

CITY OF ALVARADO, TEXAS

SEPTEMBER 30, 2021

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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, 2021, 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, 2021, 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 4 to 19, the budgetary comparison information on pages 65 and related notes on page 68, the schedule of changes in net pension liability and related ratios on page 66, and the schedule of contributions on pages 67 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.

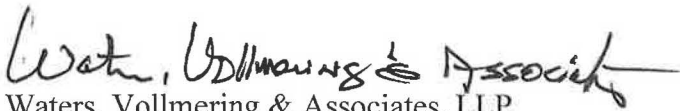
Other Information

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.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2023, 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

January 23, 2023

City of Alvarado

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

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

January 23, 2023

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, 2021, 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, 2021, 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, 2021, 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

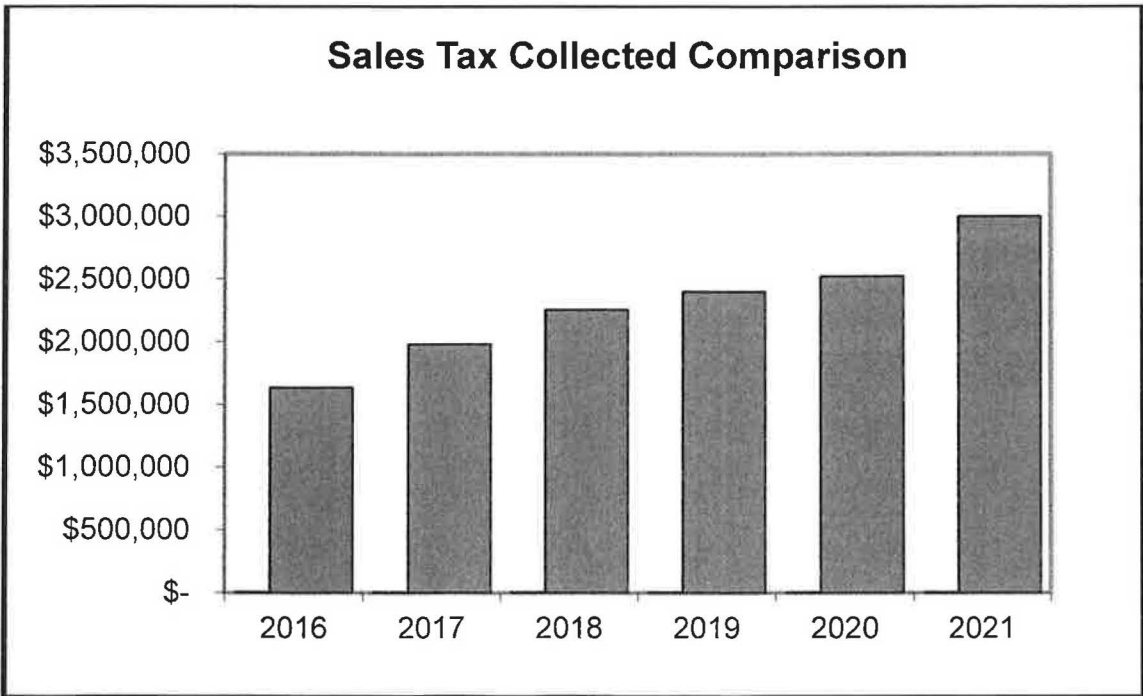
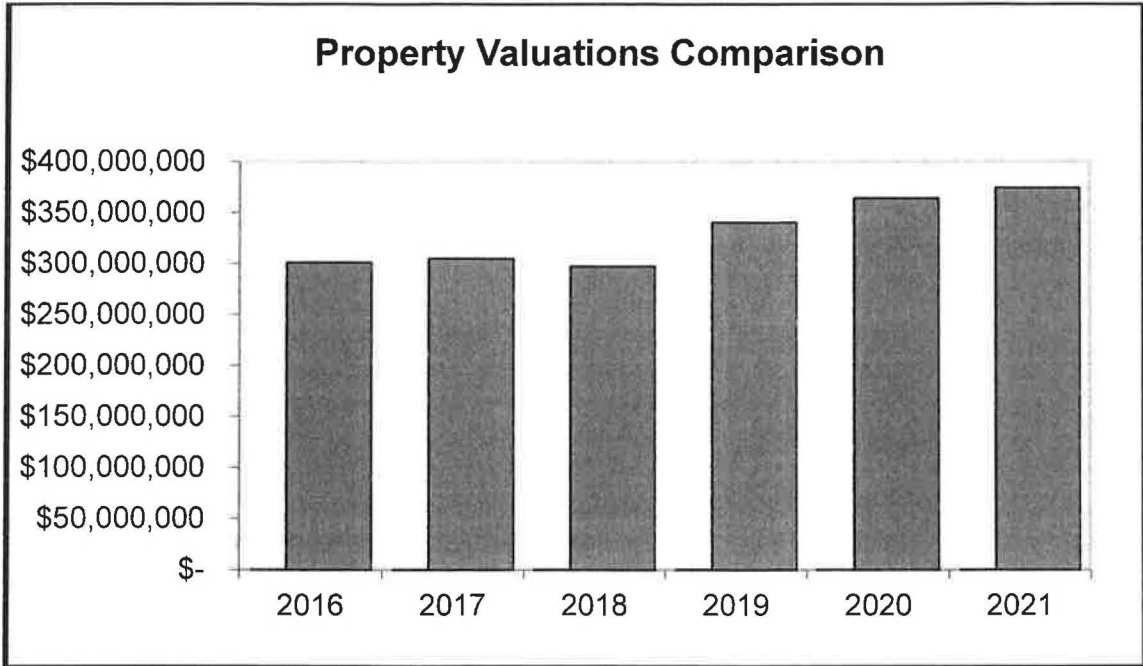
The information presented in the financial statements is perhaps best understood when it is considered from the broader aspect of the specific environment within which the City operates.

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 increased from \$2,309,519 in 2020 to \$2,734,142 in 2021 for a difference of \$424,623 or 18.4%.

The property tax rate for 2021 changed from \$0.732031/\$100 to a rate of \$0.751419/\$100.

The charts below are based upon the 2020-2021 budget year as compared to prior years. Property Valuations noted below for the budget period 2020-2021 are based upon the 2020 assessed property valuations as determined by the Johnson County Appraisal District. The chart for Sales Tax Collected also represents the amounts collected during the 2020-2021 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 HilltopSecurities 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 a General Fund fund balance equal to three months of operating expenses. This requirement has been fulfilled with General Fund unrestricted reserves of \$7,419,342. Overall, governmental funds unrestricted reserves total \$7,307,901.

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.

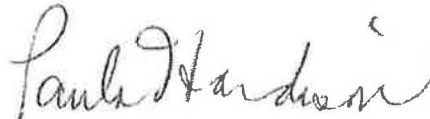
Acknowledgements

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,



Paul DeBuff
City Manager



Paula Hardison
Finance Director

**CITY OF ALVARADO
PRINCIPAL CITY OFFICIALS
SEPTEMBER 30, 2021**

Mayor

Jacob Wheat

Council Members

Cherry Bryant

Beverly Short

Tracy Melson

Michael Bennett

Jacob Wheat

Mayor – Pro Tem

Lydia Moon

City Manager

Paul DeBuff

City Secretary

Debbie Thomas

City Attorney

Ashley Dierker

Director of Finance

Paula Hardison

Director of Public Works

Michael Dwiggin

Interim Police Chief

Tony Sims

Fire Chief

Richard Van Winkle

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR ENDED SEPTEMBER 30, 2021

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, 2021. 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 \$30,267,039 (total net position). Of this amount, \$8,499,259 (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 \$2,649,908.
- As of the close of the current fiscal year, the City of Alvarado's governmental funds reported combined ending fund balances of \$13,867,503. Approximately 52.7% or \$7,307,901 is available for spending at the City's discretion (unassigned fund balance).
- AEDC has a fund balance of \$2,922,469 with restricted usage of \$2,922,469.
- Other Governmental Funds has a fund balance of \$3,525,692. This includes:
 - 1) Royalty fund which has a fund balance of \$575,034 (\$303,581 committed, \$382,894 assigned and \$(111,441) unassigned).
 - 2) Hotel and Court Funds have a fund balance of \$ 1,827,079 (restricted).
 - 3) Special Project and Roadway Impact Fee Funds have a fund balance of \$1,123,579 with restricted usage limited to capital improvements.
- The City's total debt increased by \$4,271,351 during the current fiscal year. The governmental funds debt decreased by \$472,003 and the water and sewer proprietary fund debt increased by \$4,743,354.

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 position 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 \$30,267,039 at the close of the most recent fiscal year. This represents an increase of \$2,649,909 from the previous fiscal year.

The largest portion of the City of Alvarado's net position 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

	Governmental Activities		Business-Type Activities		Total	
	2020	2021	2020	2021	2020	2021
ASSETS						
Current Assets	\$ 13,114,806	\$ 17,510,360	\$ 2,831,919	\$ 7,721,767	\$ 15,946,725	\$ 25,232,127
Noncurrent Assets	11,021,542	11,451,769	15,893,575	15,145,136	26,915,117	26,596,905
Total Assets	<u>24,136,348</u>	<u>28,962,129</u>	<u>18,725,494</u>	<u>22,866,903</u>	<u>42,861,842</u>	<u>51,829,032</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred pension contributions	232,157	108,319	48,170	18,027	280,327	126,346
Deferred OPEB contributions	-	2,637	-	439	-	3,076
Deferred bond discounts	-	-	17,500	16,667	17,500	16,667
Deferred OPEB assumptions	21,020	30,985	3,685	5,157	24,705	36,142
Deferred pension actuarial losses	216,033	162,210	44,247	26,996	260,280	189,206
Total Deferred Outflows	<u>469,210</u>	<u>304,151</u>	<u>113,602</u>	<u>67,286</u>	<u>582,812</u>	<u>371,437</u>
LIABILITIES						
Current Liabilities	2,799,741	4,642,334	1,240,986	1,287,984	4,040,727	5,930,318
Long Term Liabilities	9,217,852	8,713,335	2,223,491	7,025,817	11,441,343	15,739,152
Total Liabilities	<u>12,017,593</u>	<u>13,355,669</u>	<u>3,464,477</u>	<u>8,313,801</u>	<u>15,482,070</u>	<u>21,669,470</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred bond premiums	-	-	3,857	3,674	3,857	3,674
Deferred OPEB expense	-	6,889	-	1,147	-	8,036
Deferred pension expense	283,525	216,260	58,071	35,990	341,596	252,250
Total Deferred Inflows	<u>283,525</u>	<u>223,149</u>	<u>61,928</u>	<u>40,811</u>	<u>345,453</u>	<u>263,960</u>
NET POSITION						
Net investment in capital assets	1,247,865	2,231,561	13,252,352	7,768,154	14,500,217	9,999,715
Restricted	4,017,439	5,873,127	897,052	5,894,938	4,914,491	11,768,065
Unrestricted	7,039,136	7,582,774	1,163,287	916,485	8,202,423	8,499,259
Total Net Position	<u>\$ 12,304,440</u>	<u>\$ 15,687,462</u>	<u>\$ 15,312,691</u>	<u>\$ 14,579,577</u>	<u>\$ 27,617,131</u>	<u>\$ 30,267,039</u>

An additional portion of the City of Alvarado's net position, \$11,768,065 represents resources that are subject to external restrictions on how they may be used. Unrestricted net assets of \$8,499,259 may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2021, 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 \$3,383,022, from \$12,304,440 to \$15,687,462.

Business-type Activities. Net position from business-type activities decreased by \$733,114, from \$15,312,091 to \$14,579,577.

The following table provides a summary of the City's operations for the year ended September 30, 2021 with the comparative totals for the year ended September 30, 2020.

City of Alvarado's Changes in Net Position

	Governmental Activities		Business Activities		Total	
	2020	2021	2020	2021	2020	2021
REVENUES:						
Charges for Services	\$ 2,368,356	\$ 2,715,850	\$ 3,227,955	\$ 3,437,793	\$ 5,596,311	\$ 6,153,643
Operating Grants/Contributions	14,200	561,485	-	-	14,200	561,485
Capital Grants/Contributions	-	-	-	-	-	-
General Revenues:	-	-	-	-	-	-
Property Taxes	2,671,955	2,811,496	-	-	2,671,955	2,811,496
Sales Tax	2,521,702	3,001,219	-	-	2,521,702	3,001,219
Franchise Tax	458,613	459,885	-	-	458,613	459,885
Alcoholic beverage taxes	457	921	-	-	457	921
Unrestricted investment earnings	87,203	5,806	25,981	5,653	113,184	11,459
Gain/Loss on Sale of Assets	133,301	43,762	62,700	47,650	196,001	91,412
Other revenue	111,377	147,606	-	-	111,377	147,606
Total Revenue	8,367,164	9,748,030	3,316,636	3,491,096	11,683,800	13,239,126
EXPENSES:						
General government	738,625	885,431	-	-	738,625	885,431
Public safety	3,577,647	3,812,033	-	-	3,577,647	3,812,033
Public works	272,353	230,215	-	-	272,353	230,215
Community development	616,930	786,190	-	-	616,930	786,190
Cultural & recreational	349,077	361,827	-	-	349,077	361,827
Social & welfare	91,252	96,165	-	-	91,252	96,165
Economic development	173,491	55,933	-	-	173,491	55,933
Pension expense	183,075	145,495	-	-	183,075	145,495
Interest on long-term debt	360,961	299,215	-	-	360,961	299,215
Water & sewer operations	-	-	3,460,570	3,784,918	3,460,570	3,784,918
Bond issuance costs	-	-	-	131,795	-	131,795
Total Expenses	6,363,411	6,672,504	3,460,570	3,916,713	9,823,981	10,589,217
Change in net position before transfers	2,003,753	3,075,526	(143,934)	(425,617)	1,859,819	2,649,909
Transfers	(64,543)	307,496	64,543	(307,496)	-	-
Change in net position	1,939,210	3,383,022	(79,391)	(733,113)	1,859,819	2,649,909
Net position - Beginning	10,365,230	12,304,440	15,392,082	15,312,690	25,757,312	27,617,130
Net position - Ending	\$ 12,304,440	\$ 15,687,462	\$ 15,312,691	\$ 14,579,577	\$ 27,617,131	30,267,039

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 \$13,867,503 which is an increase of \$2,608,487 in comparison with the prior year. Approximately \$7,307,901 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. \$1,123,579 of the fund balance is committed to specific projects while \$4,749,548 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 decrease in the total net position of the City's Proprietary Fund of \$733,113 from the previous year (\$15,312,690 less \$14,579,577). Unrestricted net position of the City's Proprietary Funds at the end of the year amounted to \$916,485, which represents a decrease of \$246,802 from the previous year (\$916,485 less \$1,163,287).

General Fund Highlights

When compared to the prior year, General Fund revenue for the City increased by \$1,164,920 or by 19.3%.

Beginning in April 2021, a portion of the local sales tax was allocated for street maintenance and repair of municipal streets as approved by voters in our city.

CAPITAL ASSETS

The City of Alvarado's investment in capital assets for its governmental and business-type activities as of September 30, 2021, amounts to \$26,596,905 (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:

- The property at 107 East College Ave was purchased for \$250,471
- The Public Works Department purchased a Texas Patcher for \$96,500
- The Public Works Department purchased two (2) boom mowers totaling \$139,710
- The Public Works Department purchased a mini excavator for \$77,560
- The Parks Department purchased a boom lift for \$27,250
- The Fire Department purchased a traffic arrow board for \$5,000
- The Library was remodeled for a total of \$31,911
- The heating, ventilation and air conditioning (HVAC) unit at the Library was replaced for \$33,654
- Capital leases through Enterprise for Public Safety, Admin, Code Enforcement and Public Works for \$381,801
- Construction in progresses for Maple Ave wastewater and WW Treatment Plant expansion projects totaling \$366,618
- SCADA Upgrade for HMI Software at WW Treatment Plant for \$12,405 (1st payment of \$7,056 paid in 2020 and 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, 2021 as compared to the summary of capital assets for the year ended September 30, 2020:

**CITY OF ALVARADO
CAPITAL ASSETS AT YEAR-END
(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Totals	
	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>
Land	357,193	357,193	1,005,509	1,005,509	1,362,702	1,362,702
Buildings & Improvements	1,847,065	2,093,002	8,664	8,463	1,855,729	2,101,465
Infrastructure	6,248,073	5,962,932			6,248,073	5,962,932
Vehicles	1,272,574	1,168,021	265,595	225,740	1,538,169	1,393,761
Parks Improvements	1,094,996	1,015,505			1,094,996	1,015,505
Water System			5,607,945	5,403,218	5,607,945	5,403,218
Sewer System			8,594,771	8,203,789	8,594,771	8,203,789
Other Equipment	201,641	488,498	117,559	106,607	319,200	595,105
Construction in Progress	-	366,618	293,532	191,810	293,532	558,428
Total	<u>11,021,542</u>	<u>11,451,769</u>	<u>15,893,575</u>	<u>15,145,136</u>	<u>26,915,117</u>	<u>26,596,905</u>

DEBT ADMINISTRATION

Total Debt. The City of Alvarado's total debt outstanding at the end of the current fiscal year is \$16,806,125. This amount is an increase of \$4,271,351 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 \$15,296,526. Of this amount, \$14,434,463 is comprised of long-term bonds payable. The remainder of the debt, \$862,063, is comprised of various notes and capital leases for vehicles, equipment and buildings and compensated absences.

Current Debt. At the end of the current fiscal year, the City of Alvarado had total current debt of \$1,509,599 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, 2021 as compared to the summary of outstanding debt for the year ended September 30, 2020.

CITY OF ALVARADO OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-Type Activities		Totals	
	2020	2021	2020	2021	2020	2021
Certificates of Obligation	\$ 8,718,543	\$ 8,144,544	\$ 2,383,873	\$ 7,159,124	\$ 11,102,416	\$ 15,303,668
Capital Leases	572,481	656,590	257,350	217,858	829,831	874,448
Notes Payable	482,653	419,074	-	-	482,653	419,074
Compensated Absences	96,140	177,606	23,734	31,329	119,874	208,935
Total	<u>\$ 9,869,817</u>	<u>\$ 9,397,814</u>	<u>\$ 2,664,957</u>	<u>\$ 7,408,311</u>	<u>\$ 12,534,774</u>	<u>\$ 16,806,125</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following factors were considered in preparing the City of Alvarado's budget for the 2021-2022 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 \$0.751419 per \$100 of valuation. The property tax rate for 2019-2020 was \$0.732031 per \$ 100 of valuation.
- The City currently receives royalties from 29 gas wells.
- Alvarado continues to generate sales tax revenue from area quick-service restaurants, the sale of alcoholic beverages at several stores selling beer and wine and two package stores selling all types of liquor.
- The City adopted a resolution in November 2020 that uses local sales and use tax in the City of Alvarado at the rate of 0.25% to provide revenue for maintenance and repair of municipal streets that began on April 1, 2021.
- Summit at Walnut Creek, a 204-unit apartment complex, prepares for construction.
- The Parks of Alvarado subdivision has begun 133 of approximately 381 single family homes.
- 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.
- The City of Alvarado Impact Fee program enters its second year of operation and is proving beneficial to support needed infrastructure improvements.
- Residential and commercial development interest in the Alvarado area remains high.
- Continue to contract with Enterprise Fleet Management 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, 2021

ASSETS	Governmental Activities	Business-type Activities	Total
Current assets:			
Equity in pooled cash and cash equivalents	\$ 2,440,339	\$ 356,124	\$ 2,796,463
Investments	11,414,469	713,593	12,128,062
Receivables (net)			
Taxes receivable	547,499	-	547,499
Accounts receivable	126,422	367,525	493,947
Other	-	-	-
Inventory	-	69,521	69,521
Restricted assets			
Cash	1,275,486	447,979	1,723,465
Deposits	25	197,708	197,733
Investments	1,706,120	5,569,317	7,275,437
Total current assets	<u>17,510,360</u>	<u>7,721,767</u>	<u>25,232,127</u>
Noncurrent assets:			
Capital assets, net	<u>11,451,769</u>	<u>15,145,136</u>	<u>26,596,905</u>
Total noncurrent assets	<u>11,451,769</u>	<u>15,145,136</u>	<u>26,596,905</u>
 Total assets	 <u>28,962,129</u>	 <u>22,866,903</u>	 <u>51,829,032</u>
 DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension contributions	108,319	18,027	126,346
Deferred OPEB contributions	2,637	439	3,076
Deferred bond discounts	-	16,667	16,667
Deferred OPEB assumptions	30,985	5,157	36,142
Deferred pension actuarial losses	162,210	26,996	189,206
	<u>304,151</u>	<u>67,286</u>	<u>371,437</u>
 LIABILITIES			
Current liabilities:			
Accounts payable	3,447,734	183,409	3,631,143
Accrued liabilities	559,494	61,062	620,556
Due to other funds	(364,371)	364,371	-
Deposits	-	244,225	244,225
Current portion			
Revenue bonds payable	544,000	250,000	794,000
Notes payable	65,291	-	65,291
Capital leases	212,580	153,588	366,168
Compensated absences	177,606	31,329	208,935
Total current liabilities	<u>4,642,334</u>	<u>1,287,984</u>	<u>5,930,318</u>
Noncurrent liabilities:			
Revenue bonds payable	7,600,544	6,909,124	14,509,668
Notes payable	353,783	-	353,783
Capital leases	444,010	64,270	508,280
Net OPEB liability	112,134	18,662	130,796
Net pension liability	202,864	33,761	236,625
Total noncurrent liabilities	<u>8,713,335</u>	<u>7,025,817</u>	<u>15,739,152</u>
Total liabilities	<u>13,355,669</u>	<u>8,313,801</u>	<u>21,669,470</u>
 DEFERRED INFLOWS OF RESOURCES			
Deferred bond premiums	-	3,674	3,674
Deferred OPEB expense	6,889	1,147	8,036
Deferred pension expense	216,260	35,990	252,250
	<u>223,149</u>	<u>40,811</u>	<u>263,960</u>
 NET POSITION			
Invested in capital assets, net of related debt	2,231,561	7,768,154	9,999,715
Restricted			
Public Safety	4,749,548	-	4,749,548
Capital improvements	1,123,579	5,894,938	7,018,517
Unrestricted	7,582,774	916,485	8,499,259
Total net position	<u>\$ 15,687,462</u>	<u>\$ 14,579,577</u>	<u>\$ 30,267,039</u>

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government:							
General government	\$ 885,431	\$ 698,616	\$ -	\$ -	\$ (186,815)	-	\$ (186,815)
Public safety	3,812,033	507,498	-	-	(3,304,535)	-	(3,304,535)
Public works	230,215	-	-	-	(230,215)	-	(230,215)
Cultural and recreational	361,827	-	-	-	(361,827)	-	(361,827)
Economic development	55,933	658,896	-	-	602,963	-	602,963
Community development	786,190	815,407	-	561,485	590,702	-	590,702
Social and welfare	96,165	35,433	-	-	(60,732)	-	(60,732)
Pension expense	145,495	-	-	-	(145,495)	-	(145,495)
Interest on long-term debt	299,215	-	-	-	(299,215)	-	(299,215)
Total governmental activities	<u>\$6,672,504</u>	<u>\$ 2,715,850</u>	<u>\$ -</u>	<u>\$ 561,485</u>	<u>(\$3,395,169)</u>	<u>-</u>	<u>(\$3,395,169)</u>
Business-type activities:							
Water and sewer	<u>\$ 3,784,918</u>	<u>\$ 3,437,793</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ (347,125)</u>	<u>(\$347,125)</u>
General revenues:							
Taxes:							
General property taxes					2,811,496	-	2,811,496
Sales tax					3,001,219	-	3,001,219
Franchise tax					460,806	-	460,806
Interest income					5,806	5,653	11,459
Gain (Loss) on sale of capital assets					43,762	47,650	91,412
Administrative fee					85,000	-	85,000
Miscellaneous					62,606	(131,795)	(69,189)
Transfers					307,496	(307,496)	-
Total general revenues and proceeds					<u>6,778,191</u>	<u>(385,988)</u>	<u>6,392,203</u>
Change in net position					3,383,022	(733,113)	2,649,909
Net position-beginning of period					12,304,440	15,312,690	27,617,130
Net position-ending					<u>\$ 15,687,462</u>	<u>\$ 14,579,577</u>	<u>\$ 30,267,039</u>

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2021

	General Fund	Debt Service Fund	AEDC	Other Governmental Funds	Total Governmental Funds
ASSETS					
Equity in pooled cash and cash equivalents	\$ 1,645	\$ -	\$ 1,824,374	\$ 614,320	\$ 2,440,339
Investments	9,631,000	-	1,032,866	750,603	11,414,469
Receivables, net					
Accounts	46,447	-	-	79,975	126,422
Property taxes	71,230	29,724	-	-	100,954
Sales taxes	393,396	-	65,566	88,187	547,149
Fines receivable	86,044	-	-	-	86,044
Due from other funds	364,371	-	-	-	364,371
Prepaid expenses	-	-	-	-	-
Restricted					
Cash	-	-	-	1,275,486	1,275,486
Intergovernmental Receivable	25	-	-	-	25
Investments	618,493	362,548	-	725,079	1,706,120
Total assets	<u>\$ 11,212,651</u>	<u>\$ 392,272</u>	<u>\$ 2,922,806</u>	<u>\$ 3,533,650</u>	<u>\$ 18,061,379</u>
LIABILITIES					
Accounts payable	\$ 2,745,782	\$ 693,891	\$ 103	\$ 7,958	\$ 3,447,734
Accrued liabilities	559,260	-	234	-	559,494
Total liabilities	<u>3,305,042</u>	<u>693,891</u>	<u>337</u>	<u>7,958</u>	<u>4,007,228</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of property tax revenue	157,274	29,374	-	-	186,648
Total liabilities and deferred inflows of resources	<u>3,462,316</u>	<u>723,265</u>	<u>337</u>	<u>7,958</u>	<u>4,193,876</u>
FUND BALANCES					
Fund balances:					
Nonspendable	-	-	-	-	-
Restricted	330,993	(330,993)	2,922,469	1,827,079	4,749,548
Capital improvement	-	-	-	1,123,579	1,123,579
Committed	-	-	-	303,581	303,581
Assigned	-	-	-	382,894	382,894
Unassigned	7,419,342	-	-	(111,441)	7,307,901
Total fund balances	<u>7,750,335</u>	<u>(330,993)</u>	<u>2,922,469</u>	<u>3,525,692</u>	<u>\$ 13,867,503</u>
Total liabilities, deferred inflows and fund balance:	<u>\$ 11,212,651</u>	<u>\$ 392,272</u>	<u>\$ 2,922,806</u>	<u>\$ 3,533,650</u>	
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)					11,451,769
Other long-term assets and liabilities are not available to pay for current-period expenditures, and therefore, are deferred in the funds					81,002
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)					(9,535,206)
Compensated absences are not due and payable in the current period and therefore are not reported in the funds					(177,606)
Net position of governmental activities					<u>\$ 15,687,462</u>

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, 2021

	General Fund	Debt Service Fund	AEDC	Other Governmental Funds	Total Governmental Funds
REVENUE:					
General property taxes, interest and penalties	\$ 1,988,745	\$ 822,751	\$ -	\$ -	\$ 2,811,496
Sales tax	2,043,112	-	509,571	181,459	2,734,142
Hotel tax	-	-	-	266,156	266,156
Fines and forfeitures	507,498	-	-	-	507,498
Franchise tax	460,806	-	-	-	460,806
Mixed beverage tax	921	-	-	-	921
Rental fees	35,433	-	-	-	35,433
Intergovernmental	688,084	-	-	127,323	815,407
Licenses, fees and permits	652,172	-	-	46,444	698,616
Interest	4,334	-	577	895	5,806
Proceeds from disposition of property	114,000	-	-	-	114,000
Contributions and donations	561,485	-	-	-	561,485
Water/Sewer administrative fee	85,000	-	-	-	85,000
Oil and gas royalties	-	-	-	158,397	158,397
Impact Fees	-	-	-	500,499	500,499
Miscellaneous	62,606	-	-	-	62,606
Total Revenue	7,204,196	822,751	510,148	1,281,173	9,818,268
EXPENDITURES:					
Current operating					
General government	784,443	-	-	48,343	832,786
Public safety	3,440,924	-	-	20,325	3,461,249
Community development	269,517	-	92,930	57,103	419,550
Public works	174,267	-	-	-	174,267
Cultural and recreational	361,081	-	-	-	361,081
Social and welfare	75,457	-	-	-	75,457
Economic development	-	-	-	46,663	46,663
Capital Outlay	411,586	-	-	250,471	662,057
Debt Service					
Principal	-	818,334	-	-	818,334
Interest	-	298,315	-	-	298,315
Paying agent	-	900	-	-	900
Total Expenditures	5,517,275	1,117,549	92,930	422,905	7,150,659
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,686,921	(294,798)	417,218	858,268	2,667,609
OTHER FINANCING SOURCES:					
Transfers in	10,000	-	-	450,000	460,000
Transfers out	(450,000)	(59,122)	-	(10,000)	(519,122)
NET CHANGE IN FUND BALANCES	1,246,921	(353,920)	417,218	1,298,268	2,608,487
FUND BALANCE - October 1, 2020	6,503,414	22,927	2,505,251	2,227,424	11,259,016
FUND BALANCE - September 30, 2021	\$ 7,750,335	\$ (330,993)	\$ 2,922,469	\$ 3,525,692	\$ 13,867,503

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, 2021

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

Net change in fund balances - total governmental funds	\$ 2,608,487
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	1,333,539
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.	(833,074)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and interfund transfers) is to increase net position.	(61,794)
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.	818,334
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.	(304,864)
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>(177,606)</u>
Changes in net position of governmental activities	<u><u>\$ 3,383,022</u></u>

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
STATEMENT OF NET POSITION
WATER AND SEWER PROPRIETARY FUND
September 30, 2021

ASSETS

Current assets:	
Equity in pooled cash and cash equivalents	\$ 356,124
Investments	713,593
Accounts receivable (net of allowance for uncollectible amounts)	367,525
Other receivables	
Inventory	69,521
Restricted assets	
Cash	447,979
Deposits	197,708
Investments	5,569,317
Total current assets	<u>7,721,767</u>
Noncurrent assets:	
Capital assets, net	<u>15,145,136</u>
Total noncurrent assets	<u>15,145,136</u>
Total assets	22,866,903

DEFERRED OUTFLOW OF RESOURCES

Deferred bond discounts	16,667
Deferred OPEB assumptions	5,157
Deferred pension contributions	18,027
Deferred OPEB contributions	439
Deferred pension actuarial losses	26,996
	<u>67,286</u>

LIABILITIES

Current liabilities:	
Accounts payable	183,409
Accrued liabilities	61,062
Due to other funds	364,371
Deposits	244,225
Current portion	
Revenue bonds payable	250,000
Capital leases	153,588
Compensated absences	31,329
Total current liabilities	<u>1,287,984</u>
Noncurrent liabilities:	
Revenue bonds payable	6,909,124
Capital leases	64,270
Net OPEB liability	18,662
Net pension liability	33,761
Total noncurrent liabilities	<u>7,025,817</u>
Total liabilities	8,313,801

DEFERRED INFLOW OF RESOURCES

Deferred bond premiums	3,674
Deferred pension expense	37,137
	<u>40,811</u>

NET POSITION

Invested in capital assets, net of related debt	7,768,154
Restricted for:	
Capital Improvements	5,894,938
Unrestricted	916,485
Total net position	<u>\$ 14,579,577</u>

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, 2021

OPERATING REVENUES:

Water service	\$	1,498,067
Sewer service		999,352
Garbage service		186,376
Late charges		64,831
Impact Fees		538,232
Miscellaneous income		150,935
Total operating revenues		3,437,793

OPERATING EXPENSES:

Personnel services		661,550
Contractual services		1,481,290
Supplies and maintenance		503,090
Administrative fees		85,000
Other fees		113,676
Depreciation		785,376
Total operating expenses		3,629,982

Operating income (loss)		(192,189)
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NON-OPERATING REVENUES (EXPENSES)

Gain on sale of assets		47,650
Interest income		5,653
Bond issue costs		(131,795)
Accretion of bond premiums/discounts		28,928
Interest expense		(183,864)
Net non-operating revenues (expenses)		(233,428)

INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS		(425,617)
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Operating transfers in		59,122
Operating transfers out		(366,618)
Net transfers		(307,496)

CHANGE IN NET POSITION		(733,113)
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NET POSITION, October 1, 2020		15,312,690
NET POSITION, September 30, 2021	\$	14,579,577

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, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from:	
Customers	\$ 3,421,985
Cash paid to/for:	
Employees	(569,552)
Suppliers	(2,207,001)
Net cash flows provided by operating activities	645,432

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating transfers out	\$ (366,618)
Operating transfers in	59,122
Net cash flows used in noncapital financing activities	(307,496)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition and construction of capital assets	(82,286)
Principal paid on bonds, notes and lease obligations	(235,000)
Proceeds on sale of assets	93,000
Principal paid on capital leases	(116,429)
Interest paid on bonds, notes and lease obligations	(183,864)
Net cash flows used in capital and related financing activities	(524,579)

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds received from certificate of obligations	5,007,676
Amount received from interest income	5,653
Proceeds received from capital leases	76,937
Net cash flows provided by investing activities	5,090,266

Net increase in cash and cash equivalents 4,903,623

Cash and cash equivalents, October 1, 2020 2,381,098

Cash and cash equivalents, September 30, 2021 \$ 7,284,721

RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating income (loss)	\$ (192,189)
Adjustments for transactions not requiring cash	
Depreciation	\$ 785,376
Gain on disposal of assets	(47,650)
Miscellaneous (income) expense	(47,929)
Accretion of bond premiums	(28,928)
Pension	24,213
Change in current assets and current liabilities	
(Increase) decrease in accounts receivable	(36,148)
(Increase) decrease in inventory	(10,495)
(Increase) decrease in other receivables	60,418
(Increase) decrease in deferred outflows	46,316
Increase (decrease) in accounts payable	50,639
Increase (decrease) in accrued liabilities	42,373
Increase (decrease) in customer deposits	20,340
Increase (decrease) in net pension liability	(7,382)
Increase (decrease) in deferred inflows	(21,117)
Increase (decrease) in compensated absences payable	7,595
Total adjustments and changes	837,621
Net cash provided by operating activities	\$ 645,432

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

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, 2021. 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 date 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, and the AEDC 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 2021, 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, 2021.

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, 2021 was \$69,521.

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 2021.

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, 2021, the liability for accrued vacation and compensatory time, calculated in accordance with GASB Statements 16, “Accounting for Compensated Absences,” was \$177,606 in the general fund. The amount applicable to the Proprietary Fund was \$31,329 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, 2021, 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

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 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 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. 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 \$9,535,206 difference are as follows:

Bonds payable	\$7,577,000
Premium on issuance of bonds	567,544
Capital lease payable	656,590
Notes payable	419,074
Net OPEB liability	112,134
Net pension liability	202,864
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$9,535,206</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 \$11,451,769 difference are as follows:

Capital outlay	\$ 18,850,977
Depreciation expense	<u>(7,399,208)</u>
Net adjustment to decrease net changes in fund balance – total governmental funds to arrive at changes in net position of government activities	<u>\$ 11,451,769</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, 2021. At year-end, the carrying amount of the City’s deposits was \$445,201, with respective bank balances of \$711,852. Included in the bank balances are Certificates of Deposit totaling \$197,733.

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, 2021 are:

Investments:	Fair Value	Effective Duration	Credit Risk
Government Pools			
Unrestricted	\$12,128,062	N/A	AAAM
Restricted	7,275,437	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, 2021, consisted of the following:

	General	Debt Service	AEDC	Other	Total	Proprietary Fund Water & Sewer Fund
Taxes Receivable						
Ad valorem taxes	\$93,843	\$38,749	-	-	\$132,592	-
Allowance for uncollectible acct	(22,613)	(9,025)	-	-	(31,638)	-
Ad valorem, net	71,230	29,724	-	-	100,954	-
Sales taxes	393,396	-	\$65,566	\$88,187	547,149	-
Total Taxes Receivable	464,626	29,724	65,566	88,187	648,103	
Services Receivable						
Service accounts	46,447	-	-	79,975	126,422	\$371,852
Allowance for uncollectible accts	-	-	-	-	-	(4,327)
Total Services Receivable	46,447	-	-	79,975	126,422	367,525
Other Receivables						
Court fees & other	367,186	-	-	-	367,186	
Allowance for uncollectible accts	(281,142)	-	-	-	(281,142)	
	86,044	-	-	-	86,044	
Total Receivables	\$597,117	\$29,724	\$65,566	\$168,162	\$860,569	\$367,525

NOTE E – CHANGES IN CAPITAL ASSETS

Primary Government

Capital asset activity for the year ended September 30, 2021 is as follows:

	Balance 9/30/20	Additions	Retirements	Transfers	Balance 9/30/21
Land	\$357,193	\$-0-	\$(-0-)	\$(-0-)	\$357,193
Construction in progress	-0-	366,618	(-0-)	(-0-)	366,618
Building & improvements	2,679,165	316,036	(-0-)	(-0-)	2,995,201
Infrastructure	8,467,151	-0-	(-0-)	(-0-)	8,467,151
Vehicles	2,914,653	304,864	(99,694)	(-0-)	3,119,823
Parks improvements	1,532,397	-0-	(-0-)	(-0-)	1,532,397
Equipment	1,666,573	346,021	(-0-)	(-0-)	2,012,594
Total capital assets	17,617,132	1,333,539	(99,694)	(-0-)	18,850,977
Less accumulated depreciation:					
Building & improvements	832,100	70,099	(-0-)	(-0-)	902,199
Infrastructure	2,219,078	285,141	(-0-)	(-0-)	2,504,219
Vehicles	1,642,079	339,179	(29,456)	(-0-)	1,951,802
Parks improvements	437,401	79,491	(-0-)	(-0-)	516,892
Equipment	1,464,932	59,164	(-0-)	(-0-)	1,524,096
Total accumulated depreciation	6,595,590	833,074	(29,456)	(-0-)	7,399,208
Governmental activities capital assets, net	\$11,021,542	\$755,300	\$(10,309)	\$(-0-)	\$11,451,769

Business-Type Activities

Capital asset activity for the year ended September 30, 2021 is as follows:

	Balance 9/30/20	Additions	Retirements	Transfers	Balance 9/30/21
Land	\$ 1,005,509	\$ -0-	\$ (-0-)	\$ -0-	\$1,005,509
Construction in Progress	293,532	-0-	(101,722)	-0-	191,810
Building & Improvements	10,033	-0-	(-0-)	-0-	10,033
Water System	10,956,945	63,070	(-0-)	-0-	11,020,015
Sewer System	12,645,595	31,596	(-0-)	-0-	12,677,191
Equipment	498,664	12,405	(-0-)	-0-	511,069
Vehicles	376,059	76,937	(66,370)	-0-	386,626
Total capital assets	<u>25,786,337</u>	<u>184,008</u>	<u>(168,092)</u>	<u>-0-</u>	<u>25,802,253</u>
Less accumulated depreciation:					
Building & Improvements	1,369	201	(-0-)	-0-	1,570
Water System	5,349,000	267,797	(-0-)	-0-	5,616,797
Sewer System	4,050,824	422,578	(-0-)	-0-	4,473,402
Equipment	381,105	23,357	(-0-)	-0-	404,462
Vehicles	110,464	71,443	(21,021)	-0-	160,886
Total accumulated depreciation	<u>9,892,762</u>	<u>785,376</u>	<u>(21,021)</u>	<u>-0-</u>	<u>10,657,117</u>
Business-type activities capital assets, net	<u>\$15,893,575</u>	<u>\$(601,368)</u>	<u>\$(147,071)</u>	<u>\$(-0-)</u>	<u>\$15,145,136</u>

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

Governmental activities:	
General government	\$ 54,816
Public safety	321,900
Public works	56,232
Cultural and recreational	2,333
Community development	367,386
Social and welfare	21,077
Economic	9,330
Total depreciation expense – governmental activities	<u>\$833,074</u>
Business-type activities:	
Water and sewer	<u>\$785,376</u>

NOTE F – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

For the year ended September 30, 2021, revenues exceeded expenditures in the General Fund by \$1,686,921.

NOTE G – INTERFUND BALANCES AND TRANSFERS – GOVERNMENT WIDE

The composition of interfund operating transfers for the year ended September 30, 2021, is as follows:

Fund	Transfer to Other Funds	Transfer from Other Funds
General Fund	\$440,000	\$ -0-
Debt Service Fund	59,122	
Nonmajor Governmental Funds	10,000	450,000
Fixed Asset Fund		366,618
Water and Sewer Fund	366,618	59,122
	\$875,740	\$875,740

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, 2021, 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%	\$2,650,000
Add: Premium on General Obligation Refunding Bonds, Series 2015	93,127
\$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%.	1,487,000
\$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%	3,440,000
Add: Premium on General Obligation Refunding Bonds, Series 2020	474,417
Total Certificate of obligation	<u>\$8,144,544</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
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	612,000	39,999	190,728	842,727
2027 – 2031	2,100,000	189,645	727,200	3,016,845
2032 – 2036	2,270,000	148,255	311,625	2,729,880
2037	310,000	29,649	12,400	352,049
Total	<u>\$7,577,000</u>	<u>\$567,544</u>	<u>\$2,165,139</u>	<u>\$10,309,683</u>

Notes Payable:

Notes Payable debt outstanding at September 30, 2021, is comprised of the following:

<u>Description of Debt</u>	<u>Amount</u>
Note payable secured by vehicle costing \$678,182 maturing November 2027, requiring annual installments of \$76,572 including interest accruing at 2.69%	\$419,074
Total	<u>\$419,074</u>

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

Year Ending September 30	Principal	Interest	Total
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	72,610	3,962	76,572
2027	74,565	2,007	76,572
Total	<u>\$419,074</u>	<u>\$40,356</u>	<u>\$459,430</u>

Capital Lease:

Capital lease debt outstanding at September 30, 2021, 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%.	\$21,888
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%.	24,014
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%.	30,778
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%.	30,079
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%.	35,187

<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%.	31,704
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%.	29,553
Capital lease obligation secured by a 2020 Ford F-550 Chassis costing \$68,489 maturing May2025, requiring monthly installment of \$1,015 including interest accruing at 4.65%.	40,188
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%.	42,702
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%.	47,417
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%.	22,033
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%.	28,737
Capital lease obligation secured by a 2021 Chevrolet Colorado costing \$21,104 maturing May 2022 requiring monthly installment of \$462 including interest accruing at 3.97%.	19,459
Capital lease obligation secured by a 2021 Chevrolet Colorado costing \$21,254 maturing May 2022 requiring monthly installment of \$464 including interest accruing at 3.97%.	19,599
Capital lease obligation secured by a 2021 Chevrolet Colorado costing \$21,254 maturing May 2022 requiring monthly installment of \$464 including interest accruing at 3.97%.	19,599
Capital lease obligation secured by a 2021 Chevrolet Travers costing \$22,515 maturing March 2025 requiring monthly installment of \$462 including interest accruing at 3.85%.	20,012
Capital lease obligation secured by a 2021 Ford Police Interceptor Utility costing \$43,309 maturing February 2026 requiring monthly installment of \$797 including interest accruing at 3.80%.	38,510
Capital lease obligation secured by a 2021 Ford Police Interceptor Utility costing \$43,284 maturing January 2026 requiring monthly installment of \$794 including interest accruing at 3.69%.	37,805

<u>Description of Capital Lease Debt</u>	<u>Amount</u>
Capital lease obligation secured by a 2021 Ford Police Interceptor Utility costing \$43,284 maturing January 2026 requiring monthly installment of \$462 including interest accruing at 3.69%.	37,805
Capital lease obligation secured by a 2021 Chevrolet Tahoe costing \$43,633 maturing April 2026 requiring monthly installment of \$462 including interest accruing at 3.85%.	40,033
Capital lease obligation secured by a 2021 Ford Police Interceptor Utility costing \$45,226 maturing January 2026 requiring monthly installment of \$462 including interest accruing at 3.69%.	39,488
Total	<u>\$656,590</u>

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

Year Ending September 30	Principal	Interest	Total
2022	\$ 212,580	\$23,536	\$ 236,116
2023	160,523	15,334	175,857
2024	172,009	10,196	182,205
2025	95,574	2,147	97,721
2026	15,904	112	16,016
Total	<u>\$656,590</u>	<u>\$51,325</u>	<u>\$707,915</u>

Changes in government activities long-term liabilities:

The following is a summary of transactions affecting long-term liabilities for the year ended September 30, 2021:

	Amounts payable at beginning of year	Amounts added during year 2021	Amounts retired during fiscal year 2021	Amounts payable at end of year	Amounts due within one year
Certificates of obligation	\$8,111,000	\$ -0-	\$(534,000)	\$7,577,000	\$544,000
Bond premiums	607,543	-0-	(39,999)	567,544	39,999
Subtotal bonds payable	8,718,543	-0-	(573,999)	\$8,144,544	583,999
Notes payable	482,653	-0-	(63,579)	419,074	65,291
Capital leases	572,481	304,864	(220,755)	656,590	212,580
Compensated absences	96,140	81,466	(-0-)	177,606	177,606
OPEB liability	81,328	30,806	(-0-)	112,134	-0-
Net pension liability	210,658	-0-	(7,794)	202,864	-0-
Total long-term liabilities	\$10,161,803	\$417,136	\$(866,127)	\$9,712,812	\$1,039,476

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, 2021, 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%.	\$1,945,000
Add: Net premiums and discounts on certificates of obligations	194,165
\$4,510,000 Combination Tax and Revenue Certificates of Obligation, Series 2020 for water/sewer improvements due in annual installments ranging from \$200,000 to \$315,000 beginning September 2023 through 2040, interest payments ranging from \$9,450 to \$124,800 from September 2021 through 2040 with interest rate at 4%.	\$4,510,000
Add: Net premium on combination tax and revenues certificate of obligation	509,959
Total	<u>\$7,159,124</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
2022	\$ 250,000	\$ 35,206	\$ 203,725	\$ 488,931
2023	255,000	35,206	193,725	483,931
2024	265,000	35,206	187,525	487,731
2025	270,000	35,206	181,025	486,231
2026	280,000	35,206	174,425	489,631
2027 – 2031	1,510,000	176,031	751,575	2,437,606
2032 – 2036	1,765,000	176,031	492,975	2,434,006
2037 – 2041	1,740,000	176,032	185,975	2,102,007
2042	120,000	-0-	5,100	125,100
Total	\$6,455,000	704,124	\$2,376,050	\$9,535,174

Capital Lease:

Capital lease debt outstanding at September 30, 2021, 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 \$33,083 maturing January 2021, requiring monthly installment of \$713 including interest accruing at 4.97%.	\$20,947
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%.	20,947
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%.	20,947
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%.	20,947
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%.	20,947
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%.	20,947
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%.	24,437

<u>Description of Capital Lease Debt</u>	<u>Amount</u>
Capital lease obligation secured by 2020 Chevrolet Silverado 3500HD costing \$34,579 maturing September 2024, requiring monthly installment of \$674 including interest accruing at 3.51%.	27,488
Capital lease obligation secured by 2021 Chevrolet Colorado costing \$21,104 maturing June 2022, requiring monthly installment of \$461 including interest accruing at 3.96%.	19,855
Capital lease obligation secured by 2021 Chevrolet Colorado costing \$21,254 maturing July 2022, requiring monthly installment of \$462 including interest accruing at 3.85%.	20,396
Total	<u>\$217,858</u>

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

Year Ending September 30	Principal	Interest	Total
2022	\$ 153,588	\$7,920	\$ 161,508
2023	30,918	2,204	33,122
2024	28,366	752	29,118
2025	4,986	15	5,001
Total	<u>\$217,858</u>	<u>\$10,891</u>	<u>\$228,749</u>

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, 2021:

	Amounts payable at beginning of year	Amounts added during year 2021	Amounts retired during fiscal year 2021	Amounts payable at end of year	Amounts due within one year
Certificates of obligation	\$2,180,000	\$4,510,000	\$(235,000)	\$6,455,000	\$250,000
Bond premiums	203,873	509,959	(9,708)	704,124	35,206
Subtotal bonds payable	2,383,873	5,019,959	(244,708)	7,159,124	285,206
Capital lease	257,350	76,937	(116,429)	217,858	153,588
Compensated absences	23,734	7,595	(-0-)	31,329	31,329
OPEB liabilities	16,658	2,004	(-0-)	18,662	-0-
Net pension liabilities	43,147	-0-	(9,386)	33,761	-0-
Total long-term liabilities	<u>\$2,724,762</u>	<u>\$5,106,495</u>	<u>\$(370,523)</u>	<u>\$7,460,734</u>	<u>\$470,123</u>

NOTE I – RESTRICTED ASSETS

Restricted assets balance at September 30, 2021, was as follows:

Fund	Cash & Deposits	Investments	Intergovernmental Receivable
Government Activities:			
General Fund	\$ -0-	\$ 618,493	\$ 25
Court	-0-	167,753	-0-
Debt Service Fund	-0-	362,548	-0-
Special Project Fund	-0-	557,326	-0-
Prairieland Detention Fund	701,326	-0-	-0-
Impact Fees Funds	574,160	-0-	-0-
Water and Sewer Fund	645,687	5,569,317	-0-
	\$1,921,173	\$ 7,275,437	\$ 25

NOTE J – DEFINED BENEFIT PENSION PLAN

The City participates in the Texas Municipal Retirement System.

Plan Description

The City of Alvarado participates as one of 895 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.tmrs.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 2019</u>	<u>Plan Year 2020</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, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	14
Inactive employees entitled to but not yet receiving benefits	54
Active employees	<u>60</u>
Total	128

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 5.36% and 5.34% in calendar years 2020 and 2021 respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2021 were \$178,445 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2020, 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, 2020 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 2021 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 12/31/2019	\$ 4,558,241	\$ 4,304,436	\$ 253,805
Changes for the year:			
Service Cost	352,250	-0-	352,250
Interest	317,086	-0-	317,086
Changes in benefit terms	-0-	-0-	-0-
Difference between expected and actual experience	16,790	-0-	16,790
Changes of assumptions	-0-	-0-	-0-
Contributions – employer	-0-	178,445	(178,445)
Contributions – employee	-0-	199,764	(199,764)
Net investment income	-0-	327,294	(327,294)
Benefit payments, including refunds of employee contributions	(73,599)	(73,599)	-0-
Administrative expense	-0-	(2,114)	2,114
Other changes	-0-	(83)	83
Net changes	\$ 612,527	629,707	\$ (17,180)
Balance at 12/31/2020	\$ 5,170,768	\$ 4,934,143	\$ 236,625

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	\$1,101,133	\$236,625	\$(463,760)

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, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2021, the city recognized pension expense of \$152,542.

At September 30, 2021, 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	4.7400	\$ 16,790	\$ 3,542	\$ 13,248
Difference in assumption changes actuarial (gains) or losses	4.7400	-	-	-
			<u>\$ 3,542</u>	<u>\$ 13,248</u>
<u>Due to Assets:</u>				
Difference in projected and actual earnings on pension plan investments actuarial (gains) or losses	5.0000	\$ (36,745)	\$ (7,349)	\$ (29,396)
			<u>\$ (7,349)</u>	<u>\$ (29,396)</u>
<u>Total:</u>				<u>\$ (16,148)</u>

\$126,346 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, 2021. 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
2021	\$ (23,529)
2022	16,868
2023	(51,657)
2024	(4,727)
2025	-
Thereafter	-
Total	<u>\$ (63,045)</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, 2020, (measurement date):

Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to but not yet receiving benefits	5
Active Employees	<u>60</u>
Total Employees	<u>74</u>

Contributions

The contribution rates employees in SDBF is .03% of employee gross earnings, and the city matching percentages is .14%, 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 .03% of their gross earnings during the fiscal year. The contribution rates for the City were .14% and .15% in the calendar years 2020 and 2021 respectively. The City’s contributions to SDBF as of September 30, 2021 were \$4,034 and were equal to the required contributions.

Total OPEB Liability - SDBF

The City’s total OPEB liability of \$130,796 was measured as of December 31, 2020, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The City’s total OPEB liability in the December 31, 2020, 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, 2020
Discount rate	2.00%, based on the Fidelity Index’s “20-Year Municipal GO AA Index” rate as of December 31, 2020
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, 2020 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 12/31/2019	\$ 97,986
Changes for the year:	
Service Cost	9,988
Interest on total OPEB liability	2,827
Differences between expected and actual experience	1,084
Changes in assumptions or other inputs	19,244
Benefit payments, aged adjusted premiums, net of retiree contributions	(333)
Balance at 12/31/2020	<u>\$ 130,796</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 (1.00%)	Current Discount Rate (2.00%)	1% Increase in Discount Rate (3.00%)
Total OPEB Liability	\$163,393	\$130,796	\$106,025

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.tmrs.com.

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

For the year ended September 30, 2021, the City recognized OPEB expense of \$17,166. At September 30, 2021, 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-)	\$16,838
Changes in expected and actual experience	(-0-)	948
Benefit payments subsequent to the measurement date	-0-	-0-
	\$(-0-)	\$17,786
Total		\$17,786

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	
2021	\$	4,351
2022		4,351
2023		4,351
2024		4,351
2025		3,493
Thereafter		7,209
	\$	<u>28,106</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 January 23, 2023, which is the same date that the financial statements were issued and determined the following events were noted:

Addition of Chief Financial Officer

In January of 2023, Laura Cox was hired as the City’s Chief Finance Officer to over see the finance activities of the City. Ms Cox comes from the City of Midlothian as the assistant Director of Finance. Before Midlothian, she worked at the City of Waco.

COVID Funds

In September of 2022, the City received COVID relief funds in the amount of \$562,344.35. This was the 2nd tranche of covid relief received by the City. At the date of the financial statements, the City was still evaluating how to spend the amount of funds received. The City established a Texpool account during the fiscal year for all relief monies received.

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. As of the date of the financial statements, January 23, 2023 the City has spent \$0 of the \$1,123,580 received in COVID relief.

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, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUE:				
General Property Taxes, Interest and Penalties	\$ 1,968,453	\$ 1,968,453	\$ 1,988,745	\$ 20,292
Sales tax	1,400,000	1,400,000	2,043,112	643,112
Fines and forfeitures	750,000	750,000	507,498	(242,502)
Franchise fees & rental fees	458,710	458,710	460,806	2,096
Rental fees	34,000	34,000	35,433	1,433
Mixed beverage tax	500	500	921	421
Licenses, fees and permits	262,900	262,900	652,172	389,272
Interest	45,000	45,000	4,334	(40,666)
Intergovernmental	425,699	425,699	688,084	262,385
Donations	100	100	-	(100)
Water/Sewer administrative fee	85,000	85,000	85,000	-
Charges for Services	-	-	-	-
Grants	-	-	561,485	561,485
Miscellaneous	64,350	64,350	176,606	112,256
Total Revenue	5,494,712	5,494,712	7,204,196	1,709,484
EXPENDITURES:				
Current operating				
General government	980,056	980,056	784,443	195,613
Public safety	3,800,298	3,800,298	3,440,924	359,374
Community development	200,677	200,677	269,517	(68,840)
Public works	240,510	240,510	174,267	66,243
Cultural and recreational	431,105	431,105	361,081	70,024
Social and welfare	77,866	77,866	75,457	2,409
Capital Outlay	-	-	411,586	(411,586)
Total Expenditures	5,730,512	5,730,512	5,517,275	213,237
Excess (Deficiency) of Revenues Over (Under) Expenditures	(235,800)	(235,800)	1,686,921	1,922,721
OTHER FINANCING SOURCES:				
Loan proceeds	-	-	-	-
Transfers	235,800	-	(440,000)	(440,000)
NET CHANGE IN FUND BALANCES	-	(235,800)	1,246,921	1,482,721
FUND BALANCE - October 1, 2020	-	-	6,503,414	6,503,414
FUND BALANCE - September 30, 2021	\$ -	\$ (235,800)	\$ 7,750,335	\$ 7,986,135

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
SEPTEMBER 30, 2021

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	2020
Total Pension Liability							
Service cost	\$ 193,562	\$ 229,927	\$ 264,045	\$ 278,523	\$ 318,624	\$ 342,548	\$ 352,250
Interest (on the Total pension liability)	148,149	170,120	190,488	215,407	243,237	274,748	317,086
Changes of benefit terms	-	-	-	-	-	-	-
Difference between expected and actual experience	17,303	(69,085)	(40,789)	2,204	5,229	61,045	16,790
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)	(73,599)
Net Change in Total Pension Liability	307,017	370,300	347,897	458,369	397,076	631,954	612,527
Total Pension Liability - Beginning	2,045,628	2,352,645	2,722,945	3,070,842	3,529,211	3,926,287	4,558,241
Total Pension Liability - Ending (a)	\$ 2,352,645	\$ 2,722,945	\$ 3,070,842	\$ 3,529,211	\$ 3,926,287	\$ 4,558,241	\$ 5,170,768
Plan Fiduciary Net Position							
Contributions - employer	\$ 79,745	\$ 99,341	\$ 111,099	\$ 137,684	\$ 155,852	\$ 165,378	\$ 178,445
Contributions - employee	124,602	138,232	149,459	157,654	180,524	191,190	199,764
Net investment income	113,434	3,317	163,080	383,900	(102,093)	536,858	327,294
Benefit payments, including refunds of employee contributions	(51,997)	(74,652)	(65,847)	(37,765)	(170,014)	(54,453)	(73,599)
Administrative expense	(1,184)	(2,020)	(1,840)	(1,987)	(1,972)	(3,030)	(2,114)
Other	(97)	(99)	(99)	(100)	(103)	(90)	(83)
Net Change in Plan Fiduciary Net Position	\$ 264,503	\$ 164,119	\$ 355,552	\$ 639,386	\$ 62,194	\$ 835,853	\$ 629,707
Plan Fiduciary Net Position - Beginning	1,982,529	2,247,032	2,411,151	2,767,003	3,406,389	3,468,583	4,304,436
Plan Fiduciary Net Position - Ending (b)	\$ 2,247,032	\$ 2,411,151	\$ 2,767,003	\$ 3,406,389	\$ 3,468,583	\$ 4,304,436	\$ 4,934,143
Net Pension Liability - Ending (a) - (b)	\$ 105,613	\$ 311,794	\$ 303,839	\$ 122,822	\$ 457,704	\$ 253,805	\$ 236,625
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	95.51%	88.51%	90.11%	96.52%	88.34%	94.43%	95.42%
Covered Employee Payroll	\$ 2,076,696	\$ 2,303,873	\$ 2,490,988	\$ 2,627,574	\$ 3,008,729	\$ 3,186,493	\$ 3,329,396
Net Pension Liability as a Percentage of Covered Payroll	5.09%	13.53%	12.20%	4.67%	15.21%	7.97%	7.11%

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

	2014	2015	2016	2017	2018	2019	2020
Actuarially Determined Contribution	\$ 79,745	\$ 99,341	\$ 111,099	137,684	155,852	165,378	178,445
Contributions in relation to the actuarially determined contribution	79,745	99,341	111,099	137,684	155,852	165,378	178,445
Contribution deficiency (excess)	-	-	-	-	-	-	-
Covered employee payroll	2,076,696	2,303,873	2,490,988	2,627,574	3,008,729	3,186,493	3,329,396
Contributions as a percentage of covered employee payroll	3.84%	4.31%	4.46%	5.24%	5.18%	5.19%	5.36%

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	24 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
 REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
 SEPTEMBER 30, 2021

Texas Municipal Retirement System

Schedule of Change's in the City's Total OPEB Liability and Related Ratios
 Last 10 Years (will ultimately be displayed)

	2018	2019	2020	2021
Total OPEB Liability				
Service cost	\$ 5,518	\$ 7,221	\$ 7,010	\$ 9,988
Interest Cost (on total OPEB liability)	2,253	2,480	2,803	2,827
Changes of benefit terms	-	-	-	-
Difference between expected and actual experience	-	(2,167)	(3,497)	1,084
Change of assumptions	6,971	(6,480)	19,771	19,244
Benefit payments, including refunds of employee contributions	(263)	(301)	(319)	(333)
Net Change in Total OPEB Liability	14,479	753	25,768	32,810
Total Pension Liability - Beginning	56,986	71,465	72,218	97,986
Total Pension Liability - Ending (a)	\$ 71,465	\$ 72,218	\$ 97,986	\$ 130,796
Covered Employee Payroll	\$ 2,627,574	\$ 3,008,729	\$ 3,186,493	\$ 3,329,396
Total OPEB Liability as a Percentage of Covered Payroll	2.72%	2.40%	3.08%	3.93%

Note: The information in this schedule has been determined as of the date (December 31) of the City's total OPEB liability and is intended to show information for 10 years. However, until a full ten-year trend is compiled in accordance with the provision of GASB 75, only periods for which such information is available are presented.

CITY OF ALVARADO, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
 SEPTEMBER 30, 2021

Texas Municipal Retirement System

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

	2018	2019	2020	2021
Actuarially Determined Contribution	\$ 3,941	\$ 4,588	\$ 4,642	4,034
Contributions in relation to the actuarially determined contribution	3,941	4,588	4,642	4,034
Contribution deficiency (excess)	-	-	-	-
Covered employee payroll	2,627,574	3,008,729	3,186,493	3,329,396
Contributions as a percentage of covered employee payroll	0.15%	0.15%	0.15%	0.12%

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:

Inflation	2.5%
Salary Increases	3.5% to 10.50% including inflation
Discount Rate	2.00%*
Retirees' Share of Benefit-Related Costs:	\$0
Administrative Expenses:	All administrative expenses are paid through the Pension Trust and account 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 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 4% minimum mortality rate will be applied to reflect the impairment for younger members who became disabled for males and females, respectively. The rates are projected on a fully generational basis with scale UMP to account for future mortality improvements subject to the floor.

Other Information:

Notes No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 30, 2020

Note: The actuarial assumptions used in the December 31, 2020 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2021

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 \$1,709,484 and expenditures were less than budget by \$213,237.

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 \$1,117,549.

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 \$0. The total actual capital outlays for the year in the general fund amounted to \$662,057.

COMBINING SCHEDULES

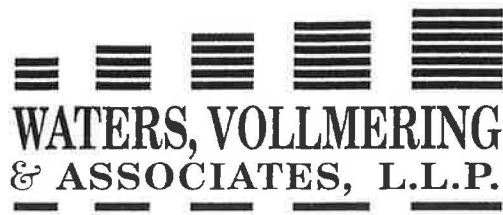
CITY OF ALVARADO, TEXAS
 COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUND
 September 30, 2021

	Royalty Fund	Special Project Fund	Street Maintenance Fund	Court Revenue Fund	Hotel Occupancy Tax Fund	Prairielands Detention	Roadway Service Impact Area 1	Roadway Service Impact Area 2	Other Governmental Funds
ASSETS									
Equity in pooled cash and cash equivalents	\$ 280,417	\$ -	\$ 115,893	\$ 58,228	159,782	\$ -	\$ -	\$ -	\$ 614,320
Investments	261,889	-	-	-	488,714	-	-	-	750,603
Receivables, net									
Accounts	32,724	-	-	-	-	47,251	-	-	79,975
Property taxes	-	-	-	-	-	-	-	-	-
Sales taxes	-	-	65,566	-	22,621	-	-	-	88,187
Fines receivable	-	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	-
Prepaid expenses	-	-	-	-	-	-	-	-	-
Restricted									
Cash	-	-	-	-	-	701,326	548,286	25,874	1,275,486
Intergovernmental Receivable	-	-	-	-	-	-	-	-	-
Investments	-	557,326	-	167,753	-	-	-	-	725,079
Total assets	<u>\$ 575,030</u>	<u>\$ 557,326</u>	<u>\$ 181,459</u>	<u>\$ 225,981</u>	<u>\$ 671,117</u>	<u>\$ 748,577</u>	<u>\$ 548,286</u>	<u>\$ 25,874</u>	<u>\$ 3,533,650</u>
LIABILITIES									
Accounts payable	-	\$ -	-	55	-	-	7,907	-	\$ 7,958
Accrued liabilities	-	-	-	-	-	-	-	-	-
Total liabilities	-	-	-	55	-	-	7,907	-	7,958
DEFERRED INFLOWS OF RESOURCES									
Deferred inflows of property tax revenue	-	-	-	-	-	-	-	-	-
Total liabilities and deferred inflows of resources	-	-	-	55	-	-	7,907	-	7,958
FUND BALANCES									
Fund balances:									
Nonspendable	-	-	-	-	-	-	-	-	-
Restricted	-	-	181,459	225,926	671,117	748,577	-	-	1,827,079
Capital improvement	-	557,326	-	-	-	-	540,379	25,874	1,123,579
Committed	303,581	-	-	-	-	-	-	-	303,581
Assigned	382,894	-	-	-	-	-	-	-	382,894
Unassigned	(111,445)	-	-	-	-	-	-	-	(111,441)
Total fund balances	<u>575,030</u>	<u>557,326</u>	<u>181,459</u>	<u>225,926</u>	<u>671,117</u>	<u>748,577</u>	<u>540,379</u>	<u>25,874</u>	<u>3,525,692</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 575,030</u>	<u>\$ 557,326</u>	<u>\$ 181,459</u>	<u>\$ 225,981</u>	<u>\$ 671,117</u>	<u>\$ 748,577</u>	<u>\$ 548,286</u>	<u>\$ 25,874</u>	<u>\$ 3,533,650</u>

CITY OF ALVARADO, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 OTHER GOVERNMENTAL FUNDS
 For the Fiscal Year Ended September 30, 2021

	Royalty Fund	Special Projects Fund	Street Maintenance Fund	Court Revenue Fund	Hotel Occupancy Tax Fund	Prairielands Detention	Roadway Service Impact Area 1	Roadway Service Impact Area 2	Other Governmental Funds
REVENUE:									
General property taxes, interest and penalties	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sales tax	-	-	181,459	-	-	-	-	-	181,459
Hotel tax	-	-	-	-	266,156	-	-	-	266,156
Fines and forfeitures	-	-	-	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-	-	-	-
Mixed beverage tax	-	-	-	-	-	-	-	-	-
Rental fees	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	127,323	-	-	127,323
Licenses, fees and permits	-	-	-	46,444	-	-	-	-	46,444
Interest	214	276	-	85	243	9	63	5	895
Proceeds from disposition of property	-	-	-	-	-	-	-	-	-
Contributions and donations	-	-	-	-	-	-	-	-	-
Water/Sewer administrative fee	-	-	-	-	-	-	-	-	-
Oil and gas royalties	158,397	-	-	-	-	-	-	-	158,397
Impact Fees	-	-	-	-	-	-	495,801	4,698	500,499
Miscellaneous	-	-	-	-	-	-	-	-	-
Total Revenue	158,611	276	181,459	46,529	266,399	127,332	495,864	4,703	1,281,173
EXPENDITURES:									
Current operating									
General government	48,343	-	-	-	-	-	-	-	48,343
Public safety	-	-	-	20,325	-	-	-	-	20,325
Community development	-	-	-	-	-	-	57,103	-	57,103
Public works	-	-	-	-	-	-	-	-	-
Cultural and recreational	-	-	-	-	-	-	-	-	-
Social and welfare	-	-	-	-	-	-	-	-	-
Economic development	-	-	-	-	46,663	-	-	-	46,663
Capital Outlay	250,471	-	-	-	-	-	-	-	250,471
Debt Service	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-
Paying agent	-	-	-	-	-	-	-	-	-
Total Expenditures	298,814	-	-	20,325	46,663	-	57,103	-	422,905
Excess (Deficiency) of Revenues Over (Under) Expenditures	(140,203)	276	181,459	26,204	219,736	127,332	438,761	4,703	858,268
OTHER FINANCING SOURCES:									
Transfers in	-	-	-	-	-	450,000	-	-	450,000
Transfers out	-	-	-	(10,000)	-	-	-	-	(10,000)
NET CHANGE IN FUND BALANCES	(140,203)	276	181,459	16,204	219,736	577,332	438,761	4,703	1,298,268
FUND BALANCE - October 1, 2020	715,233	557,050	-	209,722	451,381	171,245	101,618	21,171	2,227,424
FUND BALANCE - September 30, 2021	\$ 575,030	\$ 557,326	\$ 181,459	\$ 225,926	\$ 671,117	\$ 748,577	\$ 540,379	\$ 25,874	\$ 3,525,692

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, 2021, 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 January 23, 2023.

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 has engaged 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. Additionally, the City has hired an Chief Financial Officer to assist in the day to day operations of the City.

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
January 23, 2023