

CITY OF ALVARADO, TEXAS
SEPTEMBER 30, 2020

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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 ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2020, and the respective changes in financial

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

Other Matters

Required Supplementary Information

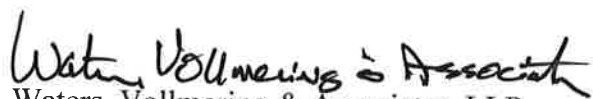
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 18, the budgetary comparison information on pages 64 and related notes on page 67, the schedule of changes in net pension liability and related ratios on page 65, and the schedule of contributions on pages 66 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Alvarado, Texas' basic financial statements. The accompanying introductory section, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2021, on our consideration of the City of Alvarado, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Waters, Vollmering & Associates, LLP

Mansfield, Texas

May 10, 2021

City of Alvarado

*104 W. College St.
Alvarado, Texas 76009*

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

May 10, 2021

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, 2020, 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, 2020, 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, 2020, 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 management to 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 4,700. 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. While the Council members must live in the ward they serve, the Mayor is elected at large. 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, and animal control), maintenance of streets, drainage and infrastructure, sanitation services, maintenance of the treated water distribution system, both sanitary and storm water collection and treatment systems, recreational activities, cultural/educational activities including Senior Services and the Public Library, and general administrative services.

Economic Conditions and Outlook

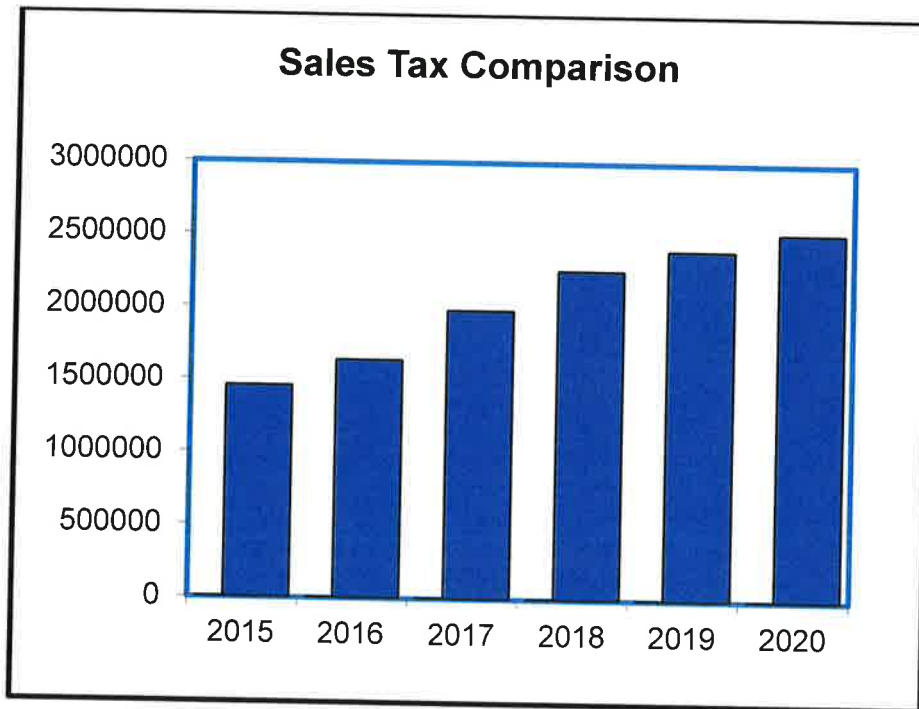
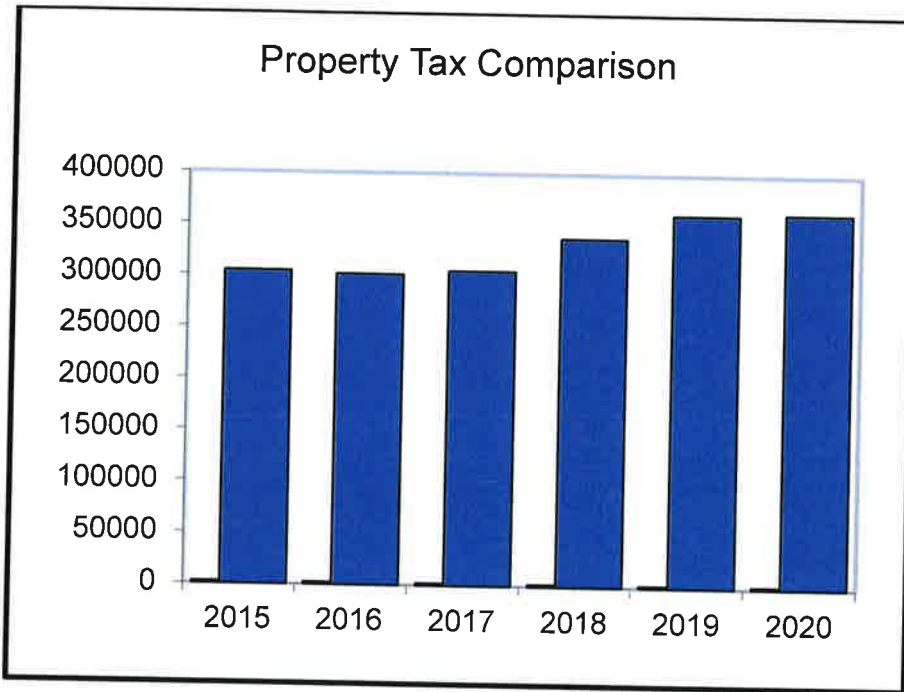
The information presented in the financial statements is perhaps best understood when it is considered from the broader aspect of the specific environment within which the City operates.

Local Economy

FY 2020-2021 concluded with positive trends providing the City with an optimistic outlook. Additional employment opportunities and growth continue to drive the local economy. Sales tax revenue slightly decreased from \$ 2,399,216 in 2019 to \$ 2,309,519 in 2020 for a difference of \$ 122,940 or 5.1%.

The property tax rate for 2020 changed from \$.732031/\$100 to a value of \$.751419/\$100.

The charts below are based upon the 2019-2020 budget year as compared to prior years. Property Valuations noted below for the budget period 2019-2020 are based upon the 2019 assessed property valuations as determined by the Johnson County Appraisal District. The chart for Sales Tax collected also represents the amounts collected during the 2019-2020 budget 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 1st. 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.

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 continues to contract with Southwest Securities to provide these services.

Reserve Requirements

In 2013, the City Council adopted an official Fund Balance Policy. According to this policy the city will reserve General Funds equal to three months of operating expenses. This requirement has been fulfilled with General fund unrestricted reserves of \$ 6,526,341. Overall governmental funds unrestricted reserves total \$ 6,555,102.

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 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 purchases 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 could not be accomplished without efforts of the entire City staff. Staff members are greatly appreciated for their hard work and contributions to this effort. It is through the guidance and leadership of the Mayor and City Council members that these efforts are able to be accomplished. The staff is thankful for the hard work of the Mayor and Council. Most of all the staff is thankful for the citizens of Alvarado and the opportunity to serve such a great community.

Respectfully Submitted,



Emile Moline
City Manager



Paula Hardison
Finance Director

**CITY OF ALVARADO
PRINCIPAL CITY OFFICIALS
SEPTEMBER 30, 2020**

Mayor

Tom Durington

Council Members

Cherry Bryant

Beverly Short

Mayor – Pro Tem

Shawn Goulding

Michael Bennett

Jacob Wheat

Lydia Moon

City Manager

Rick Holden/Emile Moline

City Secretary

Debbie Thomas

City Attorney

Ashley Dierker

Director of Finance

Paula Hardison

Director of Public Works

Michael Dwiggin

Police Chief

Brad Anderson

Fire Chief

Richard Van Winkle

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR ENDED SEPTEMBER 30, 2020

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, 2020. 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 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 \$ 27,617,131 (total net position). Of this amount, \$ 8,202,423 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position increased this fiscal year by \$ 1,859,819.
- As of the close of the current fiscal year, the City of Alvarado's governmental funds reported combined ending fund balances of \$ 11,259,016. Approximately 58.2% or \$ 6,555,102 is available for spending at the City's discretion (unassigned fund balance).
- AEDC has a fund balance of \$ 2,505,251 with restricted usage.
- Other Governmental Funds has a fund balance of \$ 2,227,424. This includes:
 - 1) Royalty fund which has a fund balance of \$ 715,236 (\$ 303,581 committed, \$ 382,894 assigned and \$ 28,761 unassigned)
 - 2) Hotel and Court Funds have a fund balance of \$ 832,349 (restricted)
 - 3) Special Project and Roadway Impact Fee Funds have a fund balance of \$ 679,839 with restricted usage limited to capital improvements.
- The City's total debt decreased by \$ 48,640 during the current fiscal year. The governmental funds debt increased by \$ 74,194 and the water and sewer proprietary fund debt increased by 25,554.

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 position* presents information on all of the City of Alvarado's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decrease in net position 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 position 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 9 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, Debt Service Fund and AEDC, all of which are considered major funds. Data from the other 6 funds (Hotel Tax Fund, Royalty Fund, Court Fund, Special Project Fund and Roadway Impact Fee for Service Area 1 and 2 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 \$ 27,617,131 at the close of the most recent fiscal year. This represents an increase of \$ 1,859,819 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 Position

ASSETS	Governmental Activities		Business-Type Activities		Total	
	2019	2020	2019	2020	2019	2020
Current Assets	\$ 11,437,108	\$ 13,114,806	\$ 2,457,019	\$ 2,831,919	\$ 13,894,127	\$ 15,946,725
Noncurrent Assets	10,276,552	11,021,542	16,294,748	15,893,575	26,571,300	26,915,117
Total Assets	21,713,660	24,136,348	18,751,767	18,725,494	40,465,427	42,861,842
DEFERRED OUTFLOWS OF RESOURCES						
Deferred pension contributions	227,819	232,157	47,280	48,170	275,099	280,327
Deferred pension actuarial losses	278,271	237,053	74,710	65,432	352,981	302,485
Total Deferred Outflows	506,090	469,210	121,990	113,602	628,080	582,812
LIABILITIES						
Current Liabilities	2,008,359	2,799,741	967,062	1,240,986	2,975,421	4,040,727
Long Term Liabilities	9,714,797	9,217,852	2,483,668	2,223,491	12,198,465	11,441,343
Total Liabilities	11,723,156	12,017,593	3,450,730	3,464,477	15,173,886	15,482,070
DEFERRED INFLOWS OF RESOURCES						
Deferred pension expense	131,364	283,525	30,945	61,928	162,309	345,453
Total Deferred Inflows	4,213	283,525	5,264	61,928	9,477	345,453
NET POSITION						
Invested in capital assets, net of related debt	414,677	1,247,865	13,671,167	13,252,352	14,085,844	14,500,217
Restricted	3,144,201	4,017,439	671,329	897,052	3,815,530	4,914,491
Unrestricted	6,806,352	7,039,136	1,049,586	1,163,287	7,855,938	8,202,423
Total Net Position	\$ 10,365,230	\$ 12,304,440	\$ 15,392,082	\$ 15,312,691	\$ 25,757,312	\$ 27,617,131

An additional portion of the City of Alvarado's net position, \$ 4,914,491 represents resources that are subject to external restrictions on how they may be used. Unrestricted net assets of \$ 8,202,423 may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2020, the City of Alvarado is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental Activities. Governmental activities reflect an increase in the City's net position from the previous year by \$ 1,939,210, from \$ 10,365,230 to \$ 12,304,440.

Business-type Activities. Net position from business-type activities slightly decreased by \$ 79,391, from \$ 15,392,082 to \$ 15,312,691.

The following table provides a summary of the City's operations for the year ended September 30, 2020, with the comparative totals for the year ended September 30, 2019.

City of Alvarado's Changes in Net Position

	Governmental Activities		Business Activities		Total	
	2019	2020	2019	2020	2019	2020
REVENUES:						
Charges for Services	\$ 2,412,642	\$ 2,368,356	\$ 3,074,039	\$ 3,227,955	\$ 5,486,681	\$ 5,596,311
Operating Grants/Contributions	490,477	14,200			490,477	14,200
Capital Grants/Contributions					-	-
General Revenues:						
Property Taxes	2,432,505	2,671,955			2,432,505	2,671,955
Sales Tax	2,399,216	2,521,702			2,399,216	2,521,702
Franchise Tax	487,074	458,613			487,074	458,613
Alcoholic beverage taxes	600	457			600	457
Unrestricted investment earnings					-	-
Gain/Loss on Sale of Assets		133,301		62,700		196,001
Other revenue	397,032	198,580			397,032	198,580
Total Revenue	8,619,546	8,367,164	3,074,039	3,290,655	11,693,585	11,657,819
EXPENSES:						
General government	447,736	738,625			447,736	738,625
Public safety	3,542,473	3,577,647			3,542,473	3,577,647
Public works	180,136	272,353			180,136	272,353
Community development	642,733	616,930			642,733	616,930
Cultural & recreational	356,678	349,077			356,678	349,077
Social & welfare	88,146	91,252			88,146	91,252
Economic development	143,825	173,491			143,825	173,491
Pension expense	192,175	183,075			192,175	183,075
Interest on long-term debt	342,232	360,961			342,232	360,961
Water & sewer operations			3,288,637	3,434,589	3,288,637	3,434,589
Special item outflow					-	-
Total Expenses	5,936,134	6,363,411	3,288,637	3,434,589	9,224,771	9,798,000
Change in net assets before transfers	2,683,412	2,003,753	(214,598)	(143,934)	2,468,814	1,859,819
Transfers	270,523	(64,543)	(270,523)	64,543	-	-
Change in net assets	2,953,935	1,939,210	(485,121)	(79,391)	2,468,814	1,859,819
Net assets - Beginning	7,411,295	10,365,230	15,877,203	15,392,082	23,288,498	25,757,312
Net assets - Ending	\$ 10,365,230	\$ 12,304,440	\$ 15,392,082	\$ 15,312,691	\$ 25,757,312	27,617,131

FINANCIAL ANALYSIS OF THE 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 \$ 11,259,016 which is an increase of \$ 1,161,218 in comparison with the prior year. Approximately \$ 6,555,102 of this total constitutes unassigned fund balance, which is available for spending at the government's discretion with \$382,894 as an assigned fund balance which may be used with Council approval. \$ 3,337,600 of the fund balance is committed to specific projects while \$ 679,839 of the balance has restrictions and \$303,581 is committed for other purposes. Refer to page 22 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.

There was a slight decrease in the total net position of the City's Proprietary Fund of \$ 79,391 from the previous year (\$ 15,392,092 less \$ 15,312,691). Unrestricted net assets of the City's Proprietary Funds at the end of the year amounted to \$1,163,287, which represents an increase of \$ 113,701 from the previous year (\$ 1,163,287 less \$ 1,049,586).

General Fund Highlights

When compared to the prior year, General Fund revenue for the City decreased by \$ 689,567 or by 10.25%.

There was a decrease of \$ 345,059 in Intergovernmental revenue because of a midyear decision to move the revenue stream for Prairieland Detention back to its own fund for the second half of the fiscal year. Also the number of inmates at the facility decreased due to the Covid-19 Pandemic.

There was also a decrease of \$ 375,327 in Fines and Forfeitures due to state mandates affecting Municipal Court hearings and state waivers for expired Driver Licenses and registration requirements that ended on April 21, 2021.

CAPITAL ASSETS

The City of Alvarado's investment in capital assets for its governmental and business-type activities as of September 30, 2020, amounts to \$26,915,117 (net of accumulated depreciation.). This investment in capital assets includes land, buildings and improvements, machinery, equipment, infrastructure and construction in progress.

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

- Lighting at the Police Gun Range for \$ 11,000
- Old Wagon Barn capitalized at \$ 121,960
- The Parks Department purchased a mower for \$ 9,346
- The Parks Department installed a Pickle Ball Court at Parkway Park for \$ 24,605
- The Police Department purchased 3 Kenwood radios for \$ 9,516
- The CVE Department purchased large truck scales for \$ 55,650
- JESSUP Street improvements completed for \$ 704,546. Council meeting in August 2019 approved to use Royalty fund proceeds in TEXPOOL for project.
- Capital leases through Enterprise for Public Safety, Admin, Code and Public Works for \$ 829,831
- Engineering Services for Maple Ave wastewater project for \$ 31,596
- Well #4 Tank Storage Disposal & Add New for \$ 59,296
- Scada Upgrade for HMI Software at WW Treatment Plant for \$ 7,056 (2nd payment of \$ 5,349 paid in 2021)

The following table provides a summary of the City's capital assets for the year ended September 30, 2020 as compared to the summary of capital assets for the year ended September 30, 2019:

**CITY OF ALVARADO
CAPITAL ASSETS AT YEAR-END**

	Governmental Activities		Business-Type Activities		Totals	
	2019	2020	2019	2020	2019	2020
Land	357,193	357,193	1,005,509	1,005,509	1,362,702	1,362,702
Buildings & Improvements	1,777,841	1,847,065	8,865	8,664	1,786,706	1,855,729
Infrastructure	5,802,334	6,248,073			5,802,334	6,248,073
Vehicles	853,496	1,272,574	32,015	265,595	885,511	1,538,169
Parks Improvements	1,153,782	1,094,996			1,153,782	1,094,996
Water System			5,892,852	5,607,945	5,892,852	5,607,945
Sewer System			7,623,071	8,594,771	7,623,071	8,594,771
Other Equipment	209,946	201,641	139,426	117,559	349,372	319,200
Construction in Progress	121,960	-	1,593,010	293,532	1,714,970	293,532
Total	10,276,552	11,021,542	16,294,748	15,893,575	26,571,300	26,915,117

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DEBT ADMINISTRATION

Total Debt. The City of Alvarado's total debt outstanding at the end of the current fiscal year is \$ 12,534,774. This amount is a decrease of \$48,640 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 \$11,089,552. Of this amount, \$10,283,709 is comprised of long-term bonds payable. The remainder of the debt, \$805,843, is comprised of various notes for vehicles, capital leases, compensated absences, equipment and buildings.

Current Debt. At the end of the current fiscal year, the City of Alvarado had total current debt of \$ 1,445,222 including current bonds payable, current notes payable, capital leases and compensated absences.

Bond Rating. The City continues to have a favorable bond rating of "AA" from Standard and Poor's Rating Service.

The following table provides a summary of the City's outstanding debt for the year ended September 30, 2020 as compared to the summary of capital assets for the year ended September 30, 2019.

CITY OF ALVARADO OUTSTANDING DEBT AT YEAR-END (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2019	2020	2019	2020	2019	2020
Certificates of Obligation	\$ 9,317,309	\$ 8,718,543	\$ 2,623,581	\$ 2,383,873	\$ 11,940,890	\$ 11,102,416
Tax Anticipation Notes	-	-			-	-
Capital Leases		572,481		257,350	-	829,831
Notes Payable	544,566	482,653			544,566	482,653
Compensated Absences	82,136	96,140	15,822	23,734	97,958	119,874
Total	<u>\$ 9,944,011</u>	<u>\$ 9,869,817</u>	<u>\$ 2,639,403</u>	<u>\$ 2,664,957</u>	<u>\$ 12,583,414</u>	<u>\$ 12,534,774</u>

BASIC FINANCIAL STATEMENTS

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following factors were considered in preparing the City of Alvarado's budget for the 2019-2020 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 but has slightly increased due to the Pandemic while the median income continues to rise.
- The City's property tax rate for 2020-2021 is the Voter Approval Rate at \$.751419 per \$100 of valuation. The property tax rate for 2019-2020 was \$.732031 per \$ 100 of valuation.
- The City currently receives royalties from 29 gas wells.
- Alvarado continues to generate sales tax revenue from the sale of alcoholic beverages at several stores selling beer and wine and two package stores selling all types of liquor.
- Bloomfield Homes completed construction of 174 homes in Phase 1. Phase 2 has been platted.
- The Parks of Alvarado subdivision platted and completed civil construction for roads and utility infrastructure for approximately 381 single family homes.
- The City adopted a resolution in Nov 2020 that will use local sales and use tax in the City of Alvarado at the rate of .25% to provide revenue for maintenance and repair of municipal streets beginning April 1, 2021.
- Jessup Street repairs were completed.
- Pickle Ball Court was completed at Parkway Park.
- The City of Alvarado began collecting impact fees from developers for water, wastewater & roads in November 2019 for infrastructure improvements that must be built due to new development.
- In December 2020, the City issued \$ 4,510,000 of Combination Tax and Revenue Certificates of Obligation, Series 2020 for wastewater line replacements related to the City's growth and increased capacity.
- Engineering services for Maple Avenue wastewater line replacement project began
- Contracted with Enterprise to lease city vehicles

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 POSITION
September 30, 2020

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 1,600,097	\$ 214,669	\$ 1,814,766
Investments	9,497,687	1,110,912	10,608,599
Receivables (net)			
Taxes receivable	448,877	-	448,877
Accounts receivable	188,583	331,377	519,960
Other	-	60,418	60,418
Inventory	-	59,026	59,026
Restricted assets			
Cash	246,783	896,172	1,142,955
Deposits	25	125,808	125,833
Investments	1,132,754	33,537	1,166,291
Total current assets	<u>13,114,806</u>	<u>2,831,919</u>	<u>15,946,725</u>
Noncurrent assets:			
Capital assets, net	11,021,542	15,893,575	26,915,117
Total noncurrent assets	<u>11,021,542</u>	<u>15,893,575</u>	<u>26,915,117</u>
Total assets	<u>24,136,348</u>	<u>18,725,494</u>	<u>42,861,842</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension contributions	232,157	48,170	280,327
Deferred bond discounts	-	17,500	17,500
Deferred OPEB assumptions	21,020	3,685	24,705
Deferred pension actuarial losses	216,033	44,247	260,280
	<u>469,210</u>	<u>113,602</u>	<u>582,812</u>
LIABILITIES			
Current liabilities:			
Accounts payable	1,974,534	132,770	2,107,304
Accrued liabilities	245,627	18,689	264,316
Due to other funds	(364,371)	364,371	-
Deposits	-	223,885	223,885
Current portion			
Revenue bonds payable	573,999	244,708	818,707
Notes payable	63,579	-	63,579
Capital leases	210,233	232,829	443,062
Compensated absences	96,140	23,734	119,874
Total current liabilities	<u>2,799,741</u>	<u>1,240,986</u>	<u>4,040,727</u>
Noncurrent liabilities:			
Revenue bonds payable	8,144,544	2,139,165	10,283,709
Notes payable	419,074	-	419,074
Capital leases	362,248	24,521	386,769
Net OPEB liability	81,328	16,658	97,986
Net pension liability	210,658	43,147	253,805
Total noncurrent liabilities	<u>9,217,852</u>	<u>2,223,491</u>	<u>11,441,343</u>
Total liabilities	<u>12,017,593</u>	<u>3,464,477</u>	<u>15,482,070</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred bond premiums	-	3,857	3,857
Deferred pension expense	283,525	58,071	341,596
	<u>283,525</u>	<u>61,928</u>	<u>345,453</u>
NET POSITION			
Invested in capital assets, net of related debt	1,247,865	13,252,352	14,500,217
Restricted			
Public Safety	3,337,600	-	3,337,600
Capital improvements	679,839	897,052	1,576,891
Unrestricted	7,039,136	1,163,287	8,202,423
Total net position	<u>\$ 12,304,440</u>	<u>\$ 15,312,691</u>	<u>\$ 27,617,131</u>

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2020

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
Governmental activities:							
General government:							
General government	\$ 738,625	\$ 441,413	\$ -	\$ -	\$ (297,212)	\$ -	\$ (297,212)
Public safety	3,577,647	594,066	-	-	(2,983,581)	-	(2,983,581)
Public works	272,353	-	-	-	(272,353)	-	(272,353)
Cultural and recreational	349,077	-	-	-	(349,077)	-	(349,077)
Economic development	173,491	-	-	-	10,051	-	10,051
Community development	616,930	183,542	-	14,200	253,109	-	253,109
Social and welfare	91,252	855,839	-	-	(56,243)	-	(56,243)
Pension expense	183,075	35,009	-	-	(183,075)	-	(183,075)
Interest on long-term debt	360,961	-	-	-	(102,474)	-	(102,474)
Total governmental activities	\$6,363,411	\$ 2,368,356	\$ -	\$ 14,200	(\$3,980,855)	\$ -	(\$3,980,855)
Business-type activities:							
Water and sewer	\$ 3,460,570	\$ 3,227,955	\$ -	\$ -	\$ -	\$ (232,615)	\$ (232,615)
General revenues:							
Taxes:							
General property taxes					2,671,955	-	2,671,955
Sales tax					2,522,159	-	2,522,159
Franchise tax					458,613	-	458,613
Interest income					87,203	25,981	113,184
Gain (Loss) on sale of capital assets					133,301	62,700	196,001
Administrative fee					85,000	-	85,000
Miscellaneous					26,377	-	26,377
Transfers					(64,543)	64,543	-
Total general revenues and proceeds					\$5,920,065	153,224	\$6,073,289
Change in net position					1,939,210	(79,391)	1,859,819
Net position-beginning of period					10,365,230	15,392,082	25,757,312
Net position-ending					\$ 12,304,440	\$ 15,312,691	\$ 27,617,131

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2020

	ASSETS				
	General Fund	Debt Service Fund	AEDC	Other Governmental Funds	Total Governmental Funds
Equity in pooled cash and cash equivalents	\$ -	\$ -	\$ 1,368,209	\$ 231,888	\$ 1,600,097
Investments	7,464,709	-	1,032,353	1,000,625	9,497,687
Receivables, net	-	-	-	-	-
Accounts	128,082	-	-	60,501	188,583
Property taxes	69,865	32,322	-	-	102,187
Sales taxes	317,599	-	105,830	24,183	447,612
Fines receivable	177,934	-	-	-	177,934
Due from other funds	364,371	-	-	-	364,371
Restricted	-	-	-	-	-
Cash	-	-	-	246,783	246,783
Intergovernmental Receivable	45,667	362,368	-	724,719	1,132,754
Investments	-	-	-	-	25
Total assets	\$ 8,568,252	\$ 394,690	\$ 2,506,392	\$ 2,288,699	\$ 13,758,053

LIABILITIES

Accounts payable	\$ 1,573,484	\$ 339,737	\$ 38	\$ 61,275	\$ 1,974,534
Accrued liabilities	244,524	-	1,103	-	245,627
Total liabilities	1,818,008	339,737	1,141	61,275	2,220,161

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of property tax revenue	246,830	32,026	-	-	278,856
Total liabilities and deferred inflows of resources	2,064,838	371,763	1,141	61,275	2,499,017

FUND BALANCES

Fund balances:					
Nonspendable	-	-	-	-	-
Restricted	(22,927)	22,927	2,505,251	832,349	3,337,600
Capital improvement	-	-	-	679,839	679,839
Committed	-	-	-	303,581	303,581
Assigned	-	-	-	382,894	382,894
Unassigned	6,526,341	-	2,505,251	28,761	6,555,102
Total fund balances	6,503,414	22,927	2,506,392	2,227,424	11,259,016
Total liabilities, deferred inflows and fund balance:	\$ 8,568,252	\$ 394,690	\$ 2,506,392	\$ 2,288,699	\$ 12,304,440

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (Note B)

Other long-term assets and liabilities are not available to pay for current-period expenditures, and therefore, are deferred in the funds

Long-term liabilities, including bond payable and pension expense, are not due and payable in the current period and therefore are not reported in the funds (Note B)

Compensated absences are not due and payable in the current period and therefore are not reported in the funds

Net position of governmental activities

\$ 12,304,440

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, 2020

	General Fund	Debt Service Fund	AEDC	Other Governmental Funds	Total Governmental Funds
REVENUE:					
General property taxes, interest and penalties	\$ 1,817,683	\$ 854,272	\$ -	\$ -	\$ 2,671,955
Sales tax	1,731,242	-	578,277	-	2,309,519
Hotel tax	-	-	-	212,183	212,183
Fines and forfeitures	594,066	-	-	-	594,066
Franchise tax	458,613	-	-	-	458,613
Mixed beverage tax	457	-	-	-	457
Rental fees	35,009	-	-	-	35,009
Intergovernmental	684,599	-	-	171,240	855,839
Licenses, fees and permits	401,030	-	-	40,383	441,413
Interest	47,389	-	11,599	28,215	87,203
Proceeds from disposition of property	148,111	-	-	-	148,111
Contributions and donations	14,200	-	-	-	14,200
Water/Sewer administrative fee	85,000	-	-	-	85,000
Oil and gas royalties	-	-	-	60,792	60,792
Impact Fees	-	-	-	122,750	122,750
Miscellaneous	21,877	-	-	-	21,877
Total Revenue	6,039,276	854,272	589,876	635,563	8,118,987
EXPENDITURES:					
Current operating					
General government	809,151	-	-	-	809,151
Public safety	3,256,280	-	-	20,181	3,276,461
Community development	187,107	-	86,078	-	273,185
Public works	219,739	-	-	-	219,739
Cultural and recreational	346,894	-	-	-	346,894
Social and welfare	71,531	-	-	-	71,531
Economic development	-	-	-	164,761	164,761
Capital Outlay	127,976	-	-	711,146	839,122
Debt Service	-	-	-	-	-
Principal	-	786,078	-	-	786,078
Interest	-	370,108	-	-	370,108
Paying agent	-	1,200	-	-	1,200
Total Expenditures	5,018,678	1,157,386	86,078	896,088	7,158,230
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,020,598	(303,114)	503,798	(260,525)	960,757
OTHER FINANCING SOURCES:					
Transfers in	180,811	313,369	-	(10,000)	494,180
Transfers out	(283,719)	-	-	-	(283,719)
NET CHANGE IN FUND BALANCES	917,690	10,255	503,798	(270,525)	1,161,218
FUND BALANCE - October 1, 2019	5,585,724	12,672	2,001,453	2,497,949	10,097,798
FUND BALANCE - September 30, 2020	6,503,414	22,927	2,505,251	2,227,424	11,259,016

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, 2020

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

Net change in fund balances - total governmental funds	\$ 1,161,218
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	1,534,768
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.	(779,468)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and interfund transfers) is to increase net position.	(103,211)
Governmental funds report principal 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.	7,194,922
The issuance of long-term debt (e.g. bonds, leases, compensated absences) provides current financial resources to government funds. Issuance of long-term debt does not effect net position. This is the amount of debt issued in the current period.	(6,972,879)
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>(96,140)</u>
Changes in net position of governmental activities	<u>\$ 1,939,210</u>

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
STATEMENT OF NET POSITION
WATER AND SEWER PROPRIETARY FUND
September 30, 2020

ASSETS

Current assets:	
Equity in pooled cash and cash equivalents	\$ 214,669
Investments	1,110,912
Accounts receivable (net of allowance for uncollectible amounts)	331,377
Other receivables	60,418
Inventory	59,026
Restricted assets	
Cash	896,172
Deposits	125,808
Investments	33,537
Total current assets	2,831,919
Noncurrent assets:	
Capital assets, net	15,893,575
Total noncurrent assets	15,893,575
Total assets	18,725,494

DEFERRED OUTFLOW OF RESOURCES

Deferred bond discounts	17,500
Deferred OPEB assumptions	3,685
Deferred pension contributions	48,170
Deferred pension actuarial losses	44,247
	113,602

LIABILITIES

Current liabilities:	
Accounts payable	132,770
Accrued liabilities	18,689
Due to other funds	364,371
Deposits	223,885
Current portion	
Revenue bonds payable	244,708
Capital leases	232,829
Compensated absences	23,734
Total current liabilities	1,240,986
Noncurrent liabilities:	
Revenue bonds payable	2,139,165
Capital leases	24,521
Net OPEB liability	16,658
Net pension liability	43,147
Total noncurrent liabilities	2,223,491
Total liabilities	3,464,477

DEFERRED INFLOW OF RESOURCES

Deferred bond premiums	3,857
Deferred pension expense	58,071
	61,928

NET POSITION

Invested in capital assets, net of related debt	13,252,352
Restricted for:	
Capital Improvements	897,052
Unrestricted	1,163,287
Total net position	\$ 15,312,691

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
WATER AND SEWER PROPRIETARY FUND
For the Fiscal Year Ended September 30, 2020

OPERATING REVENUES:	
Water service	\$ 1,411,058
Sewer service	991,771
Garbage service	466,120
Late charges	59,254
Impact Fees	214,658
Miscellaneous income	85,094
Total operating revenues	3,227,955
OPERATING EXPENSES:	
Personnel services	658,020
Contractual services	1,333,864
Supplies and maintenance	381,387
Administrative fees	85,000
Other fees	113,246
Depreciation	793,085
Total operating expenses	3,364,602
Operating income (loss)	(136,647)
NON-OPERATING REVENUES (EXPENSES)	
Gain on sale of assets	62,700
Interest income	25,981
Accretion of bond premiums/discounts	9,059
Interest expense	(105,027)
Net non-operating revenues (expenses)	(7,287)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(143,934)
Operating transfers in	64,543
Operating transfers out	-
Net transfers	64,543
CHANGE IN NET POSITION	(79,391)
NET POSITION, October 1, 2019	15,392,082
NET POSITION, September 30, 2020	\$ 15,312,691

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, 2020

CASH FLOWS FORM OPERATING ACTIVITIES:		
Cash received from:		
Customers		\$ 3,324,885
Cash paid to/for:		
Employees		(595,935)
Suppliers		(2,016,779)
Net cash flows provided by operating activities		<u>712,171</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating transfers in	\$ 64,543	
Net cash flows provided by noncapital financing activities		<u>64,543</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquistion and construction of capital assets	(397,911)	
Principal paid on bonds, notes and lease obligations	(230,000)	
Proceeds on sale of assets	68,698	
Principal paid on capital leases	(42,613)	
Interest paid on bonds, notes and lease obligations	(105,027)	
Net cash flows used in capital and related financing activities		<u>(706,853)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Amount received from interest income	25,981	
Proceeds received from capital leases	299,963	
Net cash flows provided by investing activities		<u>325,944</u>
Net increase in cash and cash equivalents		395,805
Cash and cash equivalents, October 1, 2019		1,985,293
Cash and cash equivalents, September 30, 2020		<u>\$ 2,381,098</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)		\$ (136,647)
Adjustments for transactions not requiring cash		
Depreciation	\$ 793,085	
Gain on disposal of assets	(62,700)	
Miscellaneous (income) expense	33,613	
Accretion of bond premiums	(9,059)	
Pension	37,498	
Change in current assets and current liabilities		
(Increase) decrease in accounts receivable	91,835	
(Increase) decrease in inventory	(10,512)	
(Increase) decrease in other receivables	(60,418)	
(Increase) decrease in deferred outflows	8,388	
Increase (decrease) in accounts payable	5,794	
Increase (decrease) in accrued liabilities	7,586	
Increase (decrease) in customer deposits	5,095	
Increase (decrease) in net pension liability	(30,282)	
Increase (decrease) in deferred inflows	30,983	
Increase (decrease) in compensated absences payable	7,912	
Total adjustments and changes		<u>848,818</u>
Net cash provided by operating activities		<u>\$ 712,171</u>

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

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") applicable to state and local governments. 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. These notes are organized to provide concise explanations, including required disclosures of budgetary matters, assets, liabilities, fund balance, revenues, expenditures/expenses, and other information considered important to gaining a clear picture of the City's financial activities for the fiscal year ended September 30, 2020. 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 1889 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 Governmental Accounting Standards Board (GASB) Statement No. 61, the accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Component units are included in the reporting entity because of the significance of their operational relationship with the City. A City is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if City officials appoint a voting majority of the organization's governing body and are able to either impose their will on that organization, or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the City. The City may also be financially accountable for governmental organizations that are fiscally dependent on it. Lastly, even if the City is not financially accountable, an organization should be included if its exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Blended component units, although legally separate entities, are in substance, part of the City's operations. Component units are included in the City's financial statements using the blended method in any of these circumstances:

- a) The component unit's governing body is substantively the same as the governing body of the City *and* there is a financial benefit or burden relationship *or* management of the primary has operational responsibility for the component unit.
- b) The component unit provides services entirely, or almost entirely, to the City or exclusively, benefits the City.
- c) The component unit's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with resources of the City. Otherwise, the organization is a discretely presented component unit and its data is reported together with, but separately from, the data of the City in the government-wide financial statements

Information regarding blended component units can be obtained at City Hall.

Blended Presented 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.

Related Corporation

Prairielands Public Facility Corporation – This entity was created in July 2011, as a nonprofit public facilities corporation to act on behalf of the City of Alvarado, Texas to finance or provide for the acquisition, construction, rehabilitation, renovation, repair, equipping, furnishing, and placement in service of certain correctional (public) facilities of the City. 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. Although the Prairielands Public Facility Corporation financial matters are ratified or denied by the City, the City is not legally entitled to the Prairielands Public Facility Corporation resources or is it legally obligated for the indebtedness of the Prairielands Public Facility Corporation. The Prairielands Public Facility Corporation has the full legal right, power and authority to enter into that certain Prairieland Detention Center Housing Agreement dated July 1, 2015 and certain Intergovernmental Service Agreement dated as of February 24, 2015 between the City of the United States Department of Homeland Security, U.S. Immigration and Customs Enforcement. The Prairielands Public Facility Corporation provides these services exclusively for the City and issues separate financial statements.

2. Basis of Presentation

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 position and the statement of activities) report information on all 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.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function (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 or capital 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, the AEDC fund and the special project 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 three non-major funds, which are the hotel and occupancy tax fund, special revenue fund and the royalty 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 City 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 judgments, are recorded only when the obligation has matured and will be paid shortly after year end (not to exceed one month).

Ad valorem taxes, franchise taxes, sales taxes, certain public safety and other revenues recorded in the General Fund and ad valorem tax revenues recorded in the Debt Service Fund are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash, because they are generally not measurable until actually received. Interest earnings revenue 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.

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

The other governmental funds column is a summarization of all the non-major governmental fund types.

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, Deferred Outflows/Inflows of Resources and Net Position/Fund Balances

Deposits and Investments

The City considers both restricted and unrestricted demand deposits, cash on hand, investments in highly liquid investment pools and investments with maturities at the time of purchase of under 90 days to be cash equivalents.

The City pools substantially all cash and investments except for separate cash and investment accounts which are maintained in accordance with legal restrictions. Each fund's equity share of

the total pooled cash and investments is included on the accompanying statement of net position and balance sheet under the caption "Equity in pooled cash and cash equivalents".

For fiscal year 2020, the City invested in the external government investment pool administered by the State of Texas, which is entitled the TexPool Fund, as authorized by the City's investment policy. The City records interest revenue earned from investment activities in each respective fund and recognizes its investments on a fair value basis.

Receivables and payables

Transactions between funds that representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "interfund loans receivable/payable to/from other funds" (i.e. long term interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." There are no internal balances as of September 30, 2020.

Property taxes attach an enforceable lien on property as of January 1. The City's property taxes are levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. Assessed values are established at 100% of estimated market value. Taxes are due by January 31 following the October 1 levy date and are considered delinquent after February 1 of each year. The Johnson County Central Appraisal District bills and collects property taxes on behalf of the City. Any uncollected property taxes as of September 30, which are not expected to be collected within 60 days, are recorded as taxes receivable and deferred revenues. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable their validity seems certain.

Inventory

Inventory consists primarily of water and sewer plant parts and supplies, valued at estimated FIFO which is lower of cost or net realizable value. Inventory is expensed when purchased and adjusted to actual at year-end. Inventory as of September 30, 2020 was \$59,026.

Prepaid Expenditures/Expenses

Payments made to vendors for services that will benefit periods beyond are recorded as prepaid items. The nonspendable portion of the fund balance is provided equal to the amount of prepaid items, as the amount is not available for expenditure. These payments are recognized under the consumption method.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), purchased or acquired, 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 City 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 did not capitalize any interest during the fiscal year 2020.

Leases

The City recognizes operating and finance leases with an initial term of more than 12 months as capital leases beginning at the lease commencement date based on the present value of the fixed lease payments using the City's incremental borrowing rates for its population of leases.

Leases with an initial term of 12 months or less are not recorded on the balance sheet; the City recognizes lease expense for these leases on a straight-line basis over the lease term. Variable lease payments are recognized as lease expense as they are incurred.

Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenues) until that time. The City has the following items that qualify for reporting as deferred outflows and inflows of resources:

Deferred Gain on Refunding – These deferred inflows result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Pension and OPEB-related Deferred Outflows/Inflows – these deferred outflows or inflows result from pension and OPEB contributions after the measurement date

(deferred and recognized in the following fiscal year); the differences in projected and actual earnings on pension and OPEB plan investments (deferred and amortized over a closed five year period equal to the average of expected remaining service lives of employees that are provided the plans).

Unavailable revenue – The City reports certain deferred inflows related to unavailable tax revenues at the fund level. In the fund financials, revenues that have met the eligibility criteria for future years except for the time availability have been reclassified from liabilities to deferred inflows of resources. In the government wide financials, the deferred revenue from property taxes has been reclassified from liabilities to offset the property tax receivable.

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, 2020, the liability for accrued vacation and compensatory time, calculated in accordance with GASB Statements 16, "Accounting for Compensated Absences," was \$96,140 in the general fund. The amount applicable to the Proprietary Fund was \$23,734 and has been recorded in that fund.

Interfund Charges

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 paid through the General Fund. During the year ended September 30, 2020, the City chose to allocate a portion of the administrative services to the Water and Sewer Fund which totaled \$85,000.

Pensions

For purposes of measuring the net pension liability, pension related deferred outflows of resources and deferred inflows of resources and pension expense, City specific information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions.

Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's Retiree Health Insurance OPEB Trust and additions to/deductions from the Trust's fiduciary net position have been determined on the same basis as they are reported by the Trust. For this purpose, the post-employment benefits liabilities that pertain to the governmental activities will be liquidated mainly by the General Fund with the rest being liquidated by the Water/Sewer Fund.

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 position. Bond premiums and discounts 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 expenses as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance cost, 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 received, are reported as debt service expenditures.

Restricted Assets

Certain proceeds of bonds, as well as certain resources set aside for their repayment are classified as restricted assets on the statement of net position and balance sheet because their use is limited by applicable bond covenants or contractual agreements. Customer deposits received by water and wastewater services are, by law, considered to be restricted assets.

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.

Fund Balance Classification

The City reports governmental fund balances per GASB 54 definitions as follows:

Nonspendable – Amounts that are not in spendable form or are required to be maintained intact, such as inventory, or permanent funds.

Restricted – Amounts that can be spent only for specific purposes stipulated by external parties, such as grants, court technology fees and construction.

Committed – Amounts that can be used only for specific purposes set by resolution of the City Council, such as street construction and building maintenance

Assigned – Amounts intended to be used for specific purpose. The City Council has delegated the responsibility to assign funds to the City Manager or the Director Finance as approved by the fund balance policy. Assignments may occur subsequent to fiscal year end.

Unassigned – Amounts not contained in other classifications that can be used for any purpose.

For the purpose of fund balance classification expenditures are to be spend first from restricted fund balance, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The City will utilize funds for expenditures from the most restrictive fun balance first when more than one fund balance classification is available. The City considers an amount spent when an expenditure in incurred for purposes for which both *restricted* or *unrestricted* fund balance is available. In addition, the City considers an amount spent when an expenditure in incurred for purposes for which an amount in the *committed*, *assigned*, or *unassigned* amounts could be used.

Net Position

Net position is classified and displayed in three components: Net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is excluded from the calculation of net investment in capital assets.

Restricted – Consists of assets with constraints placed on the use either by (1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. When an expense is incurred for purposes for which there are both restricted and unrestricted assets available, it is the City's policy those expenses to restricted assets, to the extent such are available, and then to unrestricted assets.

Unrestricted – All other assets that constitute the components of net position that do not meet the definition of “restricted” or “investment in capital assets.”

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. New Accounting Principles

Pronouncements Effective for the 2020 Financial Statements

With this financial report the City has changed its financial reporting to comply with Government Accounting Standards Board (GASB):

In May 2020, the GASB issued Statement No. 95, "*Postponement of the Effective Dates of Certain Authoritative Guidance*," effective immediately. The primary objective was to provide temporary relief to governments in light of the COVID-19 pandemic. That objective was accomplished by postponing the effective dates of certain provisions that were to be effective for periods beginning after June 15, 2018. The following provisions were postponed by one year - Statement No. 83 "*Certain Asset Retirement Obligations*," Statement No. 84 "*Fiduciary Activities*," Statement No. 88 "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*," Statement No. 89 "*Accounting for Interest Cost Incurred before the End of a Construction Period*," Statement No. 90 "*Majority Equity Interests*," Statement No. 91 "*Conduit Debt Obligations*," Statement No. 92 "*Omnibus 2020*," Statement No. 93 "*Replacement of Interbank Offered Rates*," Implementation Guide No. 2017-3, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*," Implementation Guide No. 2018-1, "*Implementation Guidance Update – 2018*," Implementation Guide No. 2019-2, "*Fiduciary Activities*." The following provisions were postponed by 18 months – Statement No. 87 "*Leases*," and Implementation Guide No. 2019-3, "*Leases*."

New accounting standards effective in future years

The GASB has issued the following statements which will be effective in future years as described below. The impact on the City's financial statements of implementation has not yet been determined for the following:

In January 2017, the GASB issued Statement No. 84, "*Fiduciary Activities*." The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are now effective for reporting periods beginning after December 15, 2019.

In June 2017, the GASB issued Statement No. 87, "*Leases*." The objective of this Statement is to better meet the information needs of financial statements users by improving accounting and

financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are now effective for reporting periods beginning after June 15, 2021.

In March 2018, the GASB issued Statement No. 88, "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.*" The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2019.

In June 2018, the GASB issued Statement No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period.*" The objectives of the Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this statement are effective for reporting periods beginning after December 15, 2020.

GASB Statement No. 90, "*Majority Equity Interests – an amendment of GASB Statements and No. 14 and No. 61*" is effective for periods beginning after December 15, 2019. The primary objectives of the Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

GASB Statement No. 91, "*Conduit Debt Obligations*" is effective for periods beginning after December 15, 2021. The primary objectives are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

GASB Statement No. 92, "*Omnibus*" is effective primarily for periods beginning after June 15, 2021 with the requirements related to GASB 87 implementation, reinsurance recoveries and terminology related to derivative instruments effective immediately. The primary objective is to address implantation issues which have been identified related to GASB 87, *Leases*, reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68, as amended and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets

accumulated for postemployment benefits; The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements; Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs); reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments.

GASB Statement No. 93, "*Replacement of Interbank Offered Rates*" The primary objective of this statement is to address accounting and financial reporting implications that result from the replacement of an IBOR. The requirements of paragraphs 13 and 14 are now effective for fiscal years beginning after June 15, 2021. The requirements in paragraph 11b is effective for reporting periods ending after December 31, 2021.

GASB Statement No. 94, "*Public-Private and Public-Public Partnerships and Availability Payment Arrangements*" is effective for fiscal years beginning after June 15, 2022. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnerships arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

GASB Statement No. 96, "*Subscription-Based Information Technology Arrangements*" is effective for fiscal years beginning after June 15, 2022. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments).

GASB Statement No. 97, "*Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an Amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*" The primary objectives of this statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plan (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Paragraphs 4 and 5 of this Statement are effective immediately and have been implemented with no material impact. The remainder of the Statement is effective for periods beginning after June 15, 2021.

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 position – governmental activities as reported in the governmental-wide statement of net position. One element of that reconciliation explains, “long-term liabilities, including bonds payable and pension expense, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$10,065,663 difference are as follows:

Bonds payable	\$8,111,000
Premium on issuance of bonds	607,543
Capital lease payable	572,481
Notes payable	482,653
Net OPEB liability	81,328
Net pension liability	<u>210,658</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$10,065,663</u>

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

The governmental funds statement of revenues, expenditures, and changes in fund balances included reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “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.” The details of this \$11,021,542 difference are as follows:

Capital outlay	\$ 17,617,132
Depreciation expense	<u>(6,595,590)</u>
Net adjustment to decrease net changes in fund balance – total governmental funds to arrive at changes in net position of government activities	<u>\$ 11,021,542</u>

NOTE C – CASH, EQUITY IN POOLED CASH, AND INVESTMENTS

The City pools substantially all cash and investments except for separate cash and investment accounts which are maintained in accordance with legal restrictions. Each fund’s equity share of the total pooled cash and investments is included on the accompanying statement of net position and balance sheet under the caption “Equity in pooled cash and cash equivalents”.

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.

The City maintains separate investment accounts. Each fund type's portion is reflected on the combined balance sheet as "Investments" under each fund's caption.

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, 2020. At year-end, the carrying amount of the City’s deposits was \$477,411, with respective bank balances of \$749,203. Included in the bank balances are Certificates of Deposit totaling \$125,833.

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, 2020 are:

<u>Investments:</u>	<u>Fair Value</u>	<u>Effective Duration</u>	<u>Credit Risk</u>
Government Pools			
Unrestricted	\$10,608,599	N/A	AAAM
Restricted	1,166,291	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, 2020, consisted of the following:

	General	Debt Service	AEDC	Other	Total	Proprietary Fund Water & Sewer Fund
Taxes Receivable						
Ad valorem taxes	\$89,344	\$41,347	-	-	\$130,691	-
Allowance for uncollectible acct	(19,479)	(9,025)	-	-	(28,504)	-
Ad valorem, net	69,865	32,322	-	-	102,187	-
Sales taxes	317,599	-	\$105,830	\$24,183	447,612	-
Total Taxes Receivable	387,464	32,322	105,830	24,183	549,799	
Services Receivable						
Service accounts	128,082	-	-	60,501	188,583	\$335,083
Allowance for uncollectible accts	-	-	-	-	-	(3,706)
Total Services Receivable	128,082	-	-	60,501	188,583	331,377
Other Receivables						
Court fees & other	592,988	-	-	-	592,988	
Allowance for uncollectible accts	(415,054)	-	-	-	(415,054)	
	177,934	-	-	-	177,934	
Total Receivables	\$693,480	\$32,322	\$105,830	\$84,684	\$916,316	\$331,377

NOTE E – CHANGES IN CAPITAL ASSETS

Primary Government

Capital asset activity for the year ended September 30, 2020 is as follows:

	Balance 9/30/19	Additions	Retirements	Transfers	Balance 9/30/20
Land	\$357,193	\$-0-	\$(-0-)	\$(-0-)	\$357,193
Construction in progress	121,960	-0-	(-0-)	(121,960)	-0-
Building & improvements	2,546,205	132,960	(-0-)	(-0-)	2,679,165
Infrastructure	7,756,006	589,185	(-0-)	121,960	8,467,151
Vehicles	2,681,641	717,222	(484,210)	(-0-)	2,914,653
Parks improvements	1,516,729	24,605	(8,937)	(-0-)	1,532,397
Equipment	1,595,777	70,796	(-0-)	(-0-)	1,666,573
Total capital assets	<u>16,575,511</u>	<u>1,534,768</u>	<u>(493,147)</u>	<u>(-0-)</u>	<u>17,617,132</u>
Less accumulated depreciation:					
Building & improvements	768,364	63,736	(-0-)	(-0-)	832,100
Infrastructure	1,953,672	265,406	(-0-)	(-0-)	2,219,078
Vehicles	1,828,145	287,834	(473,900)	(-0-)	1,642,079
Parks improvements	362,947	83,391	(8,937)	(-0-)	437,401
Equipment	1,385,831	79,101	(-0-)	(-0-)	1,464,932
Total accumulated depreciation	<u>6,298,959</u>	<u>779,468</u>	<u>(482,837)</u>	<u>(-0-)</u>	<u>6,595,590</u>
Governmental activities capital assets, net	<u>\$10,276,552</u>	<u>\$755,300</u>	<u>\$(-10,309)</u>	<u>\$(-0-)</u>	<u>\$11,021,542</u>

Business-Type Activities

Capital asset activity for the year ended September 30, 2020 is as follows:

	Balance 9/30/19	Additions	Retirements	Transfers	Balance 9/30/20
Land	\$ 1,005,509	\$ -0-	\$ (-0-)	\$ (-0-)	\$1,005,509
Construction in Progress	1,593,010	97,948	(-0-)	(1,397,426)	293,532
Building & Improvements	10,033	-0-	(-0-)	-0-	10,033
Water System	10,956,945	-0-	(-0-)	-0-	10,956,945
Sewer System	11,248,169	-0-	(-0-)	1,397,426	12,645,595
Equipment	498,664	-0-	(-0-)	-0-	498,664
Vehicles	201,184	299,963	(125,088)	-0-	376,059
Total capital assets	<u>25,513,514</u>	<u>397,911</u>	<u>(125,088)</u>	<u>(-0-)</u>	<u>25,786,337</u>
Less accumulated depreciation:					
Building & Improvements	1,168	201	(-0-)	-0-	1,369
Water System	5,064,093	284,907	(-0-)	-0-	5,349,000
Sewer System	3,625,098	425,726	(-0-)	-0-	4,050,824
Equipment	359,238	21,867	(-0-)	-0-	381,105
Vehicles	169,169	60,384	(119,089)	-0-	110,464
Total accumulated depreciation	<u>9,218,766</u>	<u>793,085</u>	<u>(119,089)</u>	<u>-0-</u>	<u>9,892,762</u>
Business-type activities capital assets, net	<u>\$16,294,748</u>	<u>\$38,569</u>	<u>\$(-0-)</u>	<u>\$(-0-)</u>	<u>\$15,893,575</u>

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

Governmental activities:	
General government	\$ 51,289
Public safety	301,186
Public works	52,614
Cultural and recreational	2,183
Community development	343,745
Social and welfare	19,721
Economic	8,730
Total depreciation expense – governmental activities	<u>\$779,468</u>
Business-type activities:	
Water and sewer	<u>\$793,085</u>

NOTE F – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

For the year ended September 30, 2020, revenues exceeded expenditures in the General Fund by \$1,020,598.

NOTE G – INTERFUND BALANCES AND TRANSFERS – GOVERNMENT WIDE

The composition of interfund operating transfers for the year ended September 30, 2020, is as follows:

Fund	Transfer to Other Funds	Transfer from Other Funds
General Fund	\$283,719	\$ 180,811
Debt Service Fund	-0-	313,369
Nonmajor Governmental Funds	10,000	-0-
Long-Term Debt Fund	265,004	
Water and Sewer Fund	-0-	64,543
	<u>\$558,723</u>	<u>\$558,723</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 2037, 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, 2020, is comprised of the following:

<u>Description of Debt</u>	<u>Amount</u>
\$3,475,000 2015 Certificate of Obligation for city improvements, due in annual installments ranging from \$125,000 to \$230,000 beginning August 2016 through August 2035, interest payments ranging from \$4,025 to \$58,568 from February 2016 through August 2035 with interest rate of 3.0% to 3.5%	\$2,800,000
Add: Premium on General Obligation Refunding Bonds, Series 2015	103,475
\$2,062,000 General Obligation Refunding Bonds, Series 2019, to refinance the City's debt. Principal payments begin in 2020 and are due in annual installments \$296,000 to \$312,000 through August of 2026; interest payments of \$3,089 to \$20,413 from February 2020 through August 2026 with an interest rate of 1.98%.	1,766,000
\$3,575,000 General Obligations Refunding Bonds, Series 2020, to refinance the City's debt. Principal payments begin in August 2020 and are due in annual installments ranging from \$30,000 to \$300,000 through August 2037, interest payments ranging from \$6,200 to \$70,900 from August 2020 through 2037 with interest rate at 4%	3,545,000
Add: Premium on General Obligation Refunding Bonds, Series 2020	504,068
Total Certificate of obligation	<u>\$8,718,543</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	Premium	Interest	Total
2021	\$ 534,000	\$39,999	\$ 269,267	\$ 843,266
2022	544,000	39,999	255,043	839,042
2023	564,000	39,999	239,019	843,018
2024	579,000	39,999	222,297	841,296
2025	598,000	39,999	206,827	844,826
2026 – 2030	2,267,000	199,991	802,328	3,269,319
2031 – 2035	2,415,000	148,255	402,825	2,966,080
2035 – 2037	610,000	59,302	36,800	706,102
Total	<u>\$8,111,000</u>	<u>\$607,543</u>	<u>\$2,434,406</u>	<u>\$11,152,949</u>

Notes Payable:

Notes Payable debt outstanding at September 30, 2020, is comprised of the following:

<u>Description of Debt</u>	<u>Amount</u>
Note payable secured by vehicle costing \$678,182 maturing November 2029, requiring annual installments of \$76,572 including interest accruing at 2.69%	\$482,653
Total	<u>\$482,653</u>

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

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 63,579	\$12,993	\$ 76,572
2022	65,291	11,281	76,572
2023	67,048	9,523	76,571
2024	68,853	7,718	76,571
2025	70,707	5,865	76,572
2026 - 2027	147,175	5,969	153,144
Total	<u>\$482,653</u>	<u>\$53,349</u>	<u>\$536,002</u>

Capital Lease:

Capital lease debt outstanding at September 30, 2020, is comprised of the following:

<u>Description of Capital Lease Debt</u>	<u>Amount</u>
Capital lease obligation secured by a 2020 Ford Explorer costing \$32,797 maturing February 2025, requiring monthly installment of \$675 including interest accruing at 4.65%.	\$28,790
Capital lease obligation secured by a 2020 Ford Explorer costing \$35,969 maturing February 2025, requiring monthly installment of \$739 including interest accruing at 4.65%.	31,577
Capital lease obligation secured by a 2020 Ford Police Interceptor Utility costing \$48,941 maturing March 2025, requiring monthly installment of \$797 including interest accruing at 4.20%.	38,870
Capital lease obligation secured by 2020 Ford Police Interceptor Utility costing \$48,941 maturing February 2025, requiring monthly installment of \$811 including interest accruing at 4.65%.	38,206
Capital lease obligation secured by a 2020 Ford F-250 costing \$58,546 maturing June 2025, requiring monthly installment of \$871 including interest accruing at 4.65%.	43,781

<u>Description of Capital Lease Debt</u>	<u>Amount</u>
Capital lease obligation secured by a 2020 Ford F-250 costing \$51,320 maturing May 2025, requiring monthly installment of \$798 including interest accruing at 4.65%.	39,603
Capital lease obligation secured by a 2020 Ford Police Interceptor Utility costing \$48,941 maturing February 2025, requiring monthly installment of \$838 including interest accruing at 4.65%.	38,016
Capital lease obligation secured by a 2020 Chevrolet Traverse costing \$27,147 maturing January 2021, requiring monthly installment of \$584 including interest accruing at 4.97%.	23,203
Capital lease obligation secured by a 2020 Ford F-550 Chassis costing \$68,489 maturing May 2025, requiring monthly installment of \$1,015 including interest accruing at 4.65%.	50,250
Capital lease obligation secured by a 2020 Ford F-550 Chassis costing \$75,310 maturing May 2025, requiring monthly installment of \$1,082 including interest accruing at 4.65%.	53,432
Capital lease obligation secured by a 2020 Chevrolet Silverado 6500HD costing \$59,866 maturing September 2025, requiring monthly installment of \$1,181 including interest accruing at 3.50%.	59,866
Capital lease obligation secured by a 2020 Chevrolet Silverado 2500HD costing \$31,151 maturing May 2021 requiring monthly installment of \$667 including interest accruing at 4.65%.	28,833
Capital lease obligation secured by a 2020 Chevrolet Colorado costing \$23,775 maturing February 2021 requiring monthly installment of \$509 including interest accruing at 4.65%.	20,729
Capital lease obligation secured by a 2020 Chevrolet Colorado costing \$24,386 maturing January 2021 requiring monthly installment of \$527 including interest accruing at 4.97%.	20,821
Capital lease obligation secured by a 2020 Chevrolet Colorado costing \$24,386 maturing January 2021 requiring monthly installment of \$527 including interest accruing at 4.97%.	20,821
Capital lease obligation secured by a 2020 Chevrolet Silverado 3500HD Chassis costing \$35,682 maturing September 2024 requiring monthly installment of \$665 including interest accruing at 3.50%.	35,683
Total	\$572,481

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

Year Ending September 30	Principal	Interest	Total
2021	\$ 210,233	\$20,092	\$ 230,325
2022	99,822	13,840	113,662
2023	104,288	9,375	113,663
2024	113,926	6,475	120,401
2025	44,212	6,406	50,618
Total	\$572,481	\$56,188	\$628,669

Changes in government activities long-term liabilities:

The following is a summary of transactions affecting long-term liabilities for the year ended September 30, 2020:

	Amounts payable at beginning of year	Amounts added during year 2020	Amounts retired during fiscal year 2020	Amounts payable at end of year	Amounts due within one year
Certificates of obligation	\$8,945,000	\$5,637,000	\$(6,471,000)	\$8,111,000	\$534,000
Bond premiums	372,309	604,842	(369,608)	607,543	39,999
Subtotal bonds payable	9,317,309	6,241,842	(6,840,608)	\$8,718,543	573,999
Notes payable	544,566	-0-	(61,913)	482,653	63,579
Capital leases	-0-	695,646	(123,165)	572,481	210,233
Compensated absences	82,136	14,004	(-0-)	96,140	96,140
OPEB liability	59,941	21,387	(-0-)	81,328	-0-
Net pension liability	379,894	-0-	(169,236)	210,658	-0-
Total long-term liabilities	\$10,383,846	\$6,972,879	\$(7,194,922)	\$10,161,803	\$943,951

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, 2020, is comprised of the following:

<u>Description of Debt</u>	<u>Amount</u>
\$2,885,000 General Obligation Refunding Bonds Series 2017 for refunding of the combination tax revenue certificate of obligation series 2008A and 2008B due in annual installments ranging from \$55,000 to \$250,000 beginning August 2018 through 2042, interest payments ranging from \$26,963 to \$53,263 from February 2018 through 2042 with interest rate ranging from 4% to 4.25%.	\$2,180,000
Add: Net premiums and discounts on certificates of obligations	203,873
Total	<u>\$2,383,873</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	Premiums (Discounts)	Interest	Total
2021	\$ 235,000	\$ 9,708	\$ 88,325	\$ 333,033
2022	250,000	9,708	78,925	338,633
2023	55,000	9,708	68,925	133,633
2024	60,000	9,708	66,725	136,433
2025	60,000	9,708	64,325	134,033
2026 – 2030	350,000	48,541	282,825	681,366
2031 – 2035	425,000	48,541	206,825	680,366
2036 – 2040	510,000	48,541	114,963	673,504
2041 – 2042	235,000	9,710	15,087	259,797
Total	<u>\$2,180,000</u>	<u>203,873</u>	<u>\$986,925</u>	<u>\$3,370,798</u>

Capital Lease:

Capital lease debt outstanding at September 30, 2020, is comprised of the following:

<u>Description of Capital Lease Debt</u>	<u>Amount</u>
Capital lease obligation secured by a 2020 Chevrolet Silverado 2500HD costing \$33,288 maturing January 2021, requiring monthly installment of \$717 including interest accruing at 4.97%.	\$28,445
Capital lease obligation secured by a 2020 Chevrolet Silverado 2500HD costing \$33,083 maturing January 2021, requiring monthly installment of \$713 including interest accruing at 4.97%.	28,265
Capital lease obligation secured by a 2020 Chevrolet Silverado 2500HD costing \$33,083 maturing January 2021, requiring monthly installment of \$713 including interest accruing at 4.97%.	28,265
Capital lease obligation secured by 2020 Chevrolet Silverado 2500HD costing \$33,083 maturing January 2021, requiring monthly installment of \$713 including interest accruing at 4.97%.	28,265
Capital lease obligation secured by 2020 Chevrolet Silverado 2500HD costing \$33,083 maturing January 2021, requiring monthly installment of \$713 including interest accruing at 4.97%.	28,265
Capital lease obligation secured by 2020 Chevrolet Silverado 2500HD costing \$33,083 maturing January 2021, requiring monthly installment of \$713 including interest accruing at 4.97%.	28,265
Capital lease obligation secured by 2020 Chevrolet Silverado 2500HD costing \$33,083 maturing January 2021, requiring monthly installment of \$713 including interest accruing at 4.97%.	28,265
Capital lease obligation secured by 2020 Chevrolet Silverado 2500HD costing \$33,083 maturing January 2021, requiring monthly installment of \$713 including interest accruing at 4.97%.	28,265
Capital lease obligation secured by 2020 Chevrolet Silverado 2500HD costing \$35,096 maturing May 2024, requiring monthly installment of \$660 including interest accruing at 4.65%.	31,050
Total	<u><u>\$257,350</u></u>

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

Year Ending September 30	Principal	Interest	Total
2021	\$ 232,829	\$7,940	\$ 240,769
2022	6,839	989	7,828
2023	7,164	660	7,824
2024	10,518	269	10,787
Total	\$257,350	\$9,858	\$267,208

Changes in business-type activities long-term liabilities:

The following is a summary of transactions affecting long-term liabilities for the year ended September 30, 2020:

	Amounts payable at beginning of year	Amounts added during year 2020	Amounts retired during fiscal year 2020	Amounts payable at end of year	Amounts due within one year
Certificates of obligation	\$2,410,000	\$-0-	\$(230,000)	\$2,180,000	\$235,000
Bond premiums	213,581	-0-	(9,708)	203,873	9,708
Subtotal bonds payable	2,623,581	-0-	(239,708)	2,383,873	244,708
Capital lease	-0-	299,963	(42,613)	257,350	232,829
Compensated absences	15,822	7,912	(-0-)	23,734	23,734
OPEB liabilities	12,277	4,381	(-0-)	16,658	-0-
Net pension liabilities	77,810	-0-	(34,663)	43,147	-0-
Total long-term liabilities	\$2,729,490	\$312,256	\$(77,276)	\$2,724,762	\$501,271

NOTE I – RESTRICTED ASSETS

Restricted assets balance at September 30, 2020, was as follows:

Fund	Cash & Deposits	Investments	Intergovernmental Receivable
Government Activities:			
General Fund	\$ -0-	\$ 45,667	\$ 25
Court	-0-	167,669	-0-
Debt Service Fund	-0-	362,368	-0-
Special Project Fund	-0-	557,050	-0-
Prairieland Detention Fund	123,994	-0-	-0-
Impact Fees Funds	122,789	-0-	-0-
Water and Sewer Fund	1,021,980	33,537	-0-
	\$1,268,763	\$ 1,166,291	\$ 25

NOTE J - RETIREMENT PLAN

The City participates in the Texas Municipal Retirement System.

Plan Description

The City of Alvarado participates as one of 888 plans in the nontraditional, joint contributory, hybrid defined pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum

Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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

	<u>Plan Year 2018</u>	<u>Plan Year 2019</u>
Employee deposit rate	6%	6%
Matching Ratio (city to Employee)	2 to 1	2 to 1
Years required for vesting	5 years	5 years
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	0%,	0%,
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Employees covered by benefit terms:

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	51
Active employees	<u>61</u>
Total	125

Contributions

The contribution rates for employees in TMRS is 6% of employee gross earnings, and the city matching percentage is 5.19%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Alvarado were required to contribute 6% of their annual gross earnings during their fiscal year. The contribution rates for the City of Alvarado were 5.18% and 5.19% in calendar years 2019 and 2020 respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2020 were \$165,378 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2019, and the Total Pension liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation:	2.50% per year
Overall payroll growth:	2.75% per year, adjusted down for population declines, if any
Investment Rate of Return:	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees, and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 to 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservation) with an adjustment to time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	7.75%
Total	100.0%	

Discount Rate:

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in Net Pension Liability

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/2018	\$ 3,926,287	\$ 3,468,583	\$ 457,704
Changes for the year:			
Service Cost	342,548	-0-	342,548
Interest	274,748	-0-	274,748
Changes in benefit terms	-0-	-0-	-0-
Difference between expected and actual experience	61,045	-0-	61,045
Changes of assumptions	8,066	-0-	8,066
Contributions – employer	-0-	165,378	(165,378)
Contributions – employee	-0-	191,190	(191,190)
Net investment income	-0-	536,858	(536,858)
Benefit payments, including refunds of employee contributions	(54,453)	(54,453)	-0-
Administrative expense	-0-	(3,030)	3,030
Other changes	-0-	(90)	90
Net changes	\$ 631,954	835,853	\$ (203,899)
Balance at 12/31/2019	\$ 4,558,241	\$ 4,304,436	\$ 253,805

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$1,029,239	\$253,805	\$(372,953)

Pension Plan Fiduciary Net Position:

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

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

For the year ended September 30, 2020, the city recognized pension expense of \$208,950.

At September 30, 2020, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

SCHEDULE OF OUTFLOWS AND INFLOWS - CURRENT AND FUTURE EXPENSE

	Recognition Period (or amortization yrs)	Total (Inflow) or Outflow of Resources	Recognized in current pension expense	Deferred (Inflow)/Outflow in future expense
<u>Due to Liabilities:</u>				
Difference in expected and actual experience actuarial (gains) or losses	4.9000	\$ 61,045	\$ 12,458	\$ 48,587
Difference in assumption changes actuarial (gains) or losses	4.9000	<u>8,066</u>	<u>1,646</u>	<u>6,420</u>
			<u>\$ 14,104</u>	\$ 55,007
<u>Due to Assets:</u>				
Difference in projected and actual earnings on pension plan investments actuarial (gains) or losses	5.0000	\$ (302,729)	\$ 60,546	\$ (242,183)
			<u>\$ 60,546</u>	<u>\$ (242,183)</u>
<u>Total:</u>				<u>\$ (187,176)</u>

\$279,707 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Net deferred outflows (inflows) of resources
2020	\$ (24,870)
2021	(19,722)
2022	20,675
2023	(47,850)
2024	-
Thereafter	-
Total	<u>\$ (71,767)</u>

NOTE K – OTHER POST-EMPLOYEMENT BENEFITS – OPEB

Plan Description

The City also participates in the single-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefits," or OPEB.

The City contributes to the SDBF at a contractually required rates as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

The following employees were covered by the benefit terms at December 31, 2019, (measurement date):

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	6
Active Employees	<u>61</u>
Total Employees	<u>74</u>

Contributions

The contribution rates employees in SDBF is .01% of employee gross earnings, and the city matching percentages is .13%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the EAN actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year.

Employees for the City were required to contribute .01% of their gross earnings during the fiscal year. The contribution rates for the City were .15% and .13% in the calendar years 2019 and 2020 respectively. The City's contributions to SDBF as of September 30, 2020 were \$4,642 and were equal to the required contributions.

Total OPEB Liability - SDBF

The City's total OPEB liability of \$97,086 was measured as of December 31, 2019, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The City's total OPEB liability in the December 31, 2019, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	December 31, 2019
Discount rate	2.75%, based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019
Inflation	2.50% per year
Overall payroll growth	3.50% to 11.50% per year, including inflation
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68
Mortality rates – service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates – disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

Changes in Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/2018	\$ 72,218
Changes for the year:	
Service Cost	7,010
Interest on total OPEB liability	2,803
Differences between expected and actual experience	(3,497)
Changes in assumptions or other inputs	19,771
Benefit payments, aged adjusted premiums, net of retiree contributions	(319)
Balance at 12/31/2019	<u>\$ 97,986</u>

The total OPEB liability attributable to the governmental activities will be liquidated primarily by the general fund.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The total OPEB liability of the City has been calculated using a discount rate of 2.75%. The following presents the total OPEB liability using a discount rate 1% higher and 1% lower than the current discount rate.

	1% Decrease in Discount Rate (1.75%)	Current Discount Rate (2.75%)	1% Increase in Discount Rate (3.75%)
Total OPEB Liability	\$122,368	\$97,986	\$79,313

Detailed information about the plan's fiduciary net position is available in a separately issued TMRS financial report. That report may be obtained on the internet at www.tmr.com.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (SDBF)

For the year ended September 30, 2020, the City recognized OPEB expense of \$11,622. At September 30, 2020, the City reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Changes of assumptions	\$(-0-)	\$17,318
Changes in expected and actual experience	(3,063)	-0-
Benefit payments subsequent to the measurement date	-0-	-0-
	\$(3,063)	\$17,318
Total		\$14,255

Benefit payments subsequent to the measurement date and before fiscal year-end will be recognized as a reduction of the total OPEB liability in the year ending September 31, 2021.

Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

	Amortization of Deferred Outflows of Resources	
2020	\$	1,809
2021		1,809
2022		1,809
2023		1,809
2024		1,809
Thereafter		3,084
	<u>\$</u>	<u>12,129</u>

NOTE L - 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 M – 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 N – SUBSEQUENT EVENTS

The City evaluated subsequent events through May 10, 2021, which is the same date that the financial statements were issued and determined the following events were noted:

Change in City Manager

In December of 2020, the current City Manager resigned from the City of Alvarado, Texas, and was replaced in February 2021.

Certificate of Obligations

On December 29, 2020, the City issued \$4,510,000 of Combination Tax and Revenue Certificates of Obligation, Series 2020. Proceeds from the sale of the Combination Tax and Revenue Certificates will be used for water and sewer projects around the City..

NOTE O – FINANCIAL IMPACT OF COVID-19

In response to the COVID-19 pandemic, Congress passed the Coronavirus Aide, Relief, and Economic Security (CARES) Act. The Act provides economic grants to offset some additional expenses and forgone revenue as a result of the response to COVID-19.

The full impact of the COVID-19 pandemic and the scope of any adverse impact cannot be fully determined at this time. The pandemic has adversely affected travel, commerce, and financial markets globally and is expected to adversely affect economic output worldwide and in Texas, including the North Texas region. The potential impacts cannot currently be predicted but could be material for future fiscal years.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF ALVARADO, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended September 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUE:				
General Property Taxes, Interest and Penalties	\$ 1,843,350	\$ 1,843,350	\$ 1,817,683	\$ (25,667)
Sales tax	1,300,000	1,300,000	1,731,242	431,242
Fines and forfeitures	910,000	910,000	594,066	(315,934)
Franchise fees & rental fees	471,710	471,710	458,613	(13,097)
Rental fees	33,000	33,000	35,009	2,009
Mixed beverage tax	500	500	457	(43)
Licenses, fees and permits	193,720	193,720	401,030	207,310
Interest	50,000	50,000	47,389	(2,611)
Intergovernmental	822,850	822,850	684,599	(138,251)
Donations	100	100	-	(100)
Water/Sewer administrative fee	85,000	85,000	85,000	-
Charges for Services	-	-	-	-
Grants	-	-	14,200	14,200
Miscellaneous	275,770	275,770	169,988	(105,782)
Total Revenue	5,986,000	5,986,000	6,039,276	53,276
EXPENDITURES:				
Current operating				
General government	1,150,903	1,150,903	809,151	341,752
Public safety	3,709,959	3,709,959	3,256,280	453,679
Community development	230,471	230,471	187,107	43,364
Public works	269,316	269,316	219,739	49,577
Cultural and recreational	479,016	479,016	346,894	132,122
Social and welfare	76,614	76,614	71,531	5,083
Capital Outlay	69,721	69,721	127,976	(58,255)
Total Expenditures	5,986,000	5,986,000	5,018,678	967,322
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	1,020,598	1,020,598
OTHER FINANCING SOURCES:				
Loan proceeds	-	-	-	-
Transfers	-	-	(102,908)	(102,908)
NET CHANGE IN FUND BALANCES	-	-	917,690	917,690
FUND BALANCE - October 1, 2019	-	-	5,585,724	5,585,724
FUND BALANCE - September 30, 2020	\$ -	\$ -	\$ 6,503,414	\$ 6,503,414

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
 SEPTEMBER 30, 2020

Texas Municipal Retirement System

Schedule of Changes in Net Pension Liability and Related Ratios
 Last 10 Years (will ultimately be displayed)

	2014	2015	2016	2017	2018	2019
Total Pension Liability						
Service cost	\$ 193,562	\$ 229,927	\$ 264,045	\$ 278,523	\$ 318,624	\$ 342,548
Interest (on the Total pension liability)	148,149	170,120	190,488	215,407	243,237	274,748
Changes of benefit terms	-	-	-	-	-	-
Difference between expected and actual experience	17,303	(69,085)	(40,789)	2,204	5,229	61,045
Change of assumptions	-	113,990	-	-	-	8,066
Benefit payments, including refunds of employee contributions	(51,997)	(74,652)	(65,847)	(37,765)	(170,014)	(54,453)
Net Change in Total Pension Liability	307,017	370,300	347,897	458,369	397,076	631,954
Total Pension Liability - Beginning	2,045,628	2,352,645	2,722,945	3,070,842	3,529,211	3,926,287
Total Pension Liability - Ending (a)	\$ 2,352,645	\$ 2,722,945	\$ 3,070,842	\$ 3,529,211	\$ 3,926,287	\$ 4,558,241
Plan Fiduciary Net Position						
Contributions - employer	\$ 79,745	\$ 99,341	\$ 111,099	\$ 137,684	\$ 155,852	\$ 165,378
Contributions - employee	124,602	138,232	149,459	157,654	180,524	191,190
Net investment income	113,434	3,317	163,080	383,900	(102,093)	536,858
Benefit payments, including refunds of employee contributions	(51,997)	(74,652)	(65,847)	(37,765)	(170,014)	(54,453)
Administrative expense	(1,184)	(2,020)	(1,840)	(1,987)	(1,972)	(3,030)
Other	(97)	(99)	(99)	(100)	(103)	(90)
Net Change in Plan Fiduciary Net Position	\$ 264,503	\$ 164,119	\$ 355,852	\$ 639,386	\$ 62,194	\$ 835,853
Plan Fiduciary Net Position - Beginning	1,982,529	2,247,032	2,411,151	2,767,003	3,406,389	3,468,583
Plan Fiduciary Net Position - Ending (b)	\$ 2,247,032	\$ 2,411,151	\$ 2,767,003	\$ 3,406,389	\$ 3,468,583	\$ 4,304,436
Net Pension Liability - Ending (a) - (b)	\$ 105,613	\$ 311,794	\$ 303,839	\$ 122,822	\$ 457,704	\$ 253,805
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	95.51%	88.51%	90.11%	96.52%	88.34%	94.43%
Covered Employee Payroll	\$ 2,076,696	\$ 2,303,873	\$ 2,490,988	\$ 2,627,574	\$ 3,008,729	\$ 3,186,493
Net Pension Liability as a Percentage of Covered Payroll	5.09%	13.53%	12.20%	4.67%	15.21%	7.97%

Schedule of Contributions
Last 10 Years (will ultimately be displayed)

	2014	2015	2016	2017	2018	2019
Actuarially Determined Contribution	\$ 79,745	\$ 99,341	\$ 111,099	137,684	155,852	165,378
Contributions in relation to the actuarially determined contribution	79,745	99,341	111,099	137,684	155,852	165,378
Contribution deficiency (excess)	-	-	-	-	-	-
Covered employee payroll	2,076,696	2,303,873	2,490,988	2,627,574	3,008,729	3,186,493
Contributions as a percentage of covered employee payroll	3.84%	4.31%	4.46%	5.24%	5.18%	5.19%

Notes to Schedule of Contributions

Valuation Date:

Notes

Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smooth market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018
Mortality	Post-retirement: 2019 Municipal Reirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information:

Notes

There were no benefit changes during the year.

CITY OF ALVARADO, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2020

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 more than budget by \$53,276 and expenditures were less than budget by \$967,322.

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 \$1,157,386.

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 \$73,721. The total actual capital outlays for the year in the general fund amounted to \$839,122.

SUPPLEMENTAL REPORT



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Alvarado, Texas as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Alvarado, Texas' basic financial statements and have issued our report thereon dated May 10, 2021.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control that we consider to be significant deficiencies.

Water/Sewer Inventory Control

A good system of internal control provides for a city policy on internal controls of inventory. The inventory should include requirements of regular physical counts and adjustments for the actual inventory counted. When inventory is determined to be scrap it should be clearly marked or taken offsite to be discarded. Currently, the City does an inventory count once a year at the end of the year. During the test counting it was discovered that several inventory assets that were identified as scrap but not set up apart from the other inventory assets.

By adopting a new inventory policy that requires more frequent inventory counts, the City's internal controls over financial reporting will improve and reduce the possibility of the inventory being misstated and a large adjustment being required at the end of the year. We recommend that management review the current policy for inventory and prepare a new policy that includes regular inventory accounts, and separating inventory that is determined to be scrap or obsolete so it can be destroyed.

Certified Public Accountants

Bank Reconciliations

A good system of internal control provides for a timely and accurate bank reconciliation be prepared for each bank or investment account in the trial balance at the end of each month. The City's finance department has one employee who is responsible for not only the daily financial activities, but also is responsible for preparing the monthly bank reconciliations. Preparing bank reconciliations should include making any necessary journal entries to the trial balance so that the ending balance is complete and accurate. Monthly bank reconciliations are not being prepared in a timely manner and are typically 6 months to a year behind in preparation.

By adopting more timely bank reconciliations, the City's internal control over their cash and investment accounts will improve and assist in reducing the possibilities of not detecting and preventing fraud or irregularities in a timely manner. We recommend that management review the current process for preparing monthly bank reconciliations and prepare a more defined process that includes a due date of when bank reconciliations should be completed.

Closing Procedures

A good system of internal control provides for a timely and accurate closing of financial statements during for interim and year-end periods. The City's finance department has only one employee who is responsible for not only the daily financial activities, but also to perform the closing procedures. Closings should include reconciling all large asset and liability accounts as well as recording fixed assets and long-term debt transactions that occur during the period. These transactions are currently not being recorded in a timely manner.

By adopting closing procedures, the City's internal controls over financial reporting will improve and reduce the possibility of irregularities not being prevented or detected in a timely manner. We recommend that management review the current process for closing the financial statements and prepare a set of formal closing procedures that includes fixed assets and debt transactions incurred during the period.

Lack of Segregation of Duties

A good system of internal control provides for a proper segregation of the accounting functions. The City has a small number of people in their offices performing a variety of duties, so of which may be incompatible. The City does not have the proper segregation of duties over cash receipts and disbursements, accounts receivable, accounts payable, and manual journal entries. Proper segregation is not always possible in a small organization, but limited segregation to the extent possible can and should be implemented to reduce risk of errors or fraud. Also, separating these duties will improve internal controls over cash and other assets and reduce the possibility of irregularities. We recommend that management review the current assignment of accounting functions. Isolate any incompatible accounting functions that are the responsibility of one employee and reassign the responsibilities for these duties, if practical, or create a supervisory review of these functions. Where possible, duties should be segregated to reduce the risk or errors or fraud.

Compliance and Other Matters

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

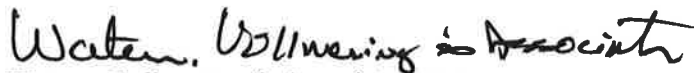
City of Alvarado, TX's Response to Findings

City of Alvarado, TX's response to the findings identified in our audit are included below. City of Alvarado, TX's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion.

The city manager has initiated preliminary steps for the use of a third party to assist with some of the more complex accounting issues including reconciliations, monthly closings and other more technical accounting matters that may arise during the year. The outside third party will help mitigate the lack of separation of duties as well as being able to provide more timely monthly closing specifically addressing the findings in this letter. The city manager will propose these options to the city council at a future council meeting.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Waters, Vollmering & Associates, LLP

Mansfield, Texas

May 10, 2021