

**CITY OF ALVARADO, TEXAS**  
**SEPTEMBER 30, 2023**

## 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 - 63	
Required Supplemental Financial Data		
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – General Fund .....	64	
Schedule of Changes in Net Pension Liability and Related Ratios.....	65	
Schedule of Contributions.....	66	
Schedule of Change's in Total OPEB Liability and Related Ratios.....	67	
Schedule of Contributions – OPEB.....	68	
Notes to Required Supplementary Information.....	69	
Supplementary Information		
Combining Balance Sheet – Other Governmental Funds.....	70	
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances.....	71	
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.....		72 - 73



**City of Alvarado**

**104 W. College Alvarado, TX 76009**

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June 7, 2024

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, 2023, 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, 2023, 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, 2023, 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 1878 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 5,650. 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 three-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**

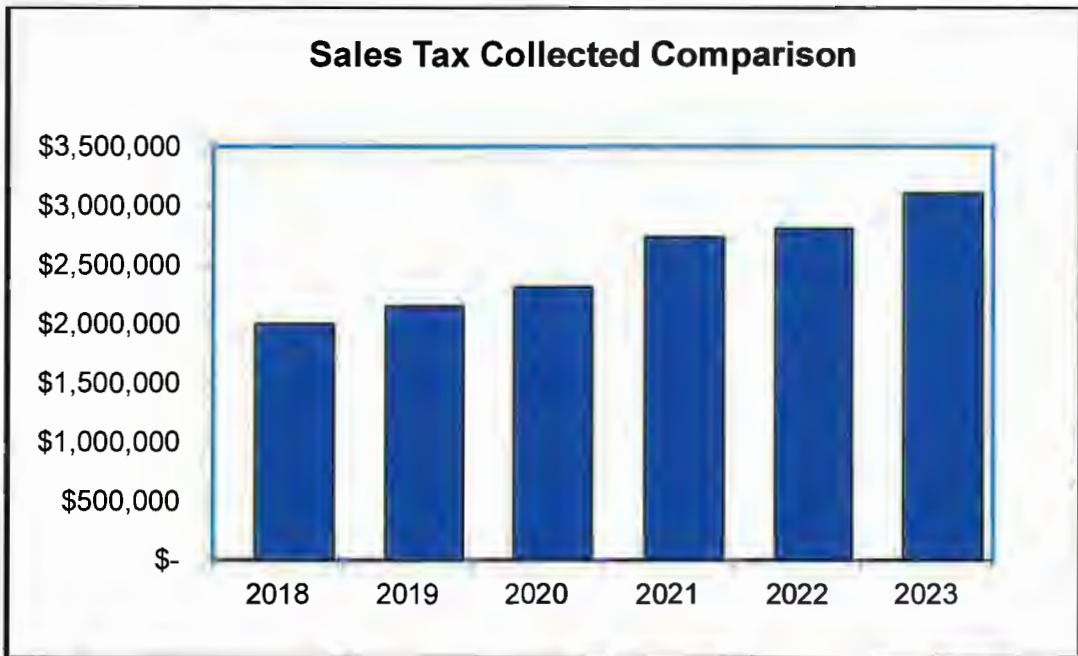
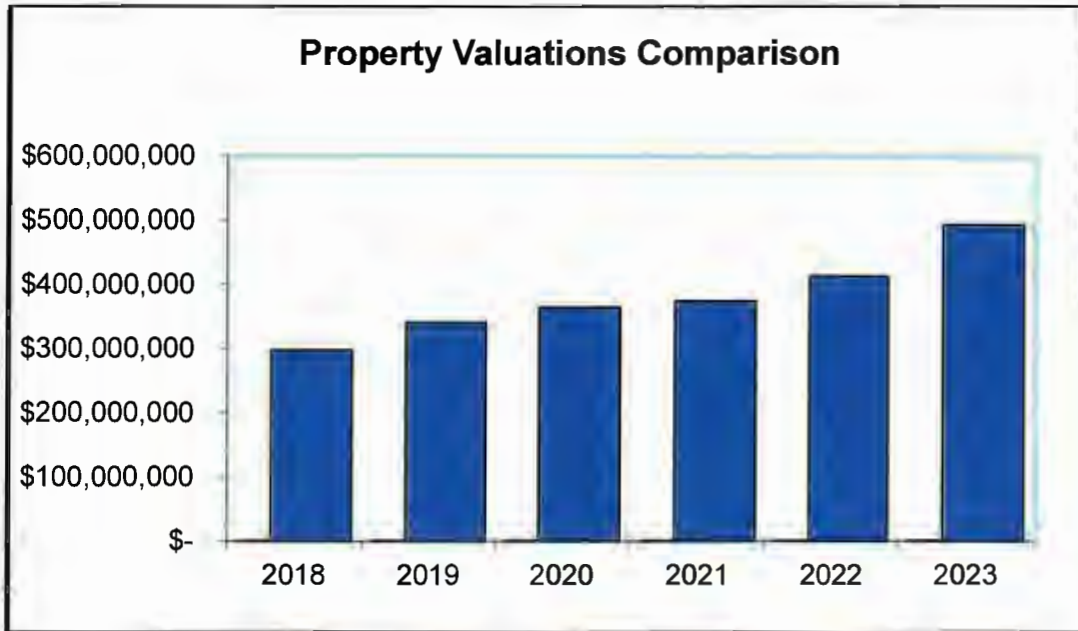
The information presented in the financial statements is perhaps best understood when it is considered from the broader aspect of the specific environment within which the City operates.

## **Local Economy**

Fiscal year 2022-2023 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 \$2,803,233 in 2022 to \$3,107,189 in 2023 for a difference of \$303,956 or 10.84%.

The property tax rate for 2023 remained unchanged from 2022 at a rate of \$0.812696/\$100 valuation.

The charts below are based upon the 2022-2023 budget year as compared to prior years. Property Valuations noted below for the budget period 2022-2023 are based upon the 2022 assessed property valuations as determined by the Central Appraisal District of Johnson County. The chart for Sales Tax Collected also represents the amounts collected during the 2022-2023 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 \$7,464,443. Overall, governmental funds unrestricted reserves total \$8,314,957.

## **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 Chief Financial Officer. 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 Central Appraisal District of Johnson County. 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, 2023**

Mayor

Jacob Wheat

Council Members

Beverly Short

Michael Bennett

Cherry Bryant

Mayor – Pro Tem

Lydia Moon

Scott Arthur

Kevin Thomas

City Manager

Paul DeBuff

City Secretary/HR Director

Beth A. Walls

City Attorney

Ashley Dierker

Chief Financial Officer

Laura E. Cox

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, 2023, 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, 2023, 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 (GAAS) 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

Certified Public Accountants

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 64 and related notes on page 69, the schedule of changes in net pension liability and related ratios on page 65, the schedule of contributions on pages 66, the schedule of changes in total OPEB liability and related ratios on page 67, and the schedule of contributions – OPEB on pages 68 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 GAAS, 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 GAAS. 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 June 7, 2024, on our consideration of the City of Alvarado, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Waters, Vollmering & Associates, LLP  
Mansfield, Texas  
June 7, 2024

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **FISCAL YEAR ENDED SEPTEMBER 30, 2023**

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, 2023. 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 \$35,332,958 (total net position). Of this amount, \$8,639,655 (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 \$3,953,236.
- As of the close of the current fiscal year, the City of Alvarado's governmental funds reported combined ending fund balances of \$16,314,930. Approximately 50.9% or \$8,314,957 is available for spending at the City's discretion (unassigned fund balance).
- Other Governmental Funds has a fund balance of \$8,850,487. This includes:
  - 1) Royalty fund which has a fund balance of \$850,514 (unassigned).
  - 2) The AEDC, Hotel Occupancy Tax, Court, Prairieland Detention Center and Streets Maintenance Funds have a fund balance of \$ 6,123,351 (restricted).
  - 3) Special Project, Grant and Roadway Impact Fee Funds have a fund balance of \$1,876,622 with restricted usage limited to capital improvements.
- The City's total debt increased by \$24,308,078 during the current fiscal year. The governmental funds debt increased by \$4,140,409 and the water and sewer proprietary fund debt increased by \$20,167,669 due to a bond issue.

## 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 12 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 and Debt Service Fund, which are both considered major funds. Data from the other 10 funds (AEDC, Hotel Occupancy Tax, Royalty, Court, Special Project, Street Maintenance, Prairieland Detention Center, Grant 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 \$35,332,958 at the close of the most recent fiscal year. This represents an increase of \$3,953,236 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	
	2022	2023	2022	2023	2022	2023
<b>ASSETS</b>						
Current Assets	\$ 19,836,597	\$ 20,117,283	\$ 7,698,162	\$ 29,974,182	\$ 27,534,759	\$ 50,091,465
Noncurrent Assets	10,659,856	10,571,580	16,605,721	22,968,810	27,265,577	33,540,390
Total Assets	<u>30,496,453</u>	<u>30,688,863</u>	<u>24,303,883</u>	<u>52,942,992</u>	<u>54,800,336</u>	<u>83,631,855</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred pension contributions	121,823	194,162	20,204	25,966	142,027	220,128
Deferred OPEB contributions	92,063	8,169	528	1,092	92,591	9,261
Deferred bond discounts	-	-	15,833	15,000	15,833	15,000
Deferred OPEB assumptions	29,521	24,640	4,896	3,295	34,417	27,935
Deferred pension actuarial losses	-	597,188	14,741	79,864	14,741	677,052
Total Deferred Outflows	<u>243,407</u>	<u>824,159</u>	<u>56,202</u>	<u>125,217</u>	<u>299,609</u>	<u>949,376</u>
<b>LIABILITIES</b>						
Current Liabilities	5,537,110	5,150,569	3,318,983	4,182,357	8,856,093	9,332,926
Long Term Liabilities	7,670,720	12,281,590	6,719,033	27,248,115	14,389,753	39,529,705
Total Liabilities	<u>13,207,830</u>	<u>17,432,159</u>	<u>10,038,016</u>	<u>31,430,472</u>	<u>23,245,846</u>	<u>48,862,631</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred bond premiums	-	-	3,490	3,306	3,490	3,306
Deferred OPEB expense	12,099	56,136	1,147	1,147	13,246	57,283
Deferred pension expense	391,803	281,100	65,838	43,953	457,641	325,053
Total Deferred Inflows	<u>403,902</u>	<u>337,236</u>	<u>70,475</u>	<u>48,406</u>	<u>474,377</u>	<u>385,642</u>
<b>NET POSITION</b>						
Net investment in capital assets	2,144,622	(2,055,611)	9,500,687	(4,303,138)	11,645,309	(6,358,749)
Restricted	6,845,175	7,999,973	(887,071)	25,052,079	5,958,104	33,052,052
Unrestricted	8,138,331	7,799,265	5,637,978	840,390	13,776,309	8,639,655
Total Net Position	<u>\$ 17,128,128</u>	<u>\$ 13,743,627</u>	<u>\$ 14,251,594</u>	<u>\$ 21,589,331</u>	<u>\$ 31,379,722</u>	<u>\$ 35,332,958</u>

An additional portion of the City of Alvarado's net position, \$33,052,052 represents resources that are subject to external restrictions on how they may be used. Unrestricted net assets of \$8,639,655 may be used to meet the government's ongoing obligations to citizens and creditors.

In the current fiscal year, the funding source for the Series 2020 Combination Tax and Revenue Certificates of Obligation was changed from the Water and Sewer Proprietary Fund to the Debt Service Fund and classified as general long-term debt.

**Governmental Activities.** Governmental activities reflect an increase in the City's net position from the previous year by \$1,608,969, from \$12,134,658 to \$ 13,743,627.

**Business-type Activities.** Net position from business-type activities increased by \$2,344,267, from \$19,245,064 to \$ 21,589,331.

The following table provides a summary of the City's operations for the year ended September 30, 2023 with the comparative totals for the year ended September 30, 2022.

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

	Governmental Activities		Business Activities		Total	
	2022	2023	2022	2023	2022	2023
<b>REVENUES:</b>						
Charges for Services	\$ 2,166,918	\$ 2,874,226	\$ 3,313,357	\$ 6,077,982	\$ 5,480,275	\$ 8,952,208
Operating Grants/Contributions	-	-	-	-	-	-
Capital Grants/Contributions	587,216	11,893	-	-	587,216	11,893
General Revenues:	-	-	-	-	-	-
Property Taxes	3,336,025	4,020,976	-	-	3,336,025	4,020,976
Sales Tax	3,121,253	3,450,462	-	-	3,121,253	3,450,462
Franchise Tax	483,215	540,404	-	-	483,215	540,404
Alcoholic beverage taxes	1,159	528	-	-	1,159	528
Unrestricted investment earnings	108,892	698,359	44,467	461,902	153,359	1,160,261
Gain/Loss on Sale of Assets	36,934	-	115,963	-	152,897	-
Other revenue	197,368	307,830	-	-	197,368	307,830
<b>Total Revenue</b>	<b>10,038,980</b>	<b>11,904,678</b>	<b>3,473,787</b>	<b>6,539,884</b>	<b>13,512,767</b>	<b>18,444,562</b>
<b>EXPENSES:</b>						
General government	1,122,228	1,729,732	-	-	1,122,228	1,729,732
Public safety	4,481,862	5,347,108	-	-	4,481,862	5,347,108
Public works	279,754	240,403	-	-	279,754	240,403
Community development	604,110	751,617	-	-	604,110	751,617
Cultural & recreational	421,583	479,652	-	-	421,583	479,652
Social & welfare	103,418	90,291	-	-	103,418	90,291
Economic development	143,218	452,205	-	-	143,218	452,205
Pension expense	77,551	381,771	-	-	77,551	381,771
Interest on long-term debt	848,509	254,440	-	-	848,509	254,440
Water & sewer operations	-	-	4,317,851	4,764,107	4,317,851	4,764,107
Bond issuance costs	-	-	-	-	-	-
<b>Total Expenses</b>	<b>8,082,233</b>	<b>9,727,219</b>	<b>4,317,851</b>	<b>4,764,107</b>	<b>12,400,084</b>	<b>14,491,326</b>
Change in net position before transfers	1,956,747	2,177,459	(844,064)	1,775,777	1,112,683	3,953,236
Transfers	(516,081)	(568,490)	516,081	568,490	-	-
<b>Change in net position</b>	<b>1,440,666</b>	<b>1,608,969</b>	<b>(327,983)</b>	<b>2,344,267</b>	<b>1,112,683</b>	<b>3,953,236</b>
Net position - Beginning	15,687,462	12,134,658	14,579,577	19,245,064	30,267,039	31,379,722
<b>Net position - Ending</b>	<b>\$ 17,128,128</b>	<b>\$ 13,743,627</b>	<b>\$ 14,251,594</b>	<b>\$ 21,589,331</b>	<b>\$ 31,379,722</b>	<b>\$ 35,332,958</b>

## 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 \$16,314,930 which is an increase of \$967,148, in comparison with the prior year. Approximately \$8,314,957 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. \$1,876,622 of the fund balance is committed to specific projects while \$6,123,351 of the balance has restrictions and \$0 is committed for other purposes.

**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 an increase in the total net position of the City's Proprietary Fund of \$2,344,267 from the previous year (\$19,245,064 to \$21,589,331). Unrestricted net position of the City's Proprietary Funds at the end of the year amounted to \$840,390, which represents a decrease of \$4,797,588 from the previous year (\$5,637,978 to \$840,390).

### General Fund Highlights

When compared to the prior year, General Fund revenue for the City increased by \$ 1,131,121 or 15.5%.

Since April 2021, a portion of the local sales tax has been allocated for street maintenance and repair of municipal streets as approved by voters in our city. As of September 2023, the fund balance is \$578,012.

## CAPITAL ASSETS

The City of Alvarado's investment in capital assets for its governmental and business-type activities as of September 30, 2023 amounts to \$33,540,390 (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 laptops for vehicles \$31,598
- The Police Department purchased a shed with gun range revenue to be used for training for \$ 27,144
- The Police Department purchased radios for \$ 17,911
- The Police Department added necessary outfitting equipment to vehicles for \$ 46,040
- The Police Department purchased vests for \$ 6,857
- The Police Department purchased cameras for \$ 20,746
- The Fire Department purchased uniforms for \$ 9,385
- The Fire Department purchased rescue trailer for \$ 9,346
- The Fire Department purchased life pak monitors/defibrillators for \$ 28,091
- The Public Works Department purchased SCADA Upgrade (computer and software) for Wastewater Treatment Plant for \$11,950. The second and final payment of \$6,665 was paid this fiscal year
- The Parks Department purchased a mower for \$ 14,663 and park equipment for \$ 6,953
- Interior renovations at Admin Building located at 107 E College for \$ 116,623. Some of these renovations included asbestos removal and mold abatement.
- Construction in progress for Maple Avenue Sewer Line Project for \$ 5,676,197
- Construction in progress for Wastewater Treatment Plant expansion project for \$ 1,145,305
- Construction in progress for Davis St Sanitary Sewer for \$ 257,316
- Capital Leases for vehicles acquired through Enterprise Fleet Management is \$ 327,985

The following table provides a summary of the City's capital assets for the year ended September 30, 2023 as compared to the summary of capital assets for the year ended September 30, 2022:

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>
Land	357,193	357,193	1,005,509	1,005,509	1,362,702	1,362,702
Buildings & Improvements	2,038,816	2,108,591	8,262	8,059	2,047,078	2,116,650
Infrastructure	6,243,590	5,930,159			6,243,590	5,930,159
Vehicles	529,463	557,089	178,675	126,378	708,138	683,467
Parks Improvements	952,154	870,653			952,154	870,653
Water System			5,272,113	9,306,823	5,272,113	9,306,823
Sewer System			7,785,706	7,409,858	7,785,706	7,409,858
Other Equipment	538,640	591,935	93,661	79,343	632,301	671,278
Construction in Progress		155,960	2,261,795	5,032,840	2,261,795	5,188,800
Total	<u>10,659,856</u>	<u>10,571,580</u>	<u>16,605,721</u>	<u>22,968,810</u>	<u>27,265,577</u>	<u>33,540,390</u>

## DEBT ADMINISTRATION

**Total Debt.** The City of Alvarado's total debt outstanding at the end of the current fiscal year is \$40,179,102. This amount is an increase \$24,308,078 from the previous fiscal year due to a \$ 25,000,000 Combination Tax and Revenue Certificates of Obligation, Series 2023 bond issue for water/sewer improvements

**Long-term Debt.** At the end of the current fiscal year, the City of Alvarado had total long-term debt outstanding of \$38,577,889. Of this amount, \$37,942,909 is comprised of long-term bonds payable. The remainder of the debt, \$634,980, 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 \$1,601,213 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, 2023 as compared to the summary of outstanding debt for the year ended September 30, 2022.

### CITY OF ALVARADO OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-Type Activities		Totals	
	2022	2023	2022	2023	2022	2023
Certificates of Obligation	\$ 7,560,546	\$ 11,723,524	\$ 6,872,925	\$ 27,159,060	\$ 14,433,471	\$ 38,882,584
Capital Leases	600,905	616,913	232,109	112,888	833,014	729,801
Notes Payable	353,802	286,754	-	-	353,802	286,754
Compensated Absences	219,011	247,463	31,745	32,500	250,756	279,963
Total	<u>\$ 8,734,264</u>	<u>\$ 12,874,654</u>	<u>\$ 7,136,779</u>	<u>\$ 27,304,448</u>	<u>\$ 15,871,043</u>	<u>\$ 40,179,102</u>

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The following factors were considered in preparing the City of Alvarado's budget for the 2022-2023 fiscal year:

- The City benefits from its strategic location, which is approximately 20 miles from Fort Worth and 35 miles from Dallas.
- Local inflation decreased in the Dallas-Fort Worth-Arlington area to 4.6% from 9.2% in September 2022
- The City's property tax rate for 2022-2023 is \$0.812696 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 125 Certificates of Occupancy for 2022-2023. This included 101 homes from Parks of Alvarado and 13 homes from Eagle Glen Phase 2 (Bloomfield).
- Summit at Walnut Creek, a 207-unit apartment complex completed 5 of 9 buildings and 129 apartments
- The City of Alvarado Impact Fee program enters its fourth 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, 2023

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 5,229,471	\$ 810,295	\$ 6,039,766
Investments	11,034,309	351,042	11,385,351
Receivables (net)			
Taxes receivable	578,234	-	578,234
Accounts receivable	182,083	1,876,713	2,058,796
Inventory	-	69,521	69,521
Prepaid expenses	15,607	-	15,607
Restricted assets			
Cash	1,293,041	6,803	1,299,844
Deposits	25	192,458	192,483
Investments	1,784,513	26,667,350	28,451,863
Total current assets	<u>20,117,283</u>	<u>29,974,182</u>	<u>50,091,465</u>
Noncurrent assets:			
Capital assets, net	<u>10,571,580</u>	<u>22,968,810</u>	<u>33,540,390</u>
Total noncurrent assets	<u>10,571,580</u>	<u>22,968,810</u>	<u>33,540,390</u>
Total assets	<u>30,688,863</u>	<u>52,942,992</u>	<u>83,631,855</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension contributions	194,162	25,966	220,128
Deferred OPEB contributions	8,169	1,092	9,261
Deferred bond discounts	-	15,000	15,000
Deferred OPEB assumptions	24,640	3,295	27,935
Deferred pension actuarial losses	597,188	79,864	677,052
	<u>824,159</u>	<u>125,217</u>	<u>949,376</u>
LIABILITIES			
Current liabilities:			
Accounts payable	3,678,678	2,996,221	6,674,899
Accounts payable - retainage		317,550	317,550
Accrued liabilities	488,046	81,143	569,189
Due to other funds	(364,371)	364,371	-
Deposits	-	265,750	265,750
Current portion			
Revenue bonds payable	784,000	60,000	844,000
Notes payable	68,853	-	68,853
Capital leases	247,900	64,822	312,722
Compensated absences	247,463	32,500	279,963
Total current liabilities	<u>5,150,569</u>	<u>4,182,357</u>	<u>9,332,926</u>
Noncurrent liabilities:			
Revenue bonds payable	10,939,524	27,099,060	38,038,584
Notes payable	217,901	-	217,901
Capital leases	369,013	48,066	417,079
Net OPEB liability	83,504	11,167	94,671
Net pension liability	671,648	89,822	761,470
Total noncurrent liabilities	<u>12,281,590</u>	<u>27,248,115</u>	<u>39,529,705</u>
Total liabilities	<u>17,432,159</u>	<u>31,430,472</u>	<u>48,862,631</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred bond premiums	-	3,306	3,306
Deferred OPEB expense	56,136	1,147	57,283
Deferred pension expense	281,100	43,953	325,053
	<u>337,236</u>	<u>48,406</u>	<u>385,642</u>
NET POSITION			
Invested in capital assets, net of related debt	(2,055,611)	(4,303,138)	(6,358,749)
Restricted			
Public Safety	6,123,351	-	6,123,351
Capital improvements	1,876,622	25,052,079	26,928,701
Unrestricted	7,799,265	840,390	8,639,655
Total net position	<u>\$ 13,743,627</u>	<u>\$ 21,589,331</u>	<u>\$ 35,332,958</u>

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended September 30, 2023

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
<b>Governmental activities:</b>						
General government:						
General government	\$ 1,729,732	\$ 846,686	\$ -	\$ -	\$ (883,046)	\$ (883,046)
Public safety	5,347,108	361,816	-	-	(4,985,292)	(4,985,292)
Public works	240,403	-	-	-	(240,403)	(240,403)
Cultural and recreational	479,652	-	-	-	(479,652)	(479,652)
Economic development	452,205	483,432	-	-	31,227	31,227
Community development	751,617	1,143,847	-	11,893	404,123	404,123
Social and welfare	90,291	38,445	-	-	(51,846)	(51,846)
Pension expense	381,771	-	-	-	(381,771)	(381,771)
Interest on long-term debt	254,440	-	-	-	(254,440)	(254,440)
Total governmental activities	<u>\$9,727,219</u>	<u>\$ 2,874,226</u>	<u>-</u>	<u>11,893</u>	<u>(\$6,841,100)</u>	<u>(\$6,841,100)</u>
<b>Business-type activities:</b>						
Water and sewer	<u>\$ 4,764,107</u>	<u>\$ 6,077,982</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,313,875</u>	<u>\$1,313,875</u>
<b>General revenues:</b>						
Taxes:						
General property taxes					4,020,976	4,020,976
Sales tax					3,450,462	3,450,462
Franchise tax					540,932	540,932
Interest income					698,359	698,359
Gain (Loss) on sale of capital assets					-	-
Administrative fee					90,000	90,000
Miscellaneous					217,830	217,830
Transfers					(568,490)	(568,490)
Total general revenues and proceeds					<u>8,450,069</u>	<u>8,450,069</u>
Change in net position					<u>1,608,969</u>	<u>1,608,969</u>
Net position-beginning of period (as restated, Note P)					<u>12,134,658</u>	<u>12,134,658</u>
Net position-ending					<u>\$ 13,743,627</u>	<u>\$ 13,743,627</u>
					<u>\$ 21,589,331</u>	<u>\$ 21,589,331</u>
					<u>\$ 35,332,958</u>	<u>\$ 35,332,958</u>

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
September 30, 2023

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Equity in pooled cash and cash equivalents	\$ 1,645	\$ -	\$ 5,227,826	\$ 5,229,471
Investments	9,155,055	-	1,879,254	11,034,309
Receivables, net			-	-
Accounts	46,438	-	135,645	182,083
Property taxes	100,520	28,782	-	129,302
Sales taxes	408,834	-	169,400	578,234
Fines receivable	103,924	-	-	103,924
Due from other funds	364,371	-	-	364,371
Prepaid expenses	15,907	(300)	-	15,607
Restricted			-	-
Cash	-	-	1,293,041	1,293,041
Intergovernmental Receivable	25	-	-	25
Investments	1,225,732	382,019	176,762	1,784,513
Total assets	\$ 11,422,451	\$ 410,501	\$ 8,881,928	\$ 20,714,880
<b>LIABILITIES</b>				
Accounts payable	2,306,059	\$ 1,341,433	\$ 31,186	\$ 3,678,678
Accrued liabilities	487,791	-	255	488,046
Total liabilities	2,793,850	1,341,433	31,441	4,166,724
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of property tax revenue	204,444	28,782	-	233,226
Total liabilities and deferred inflows of resources	2,998,294	1,370,215	31,441	4,399,950
<b>FUND BALANCES</b>				
Fund balances:				
Nonspendable	-	-	-	-
Restricted	959,714	(959,714)	6,123,351	6,123,351
Capital improvement	-	-	1,876,622	1,876,622
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	7,464,443	-	850,514	8,314,957
Total fund balances	8,424,157	(959,714)	8,850,487	\$ 16,314,930
Total liabilities, deferred inflows and fund balance:	\$ 11,422,451	\$ 410,501	\$ 8,881,928	

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)	10,571,580
Other long-term assets and liabilities are not available to pay for current-period expenditures, and therefore, are deferred in the funds	486,923
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)	(13,382,343)
Compensated absences are not due and payable in the current period and therefore are not reported in the funds	(247,463)
Net position of governmental activities	\$ 13,743,627

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, 2023

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUE:</b>				
General property taxes, interest and penalties	\$ 3,121,170	\$ 899,806	\$ -	\$ 4,020,976
Sales tax	2,329,458	-	777,732	3,107,190
Hotel tax	-	-	342,744	342,744
Fines and forfeitures	361,816	-	-	361,816
Franchise tax	540,932	-	-	540,932
Mixed beverage tax	528	-	-	528
Rental fees	38,445	-	-	38,445
Intergovernmental	528,469	-	615,378	1,143,847
Licenses, fees and permits	810,337	-	36,349	846,686
Interest	506,516	31,412	160,431	698,359
Proceeds from disposition of property	-	-	-	-
Grant Revenue	-	-	9,600	9,600
Contributions and donations	2,612	-	9,281	11,893
Water/Sewer administrative fee	90,000	-	-	90,000
Oil and gas royalties	-	-	115,304	115,304
Impact Fees	-	-	368,128	368,128
Miscellaneous	76,402	-	27,614	104,016
<b>Total Revenue</b>	<b>8,406,685</b>	<b>931,218</b>	<b>2,462,561</b>	<b>11,800,464</b>
<b>EXPENDITURES:</b>				
<b>Current operating</b>				
General government	1,677,465	-	-	1,677,465
Public safety	5,011,281	-	28,898	5,040,179
Community development	355,269	-	46,049	401,318
Public works	146,850	-	39,935	186,785
Cultural and recreational	477,428	-	-	477,428
Social and welfare	70,194	-	-	70,194
Economic development	-	-	443,309	443,309
Capital Outlay	308,213	-	32,994	341,207
<b>Debt Service</b>				
Principal	-	1,215,217	-	1,215,217
Interest	-	254,440	-	254,440
Paying agent	-	1,325	-	1,325
<b>Total Expenditures</b>	<b>8,046,700</b>	<b>1,470,982</b>	<b>591,185</b>	<b>10,108,867</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	359,985	(539,764)	1,871,376	1,691,597
<b>OTHER FINANCING SOURCES:</b>				
Transfers in	5,000	333,757	-	338,757
Transfers out	(267,074)	(68,925)	(727,207)	(1,063,206)
<b>NET CHANGE IN FUND BALANCES</b>	<b>97,911</b>	<b>(274,932)</b>	<b>1,144,169</b>	<b>967,148</b>
FUND BALANCE - October 1, 2022 (as restated Note P)	8,326,246	(684,782)	7,706,318	15,347,782
<b>FUND BALANCE - September 30, 2023</b>	<b>\$ 8,424,157</b>	<b>\$ (959,714)</b>	<b>\$ 8,850,487</b>	<b>\$ 16,314,930</b>

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS  
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2023

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

Net change in fund balances - total governmental funds	\$	967,148
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		772,543
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.		(860,819)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and interfund transfers) is to increase net position.		96,030
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.		1,156,907
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.		(275,377)
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>(247,463)</u>
Changes in net position of governmental activities	\$	<u><u>1,608,969</u></u>

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS  
STATEMENT OF NET POSITION  
WATER AND SEWER PROPRIETARY FUND  
September 30, 2023

ASSETS

Current assets:	
Equity in pooled cash and cash equivalents	\$ 810,295
Investments	351,042
Accounts receivable (net of allowance for uncollectible amounts)	1,876,713
Other receivables	
Inventory	69,521
Restricted assets	
Cash	6,803
Deposits	192,458
Investments	26,667,350
Total current assets	29,974,182
Noncurrent assets:	
Capital assets, net	22,968,810
Total noncurrent assets	22,968,810
Total assets	52,942,992

DEFERRED OUTFLOW OF RESOURCES

Deferred bond discounts	15,000
Deferred OPEB assumptions	3,295
Deferred pension contributions	25,966
Deferred OPEB contributions	1,092
Deferred pension actuarial losses	79,864
	125,217

LIABILITIES

Current liabilities:	
Accounts payable	2,996,221
Accounts payable - retainage	317,550
Accrued liabilities	81,143
Due to other funds	364,371
Deposits	265,750
Current portion	
Revenue bonds payable	60,000
Capital leases	64,822
Compensated absences	32,500
Total current liabilities	4,182,357
Noncurrent liabilities:	
Revenue bonds payable	27,099,060
Capital leases	48,066
Net OPEB liability	11,167
Net pension liability	89,822
Total noncurrent liabilities	27,248,115
Total liabilities	31,430,472

DEFERRED INFLOW OF RESOURCES

Deferred bond premiums	3,306
Deferred pension expense	45,100
	48,406

NET POSITION

Invested in capital assets, net of related debt	(4,303,138)
Restricted for:	
Capital Improvements	25,052,079
Unrestricted	840,390
Total net position	\$ 21,589,331

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, 2023

OPERATING REVENUES:	
Water service	\$ 1,994,413
Sewer service	1,464,846
Garbage service	240,033
Late charges	82,963
Impact Fees	655,632
Miscellaneous income	1,640,095
Total operating revenues	6,077,982
OPERATING EXPENSES:	
Personnel services	781,875
Contractual services	2,003,353
Supplies and maintenance	614,004
Administrative fees	90,000
Other fees	111,997
Depreciation	722,395
Total operating expenses	4,323,624
Operating income (loss)	1,754,358
NON-OPERATING REVENUES (EXPENSES)	
Interest income	461,902
Accretion of bond premiums/discounts	9,059
Bond costs	(369,459)
Interest expense	(80,083)
Net non-operating revenues (expenses)	21,419
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	1,775,777
Operating transfers in	7,713,991
Operating transfers out	(7,145,501)
Net transfers	568,490
CHANGE IN NET POSITION	2,344,267
NET POSITION, October 1, 2022 (as restated, Note P )	19,245,064
NET POSITION, September 30, 2023	\$ 21,589,331

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, 2023

CASH FLOWS FORM OPERATING ACTIVITIES:

Cash received from:		
Customers	\$	4,634,236
Cash paid to/for:		
Employees		(734,902)
Suppliers		(2,114,208)
Net cash flows provided by operating activities		1,785,126

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating transfers out	\$ (7,145,501)	
Operating transfers in	7,713,991	
Net cash flows provided by noncapital financing activities		568,490

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquistion and construction of capital assets	(7,085,483)	
Principal paid on bonds, notes and lease obligations	(174,221)	
Interest paid on bonds, notes and lease obligations	(80,053)	
Net cash flows used in capital and related financing activities		(7,339,757)

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds received from certificate of obligations	25,353,443	
Amount received from interest income	461,902	
Net cash flows provided by investing activities		25,815,345

Net increase in cash and cash equivalents 20,829,204

Cash and cash equivalents, October 1, 2022 7,198,744

Cash and cash equivalents, September 30, 2023 \$ 28,027,948

RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating income (loss)		\$ 1,754,358
Adjustments for transactions not requiring cash		
Depreciation	\$ 722,395	
Gain on disposal of assets	-	
Miscellaneous (income) expense	(121,834)	
Accretion of bond premiums	9,059	
Pension	51,056	
Change in current assets and current liabilities		
(Increase) decrease in accounts receivable	(1,446,816)	
(Increase) decrease in deferred outflows	(69,015)	
Increase (decrease) in accounts payable	817,921	
Increase (decrease) in accrued liabilities	(17,268)	
Increase (decrease) in customer deposits	3,070	
Increase (decrease) in net pension liability	103,514	
Increase (decrease) in deferred inflows	(22,069)	
Increase (decrease) in compensated absences payable	755	
Total adjustments and changes		30,768
Net cash provided by operating activities		\$ 1,785,126

See accompanying notes and independent auditor's report

**CITY OF ALVARADO, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2023**

**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, 2023. 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.

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 2023, 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, 2023.

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, 2023 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
Subscription Based Information	
Technology Arrangements	2-7 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 2023.

## Leases

Leases are defined by the general government as the right to use an underlying asset. As lessee, the City recognizes lease liability and an intangible right-to-use lease asset (lease asset) at the beginning of a lease unless the lease is considered a short-term lease or transfers ownership of the underlying asset. Lease assets are measured based on the net present value of the future lease payments at inception using multiple, publicly available data points from across the municipal bond market and the City's bond ratings to generate a consensus view of municipal bond yields and spreads on a quarterly basis, which approximate the incremental borrowing rate. Remeasurement of a lease liability occurs when there is a change in the lease term and/or other changes that are likely to have significant impact on the lease liability.

The City calculates the amortization of the discount on the lease liability and reports that amount as outflows of resources. Payments are allocated first to accrued interest liability and then to the lease liability. Variable lease payments based on the usage of the underlying assets are not included in the lease liability calculation but are recognized as outflows of resources in the period in which the obligation was incurred.

As lessor, the City recognizes a lease receivable. The lease receivable is measured using the net present value of future lease payments to be received for the lease term and deferred inflows of resources at the beginning of the lease term. Periodic amortization of the discount on the receivable are reported as interest revenue for that period. Deferred inflows of resources are recognized as inflows on a straight-line basis over the term of the lease. This recognition does not apply to short-term leases, contracts that transfer ownership, leases of assets that are investments, or certain regulated leases. Any initial direct costs are reported as an outflow of

resources for that period. Re-measurement of the lease receivables occur when there are modifications, including but not limited to changes in the contract price, lease term, and adding or removing an underlying asset to the lease agreements. In the case of a partial or full lease termination, the carrying value of the lease receivable and the related deferred inflow of resources will be reduced and will include a gain or loss for the difference.

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.

**Subscription-Based Information Technology Arrangement (SBITA):**

Subscription-Based Information Technology Arrangement (SBITA) are defined by the general government as the right to use an underlying asset. The City recognizes a subscription liability and an intangible right-to-use subscription asset (subscription asset) at the beginning of a subscription unless the subscription is considered a short-term subscription or transfers ownership of the underlying asset. Subscription assets are measured based on the net present value of the future subscription payments at inception using multiple, publicly available data points from across the municipal bond market and the City's bond rating to generate a consensus view of municipal bond yields and spreads on a quarterly basis, which approximate the incremental borrowing rate. Remeasurement of a subscription liability occurs when there is a change in the subscription term and/or other changes that are likely to have a significant impact on the subscription liability.

The City calculates the amortization of the discount on the subscription liability and reports that amount as outflows of resources. Payments are allocated first to accrued interest liability and then to the subscription liability. Variable subscription payments based on the usage of the underlying assets are not included in the subscription liability calculation but are recognized as outflows of resources in the period in which the obligation was 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, 2023, the liability for accrued vacation and compensatory time, calculated in accordance with GASB Statements 16, “Accounting for Compensated Absences,” was \$247,463 in the general fund. The amount applicable to the proprietary fund was \$32,500 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, 2023, the City chose to allocate a portion of the administrative services to the Water and Sewer Fund which totaled \$90,000.

### **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, for the Texas Municipal Retirement System Death Benefit Fund (SDBF) is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with GASB Statement No.75. For this purpose, the post-employment benefits liabilities that pertain to the governmental activities will be liquidated mainly by the General Fund with the rest being liquidated by the Water/Sewer Fund.

### **Long-term Obligations**

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

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

### **Restricted Assets**

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

### **Use of Estimates**

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

### **Fund Balance Classification**

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

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

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

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

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

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

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

### **Net Position**

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

Net investment in capital assets – Consists of capital assets including restricted capital assets, leased assets, and subscription 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.”

### **Adoption of New Accounting Standards:**

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. The adoption of GASB 91 had no impact on the City.

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. The adoption of GASB 94 had no impact on the City.

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. The adoption of GASB 96 had no effect on beginning net position/fund balance.

### **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. 99, *Óminibus 2022*. This Statement establishes that the (1) requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of

nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance; (2) requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter; (3) requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

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.

GASB Statement No. 102, *Certain Risk Disclosures* – While governments currently disclose certain financial risks, other risks are not required to be disclosed per current standards. The objective of this statement is to provide clear guidance for disclosure of risks related to concentrations and constraints. The standard is effective for fiscal years beginning after June 15, 2024.

## **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 \$13,382,343 difference are as follows:

Bonds payable	\$10,779,000
Premium on issuance of bonds	944,524
Capital lease payable	616,913
Notes payable	286,754
Net OPEB liability	83,505
Net pension liability	<u>671,647</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$13,382,343</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 \$10,571,580 difference are as follows:

Capital outlay	\$ 19,678,650
Depreciation expense	<u>(9,107,070)</u>
Net adjustment to decrease net changes in fund balance – total governmental funds to arrive at changes in net position of government activities	<u>\$ 10,571,580</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, 2023. At year-end, the carrying amount of the City's deposits was \$301,460, with respective bank balances of \$499,169. Included in the bank balances are Certificates of Deposit totaling \$192,483.

### 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, 2023 are:

<u>Investments:</u>	<u>Fair Value</u>	<u>Effective Duration</u>	<u>Credit Risk</u>
Government Pools			
Unrestricted	\$11,385,351	N/A	AAAM
Restricted	28,451,863	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, 2023, consisted of the following:

	General	Debt Service	Other	Total	Proprietary Fund Water & Sewer Fund
Taxes Receivable					
Ad valorem taxes	\$114,468	\$32,775	-	\$147,243	-
Allowance for uncollectible acct	(13,948)	(3,993)	-	(17,941)	-
Ad valorem, net	100,520	28,782	-	129,302	-
Sales taxes	408,834	-	\$169,400	578,234	-
Total Taxes Receivable	509,354	28,782	169,400	707,536	
Services Receivable					
Service accounts	46,438	-	135,645	182,083	\$484,639
Allowance for uncollectible accts	-	-	-	-	(7,412)
Total Services Receivable	46,438	-	135,645	182,083	477,227
Other Receivables					1,399,486
Court fees & other	421,477	-		421,477	
Allowance for uncollectible accts	(317,553)	-	-	(317,553)	
	103,924	-	-	103,924	
Total Receivables	\$659,716	\$28,782	\$305,045	\$993,543	\$1,876,713

## NOTE E – CHANGES IN CAPITAL ASSETS

### Primary Government

Capital asset activity for the year ended September 30, 2023 is as follows:

	Balance 9/30/22	Additions	Retirements	Transfers	Balance 9/30/23
Land	\$357,193	\$-0-	\$(-0-)	\$(-0-)	\$357,193
Construction in progress	-0-	155,960	(-0-)	(-0-)	155,960
Building & improvements	3,014,951	143,767	(-0-)	(-0-)	3,158,718
Infrastructure	9,032,950	-0-	(-0-)	(-0-)	9,032,950
Right to use assets	2,753,798	275,377	(-0-)	(-0-)	3,029,175
Parks improvements	1,549,093	-0-	(-0-)	(-0-)	1,549,093
Equipment	2,198,122	197,439	(-0-)	(-0-)	2,395,561
Total capital assets	<u>18,906,107</u>	<u>772,543</u>	<u>(-0-)</u>	<u>(-0-)</u>	<u>19,678,650</u>
Less accumulated depreciation:					
Building & improvements	976,135	73,992	(-0-)	(-0-)	1,050,127
Infrastructure	2,789,360	313,431	(-0-)	(-0-)	3,102,791
Right to use assets	2,224,335	247,751	(-0-)	(-0-)	2,472,086
Parks improvements	596,939	81,501	(-0-)	(-0-)	678,440
Equipment	1,659,482	144,144	(-0-)	(-0-)	1,803,626
Total accumulated depreciation	<u>8,246,251</u>	<u>860,819</u>	<u>(-0-)</u>	<u>(-0-)</u>	<u>9,107,070</u>
Governmental activities capital assets, net	<u>\$10,659,856</u>	<u>\$(88,276)</u>	<u>\$(-0-)</u>	<u>\$(-0-)</u>	<u>\$10,571,580</u>

### Business-Type Activities

Capital asset activity for the year ended September 30, 2023 is as follows:

	Balance 9/30/22	Additions	Retirements	Transfers	Balance 9/30/23
Land	\$ 1,005,509	\$ -0-	\$ (-0-)	\$ -0-	\$1,005,509
Construction in Progress	2,261,797	3,613,264	(842,221)	-0-	5,032,840
Building & Improvements	10,033	-0-	(-0-)	-0-	10,033
Water System	11,105,915	4,307,775	(-0-)	-0-	15,413,690
Sewer System	12,704,027	-0-	(-0-)	-0-	12,704,027
Equipment	533,229	6,665	(-0-)	-0-	539,894
Right to use assets	337,599	-0-	(-0-)	-0-	337,599
Total capital assets	<u>27,958,109</u>	<u>7,927,704</u>	<u>(842,221)</u>	<u>-0-</u>	<u>35,043,592</u>
Less accumulated depreciation:					
Building & Improvements	1,773	201	(-0-)	-0-	1,974
Water System	5,868,897	237,970	(-0-)	-0-	6,106,867
Sewer System	4,891,485	402,684	(-0-)	-0-	5,294,169
Equipment	431,311	29,240	(-0-)	-0-	460,551
Right to use assets	158,921	52,300	(-0-)	-0-	211,221
Total accumulated depreciation	<u>11,352,387</u>	<u>722,395</u>	<u>(-0-)</u>	<u>-0-</u>	<u>12,074,782</u>
Business-type activities capital assets, net	<u>\$16,605,722</u>	<u>\$7,205,309</u>	<u>\$(842,216)</u>	<u>\$-0-</u>	<u>\$22,968,810</u>

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

Governmental activities:	
General government	\$ 56,642
Public safety	332,621
Public works	58,105
Cultural and recreational	2,410
Community development	379,621
Social and welfare	21,779
Economic	9,641
Total depreciation expense – governmental activities	<u>\$860,819</u>
Business-type activities:	
Water and sewer	<u>\$722,395</u>

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

For the year ended September 30, 2023, revenues exceeded expenditures in the General Fund by \$359,985.

**NOTE G – INTERFUND BALANCES AND TRANSFERS – GOVERNMENT WIDE**

The composition of interfund operating transfers for the year ended September 30, 2023, is as follows:

Fund	Transfer to Other Funds	Transfer from Other Funds
General Fund	\$267,074	\$ 5,000
Debt Service Fund	68,925	333,757
Nonmajor Governmental Funds	727,207	-0-
Fixed Asset Fund	-0-	155,959
Water and Sewer Fund	7,145,501	7,713,991
	<u>\$8,208,707</u>	<u>\$8,208,707</u>

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

**NOTE H - LONG TERM DEBT**

1. Governmental activities –

Combination Tax and Revenue Certificate of Obligation:

Combination tax and revenue certificate of obligation are serial debt collateralized by the full faith and credit of the City and are payable from property tax and sales tax revenue. The debt matures annually in varying amounts through 2040, 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, 2023, 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%	\$2,340,000
Add: Premium on General Obligation Refunding Bonds, Series 2015	72,432
\$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%.	914,000
\$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%.	\$4,310,000
Add: Net premium on combination tax and revenues certificate of obligation	456,977
\$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%	3,215,000
Add: Premium on General Obligation Refunding Bonds, Series 2020	415,115
Total Certificate of obligations	<u>\$11,723,524</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
2024	\$ 784,000	\$66,490	\$ 343,097	\$1,193,587
2025	808,000	66,490	323,527	1,198,017
2026	827,000	66,490	303,228	1,196,718
2027	615,000	66,490	282,500	963,990
2028	625,000	66,490	264,100	955,590
2029 – 2033	3,455,000	301,407	988,000	4,744,407
2034 – 2038	3,045,000	310,667	366,425	3,722,092
2039 – 2040	620,000	-0-	28,050	648,050
Total	<u>\$10,779,000</u>	<u>\$944,524</u>	<u>\$2,898,927</u>	<u>\$14,622,451</u>

Notes Payable:

Notes Payable debt outstanding at September 30, 2023, 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%	\$286,754
Total	<u>\$286,754</u>

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

Year Ending September 30	Principal	Interest	Total
2024	\$ 68,853	\$ 7,718	\$ 76,571
2025	70,707	5,865	76,572
2026	72,610	3,962	76,572
2027	74,584	2,007	76,591
Total	<u>\$286,754</u>	<u>\$19,552</u>	<u>\$306,306</u>

Leases Payable:

Leases payable debt outstanding at September 30, 2023, 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.	\$4,473
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.	18,204
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.	15,890

<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# 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.	12,436
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.	12,703
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.	10,450
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.	13,297
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.	15,591
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.	18,198
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.	23,670
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.	23,670

<u>Description of Lease Debt</u>	<u>Amount</u>
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.	24,485
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.	6,680
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	29,550
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.	25,371
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.	29,905
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.	12,833
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.	22,859

<u>Description of Lease Debt</u>	<u>Amount</u>
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	22,881
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.	11,117
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.	5,126
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.	10,241
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	23,949
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.	7,235
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%.	1,855

<u>Description of Lease Debt</u>	<u>Amount</u>
On 01/23/2023, Alvarado, TX entered into a 60 month lease as Lessee for the use of Vehicle - Unit# 25R5BF. An initial lease liability was recorded in the amount of \$49,296. As of 09/30/2024, the value of the lease liability is \$33,429. Alvarado, TX is required to make monthly fixed payments of \$875. The lease has an interest rate of 2.6820%.	42,828
On 02/10/2023, Alvarado, TX entered into a 24 month lease as Lessee for the use of Vehicle - Unit# 263LWH. An initial lease liability was recorded in the amount of \$18,156. As of 09/30/2024, the value of the lease liability is \$3,912. Alvarado, TX is required to make monthly fixed payments of \$831. The lease has an interest rate of 2.7070%.	13,122
On 02/20/2023, Alvarado, TX entered into a 60 month lease as Lessee for the use of Vehicle - Unit# 268VKH. An initial lease liability was recorded in the amount of \$59,183. As of 09/30/2024, the value of the lease liability is \$41,062. Alvarado, TX is required to make monthly fixed payments of \$1,050. The lease has an interest rate of 2.6820%.	52,325
On 02/22/2023, Alvarado, TX entered into a 60 month lease as Lessee for the use of Vehicle - Unit# 23ZN42. An initial lease liability was recorded in the amount of \$48,766. As of 09/30/2024, the value of the lease liability is \$33,884. Alvarado, TX is required to make monthly fixed payments of \$867. The lease has an interest rate of 2.6820%.	43,167
On 06/12/2023, Alvarado, TX entered into a 60 month lease as Lessee for the use of Vehicle - Unit# 26NC3C. An initial lease liability was recorded in the amount of \$66,708. As of 09/30/2024, the value of the lease liability is \$50,146. Alvarado, TX is required to make monthly fixed payments of \$1,170. The lease has an interest rate of 2.3100%.	62,802
Total	\$616,913

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

Year Ending September 30	Principal	Interest	Total
2024	\$ 247,900	\$14,988	\$ 262,888
2025	188,687	10,730	199,417
2026	97,533	6,920	104,453
2027	59,413	3,370	62,783
2028	23,380	184	23,564
Total	\$616,913	\$36,192	\$653,105

Changes in government activities long-term liabilities:

The following is a summary of transactions affecting long-term liabilities for the year ended September 30, 2023:

	Amounts payable at beginning of year	Amounts added during year 2023	Amounts retired during fiscal year 2023	Amount transferred from proprietary fund 2023	Amounts payable at end of year	Amounts due within one year
Certificates of obligation	\$7,033,000	\$ -0-	\$(764,000)	\$4,510,000	\$10,779,000	\$784,000
Bond premiums	527,546	-0-	(66,490)	483,468	944,524	66,490
Subtotal bonds payable	7,560,546	-0-	(830,490)	4,993,468	11,723,524	850,490
Notes payable	353,802	-0-	(67,048)		286,754	68,853
Leases payable	600,905	275,377	(259,369)		616,913	247,900
Compensated absences	219,011	28,452	(-0-)		247,463	247,463
OPEB liability	120,008	-0-	(36,503)		83,505	-0-
Net pension liability	(135,238)	806,886	(-0-)		671,648	-0-
Total long-term liabilities	\$8,719,034	\$1,110,715	\$(1,193,410)	\$4,993,468	\$13,629,807	\$1,414,706

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, 2023, 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%.	\$1,640,000
Add: Net premiums and discounts on certificates of obligations	174,748
\$24,760,000 Combination Tax and Revenue Certificates of Obligation, Series 2023 for water/sewer improvements due in annual installments ranging from \$415,000 to \$1,450,000 beginning September 2025 through 2053, interest payments ranging from \$61,625 to \$1,186,771 from September 2024 through 2053 with interest rate ranging from 4% to 5%.	\$24,760,000
Add: Net premium on combination tax and revenues certificate of obligation	584,312
Total	<u>\$27,159,060</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
2024	\$ 60,000	\$ 29,185	\$ 1,253,496	\$ 1,342,681
2025	475,000	29,185	1,159,806	1,663,991
2026	500,000	29,185	1,136,656	1,665,841
2027	525,000	29,185	1,112,306	1,666,491
2028	550,000	29,185	1,086,706	1,665,891
2029 – 2033	3,190,000	145,927	5,003,180	8,339,107
2034 – 2038	4,045,000	145,927	4,145,480	8,336,407
2039 – 2043	4,915,000	126,510	3,144,130	8,185,640
2044 – 2048	5,455,000	97,385	2,113,769	7,666,154
2049 - 2053	6,685,000	97,386	875,714	7,658,100
Total	<u>\$26,400,000</u>	<u>759,060</u>	<u>\$21,031,243</u>	<u>\$48,190,303</u>

Leases Payable:

Lease debt outstanding at September 30, 2023, is comprised of the following:

<u>Description of Lease Debt</u>	<u>Amount</u>
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.	\$ 14,519
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.	14,529
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.	22,677
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.	15,133
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.	14,806
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.	21,785
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.	5,110

<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 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%.	4,329
Total	<u>\$112,888</u>

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

Year Ending September 30	Principal	Interest	Total
2024	\$ 64,822	\$5,630	\$ 70,452
2025	33,011	2,150	35,161
2026	15,055	83	15,138
Total	<u>\$112,888</u>	<u>\$7,863</u>	<u>\$120,751</u>

Changes in business-type activities long-term liabilities:

The following is a summary of transactions affecting long-term liabilities for the year ended September 30, 2023:

	Amounts payable at beginning of year	Amounts added during year 2023	Amounts retired during fiscal year 2023	Amounts Transferred to General Fund 2023	Amounts payable at end of year	Amounts due within one year
Certificates of obligation	\$6,205,000	\$ 24,760,000	\$(55,000)	\$(4,510,000)	\$26,400,000	\$60,000
Bond premiums	667,925	584,312	(9,059)	(484,118)	759,060	29,185
Subtotal bonds payable	<u>6,872,925</u>	<u>25,344,312</u>	<u>(64,059)</u>	<u>(4,994,118)</u>	<u>27,159,060</u>	<u>89,185</u>
Leases payable	232,109	-0-	(119,221)	-0-	112,888	64,822
Compensated absences	31,745	755	(-0-)	-0-	32,500	32,500
OPEB liabilities	19,903	-0-	(8,736)	-0-	11,167	-0-
Net pension liabilities	(22,428)	112,250	(-0-)	-0-	89,822	-0-
Total long-term liabilities	<u>\$7,134,254</u>	<u>\$25,457,317</u>	<u>\$(192,016)</u>	<u>\$(4,994,118)</u>	<u>\$27,405,437</u>	<u>\$186,507</u>

**NOTE I – RESTRICTED ASSETS**

Restricted assets balance at September 30, 2023, was as follows:

Fund	Cash & Deposits	Investments	Intergovernmental Receivable
Government Activities:			
General Fund	\$ -0-	\$ 1,225,732	\$ 25
Court	-0-	176,762	-0-
Debt Service Fund	-0-	382,019	-0-
Prairieland Detention Fund	-0-	-0-	-0-
Impact Fees Funds	1,293,041	-0-	-0-
Water and Sewer Fund	199,261	26,667,350	-0-
	\$1,492,302	\$ 28,451,863	\$ 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 919 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](http://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 2022</u>	<u>Plan Year 2021</u>
Employee deposit rate	7%	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, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	71
Inactive employees entitled to but not yet receiving benefits	22
Active employees	<u>64</u>
Total	<u>157</u>

#### Contributions

The contribution rates for employees in TMRS is 6% of employee gross earnings, and the city matching percentage is 5.67%, 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 5.67% in calendar years 2021 and 2022 respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2023 were \$219,981 and were equal to the required contributions.

#### Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2022, 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, 2022 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 2023 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%	4.90%
Non-Core Fixed Income	20.0%	8.70%
Other Public and Private Mkts	12.0%	8.10%
Real Estate	12.0%	5.80%
Hedge Funds	5.0%	6.90%
Private Equity	10.0%	11.80%
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)
<b>Balance at 12/31/2021</b>	\$ 5,693,917	\$ 5,851,583	\$ (157,666)
Changes for the year:			
Service Cost	479,724	-0-	479,724
Interest	400,903	-0-	400,903
Changes in benefit terms	90,480	-0-	90,480
Difference between expected and actual experience	(13,984)	-0-	(13,984)
Changes of assumptions	-0-	-0-	-0-
Contributions – employer	-0-	219,981	(219,981)
Contributions – employee	-0-	245,052	(245,052)
Net investment income	-0-	(427,760)	427,760
Benefit payments, including refunds of employee contributions	(169,903)	(169,903)	-0-
Administrative expense	-0-	(3,696)	3,696
Other changes	-0-	4,410	(4,410)
Net changes	\$ 787,220	(131,916)	\$ 919,136
<b>Balance at 12/31/2022</b>	<b>\$ 6,481,137</b>	<b>\$ 5,719,667</b>	<b>\$ 761,470</b>

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$1,843,470	\$761,470	\$(113,850)

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](http://www.tmr.com).

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

For the year ended September 30, 2023, the city recognized pension expense of \$427,597.

At September 30, 2023, 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	4.3400	\$ (13,984)	\$ (3,223)	\$ (10,761)
Difference in assumption changes actuarial (gains) or losses	4.3400	-	-	-
			<u>\$ (3,223)</u>	<u>\$ (10,761)</u>
<u>Due to Assets:</u>				
Difference in projected and actual earnings on pension plan investments actuarial (gains) or losses	5.0000	\$ 822,742	\$ (164,549)	\$ 658,193
			<u>\$ (164,549)</u>	<u>\$ 658,193</u>
<u>Total:</u>				<u>\$ 647,432</u>

\$220,128 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, 2023. 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
2023	\$ 78,714
2024	75,644
2025	90,547
2026	163,454
2027	-
Thereafter	-
Total	<u>\$ 408,359</u>

**NOTE K – OTHER POST-EMPLOYEMENT BENEFITS – OPEB**

*Plan Description*

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

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

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

The following employees were covered by the benefit terms at December 31, 2022, (measurement date):

Inactive employees or beneficiaries currently receiving benefits	11
Inactive employees entitled to but not yet receiving benefits	9
Active Employees	<u>71</u>
Total Employees	<u>91</u>

*Contributions*

The contribution rates employees in SDBF is .04% 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 .04% of their gross earnings during the fiscal year. The contribution rates for the City were .13% and .14% in the calendar years 2021 and 2022 respectively. The City’s contributions to SDBF as of September 30, 2023 were \$10,985 and were equal to the required contributions.

*Total OPEB Liability - SDBF*

The City’s total OPEB liability of \$94,672 was measured as of December 31, 2022, and was determined by an actuarial valuation as of that date.

*Actuarial Assumptions*

The City’s total OPEB liability in the December 31, 2022, 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, 2022
Discount rate	4.05%, based on the Fidelity Index’s “20-Year Municipal GO AA Index” rate as of December 31, 2022
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, 2022 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 12/31/2021	\$ 139,911
Changes for the year:	
Service Cost	13,973
Interest on total OPEB liability	2,689
Differences between expected and actual experience	(3,911)
Changes in assumptions or other inputs	(56,437)
Benefit payments, aged adjusted premiums, net of retiree contributions	(1,553)
Balance at 12/31/2022	\$ 94,672

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 4.05%. 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 (3.05%)	Current Discount Rate (4.05%)	1% Increase in Discount Rate (5.05%)
Total OPEB Liability	\$116,070	\$94,672	\$78,197

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](http://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, 2023, the City recognized OPEB expense of \$12,334. At September 30, 2023, 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	\$(23,976)	\$-0-
Changes in expected and actual experience	(11,732)	-0-
Benefit payments subsequent to the measurement date	-0-	-0-
	<u>\$(35,708)</u>	<u>\$-0-</u>
Total		<u>\$(35,708)</u>

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, 2023.

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	
2023	\$	(4,328)
2024		(4,328)
2025		(5,186)
2026		(4,126)
2027		(6,023)
Thereafter		(11,717)
	<u>\$</u>	<u>(35,708)</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 June 7, 2024, which is the same date that the financial statements were issued and noted no reportable subsequent events.

**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, 2023, the City has spent all of the \$1,123,580 received in COVID relief.

**NOTE P – RESTATEMENT OF BEGINNING FUND BALANCE**

During the current year, the City, the funding arrangement for the Certificates of Obligation, Series 2020 was revised and beginning in October 2022 was paid with tax revenues, and was required to be reported as part of the General Governmental Fund.

In prior year, the Alvarado Economic Development Corporation (AEDC) Fund was classified as a major under *Government Auditing Standards*. For the current fiscal year ending September 30, 2023, the AEDC fund was classified as a non-major fund and included in the other governmental funds grouping on Governmental Fund balance sheet and statement of revenues, expenditures and fund balance. The effects of these change on beginning fund balance and beginning statement of net position are as follows:

	General Fund	Other Governmental Funds	Water & Sewer Proprietary Fund
Fund Balance – October 1, 2022 as previously reported	\$8,326,246	\$4,599,815	\$14,251,594
AEDC Fund Balance	-0-	3,106,503	-0-
Certificates of Obligation, Series 2020 reclassification	-0-	-0-	4,993,470
 Fund Balance – October 1, 2022, as adjusted	 \$8,326,246	 \$7,706,318	 \$19,245,064

	Governmental Activities	Business-type Activities
Net Balance – October 1, 2022 as previously reported	\$17,128,128	\$14,251,594
Certificates of Obligation, Series 2020 reclassification	(4,993,470)	4,993,470
Fund Balance – October 1, 2022, as adjusted	<u>\$12,134,658</u>	<u>\$19,245,064</u>

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, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUE:</b>				
General Property Taxes, Interest and Penalties	\$ 3,158,280	\$ 3,158,280	\$ 3,121,170	\$ (37,110)
Sales tax	2,460,000	2,460,000	2,329,458	(130,542)
Fines and forfeitures	375,000	375,000	361,816	(13,184)
Franchise fees & rental fees	472,987	472,987	540,932	67,945
Rental fees	38,000	38,000	38,445	445
Mixed beverage tax	902	902	528	(374)
Licenses, fees and permits	688,749	688,749	810,337	121,588
Interest	200,000	200,000	506,516	306,516
Intergovernmental	519,300	519,300	528,469	9,169
Donations	-	-	2,612	2,612
Water/Sewer administrative fee	85,000	85,000	90,000	5,000
Charges for Services	-	-	-	-
Grants	-	-	-	-
Miscellaneous	54,706	54,706	76,402	21,696
<b>Total Revenue</b>	<b>8,052,924</b>	<b>8,052,924</b>	<b>8,406,685</b>	<b>353,761</b>
<b>EXPENDITURES:</b>				
Current operating				
General government	1,644,082	1,644,082	1,677,465	(33,383)
Public safety	5,348,206	5,348,206	5,011,281	336,925
Community development	253,092	253,092	355,269	(102,177)
Public works	196,364	196,364	146,850	49,514
Cultural and recreational	540,302	540,302	477,428	62,874
Social and welfare	114,541	114,541	70,194	44,347
Capital Outlay	76,301	76,301	308,213	(231,912)
<b>Total Expenditures</b>	<b>8,172,888</b>	<b>8,172,888</b>	<b>8,046,700</b>	<b>126,188</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(119,964)	(119,964)	359,985	479,949
<b>OTHER FINANCING SOURCES:</b>				
Loan proceeds	-	-	-	-
Transfers	119,964	119,964	(262,074)	(382,038)
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>-</b>	<b>97,911</b>	<b>97,911</b>
<b>FUND BALANCE - October 1, 2022</b>	<b>-</b>	<b>-</b>	<b>8,326,246</b>	<b>8,326,246</b>
<b>FUND BALANCE - September 30, 2023</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 8,424,157</b>	<b>\$ 8,424,157</b>

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED  
SEPTEMBER 30, 2023

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	2022
<b>Total Pension Liability</b>									
Service cost	\$ 193,562	\$ 229,927	\$ 264,045	\$ 278,523	\$ 318,624	\$ 342,548	\$ 352,250	\$ 351,619	\$ 479,724
Interest (on the Total pension liability)	148,149	170,120	190,488	215,407	243,237	274,748	317,086	357,454	400,903
Changes of benefit terms	-	-	-	-	-	-	-	-	90,480
Difference between expected and actual experience	17,303	(69,085)	(40,789)	2,204	5,229	61,045	16,790	(84,013)	(13,984)
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)	(169,903)
<b>Net Change in Total Pension Liability</b>	307,017	370,300	347,897	458,369	397,076	631,954	612,527	523,149	787,220
<b>Total Pension Liability - Beginning</b>	2,045,628	2,352,645	2,722,945	3,070,842	3,529,211	3,926,287	4,558,241	5,170,768	5,693,917
<b>Total Pension Liability - Ending (a)</b>	\$ 2,352,645	\$ 2,722,945	\$ 3,070,842	\$ 3,529,211	\$ 3,926,287	\$ 4,558,241	\$ 5,170,768	\$ 5,693,917	\$ 6,481,137
<b>Plan Fiduciary Net Position</b>									
Contributions - employer	\$ 79,745	\$ 99,341	\$ 111,099	\$ 137,684	\$ 155,852	\$ 165,378	\$ 178,445	\$ 178,314	\$ 219,981
Contributions - employee	124,602	138,232	149,459	157,654	180,524	191,190	199,764	200,353	245,052
Net investment income	113,434	3,317	163,080	383,900	(102,093)	536,858	327,294	643,641	(427,760)
Benefit payments, including refunds of employee contributions	(51,997)	(74,652)	(65,847)	(37,765)	(170,014)	(54,453)	(73,599)	(101,911)	(169,903)
Administrative expense	(1,184)	(2,020)	(1,840)	(1,987)	(1,972)	(3,030)	(2,114)	(2,976)	(3,696)
Other	(97)	(99)	(99)	(100)	(103)	(90)	(83)	19	4,410
<b>Net Change in Plan Fiduciary Net Position</b>	\$ 264,503	\$ 164,119	\$ 355,852	\$ 639,386	\$ 62,194	\$ 835,853	\$ 629,707	\$ 917,440	\$ (131,916)
<b>Plan Fiduciary Net Position - Beginning</b>	1,982,529	2,247,032	2,411,151	2,767,003	3,406,389	3,468,583	4,304,436	4,934,143	5,851,583
<b>Plan Fiduciary Net Position - Ending (b)</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	\$ 5,719,667
<b>Net Pension Liability - Ending (a) - (b)</b>	\$ 105,613	\$ 311,794	\$ 303,839	\$ 122,822	\$ 457,704	\$ 253,805	\$ 236,625	\$ (157,666)	\$ 761,470
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	95.51%	88.51%	90.11%	96.52%	88.34%	94.43%	95.42%	102.77%	88.25%
<b>Covered Employee Payroll</b>	\$ 2,076,696	\$ 2,303,873	\$ 2,490,988	\$ 2,627,574	\$ 3,008,729	\$ 3,186,493	\$ 3,329,396	\$ 3,339,212	\$ 3,881,261
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	5.09%	13.53%	12.20%	4.67%	15.21%	7.97%	7.11%	-4.72%	19.62%

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	2022
Actuarially Determined Contribution	\$ 79,745	\$ 99,341	\$ 111,099	137,684	155,852	165,378	178,445	178,314	219,981
Contributions in relation to the actuarially determined contribution	79,745	99,341	111,099	137,684	155,852	165,378	178,445	178,314	219,981
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	3,881,261
Contributions as a percentage of covered employee payroll	3.84%	4.31%	4.46%	5.24%	5.18%	5.19%	5.36%	5.34%	5.67%

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 Retirees 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, 2023

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)

	2017	2018	2019	2020	2021	2022
<b>Total OPEB Liability</b>						
Service cost	\$ 5,518	\$ 7,221	\$ 7,010	\$ 9,988	\$ 11,353	\$ 13,973
Interest Cost (on total OPEB liability)	2,253	2,480	2,803	2,827	2,719	2,689
Changes of benefit terms	-	-	-	-	-	-
Difference between expected and actual experience	-	(2,167)	(3,497)	1,084	(8,712)	(3,911)
Change of assumptions	6,971	(6,480)	19,771	19,244	4,757	(56,437)
Benefit payments, including refunds of employee contributions	(263)	(301)	(319)	(333)	(1,002)	(1,553)
<b>Net Change in Total OPEB Liability</b>	14,479	753	25,768	32,810	9,115	(45,239)
<b>Total Pension Liability - Beginning</b>	56,986	71,465	72,218	97,986	130,796	139,911
<b>Total Pension Liability - Ending (a)</b>	\$ 71,465	\$ 72,218	\$ 97,986	\$ 130,796	\$ 139,911	\$ 94,672
<b>Covered Employee Payroll</b>	\$ 2,627,574	\$ 3,008,729	\$ 3,186,493	\$ 3,329,396	\$ 3,339,212	\$ 3,881,261
<b>Total OPEB Liability as a Percentage of Covered Payroll</b>	2.72%	2.40%	3.08%	3.93%	4.19%	2.44%

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

CITY OF ALVARADO, TEXAS  
 REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED  
 SEPTEMBER 30, 2023

Texas Municipal Retirement System

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

	2017	2018	2019	2020	2021	2022
Actuarially Determined Contribution	\$ 3,941	\$ 4,588	\$ 4,642	4,034	4,675	9,261
Contributions in relation to the actuarially determined contribution	3,941	4,588	4,642	4,034	4,034	9,261
Contribution deficiency (excess)	-	-	-	-	641 00	-
Covered employee payroll	2,627,574	3,008,729	3,186,493	3,329,396	3,339,212	3,881,261
Contributions as a percentage of covered employee payroll	0.15%	0.15%	0.15%	0.12%	0.14%	26.00%

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, 2023**

**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 \$363,042 and expenditures were less than budget by \$126,188.

**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 \$1,470,982.

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 \$76,301. The total actual capital outlays for the year in the general fund amounted to \$308,213.

SUPPLEMENTAL INFORMATION

CITY OF ALVARADO, TEXAS  
 COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUND  
 September 30, 2023

	AEDC	Royalty Fund	Street Maintenance Fund	Court Revenue Fund	Hotel Occupancy Tax Fund	Prairielands Detention	Roadway Service Impact Area 1	Roadway Service Impact Area 2	Grant Fund	Other Governmental Funds
<b>ASSETS</b>										
Equity in pooled cash and cash equivalents	\$ 2,353,152	\$ 573,890	514,411	\$ 36,771	\$ 584,429	\$ 1,160,357	\$ 4,815	\$ 1	\$ -	\$ 5,227,826
Investments	1,088,339	275,954	-	-	514,961	-	-	-	-	1,879,254
Receivables, net										
Accounts	432	13,887	91	-	108	115,274	3	-	5,850	135,645
Property taxes	-	-	-	-	-	-	-	-	-	-
Sales taxes	68,139	-	68,139	-	33,122	-	-	-	-	169,400
Fines receivable	-	-	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	-	-
Prepaid expenses	-	-	-	-	-	-	-	-	-	-
Restricted										
Cash	-	-	-	-	-	-	1,258,395	34,646	-	1,293,041
Intergovernmental Receivable	-	-	-	-	-	-	-	-	-	-
Investments	-	-	-	176,762	-	-	-	-	-	176,762
Total assets	<u>\$ 3,510,062</u>	<u>\$ 863,731</u>	<u>\$ 582,641</u>	<u>\$ 213,533</u>	<u>\$ 1,132,620</u>	<u>\$ 1,275,631</u>	<u>\$ 1,263,213</u>	<u>\$ 34,647</u>	<u>\$ 5,850</u>	<u>\$ 8,881,928</u>
<b>LIABILITIES</b>										
Accounts payable	\$ 23	\$ 13,217	\$ 4,629	\$ 1,277	\$ 6,940	\$ -	\$ -	\$ -	\$ 5,100	\$ 31,186
Accrued liabilities	255	-	-	-	-	-	-	-	-	255
Total liabilities	<u>278</u>	<u>13,217</u>	<u>4,629</u>	<u>1,277</u>	<u>6,940</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,100</u>	<u>31,441</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>										
Deferred inflows of property tax revenue	-	-	-	-	-	-	-	-	-	-
Total liabilities and deferred inflows of resources	<u>278</u>	<u>13,217</u>	<u>4,629</u>	<u>1,277</u>	<u>6,940</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,100</u>	<u>31,441</u>
<b>FUND BALANCES</b>										
Fund balances										
Nonspendable	-	-	-	-	-	-	-	-	-	-
Restricted	3,509,784	-	-	212,256	1,125,680	1,275,631	-	-	-	6,123,351
Capital improvement	-	-	578,012	-	-	-	1,263,213	34,647	750	1,876,622
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	-	-
Unassigned	-	850,514	-	-	-	-	-	-	-	850,514
Total fund balances	<u>3,509,784</u>	<u>850,514</u>	<u>578,012</u>	<u>212,256</u>	<u>1,125,680</u>	<u>1,275,631</u>	<u>1,263,213</u>	<u>34,647</u>	<u>750</u>	<u>8,850,487</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 3,510,062</u>	<u>\$ 863,731</u>	<u>\$ 582,641</u>	<u>\$ 213,533</u>	<u>\$ 1,132,620</u>	<u>\$ 1,275,631</u>	<u>\$ 1,263,213</u>	<u>\$ 34,647</u>	<u>\$ 5,850</u>	<u>\$ 8,881,928</u>

CITY OF ALVARADO, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
 OTHER GOVERNMENTAL FUNDS  
 For the Fiscal Year Ended September 30, 2023

	AEDC	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	Grant Fund	Other Governmental Funds
<b>REVENUE</b>											
General property taxes, interest and penalties	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sales tax	388,866	-	-	388,866	-	-	-	-	-	-	777,732
Hotel tax	-	-	-	-	-	342,744	-	-	-	-	342,744
Fines and forfeitures	-	-	-	-	-	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-	-	-	-	-	-
Mixed beverage tax	-	-	-	-	-	-	-	-	-	-	-
Rental fees	-	-	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	615,378	-	-	-	615,378
Licenses, fees and permits	-	-	-	-	36,349	-	-	-	-	-	36,349
Interest	55,101	14,146	4,999	1,610	7,829	24,312	2,834	48,090	1,510	-	160,431
Proceeds from disposition of property	-	-	-	-	-	-	-	-	-	-	-
Grant Revenue	-	-	-	-	-	-	-	-	-	9,600	9,600
Contributions and donations	-	-	-	-	-	-	-	-	-	9,281	9,281
Water/Sewer administrative fee	-	-	-	-	-	-	-	-	-	-	-
Oil and gas royalties	-	115,304	-	-	-	-	-	-	-	-	115,304
Impact Fees	-	-	-	-	-	-	-	365,779	2,349	-	368,128
Miscellaneous	-	-	-	-	-	-	-	-	-	27,614	27,614
<b>Total Revenue</b>	<b>443,967</b>	<b>129,450</b>	<b>4,999</b>	<b>390,476</b>	<b>44,178</b>	<b>367,056</b>	<b>618,212</b>	<b>413,869</b>	<b>3,859</b>	<b>46,495</b>	<b>2,462,561</b>
<b>EXPENDITURES</b>											
Current operating											
General government	-	-	-	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	28,898	-	-	-	-	-	28,898
Community development	40,686	-	-	-	-	-	-	-	-	5,363	46,049
Public works	-	-	-	-	-	-	32,547	-	-	7,388	39,935
Cultural and recreational	-	-	-	-	-	-	-	-	-	-	-
Social and welfare	-	-	-	-	-	-	-	-	-	-	-
Economic development	-	140,079	-	179,263	-	123,967	-	-	-	-	443,309
Capital Outlay	-	-	-	-	-	-	-	-	-	32,994	32,994
Debt Service	-	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-
Paying agent	-	-	-	-	-	-	-	-	-	-	-
<b>Total Expenditures</b>	<b>40,686</b>	<b>140,079</b>	<b>-</b>	<b>179,263</b>	<b>28,898</b>	<b>123,967</b>	<b>32,547</b>	<b>-</b>	<b>-</b>	<b>45,745</b>	<b>591,185</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>403,281</b>	<b>(10,629)</b>	<b>4,999</b>	<b>211,213</b>	<b>15,280</b>	<b>243,089</b>	<b>585,665</b>	<b>413,869</b>	<b>3,859</b>	<b>750</b>	<b>1,871,376</b>
<b>OTHER FINANCING SOURCES</b>											
Transfers in	-	-	-	-	-	-	-	-	-	-	-
Transfers out	-	-	(566,248)	(155,959)	(5,000)	-	-	-	-	-	(727,207)
<b>NET CHANGE IN FUND BALANCES</b>	<b>403,281</b>	<b>(10,629)</b>	<b>(561,249)</b>	<b>55,254</b>	<b>10,280</b>	<b>243,089</b>	<b>585,665</b>	<b>413,869</b>	<b>3,859</b>	<b>750</b>	<b>1,144,169</b>
<b>FUND BALANCE - October 1, 2022 (as restated Note P)</b>	<b>3,106,503</b>	<b>861,143</b>	<b>561,249</b>	<b>522,758</b>	<b>201,976</b>	<b>882,591</b>	<b>689,966</b>	<b>849,344</b>	<b>30,788</b>	<b>-</b>	<b>7,706,318</b>
<b>FUND BALANCE - September 30, 2023</b>	<b>\$ 3,509,784</b>	<b>\$ 850,514</b>	<b>\$ -</b>	<b>\$ 578,012</b>	<b>\$ 212,256</b>	<b>\$ 1,125,680</b>	<b>\$ 1,275,631</b>	<b>\$ 1,263,213</b>	<b>\$ 34,647</b>	<b>\$ 750</b>	<b>\$ 8,850,487</b>

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, 2023, 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 June 7, 2024.

**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*.

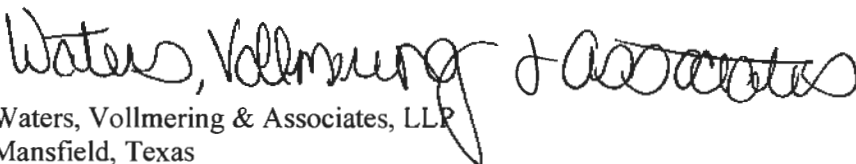
### City of Alvarado, TX's Response to Findings

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 software to assist with some of the more complex accounting issues related to new GASB announcements specifically relating to accounting for leases and technology subscriptions.

### 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  
June 7, 2024