	(175,214)
Fines and forfeitures	874,200	874,200	416,030	(458,170)
Franchise tax	428,183	428,183	416,144	(12,039)
Rental fees	7,650	7,650	33,755	26,105
Licenses, fees and permits	96,500	96,500	95,356	(1,144)
Interest	32,000	32,000	1,677	(30,323)
Intergovernmental	180,200	180,200	206,737	26,537
Donations	-	-	444	444
Water/Sewer administrative fee	-	-	170,307	170,307
Miscellaneous	163,325	163,325	178,247	14,922
Total Revenue	3,430,633	3,430,633	2,967,266	(463,367)
<b>EXPENDITURES:</b>				
Current operating				
General government	424,767	424,767	458,720	(33,953)
Public safety	2,199,018	2,199,018	2,062,204	136,814
Public works	287,997	287,997	147,512	140,485
Cultural and recreational	285,058	285,058	353,756	(68,698)
Community development	226,735	226,735	222,988	3,747
Social and welfare	-	-	60,987	(60,987)
Other	7,058	7,058	-	7,058
Capital Outlay	87,000	87,000	145,957	(58,957)
Total Expenditures	3,517,633	3,517,633	3,452,124	65,509
Excess (Deficiency) of Revenues Over (Under) Expenditures	(87,000)	(87,000)	(484,858)	(397,858)
<b>OTHER FINANCING SOURCES:</b>				
Loan proceeds	-	-	-	-
Transfers	-	-	(62,720)	(62,720)
<b>NET CHANGE IN FUND BALANCES</b>	(87,000)	(87,000)	(547,578)	(460,578)
<b>FUND BALANCE - October 1, 2009</b>	623,353	623,353	623,353	-
<b>FUND BALANCE - September 30, 2010</b>	536,353	\$536,353	75,775	(\$460,578)

**CITY OF ALVARADO, TEXAS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**SEPTEMBER 30, 2010**

**NOTE A – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**1. Budgetary Information**

The City Council adopts an annual budget prepared in accordance with GAAP. The City Manager may transfer part or all of any unencumbered appropriation balance among programs within a specific fund; however, any revisions that alter the total expenditures of the fund must be approved by the City Council. The City, for management purposes, adopts budgets for all funds. Legal budgets are also adopted for all funds and the legal level of control is the fund level.

Capital Projects are funded through the issuance of general obligation debt authorized for a specific purpose.

All unused appropriations, except appropriations for capital expenditures, lapse at the close of the fiscal year to the extent they have not been expended or encumbered. An appropriation for capital expenditures shall continue in force until the purpose for which it was made has been accomplished or abandoned if three (3) years pass without any disbursement from or encumbrance of the appropriation. No supplemental budgetary appropriations occurred in the debt service funds or in the general fund. The revised budgets are used for budget versus actual comparisons. Revenues in the general fund were less than budget by \$463,367 and expenditures were less than budget by \$65,509.

**2. Reconciliation of Budgetary Information to GAAP Information**

Because the City budgets debt expenditures in the Debt Service Fund they are not included in the general fund budget versus actual schedule. Such debt service payments amounted to \$760,211.

The City generally budgets capital outlays in the department with which they are associated, whereas for actual financial statement purposes they are all grouped on a separate line. Amounts budgeted for the general fund amounted to \$87,000. The total actual capital outlays for the year in the general fund amounted to \$145,957.

**NOTE B – RETIREMENT PLAN**

**Texas Municipal Retirement System  
Schedule of Funding Progress**

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date December 31,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Percentage Funded (1)/(2)	Unfunded AAL (2)-(1)	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll (4)/(5)
2005	\$245,772	\$439,312	55.9%	\$193,540	\$1,381,916	14.0%
2006	371,088	571,329	65.0%	200,241	1,519,196	13.2%
2007	508,434	738,497	68.8%	230,063	1,715,098	13.4%
2008	733,422	1,017,621	72.1%	284,199	1,928,937	14.7%
2009	915,288	1,232,819	74.2%	317,531	2,113,261	15.0%

The TMRS Board of trustees, at its December 2007 Board meeting, adopted changes in the actuarial funding method and assumptions for the December 31, 2007 actuarial valuation, as such, those changes are reflected in the 2007 numbers above. A complete list of the changes are contained in the 2007 TMRS Comprehensive Annual Financial Report. All pertinent information may be obtained by writing to P.O. Box 149153, Austin, Texas, 78714-9153.

**Texas Municipal Retirement System  
Schedule of Employer Contributions**

Fiscal Year Ended	TMRS – Annual Required Contribution	Percentage of TMRS Contributed
9/30/2009	\$102,036	100%
9/30/2008	103,839	100%
9/30/2007	57,001	100%
9/30/2006	51,459	100%
9/30/2005	48,579	100%