

CITY OF ALVARADO, TEXAS

SEPTEMBER 30, 2022

TABLE OF CONTENTS

Letter of Transmittal i - vi

Independent Auditor’s Report 1 - 4

Management Discussion and Analysis 5 - 14

Basic Financial Statements:

 Government-wide Financial Statements:

 Statement of Net Position 15

 Statement of Activities 16

 Fund Financial Statements:

 Balance Sheet – Governmental Funds 17

 Statement of Revenues, Expenditures and Changes in Fund Balance of
 Governmental Funds 18

 Reconciliation of Statement of Revenues, Expenditures and Changes in
 Fund Balance of Governmental Funds to the Statement of Activities 19

 Statement of Net Position – Water and Sewer Proprietary Fund 20

 Statement of Revenues, Expenses and Changes in Fund Net Position –
 Water and Sewer Proprietary Fund 21

 Statement of Cash Flows – Water and Sewer Proprietary Fund 22

Notes to Financial Statements 23 - 60

Required Supplemental Financial Data

 Schedule of Revenues, Expenditures, and Changes in Fund Balances –
 Budget to Actual – General Fund 61

 Schedule of Changes in Net Pension Liability and Related Ratios 62

 Schedule of Contributions 63

 Schedule of Change’s in Total OPEB Liability and Related Ratios 64

 Schedule of Contributions – OPEB 65

 Notes to Required Supplementary Information 66

Supplementary Information

 Combining Balance Sheet – Other Governmental Funds 67

 Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances 68

Independent Auditor’s Report on Internal Control over Financial Reporting
And on Compliance and Other Matters based on an Audit
Of Financial Statement Performed in accordance with
Governmental Auditing Standards 69 - 70



City of Alvarado
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December 20, 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, 2022, 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, 2022, 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, 2022, 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 7.476 square miles and serves a population of about 5,330. 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

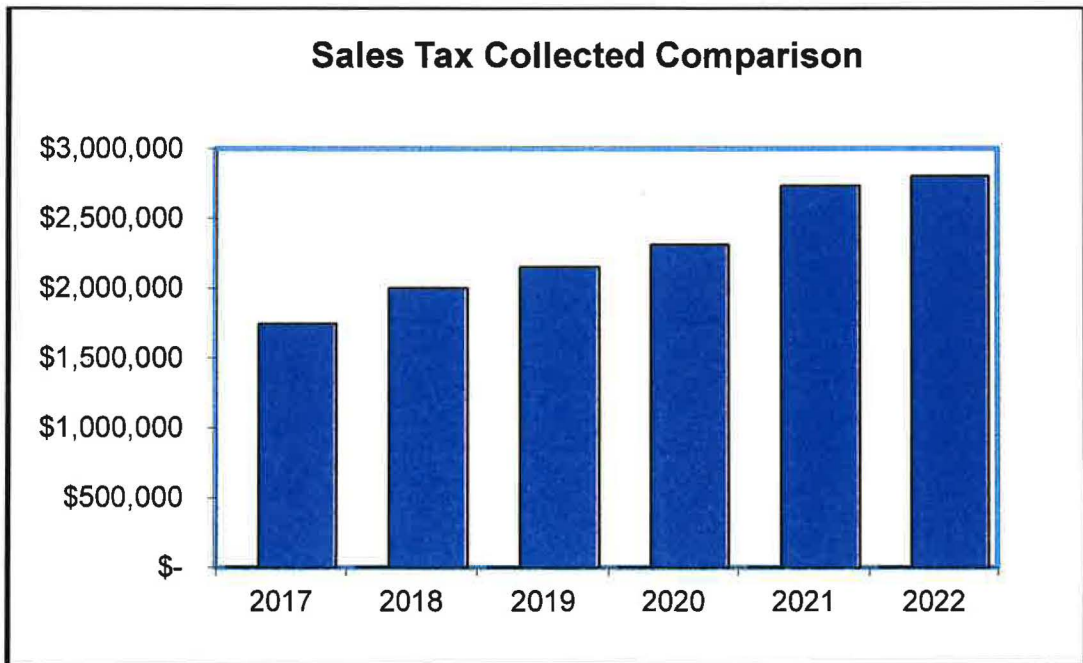
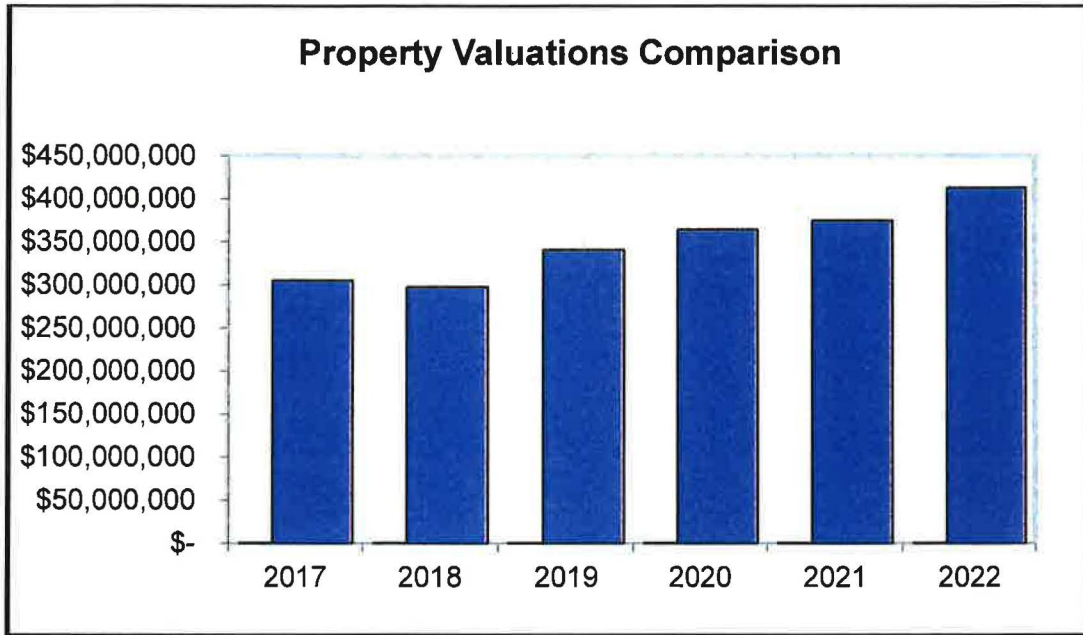
The information presented in the financial statements is perhaps best understood when it is considered from the broader aspect of the specific environment within which the City operates.

Local Economy

Fiscal year 2021-2022 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 \$2,734,109 in 2021 to \$2,803,233 in 2022 for a difference of \$69,124 or 2.53%.

The property tax rate for 2022 changed from \$0.751419/\$100 to a rate of \$0.812696/\$100.

The charts below are based upon the 2021-2022 budget year as compared to prior years. Property Valuations noted below for the budget period 2021-2022 are based upon the 2021 assessed property valuations as determined by the Johnson County Appraisal District. The chart for Sales Tax Collected also represents the amounts collected during the 2021-2022 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 in accordance with Texas Local Government Code Section 102.005, as amended. 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 \$7,641,464. Overall, governmental funds unrestricted reserves total \$7,816,132.

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 Accounting Director. 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



Laura E. Cox
Chief Financial Officer

**CITY OF ALVARADO
PRINCIPAL CITY OFFICIALS
SEPTEMBER 30, 2022**

Mayor

Jacob Wheat

Council Members

Beverly Short

Michael Bennett

Cherry Bryant

Mayor – Pro Tem

Lydia Moon

Scott Arthur

Kevin Thomas

City Manager

Paul DeBuff

Interim City Secretary

Beth A. Walls

City Attorney

Ashley Dierker

Interim Chief Financial Officer

Eddie Peacock

Director of Public Works

Michael Dwiggin

Police Chief

Teddy May

Fire Chief

John Rodgers



INDEPENDENT AUDITOR'S REPORT

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

Opinions

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, 2022, and the related notes to the financial statements, which collectively comprise the City of Alvarado, Texas' basic financial statements as listed in the table of contents.

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, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of the report. We are required to be independent of the City of Alvarado, Texas and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Alvarado, Texas' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our

opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Alvarado, Texas' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 to 14, the budgetary comparison information on pages 61 and related notes on page 66, the schedule of changes in net pension liability and related ratios on page 62, and the schedule of contributions on pages 63 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary 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 combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 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 nonmajor fund financial statements are fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not over the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 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

Waters, Vollmering & Associates, LLP

Mansfield, Texas

December 20, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR ENDED SEPTEMBER 30, 2022

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, 2022. 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 \$31,379,722 (total net position). Of this amount, \$13,776,309 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position increased this fiscal year by \$1,112,683.
- As of the close of the current fiscal year, the City of Alvarado's governmental funds reported combined ending fund balances of \$15,347,782. Approximately 55.4% or \$8,502,607 is available for spending at the City's discretion (unassigned fund balance).
- AEDC has a fund balance of \$3,106,503 with restricted usage of \$3,106,503.
- Other Governmental Funds has a fund balance of \$4,599,815. This includes:
 - 1) Royalty fund which has a fund balance of \$861,143 (unassigned).
 - 2) The Hotel, Court, Prairieland Detention Center and Streets Maintenance Funds have a fund balance of \$ 2,297,291 (restricted).
 - 3) Special Project and Roadway Impact Fee Funds have a fund balance of \$1,441,381 with restricted usage limited to capital improvements.
- The City's total debt decreased by \$935,101 during the current fiscal year. The governmental funds debt decreased by \$663,569 and the water and sewer proprietary fund debt decreased by \$271,532.

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 \$31,379,722 at the close of the most recent fiscal year. This represents an increase of \$1,112,683 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 | |
|---------------------------------------|-------------------------|--------------|--------------------------|--------------|--------------|--------------|
| | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 |
| ASSETS | | | | | | |
| Current Assets | \$17,510,360 | \$19,836,597 | \$ 7,721,767 | \$ 7,698,162 | \$25,232,127 | \$27,534,759 |
| Noncurrent Assets | 11,451,769 | 10,659,856 | 15,145,136 | 16,605,721 | 26,596,905 | 27,265,577 |
| Total Assets | 28,962,129 | 30,496,453 | 22,866,903 | 24,303,883 | 51,829,032 | 54,800,336 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | |
| Deferred pension contributions | 108,319 | 121,823 | 18,027 | 20,204 | 126,346 | 142,027 |
| Deferred OPEB contributions | 2,637 | 92,063 | 439 | 528 | 3,076 | 92,591 |
| Deferred bond discounts | - | - | 16,667 | 15,833 | 16,667 | 15,833 |
| Deferred OPEB assumptions | 30,985 | 29,521 | 5,157 | 4,896 | 36,142 | 34,417 |
| Deferred pension actuarial losses | 162,210 | - | 26,996 | 14,741 | 189,206 | 14,741 |
| Total Deferred Outflows | 304,151 | 243,407 | 67,286 | 56,202 | 371,437 | 299,609 |
| LIABILITIES | | | | | | |
| Current Liabilities | 4,642,334 | 5,537,110 | 1,287,984 | 3,318,983 | 5,930,318 | 8,856,093 |
| Long Term Liabilities | 8,713,335 | 7,670,720 | 7,025,817 | 6,719,033 | 15,739,152 | 14,389,753 |
| Total Liabilities | 13,355,669 | 13,207,830 | 8,313,801 | 10,038,016 | 21,669,470 | 23,245,846 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Deferred bond premiums | - | - | 3,674 | 3,490 | 3,674 | 3,490 |
| Deferred OPEB expense | 6,889 | 12,099 | 1,147 | 1,147 | 8,036 | 13,246 |
| Deferred pension expense | 216,260 | 391,803 | 35,990 | 65,838 | 252,250 | 457,641 |
| Total Deferred Inflows | 223,149 | 403,902 | 40,811 | 70,475 | 263,960 | 474,377 |
| NET POSITION | | | | | | |
| Net investment in capital assets | 2,231,561 | 2,144,622 | 7,768,154 | 9,500,687 | 9,999,715 | 11,645,309 |
| Restricted | 5,873,127 | 6,845,175 | 5,894,938 | (887,071) | 11,768,065 | 5,958,104 |
| Unrestricted | 7,582,774 | 8,138,331 | 916,485 | 5,637,978 | 8,499,259 | 13,776,309 |
| Total Net Position | \$15,687,462 | \$17,128,128 | \$14,579,577 | \$14,251,594 | \$30,267,039 | \$31,379,722 |

An additional portion of the City of Alvarado's net position, \$5,958,104 represents resources that are subject to external restrictions on how they may be used. Unrestricted net assets of \$13,776,309 may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2022, the City of Alvarado is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental Activities. Governmental activities reflect an increase in the City's net position from the previous year by \$1,440,666, from \$15,687,462 to \$17,128,128.

Business-type Activities. Net position from business-type activities decreased by \$327,983, from \$14,579,577 to \$14,251,594.

The following table provides a summary of the City's operations for the year ended September 30, 2022 with the comparative totals for the year ended September 30, 2021.

City of Alvarado's Changes in Net Position

| | Governmental Activities | | Business Activities | | Total | |
|---|-------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 |
| REVENUES: | | | | | | |
| Charges for Services | \$ 2,715,850 | \$ 2,166,918 | \$ 3,437,793 | \$ 3,313,357 | \$ 6,153,643 | \$ 5,480,275 |
| Operating Grants/Contributions | - | - | - | - | - | - |
| Capital Grants/Contributions | 561,485 | 587,216 | - | - | 561,485 | 587,216 |
| General Revenues: | - | - | - | - | - | - |
| Property Taxes | 2,811,496 | 3,336,025 | - | - | 2,811,496 | 3,336,025 |
| Sales Tax | 3,001,219 | 3,121,253 | - | - | 3,001,219 | 3,121,253 |
| Franchise Tax | 459,885 | 483,215 | - | - | 459,885 | 483,215 |
| Alcoholic beverage taxes | 921 | 1,159 | - | - | 921 | 1,159 |
| Unrestricted investment earnings | 5,806 | 108,892 | 5,653 | 44,467 | 11,459 | 153,359 |
| Gain/Loss on Sale of Assets | 43,762 | 36,934 | 47,650 | 115,963 | 91,412 | 152,897 |
| Other revenue | 147,606 | 197,368 | - | - | 147,606 | 197,368 |
| Total Revenue | 9,748,030 | 10,038,980 | 3,491,096 | 3,473,787 | 13,239,126 | 13,512,767 |
| EXPENSES: | | | | | | |
| General government | 885,431 | 1,122,228 | - | - | 885,431 | 1,122,228 |
| Public safety | 3,812,033 | 4,481,862 | - | - | 3,812,033 | 4,481,862 |
| Public works | 230,215 | 279,754 | - | - | 230,215 | 279,754 |
| Community development | 786,190 | 604,110 | - | - | 786,190 | 604,110 |
| Cultural & recreational | 361,827 | 421,583 | - | - | 361,827 | 421,583 |
| Social & welfare | 96,165 | 103,418 | - | - | 96,165 | 103,418 |
| Economic development | 55,933 | 143,218 | - | - | 55,933 | 143,218 |
| Pension expense | 145,495 | 77,551 | - | - | 145,495 | 77,551 |
| Interest on long-term debt | 299,215 | 848,509 | - | - | 299,215 | 848,509 |
| Water & sewer operations | - | - | 3,784,918 | 4,317,851 | 3,784,918 | 4,317,851 |
| Bond issuance costs | - | - | 131,795 | - | 131,795 | - |
| Total Expenses | 6,672,504 | 8,082,233 | 3,916,713 | 4,317,851 | 10,589,217 | 12,400,084 |
| Change in net position before transfers | 3,075,526 | 1,956,747 | (425,617) | (844,064) | 2,649,909 | 1,112,683 |
| Transfers | 307,496 | (516,081) | (307,496) | 516,081 | - | - |
| Change in net position | 3,383,022 | 1,440,666 | (733,113) | (327,983) | 2,649,909 | 1,112,683 |
| Net position - Beginning | 12,304,440 | 15,687,462 | 15,312,690 | 14,579,577 | 27,617,130 | 30,267,039 |
| Net position - Ending | \$ 15,687,462 | \$ 17,128,128 | \$ 14,579,577 | \$ 14,251,594 | \$ 30,267,039 | \$ 31,379,722 |

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 \$15,347,782 which is an increase of \$1,480,278 in comparison with the prior year. Approximately \$8,502,607 of this total constitutes unassigned fund balance, which is available for spending at the government's discretion with \$0 as an assigned fund balance which may be used with Council approval. \$1,441,381 of the fund balance is committed to specific projects while \$5,403,794 of the balance has restrictions and \$0 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 \$327,983 from the previous year (\$14,579,577 to \$14,251,594). Unrestricted net position of the City's Proprietary Funds at the end of the year amounted to \$5,637,978, which represents an increase of \$4,721,493 from the previous year (\$916,485 to \$5,637,978).

General Fund Highlights

When compared to the prior year, General Fund revenue for the City was relatively flat with an increase of \$71,368 or 0.99%.

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. As of September 2022, the fund balance is \$522,758.

CAPITAL ASSETS

The City of Alvarado's investment in capital assets for its governmental and business-type activities as of September 30, 2022, amounts to \$27,265,577 (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 Police Department purchased computer tablets for vehicles
- The Police Department purchased Lexipol Software for \$19,403
- The Police Department purchased a Drone for \$32,621
- The Police Department added necessary outfitting equipment to vehicles for \$23,382
- The Fire Department purchased uniforms for \$12,800
- The Fire Department remodeled bathroom for \$19,750
- The Public Works Department purchased SCADA Upgrade (computer and software) for Wastewater Treatment Plan for \$5,285, which is the first payment. The second payment of \$6,665 will be paid in 2022-2023
- Lights and Cameras for City parks for \$16,695
- Audio and video equipment was purchased for the court room totaling \$56,969
- Construction in progress for Maple Avenue Maple Sewer Line Project for \$1,038,775
- Construction in progress for Wastewater Treatment Plant expansion project for \$764,241
- Sante Fe 8-inch Sewer Line Installation for \$120,995
- Capital Leases for vehicles acquired through Enterprise Fleet Management is \$259,307

The following table provides a summary of the City's capital assets for the year ended September 30, 2022 as compared to the summary of capital assets for the year ended September 30, 2021:

| CITY OF ALVARADO | | | | | | |
|-----------------------------------|--------------------------------|-------------------|---------------------------------|-------------------|-------------------|-------------------|
| CAPITAL ASSETS AT YEAR-END | | | | | | |
| (Net of Depreciation) | | | | | | |
| | Governmental Activities | | Business-Type Activities | | Totals | |
| | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 |
| Land | 357,193 | 357,193 | 1,005,509 | 1,005,509 | 1,362,702 | 1,362,702 |
| Buildings & Improvements | 2,093,002 | 2,038,816 | 8,463 | 8,262 | 2,101,465 | 2,047,078 |
| Infrastructure | 5,962,932 | 6,243,590 | | | 5,962,932 | 6,243,590 |
| Vehicles | 1,168,021 | 529,463 | 225,740 | 178,675 | 1,393,761 | 708,138 |
| Parks Improvements | 1,015,505 | 952,154 | | | 1,015,505 | 952,154 |
| Water System | | | 5,403,218 | 5,272,113 | 5,403,218 | 5,272,113 |
| Sewer System | | | 8,203,789 | 7,785,706 | 8,203,789 | 7,785,706 |
| Other Equipment | 488,498 | 538,640 | 106,607 | 93,661 | 595,105 | 632,301 |
| Construction in Progress | 366,618 | | 191,810 | 2,261,795 | 558,428 | 2,261,795 |
| Total | <u>11,451,769</u> | <u>10,659,856</u> | <u>15,145,136</u> | <u>16,605,721</u> | <u>26,596,905</u> | <u>27,265,577</u> |

DEBT ADMINISTRATION

Total Debt. The City of Alvarado's total debt outstanding at the end of the current fiscal year is \$15,871,024. This amount is a decrease of \$935,101 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 \$14,332,303. Of this amount, \$13,539,266 is comprised of long-term bonds payable. The remainder of the debt, \$793,037, 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 \$1,538,721 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, 2022 as compared to the summary of outstanding debt for the year ended September 30, 2021.

CITY OF ALVARADO OUTSTANDING DEBT AT YEAR-END

| | Governmental Activities | | Business-Type Activities | | Totals | |
|----------------------------|-------------------------|--------------|--------------------------|--------------|---------------|---------------|
| | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 |
| Certificates of Obligation | \$ 8,144,544 | \$ 7,560,546 | \$ 7,158,475 | \$ 6,872,925 | \$ 15,303,019 | \$ 14,433,471 |
| Capital Leases | 656,590 | 600,905 | 217,859 | 232,109 | 874,449 | 833,014 |
| Notes Payable | 419,074 | 353,783 | - | - | 419,074 | 353,783 |
| Compensated Absences | 177,606 | 219,011 | 31,329 | 31,745 | 208,935 | 250,756 |
| Total | \$ 9,397,814 | \$ 8,734,245 | \$ 7,407,663 | \$ 7,136,779 | \$ 16,805,477 | \$ 15,871,024 |

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 increased in the Dallas-Fort Worth-Arlington area to 9.2% from 5.9% in September 2022, or 55.9%.
- The City's property tax rate for 2021-2022 is \$0.812696 per \$100 of valuation. The property tax rate for 2020-2021 was the Voter Approval Rate at \$0.751419 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.
- The City issued 183 Certificates of Occupancy for 2021-2022.
- Summit at Walnut Creek, a 204-unit apartment complex consisting of 9 buildings, commenced construction.
- The Parks of Alvarado subdivision completed 133 homes of the 349 single family homes platted.
- Eagle Glen subdivision completed 156 homes of the 165 single family homes platted.
- The City of Alvarado Impact Fee program enters its third 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, Finance Department, 104 West College, Alvarado, Texas 76009.

BASIC FINANCIAL STATEMENTS

CITY OF ALVARADO, TEXAS
STATEMENT OF NET POSITION
September 30, 2022

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|--------------------------|
| ASSETS | | | |
| Current assets: | | | |
| Equity in pooled cash and cash equivalents | \$ 3,405,666 | \$ 615,832 | \$ 4,021,498 |
| Investments | 11,811,852 | 388,480 | 12,200,332 |
| Receivables (net) | | | |
| Taxes receivable | 514,068 | - | 514,068 |
| Accounts receivable | 153,228 | 429,897 | 583,125 |
| Other | - | - | - |
| Inventory | - | 69,521 | 69,521 |
| Prepaid expenses | 13,368 | - | 13,368 |
| Restricted assets | | | |
| Cash | 1,669,675 | 341,166 | 2,010,841 |
| Deposits | 25 | 191,962 | 191,987 |
| Investments | 2,268,715 | 5,661,304 | 7,930,019 |
| Total current assets | <u>19,836,597</u> | <u>7,698,162</u> | <u>27,534,759</u> |
| Noncurrent assets: | | | |
| Capital assets, net | <u>10,659,856</u> | <u>16,605,721</u> | <u>27,265,577</u> |
| Total noncurrent assets | <u>10,659,856</u> | <u>16,605,721</u> | <u>27,265,577</u> |
| Total assets | <u><u>30,496,453</u></u> | <u><u>24,303,883</u></u> | <u><u>54,800,336</u></u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred pension contributions | 121,823 | 20,204 | 142,027 |
| Deferred OPEB contributions | 92,063 | 528 | 92,591 |
| Deferred bond discounts | - | 15,833 | 15,833 |
| Deferred OPEB assumptions | 29,521 | 4,896 | 34,417 |
| Deferred pension actuarial losses | - | 14,741 | 14,741 |
| | <u>243,407</u> | <u>56,202</u> | <u>299,609</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | 4,424,548 | 2,178,300 | 6,602,848 |
| Accrued liabilities | 428,638 | 98,411 | 527,049 |
| Due to other funds | (364,371) | 364,371 | - |
| Deposits | - | 262,680 | 262,680 |
| Current portion | | | |
| Revenue bonds payable | 564,000 | 255,000 | 819,000 |
| Notes payable | 67,049 | - | 67,049 |
| Capital leases | 198,235 | 128,476 | 326,711 |
| Compensated absences | 219,011 | 31,745 | 250,756 |
| Total current liabilities | <u>5,537,110</u> | <u>3,318,983</u> | <u>8,856,093</u> |
| Noncurrent liabilities: | | | |
| Revenue bonds payable | 6,996,546 | 6,617,925 | 13,614,471 |
| Notes payable | 286,734 | - | 286,734 |
| Capital leases | 402,670 | 103,633 | 506,303 |
| Net OPEB liability | 120,008 | 19,903 | 139,911 |
| Net pension liability | (135,238) | (22,428) | (157,666) |
| Total noncurrent liabilities | <u>7,670,720</u> | <u>6,719,033</u> | <u>14,389,753</u> |
| Total liabilities | <u>13,207,830</u> | <u>10,038,016</u> | <u>23,245,846</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred bond premiums | - | 3,490 | 3,490 |
| Deferred OPEB expense | 12,099 | 1,147 | 13,246 |
| Deferred pension expense | 391,803 | 65,838 | 457,641 |
| | <u>403,902</u> | <u>70,475</u> | <u>474,377</u> |
| NET POSITION | | | |
| Invested in capital assets, net of related debt | 2,144,622 | 9,500,687 | 11,645,309 |
| Restricted | | | |
| Public Safety | 5,403,794 | - | 5,403,794 |
| Capital improvements | 1,441,381 | (887,071) | 554,310 |
| Unrestricted | 8,138,331 | 5,637,978 | 13,776,309 |
| Total net position | <u>\$ 17,128,128</u> | <u>\$ 14,251,594</u> | <u>\$ 31,379,722</u> |

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2022

| 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 |
| Governmental activities: | | | | | | |
| General government: | | | | | | |
| General government | \$ 1,122,228 | \$ 363,445 | \$ - | \$ - | \$ (758,783) | \$ (758,783) |
| Public safety | 4,481,862 | 321,098 | - | - | (4,160,764) | (4,160,764) |
| Public works | 279,754 | - | - | - | (279,754) | (279,754) |
| Cultural and recreational | 421,583 | - | - | - | (421,583) | (421,583) |
| Economic development | 143,218 | 608,082 | - | - | 464,864 | 464,864 |
| Community development | 604,110 | 836,175 | - | 587,216 | 819,281 | 819,281 |
| Social and welfare | 103,418 | 38,118 | - | - | (65,300) | (65,300) |
| Pension expense | 77,551 | - | - | - | (77,551) | (77,551) |
| Interest on long-term debt | 848,509 | - | - | - | (848,509) | (848,509) |
| Total governmental activities | <u>\$8,082,233</u> | <u>\$ 2,166,918</u> | <u>\$ -</u> | <u>\$ 587,216</u> | <u>(\$5,328,099)</u> | <u>(\$5,328,099)</u> |
| Business-type activities: | | | | | | |
| Water and sewer | <u>\$ 4,317,851</u> | <u>\$ 3,313,357</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (1,004,494)</u> | <u>(\$1,004,494)</u> |
| General revenues: | | | | | | |
| Taxes: | | | | | | |
| General property taxes | | | | | 3,336,025 | 3,336,025 |
| Sales tax | | | | | 3,121,253 | 3,121,253 |
| Franchise tax | | | | | 484,374 | 484,374 |
| Interest income | | | | | 108,892 | 44,467 |
| Gain (Loss) on sale of capital assets | | | | | 36,934 | 115,963 |
| Administrative fee | | | | | 85,000 | 85,000 |
| Miscellaneous | | | | | 112,368 | 112,368 |
| Transfers | | | | | (516,081) | 516,081 |
| Total general revenues and proceeds | | | | | <u>6,768,765</u> | <u>676,511</u> |
| Change in net position | | | | | <u>1,440,666</u> | <u>(327,983)</u> |
| Net position-beginning of period | | | | | <u>15,687,462</u> | <u>14,579,577</u> |
| Net position-ending | | | | | <u>\$ 17,128,128</u> | <u>\$ 14,251,594</u> |

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2022

| | General Fund | Debt Service Fund | AEDC | Other Governmental Funds | Total Governmental Funds |
|---|----------------------|-------------------|---------------------|--------------------------|--------------------------|
| ASSETS | | | | | |
| Equity in pooled cash and cash equivalents | \$ 1,645 | \$ - | \$ 2,006,301 | \$ 1,397,720 | \$ 3,405,666 |
| Investments | 10,015,833 | - | 1,040,134 | 755,885 | 11,811,852 |
| Receivables, net | | | | | |
| Accounts | 38,737 | - | - | 114,491 | 153,228 |
| Property taxes | 81,822 | 31,073 | - | - | 112,895 |
| Sales taxes | 365,149 | - | 60,911 | 87,658 | 513,718 |
| Fines receivable | 78,668 | - | - | - | 78,668 |
| Due from other funds | 364,371 | - | - | - | 364,371 |
| Prepaid expenses | 13,668 | (300) | - | - | 13,368 |
| Restricted | | | | | |
| Cash | - | - | - | 1,669,675 | 1,669,675 |
| Intergovernmental Receivable | 25 | - | - | - | 25 |
| Investments | 1,173,434 | 365,099 | - | 730,182 | 2,268,715 |
| Total assets | \$ 12,133,352 | \$ 395,872 | \$ 3,107,346 | \$ 4,755,611 | \$ 20,392,181 |
| LIABILITIES | | | | | |
| Accounts payable | \$ 3,218,212 | \$ 1,049,931 | \$ 609 | \$ 155,796 | \$ 4,424,548 |
| Accrued liabilities | 428,404 | - | 234 | - | 428,638 |
| Total liabilities | 3,646,616 | 1,049,931 | 843 | 155,796 | 4,853,186 |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Deferred inflows of property tax revenue | 160,490 | 30,723 | - | - | 191,213 |
| Total liabilities and deferred inflows of resources | 3,807,106 | 1,080,654 | 843 | 155,796 | 5,044,399 |
| FUND BALANCES | | | | | |
| Fund balances: | | | | | |
| Nonspendable | - | - | - | - | - |
| Restricted | 684,782 | (684,782) | 3,106,503 | 2,297,291 | 5,403,794 |
| Capital improvement | - | - | - | 1,441,381 | 1,441,381 |
| Committed | - | - | - | - | - |
| Assigned | - | - | - | - | - |
| Unassigned | 7,641,464 | - | - | 861,143 | 8,502,607 |
| Total fund balances | 8,326,246 | (684,782) | 3,106,503 | 4,599,815 | \$ 15,347,782 |
| Total liabilities, deferred inflows and fund balance: | \$ 12,133,352 | \$ 395,872 | \$ 3,107,346 | \$ 4,755,611 | |
| 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) | | | | | 10,659,856 |
| Other long-term assets and liabilities are not available to pay for current-period expenditures, and therefore, are deferred in the funds | | | | | (160,495) |
| 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) | | | | | (8,500,004) |
| Compensated absences are not due and payable in the current period and therefore are not reported in the funds | | | | | (219,011) |
| Net position of governmental activities | | | | | \$ 17,128,128 |

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, 2022

| | General Fund | Debt Service Fund | AEDC | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|---------------------|---------------------|--------------------------|--------------------------|
| REVENUE: | | | | | |
| General property taxes, interest and penalties | \$ 2,417,420 | \$ 918,605 | \$ - | \$ - | \$ 3,336,025 |
| Sales tax | 2,097,307 | - | 352,963 | 352,963 | 2,803,233 |
| Hotel tax | - | - | - | 316,861 | 316,861 |
| Fines and forfeitures | 321,098 | - | - | - | 321,098 |
| Franchise tax | 484,374 | - | - | - | 484,374 |
| Mixed beverage tax | 1,159 | - | - | - | 1,159 |
| Rental fees | 38,118 | - | - | - | 38,118 |
| Intergovernmental | 711,300 | - | - | 124,875 | 836,175 |
| Licenses, fees and permits | 334,909 | - | - | 28,536 | 363,445 |
| Interest | 85,295 | - | 7,268 | 16,329 | 108,892 |
| Proceeds from disposition of property | - | - | - | - | - |
| Contributions and donations | 587,216 | - | - | - | 587,216 |
| Water/Sewer administrative fee | 85,000 | - | - | - | 85,000 |
| Oil and gas royalties | - | - | - | 297,865 | 297,865 |
| Impact Fees | - | - | - | 310,217 | 310,217 |
| Miscellaneous | 112,368 | - | - | - | 112,368 |
| Total Revenue | 7,275,564 | 918,605 | 360,231 | 1,447,646 | 10,002,046 |
| EXPENDITURES: | | | | | |
| Current operating | | | | | |
| General government | 1,068,573 | - | - | - | 1,068,573 |
| Public safety | 4,141,634 | - | - | 25,182 | 4,166,816 |
| Community development | 187,061 | - | 55,202 | 2,284 | 244,547 |
| Public works | 157,032 | - | - | 67,687 | 224,719 |
| Cultural and recreational | 419,300 | - | - | - | 419,300 |
| Social and welfare | 82,790 | - | - | - | 82,790 |
| Economic development | - | - | - | 134,086 | 134,086 |
| Capital Outlay | 192,105 | - | - | 594,284 | 786,389 |
| Debt Service | | | | | |
| Principal | - | 947,030 | - | - | 947,030 |
| Interest | - | 716,825 | - | - | 716,825 |
| Paying agent | - | 1,075 | - | - | 1,075 |
| Total Expenditures | 6,248,495 | 1,664,930 | 55,202 | 823,523 | 8,792,150 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 1,027,069 | (746,325) | 305,029 | 624,123 | 1,209,896 |
| OTHER FINANCING SOURCES: | | | | | |
| Transfers in | - | 474,626 | - | 450,000 | 924,626 |
| Transfers out | (451,160) | (82,089) | (120,995) | - | (654,244) |
| NET CHANGE IN FUND BALANCES | 575,909 | (353,788) | 184,034 | 1,074,123 | 1,480,278 |
| FUND BALANCE - October 1, 2021 | 7,750,337 | (330,994) | 2,922,469 | 3,525,692 | 13,867,504 |
| FUND BALANCE - September 30, 2022 | \$ 8,326,246 | \$ (684,782) | \$ 3,106,503 | \$ 4,599,815 | \$ 15,347,782 |

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, 2022

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

| | |
|---|----------------------------|
| Net change in fund balances - total governmental funds | \$ 1,480,278 |
| 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 | 466,974 |
| 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. | (855,335) |
| The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and interfund transfers) is to increase net position. | (97,216) |
| 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. | 823,148 |
| 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. | (158,172) |
| 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>(219,011)</u> |
| Changes in net position of governmental activities | <u><u>\$ 1,440,666</u></u> |

CITY OF ALVARADO, TEXAS
STATEMENT OF NET POSITION
WATER AND SEWER PROPRIETARY FUND
September 30, 2022

ASSETS

| | |
|--|------------|
| Current assets: | |
| Equity in pooled cash and cash equivalents | \$ 615,832 |
| Investments | 388,480 |
| Accounts receivable (net of allowance for uncollectible amounts) | 429,897 |
| Other receivables | |
| Inventory | 69,521 |
| Restricted assets | |
| Cash | 341,166 |
| Deposits | 191,962 |
| Investments | 5,661,304 |
| Total current assets | 7,698,162 |
| Noncurrent assets: | |
| Capital assets, net | 16,605,721 |
| Total noncurrent assets | 16,605,721 |
| Total assets | 24,303,883 |

DEFERRED OUTFLOW OF RESOURCES

| | |
|-----------------------------------|--------|
| Deferred bond discounts | 15,833 |
| Deferred OPEB assumptions | 4,896 |
| Deferred pension contributions | 20,204 |
| Deferred OPEB contributions | 528 |
| Deferred pension actuarial losses | 14,741 |
| | 56,202 |

LIABILITIES

| | |
|------------------------------|------------|
| Current liabilities: | |
| Accounts payable | 2,178,300 |
| Accrued liabilities | 98,411 |
| Due to other funds | 364,371 |
| Deposits | 262,680 |
| Current portion | |
| Revenue bonds payable | 255,000 |
| Capital leases | 128,476 |
| Compensated absences | 31,745 |
| Total current liabilities | 3,318,983 |
| Noncurrent liabilities: | |
| Revenue bonds payable | 6,617,925 |
| Capital leases | 103,633 |
| Net OPEB liability | 19,903 |
| Net pension liability | (22,428) |
| Total noncurrent liabilities | 6,719,033 |
| Total liabilities | 10,038,016 |

DEFERRED INFLOW OF RESOURCES

| | |
|--------------------------|--------|
| Deferred bond premiums | 3,490 |
| Deferred pension expense | 66,985 |
| | 70,475 |

NET POSITION

| | |
|---|---------------|
| Invested in capital assets, net of related debt | 9,500,687 |
| Restricted for: | |
| Capital Improvements | (887,071) |
| Unrestricted | 5,637,978 |
| Total net position | \$ 14,251,594 |

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, 2022

OPERATING REVENUES:

| | | |
|--------------------------|----|-----------|
| Water service | \$ | 1,637,054 |
| Sewer service | | 1,154,514 |
| Garbage service | | 213,165 |
| Late charges | | 72,462 |
| Impact Fees | | 63,637 |
| Miscellaneous income | | 172,525 |
| Total operating revenues | | 3,313,357 |

OPERATING EXPENSES:

| | | |
|--------------------------|--|-----------|
| Personnel services | | 667,673 |
| Contractual services | | 2,063,346 |
| Supplies and maintenance | | 485,006 |
| Administrative fees | | 85,000 |
| Other fees | | 114,907 |
| Depreciation | | 758,677 |
| Total operating expenses | | 4,174,609 |

| | | |
|-------------------------|--|-----------|
| Operating income (loss) | | (861,252) |
|-------------------------|--|-----------|

NON-OPERATING REVENUES (EXPENSES)

| | | |
|---------------------------------------|--|-----------|
| Gain on sale of assets | | 115,963 |
| Interest income | | 44,467 |
| Accretion of bond premiums/discounts | | 35,550 |
| Interest expense | | (178,792) |
| Net non-operating revenues (expenses) | | 17,188 |

| | | |
|--|--|-----------|
| INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS | | (844,064) |
|--|--|-----------|

| | | |
|-------------------------|--|-------------|
| Operating transfers in | | 2,410,101 |
| Operating transfers out | | (1,894,020) |
| Net transfers | | 516,081 |

| | | |
|------------------------|--|-----------|
| CHANGE IN NET POSITION | | (327,983) |
|------------------------|--|-----------|

| | | |
|----------------------------------|----|------------|
| NET POSITION, October 1, 2021 | | 14,579,577 |
| NET POSITION, September 30, 2022 | \$ | 14,251,594 |

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, 2022

CASH FLOWS FORM OPERATING ACTIVITIES:

| | | |
|---|--|------------------|
| Cash received from: | | |
| Customers | | \$ 3,269,440 |
| Cash paid to/for: | | |
| Employees | | (631,247) |
| Suppliers | | (781,781) |
| Net cash flows provided by operating activities | | <u>1,856,412</u> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | | |
|--|------------------|---------|
| Operating transfers out | \$ (1,894,020) | |
| Operating transfers in | <u>2,410,101</u> | |
| Net cash flows used in noncapital financing activities | | 516,081 |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

| | | |
|---|------------------|-------------|
| Acquisition and construction of capital assets | (2,381,304) | |
| Principal paid on bonds, notes and lease obligations | (348,648) | |
| Proceeds on sale of assets | 292,909 | |
| Interest paid on bonds, notes and lease obligations | <u>(178,792)</u> | |
| Net cash flows used in capital and related financing activities | | (2,615,835) |

CASH FLOWS FROM INVESTING ACTIVITIES:

| | | |
|---|----------------|----------------|
| Amount received from interest income | 44,467 | |
| Proceeds received from leases | <u>112,898</u> | |
| Net cash flows provided by investing activities | | <u>157,365</u> |

Net increase in cash and cash equivalents (85,977)

Cash and cash equivalents, October 1, 2021 7,284,721

Cash and cash equivalents, September 30, 2022 \$ 7,198,744

RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES

| | | |
|---|------------|---------------------|
| Operating income (loss) | | \$ (861,252) |
| Adjustments for transactions not requiring cash | | |
| Depreciation | \$ 758,677 | |
| Gain on disposal of assets | (115,963) | |
| Miscellaneous (income) expense | 52,000 | |
| Accretion of bond premiums | 35,550 | |
| Pension | 12,861 | |
| Change in current assets and current liabilities | | |
| (Increase) decrease in accounts receivable | (62,372) | |
| (Increase) decrease in deferred outflows | 11,084 | |
| Increase (decrease) in accounts payable | 1,994,891 | |
| Increase (decrease) in accrued liabilities | 37,349 | |
| Increase (decrease) in customer deposits | 18,455 | |
| Increase (decrease) in net pension liability | (54,948) | |
| Increase (decrease) in deferred inflows | 29,664 | |
| Increase (decrease) in compensated absences payable | <u>416</u> | |
| Total adjustments and changes | | <u>2,717,664</u> |
| Net cash provided by operating activities | | <u>\$ 1,856,412</u> |

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

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, 2022. The more significant accounting policies established in GAAP and used by the City are discussed below.

1. Reporting Entity

The City is a municipal corporation formed in 1889 by charter as a general law city. The City is governed by an elected mayor and six-member Council. Two council members are elected for each of three wards while the mayor is elected at large.

As required by Governmental Accounting Standards Board (GASB) Statement No. 61, the accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Component units are included in the reporting entity because of the significance of their operational relationship with the City. A City is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if City officials appoint a voting majority of the organization’s governing body and are able to either impose their will on that organization, or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the City. The City may also be financially accountable for governmental organizations that are fiscally dependent on it. Lastly, even if the City is not financially accountable, an organization should be included if its exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

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

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

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

Blended Presented Component Units

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

Related Corporation

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

2. Basis of Presentation

Government-wide and Fund Financial Statements

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

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

The net cost (by function or business-type activity) is normally covered by general revenue (property, sales, franchise taxes, intergovernmental revenues, interest income, etc.). Separate fund based financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The major governmental funds are the general fund, debt service fund, 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 2022, 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, 2022.

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, 2022 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), and rights to use assets, 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 |
| Right to Use Assets | 3-5 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 2022.

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, 2022, the liability for accrued vacation and compensatory time, calculated in accordance with GASB Statements 16, “Accounting for Compensated Absences,” was \$219,011 in the general fund. The amount applicable to the Proprietary Fund was \$31.745 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, 2022, 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 fund balance first when more than one fund balance classification is available. The City considers an amount spent when an expenditure is incurred for purposes for which both *restricted* or *unrestricted* fund balance is available. In addition, the City considers an amount spent when an expenditure is 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.”

Change in Accounting Principle

GASB Statement No. 87, Leases, was adopted effective October 1, 2021. The statement addresses accounting and financial reporting for lease contracts. Statement No. 87 establishes standards for recognizing and measuring assets, liabilities, deferred outflows of resources, deferred inflow of resources, and revenues and expenses related to leases in the basic financial statements, in addition to requiring more extensive note disclosures. The adoption of this

standard did not result in a restatement of beginning fund balance or net position, but assets, deferred inflows and liabilities were recognized, and more extensive note disclosures were required.

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. Recent Accounting Pronouncements

The City has reviewed GASB pronouncements which become effective in future years and notes the following statements are applicable to the Town.

GASB Statement No. 91, "*Conduit Debt Obligations*" The primary objectives of this Statement 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. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

GASB Statement No. 94, "*Public-Private and Public-Public Partnerships and Availability Payment Arrangements*" 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 94 will become effective for reporting periods beginning after June 15, 2022, and the impact has not yet been determined.

GASB Statement No. 96, "*Subscription-Based Information Technology Arrangements*" This Statement provides guidance on the accounting and financial reporting for subscription-based

information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset-an intangible asset-and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. GASB 96 will become effective for reporting periods beginning after June 15, 2022, and the impact has not yet been determined.

GASB Statement No. 100, “*Accounting Changes and Error Corrections-an amendment of GASB No. 62.*”. The objective of this Standard is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The statement is effective for fiscal years beginning after June 15, 2023.

GASB Statement No. 101, “*Compensated Absences*” The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement will become effective for reporting periods beginning after December 15, 2023, and the impact has not yet been determined.

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 \$8,500,004 difference are as follows:

| | |
|--|---------------------------|
| Bonds payable | \$7,033,000 |
| Premium on issuance of bonds | 527,527 |
| Capital lease payable | 600,905 |
| Notes payable | 353,802 |
| Net OPEB liability | 120,008 |
| Net pension liability | <u>(135,238)</u> |
| Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities | <u><u>\$8,500,004</u></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 \$10,659,856 difference are as follows:

| | |
|---|----------------------|
| Capital outlay | \$ 18,906,106 |
| Depreciation expense | <u>(8,246,250)</u> |
| Net adjustment to decrease net changes in fund balance – total governmental funds to arrive at changes in net position of government activities | <u>\$ 10,659,856</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, 2022. At year-end, the carrying amount of the City’s deposits was \$304,672, with respective bank balances of \$643,631. Included in the bank balances are Certificates of Deposit totaling \$191,962.

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, 2022 are:

| <u>Investments:</u> | <u>Fair Value</u> | <u>Effective Duration</u> | <u>Credit Risk</u> |
|---------------------|-------------------|---------------------------|--------------------|
| Government Pools | | | |
| Unrestricted | \$12,200,332 | N/A | AAAM |
| Restricted | 7,930,019 | 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, 2022, consisted of the following:

| | General | Debt Service | AEDC | Other | Total | Proprietary Fund Water & Sewer Fund |
|---|------------------|-----------------|-----------------|------------------|------------------|--|
| Taxes Receivable | | | | | | |
| Ad valorem taxes | \$108,219 | \$41,098 | - | - | \$149,317 | - |
| Allowance for uncollectible acct | (26,397) | (10,025) | - | - | (36,422) | - |
| Ad valorem, net | 81,822 | 31,073 | - | - | 112,895 | - |
| Sales taxes | 365,149 | - | \$60,911 | \$87,658 | 513,718 | - |
| Total Taxes Receivable | 446,971 | 31,073 | 60,911 | 87,658 | 626,613 | |
| Services Receivable | | | | | | |
| Service accounts | 38,737 | - | - | 114,491 | 153,228 | \$433,594 |
| Allowance for uncollectible accts | - | - | - | - | - | (3,697) |
| Total Services Receivable | 38,737 | - | - | 114,491 | 153,228 | 429,897 |
| Other Receivables | | | | | | |
| Court fees & other | 322,017 | - | - | - | 322,017 | |
| Allowance for uncollectible accts | (243,349) | - | - | - | (243,349) | |
| | 78,668 | - | - | - | 78,668 | |
| Total Receivables | \$564,376 | \$31,073 | \$60,911 | \$114,491 | \$858,509 | \$429,897 |

NOTE E – CHANGES IN CAPITAL ASSETS

Primary Government

Capital asset activity for the year ended September 30, 2022 is as follows:

| | Balance 9/30/21 | Additions | Retirements | Transfers | Balance 9/30/22 |
|---|--------------------|-------------|-------------|-------------|--------------------|
| Land | \$357,193 | \$-0- | \$(-0-) | \$(-0-) | \$357,193 |
| Construction in progress | 366,618 | (474,627) | (-0-) | 108,009 | -0- |
| Building & improvements | 2,995,201 | 19,750 | (-0-) | (-0-) | 3,014,951 |
| Infrastructure | 8,467,151 | 565,799 | (-0-) | (-0-) | 9,032,950 |
| Right to use assets | 3,119,823 | 153,828 | (45,226) | (474,627) | 2,753,798 |
| Parks improvements | 1,532,397 | 16,696 | (-0-) | (-0-) | 1,549,093 |
| Equipment | 2,012,594 | 185,528 | (-0-) | (-0-) | 2,198,122 |
| Total capital assets | 18,850,977 | 466,974 | (45,226) | (366,618) | 18,906,107 |
| Less accumulated depreciation: | | | | | |
| Building & improvements | 902,199 | 73,936 | (-0-) | (-0-) | 976,135 |
| Infrastructure | 2,504,219 | 285,141 | (-0-) | (-0-) | 2,789,360 |
| Right to use assets | 1,946,487 | 286,140 | (8,292) | (-0-) | 2,224,335 |
| Parks improvements | 516,892 | 80,047 | (-0-) | (-0-) | 596,939 |
| Equipment | 1,529,411 | 130,071 | (-0-) | (-0-) | 1,659,482 |
| Total accumulated depreciation | 7,399,208 | 855,335 | (8,292) | (-0-) | 8,246,251 |
| Governmental activities capital assets, net | \$11,451,769 | \$(388,361) | \$(36,934) | \$(366,618) | \$10,659,856 |

Business-Type Activities

Capital asset activity for the year ended September 30, 2022 is as follows:

| | Balance 9/30/21 | Additions | Retirements | Transfers | Balance 9/30/22 |
|--|---------------------|--------------------|--------------------|------------------|---------------------|
| Land | \$ 1,005,509 | \$ -0- | \$ (-0-) | \$ -0- | \$1,005,509 |
| Construction in Progress | 191,810 | 2,140,925 | (437,558) | 366,618 | 2,261,795 |
| Building & Improvements | 10,033 | -0- | (-0-) | -0- | 10,033 |
| Water System | 11,020,015 | 120,995 | (-0-) | -0- | 11,141,010 |
| Sewer System | 12,677,191 | -0- | (-0-) | -0- | 12,677,191 |
| Equipment | 511,069 | 13,905 | (-0-) | -0- | 524,974 |
| Right to use assets | 386,626 | 105,479 | (154,511) | -0- | 337,594 |
| Total capital assets | <u>25,802,253</u> | <u>2,381,304</u> | <u>(592,069)</u> | <u>366,618</u> | <u>27,958,106</u> |
| Less accumulated depreciation: | | | | | |
| Building & Improvements | 1,570 | 201 | (-0-) | -0- | 1,771 |
| Water System | 5,616,797 | 252,100 | (-0-) | -0- | 5,868,897 |
| Sewer System | 4,473,402 | 418,083 | (-0-) | -0- | 4,891,485 |
| Equipment | 404,462 | 26,851 | (-0-) | -0- | 431,313 |
| Right to use assets | 160,886 | 61,442 | (63,409) | -0- | 158,919 |
| Total accumulated depreciation | <u>10,657,117</u> | <u>758,677</u> | <u>(63,409)</u> | <u>-0-</u> | <u>11,352,385</u> |
| Business-type activities capital assets, net | <u>\$15,145,136</u> | <u>\$1,622,627</u> | <u>\$(528,660)</u> | <u>\$366,618</u> | <u>\$16,605,721</u> |

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

| | |
|--|------------------|
| Governmental activities: | |
| General government | \$ 56,281 |
| Public safety | 330,501 |
| Public works | 57,735 |
| Cultural and recreational | 2,395 |
| Community development | 377,203 |
| Social and welfare | 21,640 |
| Economic | 9,580 |
| Total depreciation expense – governmental activities | <u>\$855,335</u> |
| Business-type activities: | |
| Water and sewer | <u>\$758,677</u> |

NOTE F – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

For the year ended September 30, 2022, revenues exceeded expenditures in the General Fund by \$1,027,069.

NOTE G – INTERFUND BALANCES AND TRANSFERS – GOVERNMENT WIDE

The composition of interfund operating transfers for the year ended September 30, 2022, is as follows:

| Fund | Transfer to Other Funds | Transfer from Other Funds |
|-----------------------------|----------------------------|------------------------------|
| General Fund | \$451,160 | \$ -0- |
| Debt Service Fund | 82,089 | 474,676 |
| AEDC Fund | 120,995 | |
| Nonmajor Governmental Funds | -0- | 450,000 |
| Fixed Asset Fund | 2,736,423 | 1,891,723 |
| Long Term Debt Fund | -0- | 58,741 |
| Water and Sewer Fund | 1,894,574 | 2,410,101 |
| | \$5,285,241 | \$5,285,241 |

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, 2022, 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% | \$2,500,000 |
| Add: Premium on General Obligation Refunding Bonds, Series 2015 | 82,780 |
| \$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%. | 1,203,000 |
| \$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% | 3,330,000 |
| Add: Premium on General Obligation Refunding Bonds, Series 2020 | 444,766 |
| Total Certificate of obligation | <u>\$7,560,546</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 | |
|-----------------------------|--------------------|------------------|--------------------|---------------------|----------------|
| 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 | 395,000 | 39,999 | 174,300 | 609,299 | |
| 2028 – 2032 | 2,170,000 | 179,298 | 651,700 | 3,000,998 | |
| 2033 – 2037 | 2,115,000 | 148,253 | 225,225 | 2,488,478 | Notes Payable: |
| Total | <u>\$7,033,000</u> | <u>\$527,546</u> | <u>\$1,910,096</u> | <u>\$ 9,470,642</u> | 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% | \$353,783 |
| Total | <u>\$353,783</u> |

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

| Year Ending September 30 | Principal | Interest | Total |
|-----------------------------|------------------|-----------------|------------------|
| 2023 | \$ 67,049 | \$ 9,523 | \$ 76,572 |
| 2024 | 68,853 | 7,718 | 76,571 |
| 2025 | 70,707 | 5,865 | 76,572 |
| 2026 | 72,610 | 3,962 | 76,572 |
| 2027 | 74,564 | 2,007 | 76,571 |
| Total | <u>\$353,783</u> | <u>\$29,075</u> | <u>\$382,858</u> |

Leases Payable:

Leases payable debt outstanding at September 30, 2022, is comprised of the following:

| <u>Description of Lease Debt</u> | <u>Amount</u> |
|--|---------------|
| On 10/01/2021, Alvarado, TX entered into a 31-month lease for the use of Vehicle - Unit# 2398BF. An initial lease liability was recorded in the amount of \$19,504 and is required to make monthly fixed payments of \$639.48, interest accruing at 0.2130%. The lease has a guaranteed residual value payment of \$5,832. | \$12,129 |
| On 10/01/2021, Alvarado, TX entered into a 45-month lease for the use of Vehicle - Unit# 2398RM. An initial lease liability was recorded in the amount of \$38,840 and is required to make monthly fixed payments of \$870.66, including interest accruing at 0.4750%. The lease has a guaranteed residual value payment of \$3,223. | 28,539 |
| On 10/01/2021, Alvarado, TX entered into a 44-month lease for the use of Vehicle - Unit# 2398SG. An initial lease liability was recorded in the amount of \$34,807 and is required to make monthly fixed payments of \$797.83, including interest accruing at 0.4750%. The lease has a guaranteed residual value payment of \$2,962. | 25,365 |
| On 10/01/2021, Alvarado, TX entered into a 41-month lease for the use of Vehicle - Unit# 239WSP. An initial lease liability was recorded in the amount of \$29,980 and is required to make monthly fixed payments of \$733.33, including interest accruing at 0.3280%. The lease has a guaranteed residual value payment of \$3,005. | 21,180 |
| On 10/01/2021, Alvarado, TX entered into a 41-month lease for the use of Vehicle - Unit# 239WSS. An initial lease liability was recorded in the amount of \$30,632 and is required to make monthly fixed payments of \$749.06, including interest accruing at 0.3280%. The lease has a guaranteed residual value payment of \$3,005. | 21,634 |
| On 10/01/2021, Alvarado, TX entered into a 41-month lease for the use of Vehicle - Unit# 239X6H. An initial lease liability was recorded in the amount of \$24,478 and is required to make monthly fixed payments of \$674.57, including interest accruing at 0.3280%. The lease has a guaranteed residual value payment of \$2,295. | 17,798 |

| <u>Description of Lease Debt</u> | <u>Amount</u> |
|---|---------------|
| On 10/01/2021, Alvarado, TX entered into a 41-month lease for the use of Vehicle - Unit# 239X6P. An initial lease liability was recorded in the amount of \$31,864 and is required to make monthly fixed payments of \$848.18, including interest accruing at 0.3280%. The lease has a guaranteed residual value payment of \$2,517. | 22,646 |
| On 10/01/2021, Alvarado, TX entered into a 44-month lease for the use of Vehicle - Unit# 23B2BR. An initial lease liability was recorded in the amount of \$34,384 and is required to make monthly fixed payments of \$782.80, including interest accruing at 0.4750%. The lease has a guaranteed residual value payment of \$3,759. | 24,887 |
| On 10/01/2021, Alvarado, TX entered into a 44-month lease for the use of Vehicle - Unit# 23B34Q. An initial lease liability was recorded in the amount of \$40,030, and is required to make monthly fixed payments of \$913.67, including interest accruing at 0.4750%. The lease has a guaranteed residual value payment of \$3,998. | 29,047 |
| On 10/01/2021, Alvarado, TX entered into a 53-month lease for the use of Vehicle - Unit# 23QFV4. An initial lease liability was recorded in the amount of \$42,421 and is required to make monthly fixed payments of \$793.85, including interest accruing at 0.4750%. The lease has a guaranteed residual value payment of \$3,030. | 33,060 |
| On 10/01/2021, Alvarado, TX entered into a 53-month lease for the use of Vehicle - Unit# 23QFV7. An initial lease liability was recorded in the amount of \$42,421 and is required to make monthly fixed payments of \$793.85, including interest accruing at 0.4750%. The lease has a guaranteed residual value payment of \$3,030. | 33,060 |
| On 10/01/2021, Alvarado, TX entered into a 54-month lease for the use of Vehicle - Unit# 23QFVB. An initial lease liability was recorded in the amount of \$43,190 and is required to make monthly fixed payments of \$796.50, including interest accruing at 0.6320%. The lease has a guaranteed residual value payment of \$3,031. | 33,856 |
| On 10/01/2021, Alvarado, TX entered into a 42-month lease for the use of Vehicle - Unit# 23RZH5. An initial lease liability was recorded in the amount of \$15,569 and is required to make monthly fixed payments of \$423.18, including interest accruing at 0.4750%. The lease has a guaranteed residual value payment of \$5,763. | 11,106 |
| On 10/11/2021, Alvarado, TX entered into a 60-month lease for the use of Vehicle - Unit# 23TV7B. An initial lease liability was recorded in the amount of \$48,185 and is required to make monthly fixed payments of \$806.66, including interest accruing at 0.6320%. The lease has a guaranteed residual value payment of \$3,051 | 39,010 |

| <u>Description of Lease Debt</u> | <u>Amount</u> |
|---|---------------|
| On 10/01/2021, Alvarado, TX entered into a 56-month lease for the use of Vehicle - Unit# 23XVCP . An initial lease liability was recorded in the amount of \$44,171 and is required to make monthly fixed payments of \$799.76, including interest accruing at 0.6320%. The lease has a guaranteed residual value payment of \$3,054. | 34,776 |
| On 07/15/2022, Alvarado, TX entered into a 60-month lease for the use of Vehicle - Unit# 23ZN3G. An initial lease liability was recorded in the amount of \$38,890 and is required to make monthly fixed payments of \$680.68, including interest accruing at 2.3660%. The lease has a guaranteed residual value payment of \$2,435. | 37,271 |
| On 10/01/2021, Alvarado, TX entered into a 42-month lease for the use of Vehicle - Unit# 239Q8X. An initial lease liability was recorded in the amount of \$29,896 and is required to make monthly fixed payments of \$715.65, including interest accruing at 0.4750%. The lease has a guaranteed residual value payment of \$3,005. | 21,338 |
| On 03/01/2022, Alvarado, TX entered into a 60-month lease for the use of Vehicle - Unit# 25NKQV. An initial lease liability was recorded in the amount of \$33,291 and is required to make monthly fixed payments of \$564.26, including interest accruing at 0.6857%. The lease has a guaranteed residual value payment of \$2,038. | 29,449 |
| On 03/01/2022, Alvarado, TX entered into a 60- month lease for the use of Vehicle - Unit# 25NKVF. An initial lease liability was recorded in the amount of \$33,335 and is required to make monthly fixed payments of \$564.26, including interest accruing at 0.6320%. The lease has a guaranteed residual value payment of \$2,038 | 29,485 |
| On 10/01/2021, Alvarado, TX entered into a 48-month lease for the use of Vehicle - Unit# 23RXFN. An initial lease liability was recorded in the amount of \$22,175 and is required to make monthly fixed payments of \$466.25, including interest accruing at 0.6320%. The lease has a guaranteed residual value payment of \$9,394. | 16,623 |
| On 10/01/2021, Alvarado, TX entered into a 36-month lease for the use of Vehicle - Unit# 23RXFQ. An initial lease liability was recorded in the amount of \$14,993 and is required to make monthly fixed payments of \$427.68, including interest accruing at 0.2130%. The lease has a guaranteed residual value payment of \$17,300. | 10,241 |

| <u>Description of Lease Debt</u> | <u>Amount</u> |
|--|---------------|
| On 10/01/2021, Alvarado, TX entered into a 48-month lease for the use of Vehicle - Unit# 23RXFS. An initial lease liability was recorded in the amount of \$20,087 and is required to make monthly fixed payments of \$427.68, including interest accruing at 0.2130%.. The lease has a guaranteed residual value payment of \$17,300. | 15,346 |
| On 10/01/2021, Alvarado, TX entered into a 48-month lease for the use of Vehicle - Unit# 23989K. An initial lease liability was recorded in the amount of \$47,777 and is required to make monthly fixed payments of \$1,092.40, including interest accruing at 0.4750%. The lease has a guaranteed residual value payment of \$4,190 | 35,838 |
| On 10/01/2021, Alvarado, TX entered into a 36-month lease for the use of Vehicle - Unit# 2398B5. An initial lease liability was recorded in the amount of \$21,674 and is required to make monthly fixed payments of \$629.58, including interest accruing at 0.3277%. The lease has a guaranteed residual value payment of \$8,775. | 14,446 |
| On 10/01/2021, Alvarado, TX entered into a 48-month lease for the use of Quadient - IN600 Postage Meter. An initial lease liability was recorded in the amount of \$12,313 and is required to make quarterly fixed payments of \$777.18, including interest accruing at 0.4753%. | 2,775 |
| Total | \$600,905 |

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

| Year Ending September 30 | Principal | Interest | Total |
|-----------------------------|------------|----------|------------|
| 2023 | \$ 198,235 | \$12,657 | \$ 210,892 |
| 2024 | 196,091 | 9,800 | 205,891 |
| 2025 | 140,940 | 6,945 | 147,885 |
| 2026 | 52,466 | 4,383 | 56,849 |
| 2027 | 13,173 | 2,089 | 15,262 |
| Total | \$600,905 | \$35,874 | \$636,779 |

Changes in government activities long-term liabilities:

The following is a summary of transactions affecting long-term liabilities for the year ended September 30, 2022:

| | Amounts payable at beginning of year | Amounts added during year 2022 | Amounts retired during fiscal year 2022 | Amounts payable at end of year | Amounts due within one year |
|-----------------------------|--------------------------------------|--------------------------------|---|--------------------------------|-----------------------------|
| Certificates of obligation | \$7,577,000 | \$ -0- | \$(544,000) | \$7,033,000 | \$564,000 |
| Bond premiums | 567,545 | -0- | (39,999) | 527,546 | 39,999 |
| Subtotal bonds payable | 8,144,545 | -0- | (583,999) | \$7,560,546 | 603,999 |
| Notes payable | 419,074 | -0- | (65,291) | 353,783 | 67,049 |
| Leases payable | 656,590 | 158,172 | (213,857) | 600,905 | 198,235 |
| Compensated absences | 177,606 | 41,405 | (-0-) | 219,011 | 219,011 |
| OPEB liability | 112,134 | 7,874 | (-0-) | 120,008 | -0- |
| Net pension liability | 202,864 | -0- | (338,102) | (135,238) | -0- |
| Total long-term liabilities | \$9,712,813 | \$207,451 | \$(1,201,249) | \$8,719,015 | \$1,088,294 |

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, 2022, 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%. | \$1,695,000 |
| Add: Net premiums and discounts on certificates of obligations | 184,457 |
| \$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 | 483,468 |
| Total | <u>\$6,872,925</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 |
|-----------------------------|--------------------|-------------------------|--------------------|--------------------|
| 2023 | \$ 255,000 | \$ 35,206 | \$ 193,725 | \$ 483,931 |
| 2024 | 265,000 | 35,206 | 187,525 | 487,931 |
| 2025 | 270,000 | 35,206 | 181,025 | 486,731 |
| 2026 | 280,000 | 35,206 | 174,425 | 489,231 |
| 2027 | 285,000 | 35,206 | 167,525 | 487,731 |
| 2028 – 2032 | 1,555,000 | 176,031 | 704,825 | 2,435,856 |
| 2033 – 2037 | 1,825,000 | 176,031 | 435,625 | 2,436,656 |
| 2038 – 2042 | 1,470,000 | 139,833 | 118,088 | 1,727,921 |
| Total | <u>\$6,205,000</u> | <u>667,925</u> | <u>\$2,162,763</u> | <u>\$9,035,988</u> |

Leases Payable:

Lease debt outstanding at September 30, 2022, is comprised of the following:

| <u>Description of Lease Debt</u> | <u>Amount</u> |
|--|---------------|
| On 06/03/2022, Alvarado, TX entered into a 12-month lease for the use of Vehicle - Unit# 2562MC. An initial lease liability was recorded in the amount of \$30,252 and is required to make monthly fixed payments of \$688.92, including interest accruing at 9.1467%. The lease has a guaranteed residual value payment of \$24,275. | \$28,301 |
| On 01/28/2022, Alvarado, TX entered into a 24-month lease for the use of Vehicle - Unit# 2562NC. An initial lease liability was recorded in the amount of \$20,838 and is required to make monthly fixed payments of \$480.28, including interest accruing at 10.2338%. The lease has a guaranteed residual value payment of \$13,174. | 18,433 |
| On 01/28/2022, Alvarado, TX entered into a 24-month lease for the use of Vehicle - Unit# 2562MR. An initial lease liability was recorded in the amount of \$20,898 and is required to make monthly fixed payments of \$445.70, including interest accruing 7.5843%. The lease has a guaranteed residual value payment of \$13,174. | 18,470 |
| On 10/01/2021, Alvarado, TX entered into a 48-month lease for the use of Vehicle - Unit# 2398FS. An initial lease liability was recorded in the amount of \$34,486 and is required to make monthly fixed payments of \$675.33, including interest accruing at 6.8971%. The lease has a guaranteed residual value payment of \$8,438. | 28,683 |
| On 03/29/2022, Alvarado, TX entered into a 12-month lease for the use of Vehicle - Unit# 2562NZ. An initial lease liability was recorded in the amount of \$32,288 and is required to make monthly fixed payments of \$681.58, including interest accruing at 0.2380%. The lease has a guaranteed residual value payment of \$24,600. | 28,430 |
| On 10/01/2021, Alvarado, TX entered into a 48-month lease for the use of Vehicle - Unit# 23984V. An initial lease liability was recorded in the amount of \$32,774 and is required to make monthly fixed payments of \$709.03, including interest accruing at 11.5291%. The lease has a guaranteed residual value payment of \$6,135. | 22,056 |
| On 10/01/2021, Alvarado, TX entered into a 48-month lease for the use of Vehicle - Unit# 2398CF. An initial lease liability was recorded in the amount of \$33,111. and is required to make monthly fixed payments of \$674.53, including interest accruing at 8.7220%. The lease has a guaranteed residual value payment of \$6,135. | 21,912 |

| <u>Description of Lease Debt</u> | <u>Amount</u> |
|--|---------------|
| On 10/01/2021, Alvarado, TX entered into a 48-month lease for the use of Vehicle - Unit# 2398D4. An initial lease liability was recorded in the amount of \$33,690 and is required to make monthly fixed payments of \$644.23, including interest accruing at 5.5780%. The lease has a guaranteed residual value payment of \$8,290. | 22,252 |
| On 10/01/2021, Alvarado, TX entered into a 24-month lease for the use of Vehicle - Unit# 23RXF6. An initial lease liability was recorded in the amount of \$21,065 and is required to make monthly fixed payments of \$488.69, including interest accruing at 14.9120%. The lease has a guaranteed residual value payment of \$13,139. | 18,470 |
| On 10/01/2021, Alvarado, TX entered into a 36-month lease for the use of Vehicle - Unit# 23RXFB. An initial lease liability was recorded in the amount of \$20,806 and is required to make monthly fixed payments of \$465.60, including interest accruing at 16.8139%. The lease has a guaranteed residual value payment of \$9,394. | 18,699 |
| On 10/01/2021, Alvarado, TX entered into a 48-month lease for the use of Quadient - IN600 Postage Meter. An initial lease liability was recorded in the amount of \$12,313 and is required to make quarterly fixed payments of \$777.18, including interest accruing at 0.4753%. | 6,403 |
| Total | \$232,109 |

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

| <u>Year Ending September 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------------|------------------|-----------------|--------------|
| 2023 | \$ 128,476 | \$14,008 | \$ 142,484 |
| 2024 | 59,321 | 5,630 | 64,951 |
| 2025 | 27,532 | 2,150 | 29,682 |
| 2026 | 16,780 | 83 | 16,863 |
| Total | \$232,109 | \$21,871 | \$253,980 |

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, 2022:

| | Amounts payable at beginning of year | Amounts added during year 2022 | Amounts retired during fiscal year 2022 | Amounts payable at end of year | Amounts due within one year |
|-----------------------------|--------------------------------------|--------------------------------|---|--------------------------------|-----------------------------|
| Certificates of obligation | \$6,455,000 | \$ -0- | \$(250,000) | \$6,205,000 | \$255,000 |
| Bond premiums | 703,475 | -0- | (35,550) | 667,925 | 35,206 |
| Subtotal bonds payable | 7,158,475 | -0- | (285,550) | 6,872,925 | 290,206 |
| Leases payable | 217,859 | 112,898 | (98,648) | 232,109 | 128,476 |
| Compensated absences | 31,329 | 416 | (-0-) | 31,745 | 31,745 |
| OPEB liabilities | 18,662 | 1,241 | (-0-) | 19,903 | -0- |
| Net pension liabilities | 33,761 | -0- | (56,189) | (22,428) | -0- |
| Total long-term liabilities | \$7,460,086 | \$114,555 | \$(440,387) | \$7,134,254 | \$450,427 |

NOTE I – RESTRICTED ASSETS

Restricted assets balance at September 30, 2022, was as follows:

| Fund | Cash & Deposits | Investments | Intergovernmental Receivable |
|----------------------------|-----------------|--------------|------------------------------|
| Government Activities: | | | |
| General Fund | \$ -0- | \$ 1,173,434 | \$ 25 |
| Court | -0- | 168,933 | -0- |
| Debt Service Fund | -0- | 365,099 | -0- |
| Special Project Fund | -0- | 561,249 | -0- |
| Prairieland Detention Fund | 794,306 | -0- | -0- |
| Impact Fees Funds | 875,369 | -0- | -0- |
| Water and Sewer Fund | 533,128 | 5,661,304 | -0- |
| | \$2,202,803 | \$ 7,930,019 | \$ 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 901 plans in the nontraditional, joint contributory, hybrid defined pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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

| | <u>Plan Year 2020</u> | <u>Plan Year 2021</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 | 62 |
| Inactive employees entitled to but not yet receiving benefits | 17 |
| Active employees | <u>54</u> |
| Total | <u>133</u> |

Contributions

The contribution rates for employees in TMRS is 6% of employee gross earnings, and the city matching percentage is 5.36%, 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 5.34% and 5.36% in calendar years 2021 and 2022 respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2022 were \$178,314 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2021, 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, 2021 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 2022 are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|-------------------------------|--------------------------|--|
| Global Equity | 35.0% | 7.55% |
| Core Fixed Income | 6.0% | 2.00% |
| Non-Core Fixed Income | 20.0% | 5.68% |
| Other Public and Private Mkts | 12.0% | 7.22% |
| Real Estate | 12.0% | 6.85% |
| Hedge Funds | 5.0% | 5.35% |
| Private Equity | 10.0% | 10.00% |
| 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 12/31/2020 | \$ 5,170,768 | \$ 4,934,143 | \$ 236,625 |
| Changes for the year: | | | |
| Service Cost | 351,619 | -0- | 351,619 |
| Interest | 357,454 | -0- | 357,454 |
| Changes in benefit terms | -0- | -0- | -0- |
| Difference between expected and actual experience | (84,013) | -0- | (84,013) |
| Changes of assumptions | -0- | -0- | -0- |
| Contributions – employer | -0- | 178,314 | (178,314) |
| Contributions – employee | -0- | 200,353 | (200,353) |
| Net investment income | -0- | 643,641 | (643,641) |
| Benefit payments, including refunds of employee contributions | (101,911) | (101,911) | -0- |
| Administrative expense | -0- | (2,976) | 2,976 |
| Other changes | -0- | 19 | (19) |
| Net changes | \$ 523,149 | 917,440 | \$ (394,291) |
| Balance at 12/31/2021 | \$ 5,693,917 | \$ 5,851,583 | \$ (157,666) |

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 | \$795,037 | \$(157,666) | \$(925,959) |

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.tmr.com.

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

For the year ended September 30, 2022, the city recognized pension expense of \$74,137.

At September 30, 2022, 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 | 4.4600 | \$ (84,013) | \$ (18,837) | \$ (65,176) |
| Difference in assumption changes actuarial (gains) or losses | 4.4600 | - | - | - |
| | | | <u>\$ (18,837)</u> | <u>\$ (65,176)</u> |
| <u>Due to Assets:</u> | | | | |
| Difference in projected and actual earnings on pension plan investments actuarial (gains) or losses | 5.0000 | \$ (310,586) | \$ (62,118) | \$ (248,468) |
| | | | <u>\$ (62,118)</u> | <u>\$ (248,468)</u> |
| <u>Total:</u> | | | | <u>\$ (313,644)</u> |

\$142,026 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, 2022. 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 |
|------------|---|
| 2022 | \$ (64,087) |
| 2023 | (132,612) |
| 2024 | (85,682) |
| 2025 | (70,779) |
| 2026 | - |
| Thereafter | - |
| Total | <u>\$ (353,160)</u> |

NOTE K – OTHER POST-EMPLOYMENT 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, 2021, (measurement date):

| | |
|--|-----------|
| Inactive employees or beneficiaries currently receiving benefits | 9 |
| Inactive employees entitled to but not yet receiving benefits | 7 |
| Active Employees | <u>62</u> |
| Total Employees | <u>78</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 .15% and .15% in the calendar years 2021 and 2022 respectively. The City’s contributions to SDBF as of September 30, 2022 were \$4,975 and were equal to the required contributions.

Total OPEB Liability - SDBF

The City’s total OPEB liability of \$139,911 was measured as of December 31, 2021, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The City’s total OPEB liability in the December 31, 2021, 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, 2021 |
|-------------------------------------|--|
| Discount rate | 1.84%, based on the Fidelity Index’s “20-Year Municipal GO AA Index” rate as of December 31, 2021 |
| 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, 2021 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 12/31/2020 | \$ 130,796 |
| Changes for the year: | |
| Service Cost | 11,353 |
| Interest on total OPEB liability | 2,719 |
| Differences between expected and actual experience | (8,712) |
| Changes in assumptions or other inputs | 4,757 |
| Benefit payments, aged adjusted premiums, net of retiree contributions | (1,002) |
| Balance at 12/31/2021 | \$ 139,911 |

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 1.84%. 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 (.84%) | Current Discount Rate (1.84%) | 1% Increase in Discount Rate (2.84%) |
|----------------------|---|----------------------------------|--|
| Total OPEB Liability | \$174,133 | \$139,911 | \$113,536 |

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, 2022, the City recognized OPEB expense of \$17,911. At September 30, 2022, 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 | \$(7,583) | \$-0- |
| Changes in expected and actual experience | (-0-) | 4,140 |
| Benefit payments subsequent to the measurement date | -0- | -0- |
| | \$(7,583) | \$4,140 |
| Total | | \$(3,443) |

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 30, 2022.

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 | |
|------------|---|---------------|
| 2022 | \$ | 3,839 |
| 2023 | | 3,839 |
| 2024 | | 3,839 |
| 2025 | | 2,981 |
| 2026 | | 4,041 |
| Thereafter | | 1,773 |
| | \$ | <u>20,312</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 December 20, 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.

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, September 30, 2022, 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, 2022

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|---|------------------|------------------|---------------------|---|
| | Original | Final | | |
| REVENUE: | | | | |
| General Property Taxes, Interest and Penalties | \$ 2,281,275 | \$ 2,281,275 | \$ 2,417,420 | \$ 136,145 |
| Sales tax | 1,931,139 | 1,931,139 | 2,097,307 | 166,168 |
| Fines and forfeitures | 650,000 | 650,000 | 321,098 | (328,902) |
| Franchise fees & rental fees | 466,950 | 466,950 | 484,374 | 17,424 |
| Rental fees | 34,000 | 34,000 | 38,118 | 4,118 |
| Mixed beverage tax | 500 | 500 | 1,159 | 659 |
| Licenses, fees and permits | 628,600 | 628,600 | 334,909 | (293,691) |
| Interest | 5,000 | 5,000 | 85,295 | 80,295 |
| Intergovernmental | 254,404 | 254,404 | 711,300 | 456,896 |
| Donations | - | - | - | - |
| Water/Sewer administrative fee | 85,000 | 85,000 | 85,000 | - |
| Charges for Services | - | - | - | - |
| Grants | - | - | 587,216 | 587,216 |
| Miscellaneous | 63,550 | 63,550 | 112,368 | 48,818 |
| Total Revenue | <u>6,400,418</u> | <u>6,400,418</u> | <u>7,275,564</u> | <u>875,146</u> |
| EXPENDITURES: | | | | |
| Current operating | | | | |
| General government | 867,049 | 867,049 | 1,068,573 | (201,524) |
| Public safety | 4,175,079 | 4,175,079 | 4,141,634 | 33,445 |
| Community development | 210,082 | 210,082 | 187,061 | 23,021 |
| Public works | 264,156 | 264,156 | 157,032 | 107,124 |
| Cultural and recreational | 524,315 | 524,315 | 419,300 | 105,015 |
| Social and welfare | 79,265 | 79,265 | 82,790 | (3,525) |
| Capital Outlay | <u>36,000</u> | <u>36,000</u> | <u>192,105</u> | <u>(156,105)</u> |
| Total Expenditures | <u>6,155,946</u> | <u>6,155,946</u> | <u>6,248,495</u> | <u>(92,549)</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 244,472 | 244,472 | 1,027,069 | 782,597 |
| OTHER FINANCING SOURCES: | | | | |
| Loan proceeds | - | - | - | - |
| Transfers | <u>(244,472)</u> | <u>(244,472)</u> | <u>(451,160)</u> | <u>(206,688)</u> |
| NET CHANGE IN FUND BALANCES | - | - | 575,909 | 575,909 |
| FUND BALANCE - October 1, 2021 | <u>-</u> | <u>-</u> | <u>7,750,337</u> | <u>7,750,337</u> |
| FUND BALANCE - September 30, 2022 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 8,326,246</u> | <u>\$ 8,326,246</u> |

CITY OF ALVARADO, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
SEPTEMBER 30, 2022

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 | 2021 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Total Pension Liability | | | | | | | | |
| Service cost | \$ 193,562 | \$ 229,927 | \$ 264,045 | \$ 278,523 | \$ 318,624 | \$ 342,548 | \$ 352,250 | \$ 351,619 |
| Interest (on the Total pension liability) | 148,149 | 170,120 | 190,488 | 215,407 | 243,237 | 274,748 | 317,086 | 357,454 |
| Changes of benefit terms | - | - | - | - | - | - | - | - |
| Difference between expected and actual experience | 17,303 | (69,085) | (40,789) | 2,204 | 5,229 | 61,045 | 16,790 | (84,013) |
| 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) | (101,911) |
| Net Change in Total Pension Liability | 307,017 | 370,300 | 347,897 | 458,369 | 397,076 | 631,954 | 612,527 | 523,149 |
| 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 | 5,170,768 |
| 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 | \$ 5,693,917 |
| Plan Fiduciary Net Position | | | | | | | | |
| Contributions - employer | \$ 79,745 | \$ 99,341 | \$ 111,099 | \$ 137,684 | \$ 155,852 | \$ 165,378 | \$ 178,445 | \$ 178,314 |
| Contributions - employee | 124,602 | 138,232 | 149,459 | 157,654 | 180,524 | 191,190 | 199,764 | 200,353 |
| Net investment income | 113,434 | 3,317 | 163,080 | 383,900 | (102,093) | 536,858 | 327,294 | 643,641 |
| Benefit payments, including refunds of employee contributions | (51,997) | (74,652) | (65,847) | (37,765) | (170,014) | (54,453) | (73,599) | (101,911) |
| Administrative expense | (1,184) | (2,020) | (1,840) | (1,987) | (1,972) | (3,030) | (2,114) | (2,976) |
| Other | (97) | (99) | (99) | (100) | (103) | (90) | (83) | 19 |
| Net Change in Plan Fiduciary Net Position | \$ 264,503 | \$ 164,119 | \$ 355,852 | \$ 639,386 | \$ 62,194 | \$ 835,853 | \$ 629,707 | \$ 917,440 |
| 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 | 4,934,143 |
| 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 | \$ 5,851,583 |
| Net Pension Liability - Ending (a) - (b) | \$ 105,613 | \$ 311,794 | \$ 303,839 | \$ 122,822 | \$ 457,704 | \$ 253,805 | \$ 236,625 | \$ (157,666) |
| 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% | 102.77% |
| Covered Employee Payroll | \$ 2,076,696 | \$ 2,303,873 | \$ 2,490,988 | \$ 2,627,574 | \$ 3,008,729 | \$ 3,186,493 | \$ 3,329,396 | \$ 3,339,212 |
| Net Pension Liability as a Percentage of Covered Payroll | 5.09% | 13.53% | 12.20% | 4.67% | 15.21% | 7.97% | 7.11% | -4.72% |

See accompanying notes and independent auditor's report

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

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|-----------|-----------|------------|-----------|-----------|-----------|-----------|-----------|
| Actuarially Determined Contribution | \$ 79,745 | \$ 99,341 | \$ 111,099 | 137,684 | 155,852 | 165,378 | 178,445 | 178,314 |
| Contributions in relation to the actuarially determined contribution | 79,745 | 99,341 | 111,099 | 137,684 | 155,852 | 165,378 | 178,445 | 178,314 |
| 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 | 3,339,212 |
| Contributions as a percentage of covered employee payroll | 3.84% | 4.31% | 4.46% | 5.24% | 5.18% | 5.19% | 5.36% | 5.34% |

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 | 23 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, 2022

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 | 2022 |
|--|--------------|--------------|--------------|--------------|-------------|
| Total OPEB Liability | | | | | |
| Service cost | \$ 5,518 | \$ 7,221 | \$ 7,010 | \$ 9,988 | \$ 11,353 |
| Interest Cost (on total OPEB liability) | 2,253 | 2,480 | 2,803 | 2,827 | 2,719 |
| Changes of benefit terms | - | - | - | - | - |
| Difference between expected and actual experience | - | (2,167) | (3,497) | 1,084 | (8,712) |
| Change of assumptins | 6,971 | (6,480) | 19,771 | 19,244 | 4,757 |
| Benefit payments, including refunds of emplyee contributions | (263) | (301) | (319) | (333) | (1,002) |
| Net Change in Total OPEB Liability | 14,479 | 753 | 25,768 | 32,810 | 9,115 |
| Total Pension Liability - Beginning | 56,986 | 71,465 | 72,218 | 97,986 | 130,796 |
| Total Pension Liability - Ending (a) | \$ 71,465 | \$ 72,218 | \$ 97,986 | \$ 130,796 | \$ 139,911 |
| Covered Employee Payroll | \$ 2,627,574 | \$ 3,008,729 | \$ 3,186,493 | \$ 3,329,396 | \$3,339,212 |
| Total OPEB Liability as a Percentage of Covered Payroll | 2.72% | 2.40% | 3.08% | 3.93% | 4.19% |

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. Hoever, 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, 2022

Texas Municipal Retirement System

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

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|-----------|-----------|-----------|-----------|-----------|
| Actuarially Determined Contribution | \$ 3,941 | \$ 4,588 | \$ 4,642 | 4,034 | 4,675 |
| Contributions in relation to the actuarially determined contribution | 3,941 | 4,588 | 4,642 | 4,034 | 4,034 |
| Contribution deficiency (excess) | - | - | - | - | 641.00 |
| Covered employee payroll | 2,627,574 | 3,008,729 | 3,186,493 | 3,329,396 | 3,339,212 |
| Contributions as a percentage of covered employee payroll | 0.15% | 0.15% | 0.15% | 0.12% | 0.14% |

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.

CITY OF ALVARADO, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2022

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 \$875,146 and expenditures were more than budget by \$92,549.

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 \$1,664,930.

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 \$36,000. The total actual capital outlays for the year in the general fund amounted to \$786,389.

SUPPLEMENTAL INFORMATION

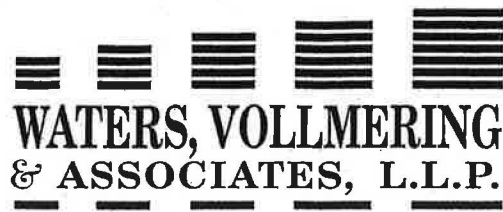
CITY OF ALVARADO, TEXAS
 COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUND
 September 30, 2022

| | 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 | \$ 530,171 | \$ - | \$ 465,181 | \$ 33,328 | 364,277 | \$ - | \$ 4,763 | \$ - | \$ 1,397,720 |
| Investments | 263,732 | - | - | - | 492,153 | - | - | - | 755,885 |
| Receivables, net | | | | | | | | | |
| Accounts | 67,240 | - | - | - | - | 47,251 | - | - | 114,491 |
| Property taxes | - | - | - | - | - | - | - | - | - |
| Sales taxes | - | - | 60,911 | - | 26,747 | - | - | - | 87,658 |
| Fines receivable | - | - | - | - | - | - | - | - | - |
| Due from other funds | - | - | - | - | - | - | - | - | - |
| Prepaid expenses | - | - | - | - | - | - | - | - | - |
| Restricted | | | | | | | | | |
| Cash | - | - | - | - | - | 794,306 | 844,581 | 30,788 | 1,669,675 |
| Intergovernmental Receivable | - | - | - | - | - | - | - | - | - |
| Investments | - | 561,249 | - | 168,933 | - | - | - | - | 730,182 |
| Total assets | \$ 861,143 | \$ 561,249 | \$ 526,092 | \$ 202,261 | \$ 883,177 | \$ 841,557 | \$ 849,344 | \$ 30,788 | \$ 4,755,611 |
| LIABILITIES | | | | | | | | | |
| Accounts payable | - | \$ - | 3,334 | 285 | 586 | 151,591 | - | - | \$ 155,796 |
| Accrued liabilities | - | - | - | - | - | - | - | - | - |
| Total liabilities | - | - | 3,334 | 285 | 586 | 151,591 | - | - | 155,796 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | | | | |
| Deferred inflows of property tax revenue | - | - | - | - | - | - | - | - | - |
| Total liabilities and deferred inflows of resources | - | - | 3,334 | 285 | 586 | 151,591 | - | - | 155,796 |
| FUND BALANCES | | | | | | | | | |
| Fund balances: | | | | | | | | | |
| Nonspendable | - | - | - | - | - | - | - | - | - |
| Restricted | - | - | 522,758 | 201,976 | 882,591 | 689,966 | - | - | 2,297,291 |
| Capital improvement | - | 561,249 | - | - | - | - | 849,344 | 30,788 | 1,441,381 |
| Committed | - | - | - | - | - | - | - | - | - |
| Assigned | - | - | - | - | - | - | - | - | - |
| Unassigned | 861,143 | - | - | - | - | - | - | - | 861,143 |
| Total fund balances | 861,143 | 561,249 | 522,758 | 201,976 | 882,591 | 689,966 | 849,344 | 30,788 | 4,599,815 |
| Total liabilities, deferred inflows and fund balances | \$ 861,143 | \$ 561,249 | \$ 526,092 | \$ 202,261 | \$ 883,177 | \$ 841,557 | \$ 849,344 | \$ 30,788 | \$ 4,755,611 |

CITY OF ALVARADO, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 OTHER GOVERNMENTAL FUNDS
 For the Fiscal Year Ended September 30, 2022

| | 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 | - | - | 352,963 | - | - | - | - | - | 352,963 |
| Hotel tax | - | - | - | - | 316,861 | - | - | - | 316,861 |
| Fines and forfeitures | - | - | - | - | - | - | - | - | - |
| Franchise tax | - | - | - | - | - | - | - | - | - |
| Mixed beverage tax | - | - | - | - | - | - | - | - | - |
| Rental fees | - | - | - | - | - | - | - | - | - |
| Intergovernmental | - | - | - | - | - | 124,875 | - | - | 124,875 |
| Licenses, fees and permits | - | - | - | 28,536 | - | - | - | - | 28,536 |
| Interest | 1,843 | 3,922 | - | 1,180 | 3,439 | - | 5,730 | 215 | 16,329 |
| Proceeds from disposition of property | - | - | - | - | - | - | - | - | - |
| Contributions and donations | - | - | - | - | - | - | - | - | - |
| Water/Sewer administrative fee | - | - | - | - | - | - | - | - | - |
| Oil and gas royalties | 297,865 | - | - | - | - | - | - | - | 297,865 |
| Impact Fees | - | - | - | - | - | - | 305,519 | 4,698 | 310,217 |
| Miscellaneous | - | - | - | - | - | - | - | - | - |
| Total Revenue | 299,708 | 3,922 | 352,963 | 29,716 | 320,300 | 124,875 | 311,249 | 4,913 | 1,447,646 |
| EXPENDITURES: | | | | | | | | | |
| Current operating | | | | | | | | | |
| General government | - | - | - | - | - | - | - | - | - |
| Public safety | - | - | - | 25,182 | - | - | - | - | 25,182 |
| Community development | - | - | - | - | - | - | 2,284 | - | 2,284 |
| Public works | - | - | - | - | - | 67,687 | - | - | 67,687 |
| Cultural and recreational | - | - | - | - | - | - | - | - | - |
| Social and welfare | - | - | - | - | - | - | - | - | - |
| Economic development | 13,596 | - | 11,664 | - | 108,826 | - | - | - | 134,086 |
| Capital Outlay | - | - | - | 28,485 | - | 565,799 | - | - | 594,284 |
| Debt Service | - | - | - | - | - | - | - | - | - |
| Principal | - | - | - | - | - | - | - | - | - |
| Interest | - | - | - | - | - | - | - | - | - |
| Paying agent | - | - | - | - | - | - | - | - | - |
| Total Expenditures | 13,596 | - | 11,664 | 53,667 | 108,826 | 633,486 | 2,284 | - | 823,523 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 286,112 | 3,922 | 341,299 | (23,951) | 211,474 | (508,611) | 308,965 | 4,913 | 624,123 |
| OTHER FINANCING SOURCES: | | | | | | | | | |
| Transfers in | - | - | - | - | - | 450,000 | - | - | 450,000 |
| Transfers out | - | - | - | - | - | - | - | - | - |
| NET CHANGE IN FUND BALANCES | 286,112 | 3,922 | 341,299 | (23,951) | 211,474 | (58,611) | 308,965 | 4,913 | 1,074,123 |
| FUND BALANCE - October 1, 2021 | 575,031 | 557,327 | 181,459 | 225,927 | 671,117 | 748,577 | 540,379 | 25,875 | 3,525,692 |
| FUND BALANCE - September 30, 2022 | \$ 861,143 | \$ 561,249 | \$ 522,758 | \$ 201,976 | \$ 882,591 | \$ 689,966 | \$ 849,344 | \$ 30,788 | \$ 4,599,815 |

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 December 20, 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

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*.

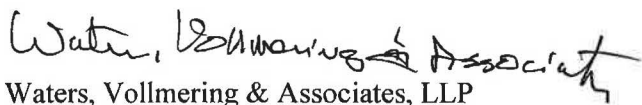
City of Alvarado, TX's Response to Findings

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

December 20, 2023