

CITY OF ALVARADO, TEXAS

SEPTEMBER 30, 2025

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City of Alvarado

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February 1, 2026

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, 2025, 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, Beavers & Adams, 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, 2025, 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, 2024, 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.

Member Texas Municipal League

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 6,614. 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

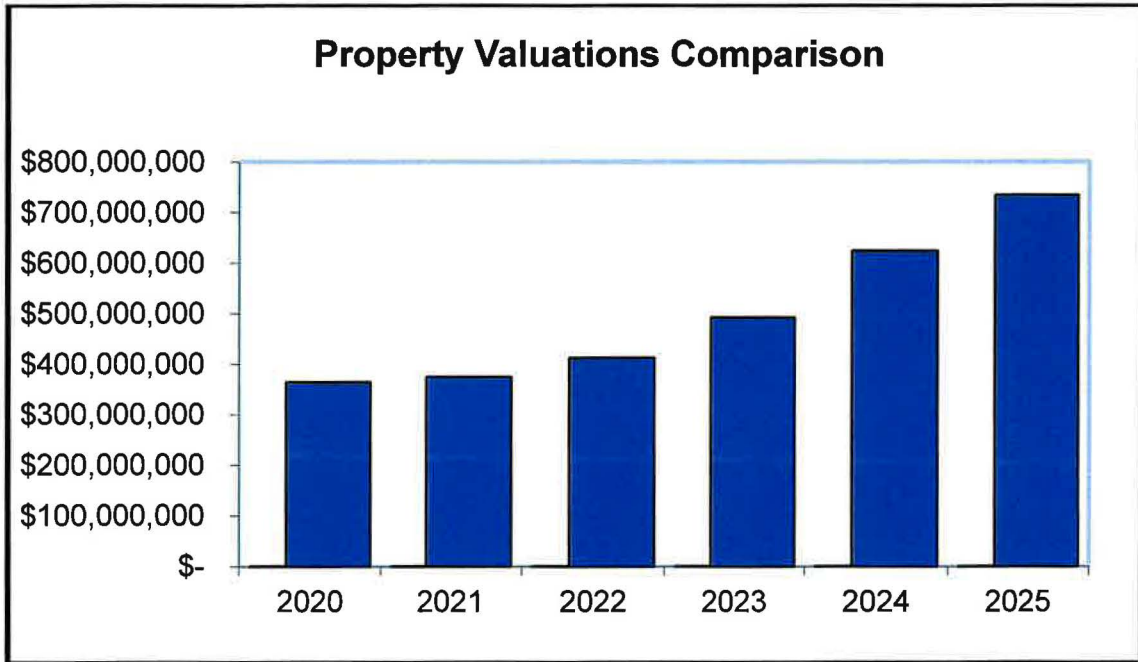
The information presented in the financial statements is perhaps best understood when it is considered from the broader aspect of the specific environment within which the City operates.

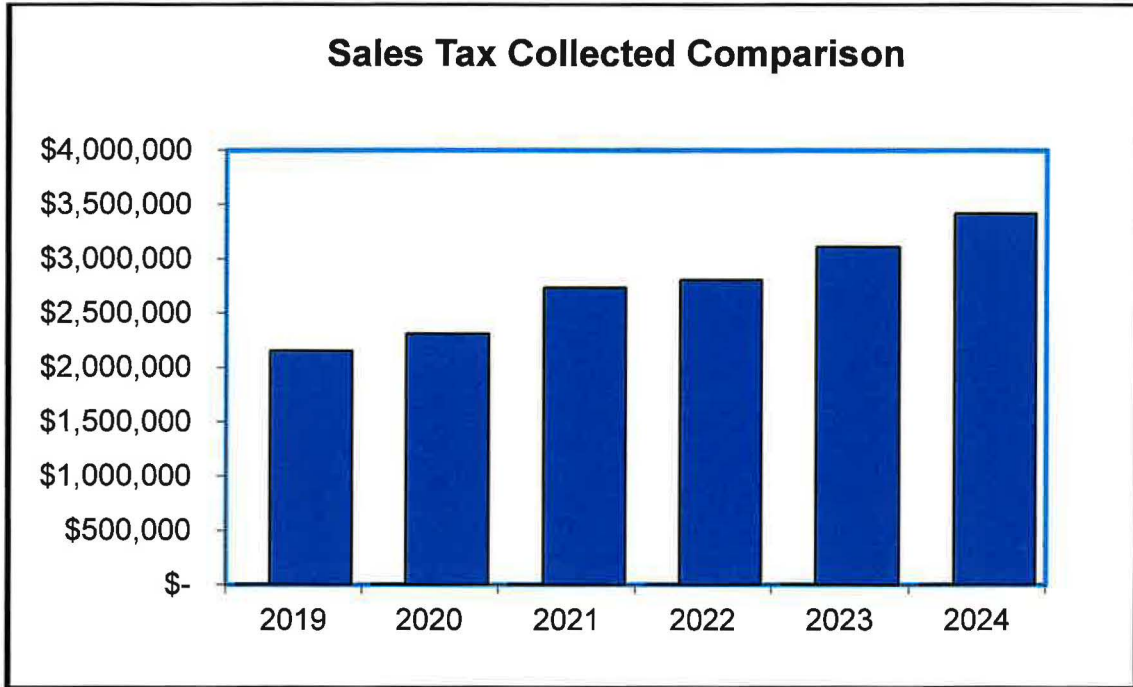
Local Economy

Fiscal year 2024-2025 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 increased from \$3,414,780 in 2024 to \$4,028,334 in 2025 for a difference of \$613,554 or 17.97%.

The property tax rate for 2025 decreased from \$0.811895/\$100 valuation to a rate of \$0.782572/\$100 valuation.

The charts below are based upon the 2024-2025 budget year as compared to prior years. Property Valuations noted below for the budget period 2024-2025 are based upon the 2024 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 2024-2025 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 \$6,952,207. Overall, governmental funds unrestricted reserves total \$7,181,630.

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, 2025**

Mayor

Jacob Wheat

Council Members

Carrie Keeton

Lydia Moon

Mayor – Pro Tem

Kevin Thomas

Beverly Short

Cherry Bryant

Scott Arthur

City Manager

Paul DeBuff

City Secretary

Bobbie Jo Taylor

HR Director

Beth A. Walls

City Attorney

Ashley Dierker

Chief Financial Officer

Laura E. Cox

Police Chief

Teddy May

Fire Chief

John Rodgers

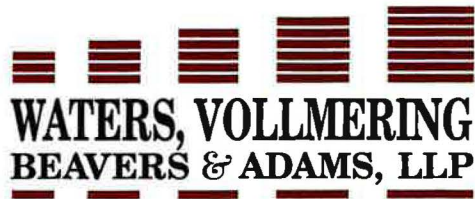
Interim Director of Public Services

David Fain

Director of Utilities

Michael Dwiggins

Member Texas Municipal League



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, 2025, 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 of Alvarado, Texas, as of September 30, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Alvarado, Texas’ basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditors’ report thereon. Our opinions on the basic financial statements do not cover 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 required 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 February 1, 2026, 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 Beavers & Adams, LLP

Waters, Vollmering, Beavers & Adams, LLP

Mansfield, Texas

February 1, 2026

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR ENDED SEPTEMBER 30, 2025

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, 2025. 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 \$49,022,300 (total net position). Of this amount, \$5,506,167 (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 \$13,767,576.
- As of the close of the current fiscal year, the City of Alvarado's governmental funds reported combined ending fund balances of \$17,791,345. Approximately 40.4% or \$7,181,630 is available for spending at the City's discretion (unassigned fund balance).
- Other Governmental Funds has a fund balance of \$10,839,138. This includes:
 - 1) Royalty fund which has a fund balance of \$229,423 (unassigned).
 - 2) The AEDC, Hotel Occupancy Tax, Court Revenue (Building Security), Juvenile Case Manager, Child Safety, Court Technology, Judicial Efficiency, Grant-TxDOT and Prairieland Detention Center Funds have a fund balance of \$5,845,835 (restricted).
 - 3) Street Maintenance, Special Project (Governmental Capital Projects), Grant and Roadway Impact Fee Funds have a fund balance of \$4,742,834 with restricted usage limited to capital improvements.
- The City's total debt increased by \$4,402,507 during the current fiscal year, and governmental funds debt increased by \$2,457,424 and the water and sewer proprietary fund debt increased \$1,945,083.

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 18 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 16 funds (AEDC, Hotel Occupancy Tax, Royalty, Court Building Security, Court Technology, Juvenile Case Manager, Child Safety, Judicial Efficiency, Street Maintenance, Special (Capital)

Projects, Prairieland Detention Center, Grant, Grant-TxDOT, Insurance Proceeds, 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 \$49,022,300 at the close of the most recent fiscal year. This represents an increase of \$13,767,576 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 | |
|---------------------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2024 | 2025 | 2024 | 2025 | 2024 | 2025 |
| ASSETS | | | | | | |
| Current Assets | \$ 19,452,361 | \$ 23,588,039 | \$ 18,563,552 | \$ 13,834,081 | \$ 38,015,913 | \$ 37,422,120 |
| Noncurrent Assets | 12,501,481 | 15,899,668 | 34,413,445 | 55,105,775 | 46,914,926 | 71,005,443 |
| Total Assets | <u>31,953,842</u> | <u>39,487,707</u> | <u>52,976,997</u> | <u>68,939,856</u> | <u>84,930,839</u> | <u>108,427,563</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | |
| Deferred pension contributions | 538,293 | 661,779 | 64,702 | 85,579 | 602,995 | 747,358 |
| Deferred OPEB contributions | 7,498 | 7,802 | 901 | 1,009 | 8,399 | 8,811 |
| Deferred bond discounts | - | - | 14,167 | 13,333 | 14,167 | 13,333 |
| Deferred OPEB assumptions | 24,938 | 16,790 | 2,997 | (3,806) | 27,935 | 12,984 |
| Deferred pension actuarial losses | 609,566 | 713,502 | 73,269 | 92,268 | 682,835 | 805,770 |
| Total Deferred Outflows | <u>1,180,295</u> | <u>1,399,873</u> | <u>156,036</u> | <u>188,383</u> | <u>1,336,331</u> | <u>1,588,256</u> |
| LIABILITIES | | | | | | |
| Current Liabilities | 5,260,353 | 7,182,286 | 4,674,222 | 8,446,548 | 9,934,575 | 15,628,834 |
| Long Term Liabilities | 13,270,314 | 15,669,801 | 27,329,922 | 29,187,933 | 40,600,236 | 44,857,734 |
| Total Liabilities | <u>18,530,667</u> | <u>22,852,087</u> | <u>32,004,144</u> | <u>37,634,481</u> | <u>50,534,811</u> | <u>60,486,568</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Deferred bond premiums | - | - | 3,123 | 2,939 | 3,123 | 2,939 |
| Deferred OPEB expense | 56,814 | 46,218 | 1,147 | 1,147 | 57,961 | 47,365 |
| Deferred pension expense | 366,782 | 405,372 | 49,769 | 51,275 | 416,551 | 456,647 |
| Total Deferred Inflows | <u>423,596</u> | <u>451,590</u> | <u>54,039</u> | <u>55,361</u> | <u>477,635</u> | <u>506,951</u> |
| NET POSITION | | | | | | |
| Net investment in capital assets | 1,296,349 | 2,334,736 | 6,650,721 | 25,414,486 | 7,947,070 | 27,749,222 |
| Restricted | 8,230,499 | 10,609,715 | 13,540,366 | 5,157,196 | 21,770,865 | 15,766,911 |
| Unrestricted | 4,653,026 | 4,639,452 | 883,763 | 866,715 | 5,536,789 | 5,506,167 |
| Total Net Position | <u>\$ 14,179,874</u> | <u>\$ 17,583,903</u> | <u>\$ 21,074,850</u> | <u>\$ 31,438,397</u> | <u>\$ 35,254,724</u> | <u>\$ 49,022,300</u> |

An additional portion of the City of Alvarado's net position, \$15,766,911 represents resources that are subject to external restrictions on how they may be used. Unrestricted net assets of \$5,506,167 may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2025, the City of Alvarado is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental Activities. Governmental activities reflect an increase in the City's net position from the previous year by \$3,404,029, from \$14,179,874 to \$17,583,903.

Business-type Activities. Net position from business-type activities increased by \$10,363,547, from \$21,074,850 to \$31,438,397.

The following table provides a summary of the City's operations for the year ended September 30, 2025 with the comparative totals for the year ended September 30, 2024.

City of Alvarado's Changes in Net Position

| | Governmental Activities | | Business Activities | | Total | |
|---|-------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2024 | 2025 | 2024 | 2025 | 2024 | 2025 |
| REVENUES: | | | | | | |
| Charges for Services | \$ 3,386,115 | \$ 4,092,373 | \$ 5,226,932 | \$ 5,819,825 | \$ 8,613,047 | \$ 9,912,198 |
| Operating Grants/Contributions | - | - | - | - | - | - |
| Capital Grants/Contributions | 899,783 | 880,271 | - | 10,652,572 | 899,783 | 11,532,843 |
| General Revenues: | - | - | - | - | - | - |
| Property Taxes | 5,152,821 | 5,796,956 | - | - | 5,152,821 | 5,796,956 |
| Sales Tax | 3,440,879 | 4,430,308 | - | - | 3,440,879 | 4,430,308 |
| Franchise Tax | 604,102 | 620,737 | - | - | 604,102 | 620,737 |
| Alcoholic beverage taxes | 233 | 873 | - | - | 233 | 873 |
| Unrestricted investment earnings | 823,750 | 1,006,327 | 1,369,512 | 492,415 | 2,193,262 | 1,498,742 |
| Gain/Loss on Sale of Assets | 19,115 | 106,437 | 27,584 | 63,794 | 46,699 | 170,231 |
| Other revenue | 238,173 | 173,269 | - | - | 238,173 | 173,269 |
| Total Revenue | 14,564,971 | 17,107,551 | 6,624,028 | 17,028,606 | 21,188,999 | 34,136,157 |
| EXPENSES: | | | | | | |
| General government | 1,754,860 | 2,507,534 | - | - | 1,754,860 | 2,507,534 |
| Public safety | 6,673,726 | 7,458,660 | - | - | 6,673,726 | 7,458,660 |
| Public works | 287,674 | 521,605 | - | - | 287,674 | 521,605 |
| Community development | 1,758,733 | 1,452,574 | - | - | 1,758,733 | 1,452,574 |
| Cultural & recreational | 554,230 | 629,681 | - | - | 554,230 | 629,681 |
| Social & welfare | 46,118 | 27,834 | - | - | 46,118 | 27,834 |
| Economic development | 1,232,275 | 495,422 | - | - | 1,232,275 | 495,422 |
| Pension expense | 1,932,224 | 39,156 | - | - | 1,932,224 | 39,156 |
| Interest on long-term debt | 429,013 | 522,454 | - | - | 429,013 | 522,454 |
| Water & sewer operations | - | - | 6,434,098 | 6,713,661 | 6,434,098 | 6,713,661 |
| Bond issuance costs | - | - | - | - | - | - |
| Total Expenses | 14,668,853 | 13,654,920 | 6,434,098 | 6,713,661 | 21,102,951 | 20,368,581 |
| Change in net position before transfers | (103,882) | 3,452,631 | 189,930 | 10,314,945 | 86,048 | 13,767,576 |
| Transfers | 18,911 | (48,602) | (18,911) | 48,602 | - | - |
| Change in net position | (84,971) | 3,404,029 | 171,019 | 10,363,547 | 86,048 | 13,767,576 |
| Net position - Beginning | 14,264,845 | 14,179,874 | 20,903,831 | 21,074,850 | 35,168,676 | 35,254,724 |
| Net position - Ending | \$ 14,179,874 | \$ 17,583,903 | \$ 21,074,850 | \$ 31,438,397 | \$ 35,254,724 | \$ 49,022,300 |

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 \$17,791,345 which is an increase of \$2,408,155, in comparison with the prior year. Approximately \$7,181,630 of this total constitutes unassigned fund balance, which is available for spending at the government's discretion. \$4,742,834 of the fund balance is committed to specific projects while \$5,845,835 of the balance has restrictions and \$21,046 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 \$10,363,547 from the previous year (\$21,074,850 to \$31,438,397). Unrestricted net position of the City's Proprietary Funds at the end of the year amounted to \$866,715, which represents a decrease of \$17,048 from the previous year (\$883,763 to \$866,715).

General Fund Highlights

When compared to the prior year, General Fund revenue for the City increased by \$2,101,021 or 21.7%.

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 2025, the fund balance is \$236,536.

CAPITAL ASSETS

The City of Alvarado's investment in capital assets for its governmental and business-type activities as of September 30, 2025 amounts to \$71,005,443 (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:

- City purchased building & land for \$187,175 (404 N. Parkway – former Helping Hands for Jesus building)
- City purchased 303 E. College for \$15,737
- City repaired Cherokee Road for \$48,000
- City repaired Maple Avenue for \$373,043
- City paid \$523,604 for overlay on Cummings Drive
- EDC purchased food truck with kitchen equipment upgrade \$65,000
- The Police Department purchased Motorola radios \$102,053
- The Police Department purchased two (2) speed radar trailers totaling \$19,388
- Citywide IT Infrastructure Upgrade totaling \$133,694
- City Hall purchased mini split air conditioning unit for server room \$5,868
- The Fire Department paid \$10,995 to upfit Squad 79
- The Administration Building Renovation/painting totaling \$25,545
- City Hall Renovation totaling \$53,057
- Parks Department added lights to pickle ball court for \$16,319
- Parks Department purchased playground equipment totaling \$33,763
- The Library purchased book shelves for \$8,616
- Construction in progress for Wastewater Treatment Plant expansion project for \$20,187,656
- Construction in progress for Davis Street Gravity line project for \$792,070
- Construction in progress for North Cummings Drive rehabilitation project totaling \$1,091,169
- Construction in progress for the Cummings Drive water line relocation for \$191,115
- Construction in progress for the street rehabilitation of Lorie, Helen, Chris Court and Janis totaling \$798,888
- Capital Leases for vehicles acquired through Enterprise Fleet Management is \$275,901

The following table provides a summary of the City’s capital assets for the year ended September 30, 2025 as compared to the summary of capital assets for the year ended September 30, 2024:

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

| | Governmental Activities | | Business-Type Activities | | Totals | |
|--------------------------|--------------------------------|-------------------|---------------------------------|-------------------|-------------------|-------------------|
| | <u>2024</u> | <u>2025</u> | <u>2024</u> | <u>2025</u> | <u>2024</u> | <u>2025</u> |
| Land | 919,058 | 919,058 | 1,005,509 | 1,005,509 | 1,924,567 | 1,924,567 |
| Buildings & Improvements | 2,641,237 | 2,849,565 | 7,858 | 7,658 | 2,649,095 | 2,857,223 |
| Infrastructure | 5,617,308 | 6,194,722 | - | 6,901 | 5,617,308 | 6,201,623 |
| Vehicles | 1,004,185 | 1,261,647 | 214,693 | 372,309 | 1,218,878 | 1,633,956 |
| Parks Improvements | 885,450 | 995,694 | - | - | 885,450 | 995,694 |
| Water System | - | - | 8,640,192 | 7,974,646 | 8,640,192 | 7,974,646 |
| Sewer System | - | - | 7,015,379 | 9,743,539 | 7,015,379 | 9,743,539 |
| Other Equipment | 719,990 | 952,903 | 131,960 | 95,745 | 851,950 | 1,048,648 |
| Construction in Progress | 714,253 | 2,726,079 | 17,397,854 | 35,899,468 | 18,112,107 | 38,625,547 |
| Total | <u>12,501,481</u> | <u>15,899,668</u> | <u>34,413,445</u> | <u>55,105,775</u> | <u>46,914,926</u> | <u>71,005,443</u> |

DEBT ADMINISTRATION

Total Debt. The City of Alvarado’s total debt outstanding at the end of the current fiscal year is \$43,696,513. This amount is an increase of \$4,394,782 from the previous fiscal year.

Long-term Debt. At the end of the current fiscal year, the City of Alvarado had total long-term debt outstanding of \$43,696,513. Of this amount, \$42,038,919 is comprised of long-term bonds payable. The remainder of the debt, \$1,657,594, 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 \$2,437,292 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, 2025 as compared to the summary of outstanding debt for the year ended September 30, 2024.

CITY OF ALVARADO OUTSTANDING DEBT AT YEAR-END

| | Governmental Activities | | Business-Type Activities | | Totals | |
|----------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2024 | 2025 | 2024 | 2025 | 2024 | 2025 |
| Certificates of Obligation | \$ 10,411,784 | \$ 12,666,126 | \$ 27,531,125 | \$ 29,372,793 | \$ 37,942,909 | \$ 42,038,919 |
| Capital Leases | 575,447 | 751,612 | 231,597 | 318,496 | 807,044 | 1,070,108 |
| Notes Payable | 217,901 | 147,194 | - | - | 217,901 | 147,194 |
| Compensated Absences | 298,289 | 395,913 | 35,588 | 44,379 | 333,877 | 440,292 |
| Total | <u>\$ 11,503,421</u> | <u>\$ 13,960,845</u> | <u>\$ 27,798,310</u> | <u>\$ 29,735,668</u> | <u>\$ 39,301,731</u> | <u>\$ 43,696,513</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 2025-2026 fiscal year:

- The City benefits from its strategic location, which is approximately 20 miles from Fort Worth and 35 miles from Dallas.
- Local inflation was 0.9% in the Dallas-Fort Worth-Arlington area when the budget was being compiled in July 2025.
- The City's property tax rate for 2025-2026 is \$0.806010 per \$100 of valuation.
- The City currently receives royalties from 26 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 completed 72 residential projects for 2024-2025 with 62 from Bloomfield Homes, 4 from Arcadian Select Homes and 6 from individual builders.
- The City of Alvarado Impact Fee program enters its seventh 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, 2025

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|----------------------|
| ASSETS | | | |
| Current assets: | | | |
| Equity in pooled cash and cash equivalents | \$ 3,644,624 | \$ 4,437,952 | \$ 8,082,576 |
| Investments | 8,565,851 | 80,410 | 8,646,261 |
| Receivables (net) | | | |
| Taxes receivable | 680,308 | - | 680,308 |
| Accounts receivable | 823,350 | 5,113,662 | 5,937,012 |
| Inventory | - | 283,559 | 283,559 |
| Prepaid expenses | 12,456 | - | 12,456 |
| Restricted assets | | | |
| Cash | 2,544,763 | - | 2,544,763 |
| Deposits | 25 | 201,183 | 201,208 |
| Investments | 7,316,662 | 3,717,315 | 11,033,977 |
| Total current assets | <u>23,588,039</u> | <u>13,834,081</u> | <u>37,422,120</u> |
| Noncurrent assets: | | | |
| Capital assets, net | 15,899,668 | 55,105,775 | 71,005,443 |
| Total noncurrent assets | <u>15,899,668</u> | <u>55,105,775</u> | <u>71,005,443</u> |
| | | | |
| Total assets | <u>39,487,707</u> | <u>68,939,856</u> | <u>108,427,563</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred pension contributions | 661,779 | 85,579 | 747,358 |
| Deferred OPEB contributions | 7,802 | 1,009 | 8,811 |
| Deferred bond discounts | - | 13,333 | 13,333 |
| Deferred OPEB assumptions | 16,790 | (3,806) | 12,984 |
| Deferred pension actuarial losses | 713,502 | 92,268 | 805,770 |
| | <u>1,399,873</u> | <u>188,383</u> | <u>1,588,256</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | 8,977,130 | 1,449,439 | 10,426,569 |
| Accounts payable - retainage | | 1,600,160 | 1,600,160 |
| Accrued liabilities | 917,631 | 55,294 | 972,925 |
| Due to other funds | (4,098,067) | 4,098,067 | - |
| Deposits | - | 295,675 | 295,675 |
| Current portion | | | |
| Revenue bonds payable | 659,250 | 792,750 | 1,452,000 |
| Notes payable | 72,610 | - | 72,610 |
| Capital leases | 257,819 | 110,784 | 368,603 |
| Compensated absences | 395,913 | 44,379 | 440,292 |
| Total current liabilities | <u>7,182,286</u> | <u>8,446,548</u> | <u>15,628,834</u> |
| Noncurrent liabilities: | | | |
| Revenue bonds payable | 12,006,876 | 28,580,043 | 40,586,919 |
| Notes payable | 74,584 | - | 74,584 |
| Capital leases | 493,793 | 207,712 | 701,505 |
| Net OPEB liability | 97,289 | 12,581 | 109,870 |
| Net pension liability | 2,997,259 | 387,597 | 3,384,856 |
| Total noncurrent liabilities | <u>15,669,801</u> | <u>29,187,933</u> | <u>44,857,734</u> |
| Total liabilities | <u>22,852,087</u> | <u>37,634,481</u> | <u>60,486,568</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred bond premiums | - | 2,939 | 2,939 |
| Deferred OPEB expense | 46,218 | 1,147 | 47,365 |
| Deferred pension expense | 405,372 | 51,275 | 456,647 |
| | <u>451,590</u> | <u>55,361</u> | <u>506,951</u> |
| NET POSITION | | | |
| Invested in capital assets, net of related debt | 2,334,736 | 25,414,486 | 27,749,222 |
| Restricted | | | |
| Public Safety | 5,845,835 | - | 5,845,835 |
| Capital improvements | 4,742,834 | 5,157,196 | 9,900,030 |
| Committed | 21,046 | | 21,046 |
| Assigned | - | | - |
| Unrestricted | 4,639,452 | 866,715 | 5,506,167 |
| Total net position | <u>\$ 17,583,903</u> | <u>\$ 31,438,397</u> | <u>\$ 49,022,300</u> |

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2025

| Functions/Programs | Program Revenues | | | | Net (Expense) Revenue and Change in Net Assets | | |
|---------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|--|--------------------------|-----------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental activities: | | | | | | | |
| General government: | | | | | | | |
| General government | \$ 2,507,534 | \$ 989,335 | \$ - | \$ - | \$ (1,518,199) | - | \$ (1,518,199) |
| Public safety | 7,458,660 | 814,380 | - | - | (6,644,280) | - | (6,644,280) |
| Public works | 521,605 | - | - | - | (521,605) | - | (521,605) |
| Cultural and recreational | 629,681 | - | - | - | (629,681) | - | (629,681) |
| Economic development | 495,422 | 625,990 | - | - | 130,568 | - | 130,568 |
| Community development | 1,452,574 | 1,623,499 | - | 880,271 | 1,051,196 | - | 1,051,196 |
| Social and welfare | 27,834 | 39,169 | - | - | 11,335 | - | 11,335 |
| Pension expense | 39,156 | - | - | - | (39,156) | - | (39,156) |
| Interest on long-term debt | 522,454 | - | - | - | (522,454) | - | (522,454) |
| Total governmental activities | <u>\$ 13,654,920</u> | <u>\$ 4,092,373</u> | <u>\$ -</u> | <u>\$ 880,271</u> | <u>\$ (8,682,276)</u> | <u>-</u> | <u>\$ (8,682,276)</u> |
| Business-type activities: | | | | | | | |
| Water and sewer | <u>\$ 6,713,661</u> | <u>\$ 5,819,825</u> | <u>\$ -</u> | <u>\$ 10,652,572</u> | <u>\$ -</u> | <u>\$ 9,758,736</u> | <u>\$ 9,758,736</u> |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| General property taxes | | | | | 5,796,956 | - | 5,796,956 |
| Sales tax | | | | | 4,431,181 | - | 4,431,181 |
| Franchise tax | | | | | 620,737 | - | 620,737 |
| Interest income | | | | | 1,006,327 | 492,415 | 1,498,742 |
| Gain (Loss) on sale of capital assets | | | | | 106,437 | 63,794 | 170,231 |
| Administrative fee | | | | | 98,644 | - | 98,644 |
| Miscellaneous | | | | | 74,625 | - | 74,625 |
| Transfers | | | | | (48,602) | 48,602 | - |
| Total general revenues and proceeds | | | | | <u>12,086,305</u> | <u>604,811</u> | <u>12,691,116</u> |
| Change in net position | | | | | <u>3,404,029</u> | <u>10,363,547</u> | <u>13,767,576</u> |
| Net position-beginning of period | | | | | <u>14,179,874</u> | <u>21,074,850</u> | <u>35,254,724</u> |
| Net position-ending | | | | | <u>\$ 17,583,903</u> | <u>\$ 31,438,397</u> | <u>\$ 49,022,300</u> |

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2025

| | General Fund | Debt Service Fund | Other Governmental Funds | Total Governmental Funds |
|---|---------------|----------------------|--------------------------------|--------------------------------|
| ASSETS | | | | |
| Equity in pooled cash and cash equivalents | \$ 1,645 | \$ - | \$ 3,642,979 | \$ 3,644,624 |
| Investments | 6,318,366 | - | 2,247,485 | 8,565,851 |
| Receivables, net | | | - | - |
| Accounts | 103,581 | - | 719,769 | 823,350 |
| Property taxes | 173,004 | 39,864 | - | 212,868 |
| Sales taxes | 516,493 | - | 163,815 | 680,308 |
| Fines receivable | 5,846 | - | - | 5,846 |
| Due from other funds | 3,842,067 | 256,000 | - | 4,098,067 |
| Prepaid expenses | - | - | 12,456 | 12,456 |
| Restricted | | | - | - |
| Cash | - | - | 2,544,763 | 2,544,763 |
| Intergovernmental Receivable | 25 | - | - | 25 |
| Investments | 3,750,335 | 352,454 | 3,213,873 | 7,316,662 |
| Total assets | \$ 14,711,362 | \$ 648,318 | \$ 12,545,140 | \$ 27,904,820 |
| LIABILITIES | | | | |
| Accounts payable | \$ 5,943,664 | \$ 1,338,127 | \$ 1,695,339 | \$ 8,977,130 |
| Accrued liabilities | 906,968 | - | 10,663 | 917,631 |
| Total liabilities | 6,850,632 | 1,338,127 | 1,706,002 | 9,894,761 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred inflows of property tax revenue | 178,850 | 39,864 | - | 218,714 |
| Total liabilities and deferred inflows of resources | 7,029,482 | 1,377,991 | 1,706,002 | 10,113,475 |
| FUND BALANCES | | | | |
| Fund balances: | | | | |
| Nonspendable | - | - | - | - |
| Restricted | 729,673 | (729,673) | 5,845,835 | 5,845,835 |
| Capital improvement | - | - | 4,742,834 | 4,742,834 |
| Committed | - | - | 21,046 | 21,046 |
| Assigned | - | - | - | - |
| Unassigned | 6,952,207 | - | 229,423 | 7,181,630 |
| Total fund balances | 7,681,880 | (729,673) | 10,839,138 | \$ 17,791,345 |
| Total liabilities, deferred inflows and fund balances | \$ 14,711,362 | \$ 648,318 | \$ 12,545,140 | |
| 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) | | | | 15,899,668 |
| Other long-term assets and liabilities are not available to pay for current-period expenditures, and therefore, are deferred in the funds | | | | 948,283 |
| 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) | | | | (16,659,480) |
| Compensated absences are not due and payable in the current period and therefore are not reported in the funds | | | | (395,913) |
| Net position of governmental activities | | | | \$ 17,583,903 |

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, 2025

| | General Fund | Debt Service Fund | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|----------------------|--------------------------------|--------------------------------|
| REVENUE: | | | | |
| General property taxes, interest and penalties | \$ 4,705,523 | \$ 1,091,433 | \$ - | \$ 5,796,956 |
| Sales tax | 3,026,487 | - | 1,011,918 | 4,038,405 |
| Hotel tax | - | - | 391,903 | 391,903 |
| Fines and forfeitures | 814,380 | - | - | 814,380 |
| Franchise tax | 620,737 | - | - | 620,737 |
| Mixed beverage tax | 873 | - | - | 873 |
| Rental fees | 39,169 | - | - | 39,169 |
| Intergovernmental | 708,923 | - | 914,576 | 1,623,499 |
| Licenses, fees and permits | 926,839 | - | 62,496 | 989,335 |
| Interest | 633,195 | 32,091 | 341,041 | 1,006,327 |
| Proceeds from disposition of property | 135,752 | - | - | 135,752 |
| Grant Revenue | - | - | 880,271 | 880,271 |
| Contributions and donations | - | - | - | - |
| Water/Sewer administrative fee | 98,644 | - | - | 98,644 |
| Oil and gas royalties | - | - | 94,101 | 94,101 |
| Impact Fees | - | - | 531,889 | 531,889 |
| Miscellaneous | 62,122 | 326 | 12,177 | 74,625 |
| Total Revenue | 11,772,644 | 1,123,850 | 4,240,372 | 17,136,866 |
| EXPENDITURES: | | | | |
| Current operating | | | | |
| General government | 2,076,515 | - | 368,040 | 2,444,555 |
| Public safety | 7,091,051 | - | 7,032 | 7,098,083 |
| Community development | 643,965 | - | 387,734 | 1,031,699 |
| Public works | 210,621 | - | 246,743 | 457,364 |
| Cultural and recreational | 627,537 | - | - | 627,537 |
| Social and welfare | 3,723 | - | - | 3,723 |
| Economic development | - | - | 485,161 | 485,161 |
| Capital Outlay | 1,166,423 | - | 2,791,246 | 3,957,669 |
| Debt Service | - | - | - | - |
| Principal | - | 1,027,744 | - | 1,027,744 |
| Interest | - | 517,392 | 5,062 | 522,454 |
| Paying agent | - | 1,550 | - | 1,550 |
| Total Expenditures | 11,819,835 | 1,546,686 | 4,291,018 | 17,657,539 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (47,191) | (422,836) | (50,646) | (520,673) |
| OTHER FINANCING SOURCES: | | | | |
| Bond proceeds received | - | - | 2,977,431 | 2,977,431 |
| Transfers in | (8,814) | 511,085 | 458,098 | 960,369 |
| Transfers out | (425,683) | (92,435) | (490,854) | (1,008,972) |
| NET CHANGE IN FUND BALANCES | (481,688) | (4,186) | 2,894,029 | 2,408,155 |
| FUND BALANCE - October 1, 2024 | 8,163,568 | (725,487) | 7,945,109 | 15,383,190 |
| FUND BALANCE - September 30, 2025 | <u>\$ 7,681,880</u> | <u>\$ (729,673)</u> | <u>\$ 10,839,138</u> | <u>\$ 17,791,345</u> |

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, 2025

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

| | |
|---|---------------------|
| Net change in fund balances - total governmental funds | \$ 2,408,155 |
| 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 | 3,957,669 |
| 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. | (1,024,919) |
| The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and interfund transfers) is to increase net position. | 742,988 |
| Net pension liability and related deferred inflows and outflows are not reported in the funds | 39,156 |
| 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. | 1,027,744 |
| 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. | (3,350,851) |
| 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>(395,913)</u> |
| Changes in net position of governmental activities | <u>\$ 3,404,029</u> |

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
STATEMENT OF NET POSITION
WATER AND SEWER PROPRIETARY FUND
September 30, 2025

ASSETS

| | |
|--|-------------------|
| Current assets: | |
| Equity in pooled cash and cash equivalents | \$ 4,437,952 |
| Investments | 80,410 |
| Accounts receivable (net of allowance for uncollectible amounts) | 5,113,662 |
| Other receivables | |
| Inventory | 283,559 |
| Restricted assets | |
| Cash | - |
| Deposits | 201,183 |
| Investments | 3,717,315 |
| Total current assets | <u>13,834,081</u> |
| Noncurrent assets: | |
| Capital assets, net | <u>55,105,775</u> |
| Total noncurrent assets | <u>55,105,775</u> |
| Total assets | 68,939,856 |

DEFERRED OUTFLOW OF RESOURCES

| | |
|-----------------------------------|----------------|
| Deferred bond discounts | 13,333 |
| Deferred OPEB assumptions | (3,806) |
| Deferred pension contributions | 85,579 |
| Deferred OPEB contributions | 1,009 |
| Deferred pension actuarial losses | 92,268 |
| | <u>188,383</u> |

LIABILITIES

| | |
|------------------------------|-------------------|
| Current liabilities: | |
| Accounts payable | 1,449,439 |
| Accounts payable - retainage | 1,600,160 |
| Accrued liabilities | 55,294 |
| Due to other funds | 4,098,067 |
| Deposits | 295,675 |
| Current portion | |
| Revenue bonds payable | 792,750 |
| Capital leases | 110,784 |
| Compensated absences | 44,379 |
| Total current liabilities | <u>8,446,548</u> |
| Noncurrent liabilities: | |
| Revenue bonds payable | 28,580,043 |
| Capital leases | 207,712 |
| Net OPEB liability | 12,581 |
| Net pension liability | 387,597 |
| Total noncurrent liabilities | <u>29,187,933</u> |
| Total liabilities | 37,634,481 |

DEFERRED INFLOW OF RESOURCES

| | |
|--------------------------|---------------|
| Deferred bond premiums | 2,939 |
| Deferred pension expense | 52,422 |
| | <u>55,361</u> |

NET POSITION

| | |
|---|----------------------|
| Invested in capital assets, net of related debt | 25,414,486 |
| Restricted for: | |
| Capital Improvements | 5,157,196 |
| Unrestricted | 866,715 |
| Total net position | <u>\$ 31,438,397</u> |

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
WATER AND SEWER PROPRIETARY FUND
For the Fiscal Year Ended September 30, 2025

OPERATING REVENUES:

| | | |
|--------------------------|----|-----------|
| Water service | \$ | 2,590,570 |
| Sewer service | | 2,077,455 |
| Garbage service | | 312,660 |
| Late charges | | 107,872 |
| Recycling fees | | 112,555 |
| Impact Fees | | 334,429 |
| Miscellaneous income | | 284,284 |
| Total operating revenues | | 5,819,825 |

OPERATING EXPENSES:

| | |
|--------------------------|-----------|
| Personnel services | 1,157,668 |
| Contractual services | 2,899,606 |
| Supplies and maintenance | 528,567 |
| Administrative fees | 98,644 |
| Other fees | 138,316 |
| Depreciation | 1,181,089 |
| Total operating expenses | 6,003,890 |

| | |
|-------------------------|-----------|
| Operating income (loss) | (184,065) |
|-------------------------|-----------|

NON-OPERATING REVENUES (EXPENSES)

| | |
|---------------------------------------|------------|
| Contributions in aide of construction | 10,652,572 |
| Interest income | 492,415 |
| Gain on sale of assets | 63,794 |
| Accretion of bond premiums/discounts | 32,348 |
| Bond costs | (74,374) |
| Interest expense | (667,745) |
| Net non-operating revenues (expenses) | 10,499,010 |

| | |
|---|------------|
| INCOME BEFORE CONTRIBUTIONS AND TRANSFERS | 10,314,945 |
|---|------------|

| | |
|-------------------------|--------------|
| Operating transfers in | 22,350,107 |
| Operating transfers out | (22,301,505) |
| Net transfers | 48,602 |

| | |
|------------------------|------------|
| CHANGE IN NET POSITION | 10,363,547 |
|------------------------|------------|

| | |
|-------------------------------|------------|
| NET POSITION, October 1, 2024 | 21,074,850 |
|-------------------------------|------------|

| | |
|----------------------------------|---------------|
| NET POSITION, September 30, 2025 | \$ 31,438,397 |
|----------------------------------|---------------|

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, 2025

CASH FLOWS FORM OPERATING ACTIVITIES:

| | | |
|---|----|--------------------|
| Cash received from: | | |
| Customers | \$ | 5,763,348 |
| Cash paid to/for: | | |
| Employees | | (1,029,867) |
| Suppliers | | <u>(3,796,331)</u> |
| Net cash flows provided by operating activities | | 937,150 |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | | |
|--|----|-------------------|
| Operating transfers out | \$ | (22,301,505) |
| Operating transfers in | | <u>22,350,107</u> |
| Net cash flows used by noncapital financing activities | | 48,602 |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

| | | |
|---|------------------|--------------|
| Acquistion and construction of capital assets | (21,878,962) | |
| Principal paid on bonds, notes and lease obligations | (765,700) | |
| Proceeds on sale of assets | 69,337 | |
| Contributions in aid of construction received | 6,168,615 | |
| Principal paid on capital leases | <u>(137,825)</u> | |
| Net cash flows used in capital and related financing activities | | (16,544,535) |

CASH FLOWS FROM INVESTING ACTIVITIES:

| | | |
|---|----------------|---------------------|
| Proceeds received from certificate of obligations | 2,545,050 | |
| Due to other funds | 3,477,696 | |
| Amount received from interest income | 492,415 | |
| Amount paid interest expense | (667,745) | |
| Proceeds received from leases | <u>232,449</u> | |
| Net cash flows provided by investing activities | | <u>6,079,865</u> |
| Net decrease in cash and cash equivalents | | (9,478,918) |
| Cash and cash equivalents, October 1, 2024 | | <u>17,915,778</u> |
| Cash and cash equivalents, September 30, 2025 | | <u>\$ 8,436,860</u> |

RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES

| | | | |
|---|----|--------------|-------------------|
| Operating income (loss) | | \$ | (184,065) |
| Adjustments for transactions not requiring cash | | | |
| Depreciation | \$ | 1,181,089 | |
| Gain on disposal of assets | | (63,794) | |
| Miscellaneous (income) expense | | 961 | |
| Accretion of bond premiums | | (32,348) | |
| Pension | | 107,746 | |
| Change in current assets and current liabilities | | | |
| (Increase) decrease in accounts receivable | | (51,452) | |
| (Increase) decrease in inventory | | (214,038) | |
| (Increase) decrease in other receivables | | - | |
| (Increase) decrease in deferred outflows | | (32,347) | |
| Increase (decrease) in accounts payable | | 178,021 | |
| Increase (decrease) in accrued liabilities | | (2,334) | |
| Increase (decrease) in due to other funds | | - | |
| Increase (decrease) in customer deposits | | (5,025) | |
| Increase (decrease) in net pension liability | | 44,623 | |
| Increase (decrease) in deferred inflows | | 1,322 | |
| Increase (decrease) in compensated absences payable | | <u>8,791</u> | |
| Total adjustments and changes | | | 1,121,215 |
| Net cash provided by operating activities | | | <u>\$ 937,150</u> |

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025

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, 2025. 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 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 the 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 charged 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 revenues 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 2025, 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." As of September 30, 2025 the City has total internal balances between the governmental activities and business-type activities of \$4,098,067.

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, 2025 was \$283,559.

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 2025.

Leases

Leases are defined by the general government as the right to use an underlying asset. As a 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 a 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 is 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. For the year ended September 30, 2025 the City did not have any long-term subscription based assets.

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

The City provides compensated absences to employees in the form of vacation, sick leave and other leave benefits. 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. Employees earn vacation 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. The City allows for the accrual of compensatory time for non-department heads. Compensatory and vacation time can either be paid or used.

Sick leave is earned by employees at established rates and may be accumulated without sick limit. Sick leave is not paid upon separation from service; however, unused sick leave may be used to satisfy vesting and service requirements for the City's postemployment benefits, as applicable.

In accordance with GASB Statement No. 101, *Compensated Absences*, a liability for compensated absences is recognized for leave that: (1) is attributable to past service, (2) accumulates, and (3) is more likely than not to be paid or settled through paid time off or other means.

As of September 30, 2025, the liability for accrued vacation and compensatory time, calculated in accordance with GASB Statements 101, "Compensated Absences," was \$395,913 in the general fund. The amount applicable to the proprietary fund was \$44,379 and was 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, 2025, the City chose to allocate a portion of the administrative services to the Water and Sewer Fund which totaled \$98,644.

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 the 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 spent first from restricted fund balance, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The City will utilize funds for expenditures from the most restrictive fund balance first when more than one fund balance classification is available. The City considers an amount spent when an expenditure incurred for purposes for which both *restricted* or *unrestricted* fund balance is available. In addition, the City considers an amount spent when an expenditure 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. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government’s accountability. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025 and reporting periods thereafter. The adoption of GASB 103 had no impact on the City.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. The City is in the process of evaluating the impact of this Statement on its financial statements.

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.

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 \$16,659,480 difference are as follows:

| | |
|--|----------------------|
| Bonds payable | \$ 11,751,400 |
| Premium on issuance of bonds | 914,726 |
| Capital lease payable | 751,612 |
| Notes payable | 147,194 |
| Net OPEB liability | 97,289 |
| Net pension liability | <u>2,997,259</u> |
| Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities | <u>\$ 16,659,480</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 \$15,899,668 difference are as follows:

| | |
|---|----------------------|
| Capital outlay | \$ 26,768,452 |
| Depreciation expense | <u>(10,868,784)</u> |
| Net adjustment to decrease net changes in fund balance – total governmental funds to arrive at changes in net position of government activities | <u>\$ 15,899,668</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, 2025. At year-end, the carrying amount of the City's deposits was \$(314,279), with respective bank balances of \$757,979. Included in the bank balances are Certificates of Deposit totaling \$201,208.

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 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, 2025, are:

| <u>Investments:</u> | <u>Fair Value</u> | <u>Effective Duration</u> | <u>Credit Risk</u> |
|---------------------|-------------------|---------------------------|--------------------|
| Government Pools | | | |
| Unrestricted | \$ 8,646,261 | N/A | AAAM |
| Restricted | \$ 11,033,977 | 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 the 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 of both 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, 2025, consisted of the following:

| | General | Debt Service | Other | Total | Proprietary Fund Water & Sewer Fund |
|--------------------------------------|------------|-----------------|------------|--------------|---|
| Taxes Receivable | | | | | |
| Ad valorem taxes | \$ 187,740 | \$43,259 | - | \$ 230,999 | - |
| Allowance for Uncollectible acct | (14,736) | (3,395) | - | (18,131) | - |
| Ad valorem, net | 173,004 | 39,864 | - | 212,868 | - |
| Sales taxes | 516,493 | - | \$ 163,815 | 680,308 | - |
| Total Taxes Receivable | 689,497 | 39,864 | 163,815 | 893,176 | |
| Services Receivable | | | | | |
| Service accounts | 103,581 | - | 719,769 | 823,350 | \$ 5,123,503 |
| Allowance for uncollectible accts | - | - | - | - | (9,841) |
| Total Services Receivable | 103,581 | - | 719,769 | 823,350 | 5,113,662 |
| Other Receivables | | | | | |
| Court fees & other | 496,522 | - | - | 496,522 | |
| Allowance for uncollectible accts | (490,676) | - | - | (490,676) | |
| | 5,846 | - | - | 5,846 | |
| Total Receivables | \$ 798,924 | \$39,864 | \$ 883,584 | \$ 1,722,372 | \$ 5,113,662 |

NOTE E – CHANGES IN CAPITAL ASSETS

Primary Government

Capital asset activity for the year ended September 30, 2025, is as follows:

| | Balance 9/30/24 | Additions | Retirements | Transfers | Balance 9/30/25 |
|---|----------------------|---------------------|--------------------|------------|----------------------|
| Land | \$ 919,058 | \$ -0- | \$ (-0-) | \$ -0- | \$ 919,058 |
| Construction in progress | 714,253 | 2,011,826 | (-0-) | -0- | 2,726,079 |
| Building & improvements | 3,770,348 | 305,469 | (-0-) | -0- | 4,075,817 |
| Infrastructure | 9,032,950 | 894,004 | (-0-) | -0- | 9,926,954 |
| Right to use assets | 3,758,153 | 631,199 | (211,374) | -0- | 4,177,978 |
| Parks improvements | 1,641,482 | 177,003 | (-0-) | -0- | 1,818,485 |
| Equipment | 2,691,161 | 432,920 | (-0-) | -0- | 3,124,081 |
| Total capital assets | <u>22,527,405</u> | <u>4,452,421</u> | <u>(211,374)</u> | <u>-0-</u> | <u>26,768,452</u> |
| Less accumulated depreciation: | | | | -0- | |
| Building & improvements | 1,129,111 | 97,141 | (-0-) | -0- | 1,226,252 |
| Infrastructure | 3,415,642 | 316,590 | (-0-) | -0- | 3,732,232 |
| Right to use assets | 2,753,968 | 344,421 | (182,058) | -0- | 2,916,331 |
| Parks improvements | 756,031 | 66,760 | (-0-) | -0- | 822,791 |
| Equipment | 1,971,171 | 200,007 | (-0-) | -0- | 2,171,178 |
| Total accumulated depreciation | <u>10,025,923</u> | <u>1,024,919</u> | <u>(182,058)</u> | <u>-0-</u> | <u>10,868,784</u> |
| Governmental activities capital assets, net | <u>\$ 12,501,482</u> | <u>\$ 3,427,502</u> | <u>\$ (29,316)</u> | <u>-0-</u> | <u>\$ 15,899,668</u> |

Business-Type Activities

Capital asset activity for the year ended September 30, 2025, is as follows:

| | Balance 9/30/24 | Additions | Retirements | Transfers | Balance 9/30/25 |
|--|----------------------|----------------------|-------------------|---------------|----------------------|
| Land | \$ 1,005,509 | \$ -0- | \$ (-0-) | \$ -0- | \$ 1,005,509 |
| Construction in Progress | 17,397,854 | 21,242,203 | (-0-) | (2,740,589) | 35,899,468 |
| Building & Improvements | 10,033 | -0- | (-0-) | -0- | 10,033 |
| Water System | 15,413,690 | -0- | (-0-) | -0- | 15,413,690 |
| Sewer System | 12,704,027 | 373,043 | (-0-) | 2,740,589 | 15,817,659 |
| Equipment | 634,583 | 471 | (-0-) | -0- | 635,054 |
| Infrastructure | -0- | 7,000 | (-0-) | -0- | 7,000 |
| Right to use assets | 420,842 | 256,245 | (87,659) | -0- | 589,429 |
| Total capital assets | <u>47,586,538</u> | <u>21,878,962</u> | <u>(87,659)</u> | <u>-0-</u> | <u>69,377,841</u> |
| Less accumulated depreciation: | | | | | |
| Building & Improvements | 2,175 | 200 | (-0-) | -0- | 2,375 |
| Water System | 6,773,498 | 665,546 | (-0-) | -0- | 7,439,044 |
| Sewer System | 5,688,648 | 385,472 | (-0-) | -0- | 6,074,120 |
| Equipment | 502,623 | 39,686 | (-0-) | -0- | 539,309 |
| Infrastructure | -0- | 97 | (-0-) | -0- | 97 |
| Right to use assets | 206,149 | 93,088 | (82,116) | -0- | 217,120 |
| Total accumulated depreciation | <u>13,173,093</u> | <u>1,181,089</u> | <u>(82,116)</u> | <u>-0-</u> | <u>14,272,066</u> |
| Business-type activities capital assets, net | <u>\$ 34,413,445</u> | <u>\$ 20,697,873</u> | <u>\$ (5,543)</u> | <u>\$ -0-</u> | <u>\$ 55,105,775</u> |

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

| | |
|--|--------------------|
| Governmental activities: | |
| General government | \$ 67,440 |
| Public safety | 396,028 |
| Public works | 69,182 |
| Cultural and recreational | 2,870 |
| Community development | 451,989 |
| Social and welfare | 25,930 |
| Economic | 11,480 |
| Total depreciation expense – governmental activities | <u>\$1,024,919</u> |
| Business-type activities: | |
| Water and sewer | <u>\$1,181,089</u> |

NOTE F – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

For the year ended September 30, 2025, expenditures exceeded revenues in the General Fund by \$47,191.

NOTE G – INTERFUND BALANCES AND TRANSFERS – GOVERNMENT WIDE

The composition of interfund operating transfers for the year ended September 30, 2025, is as follows:

| Fund | Transfer to Other Funds | Transfer from Other Funds |
|-----------------------------|----------------------------|------------------------------|
| General Fund | \$ 425,683 | \$ (8,814) |
| Debt Service Fund | 92,435 | 511,085 |
| Nonmajor Governmental Funds | 490,854 | 458,098 |
| Water and Sewer Fund | 22,301,505 | 22,350,108 |
| | <u>\$23,310,477</u> | <u>\$ 23,310,477</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, 2025, 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% | \$ 2,005,000 |
| Add: Net premium on general obligation refunding bond | 51,737 |
| \$2,062,000 General Obligation Refunding Bonds, Series 2019, to refinance the City's debt. 25% is recorded in general fund. 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%. | 78,000 |
| \$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%. | 3,895,000 |
| Add: Net premium on combination tax and revenue certificates of obligation bond | 403,994 |
| \$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% | 2,975,000 |
| Add: Net premium on general obligation refunding bond | 355,813 |
| \$5,415,000 Combination Tax & Revenue Certificates of Obligation, Series 2024, for City improvements. 53% allocated to general fund and the other 47% allocated to the proprietary fund. Principal payments begin August 2025 and are due in annual installments ranging from \$135,000 to \$335,000 through August 2049, interest payments ranging from \$7,119 to 116,044 from February 2025 to August 2049 with interest rate at 4%. | 2,798,400 |
| Add: Net premium on combination tax and revenue certificates of obligation bond | 103,182 |
| Total Certificate of obligations | <u>\$12,666,126</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 |
|-----------------------------|--------------|------------|--------------|--------------|
| 2026 | \$ 659,250 | \$ 70,789 | \$ 422,657 | \$ 1,152,696 |
| 2027 | 686,550 | 70,789 | 398,616 | 1,155,955 |
| 2028 | 699,200 | 70,789 | 376,639 | 1,146,628 |
| 2029 | 726,850 | 70,789 | 351,979 | 1,149,618 |
| 2030 | 752,150 | 70,789 | 326,336 | 1,149,275 |
| 2031 – 2035 | 4,171,700 | 302,209 | 1,204,982 | 5,678,891 |
| 2036 – 2040 | 2,680,350 | 219,878 | 525,469 | 3,425,697 |
| 2041 - 2049 | 1,375,350 | 38,694 | 295,820 | 1,709,864 |
| Total | \$11,751,400 | \$ 914,726 | \$ 3,902,498 | \$16,568,624 |

Notes Payable:

Notes Payable debt outstanding at September 30, 2025, is comprised of the following:

| Description of Debt | Amount |
|--|------------|
| Note payable secured by vehicle costing \$678,182 maturing November 2027, requiring annual installments of \$76,572 including interest accruing at 2.69% | \$ 147,194 |
| Total | \$ 147,194 |

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

| Year Ending September 30 | Principal | Interest | Total |
|-----------------------------|------------|----------|------------|
| 2026 | \$ 72,610 | \$ 3,962 | \$ 76,572 |
| 2027 | 74,584 | 2,007 | 76,591 |
| Total | \$ 147,194 | \$ 5,969 | \$ 153,163 |

Leases Payable:

Leases payable debt outstanding at September 30, 2025, is comprised of the following:

| Description of Lease Debt | Amount |
|--|----------|
| On 10/01/2021, Alvarado, TX entered into a 53-month lease as Lessee 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 \$794. The lease has an interest rate of 0.4750%. The lease has a guaranteed residual value payment of \$3,030. | \$ 4,757 |

| <u>Description of Lease Debt</u> | <u>Amount</u> |
|--|---------------|
| On 10/01/2021, Alvarado, TX entered into a 53-month lease as Lessee 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 \$794. The lease has an interest rate of 0.4750%. The lease has a guaranteed residual value payment of \$3,030. | 4,757 |
| On 10/01/2021, Alvarado, TX entered into a 54-month lease as Lessee 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 \$797. The lease has an interest rate of 0.6320%. The lease has a guaranteed residual value payment of \$3,031. | 5,564 |
| On 10/11/2021, Alvarado, TX entered into a 60-month lease as Lessee 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 \$807. The lease has an interest rate of 0.6320%. The lease has a guaranteed residual value payment of \$3,051. | 10,448 |
| On 10/01/2021, Alvarado, TX entered into a 56-month lease as Lessee 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 \$800. The lease has an interest rate of 0.6320%. The lease has a guaranteed residual value payment of \$3,054. | 6,383 |
| 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 and is required to make monthly fixed payments of \$875. The lease has an interest rate of 2.6820%. The lease has a guaranteed residual value payment of \$2,999. | 23,733 |
| On 07/15/2022, Alvarado, TX entered into a 60-month lease as Lessee 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 \$681. The lease has an interest rate of 2.3660%. The lease has a guaranteed residual value payment of \$2,435. | 14,641 |
| On 03/01/2022, Alvarado, TX entered into a 60-month lease as Lessee 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. The lease has an interest rate of 0.6857%. The lease has a guaranteed residual value payment of \$2,039. | 9,543 |
| On 03/01/2022, Alvarado, TX entered into a 60-month lease as Lessee 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. The lease has an interest rate of 0.6320%. The lease has a guaranteed residual value payment of \$2,038. | 9,547 |

| <u>Description of Lease Debt</u> | <u>Amount</u> |
|--|---------------|
| 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 and is required to make monthly fixed payments of \$867. The lease has an interest rate of 2.6820%. The lease has an unguaranteed residual value of \$3,007. | 24,307 |
| 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 and is required to make monthly fixed payments of \$1,050. The lease has an interest rate of 2.6820%. The lease has an unguaranteed residual value of \$3,504. | 29,452 |
| 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 and is required to make monthly fixed payments of \$1,170. The lease has an interest rate of 2.3100%. The lease has an unguaranteed residual value of \$3,942. | 37,195 |
| On 01/29/2024, Alvarado, TX entered into a 60-month lease as Lessee for the use of Vehicle - Unit# 27M3WR. An initial lease liability was recorded in the amount of \$77,757 and is required to make monthly fixed payments of \$1,375. The lease has an interest rate of 2.3100%. The lease has an unguaranteed residual value of \$4,683. | 52,648 |
| On 02/15/2024, Alvarado, TX entered into a 60-month lease as Lessee for the use of Vehicle - Unit# 26K9QZ. An initial lease liability was recorded in the amount of \$46,444 and is required to make monthly fixed payments of \$1,185. The lease has an interest rate of 2.3100%. The lease has an unguaranteed residual value of \$3,974. | 46,444 |
| On 06/16/2024, Alvarado, TX entered into a 48-month lease as Lessee for the use of Vehicle - Unit# 27L4ZS. An initial lease liability was recorded in the amount of \$43,384 and is required to make monthly fixed payments of \$1,256. The lease has an interest rate of 2.3100%. The lease has an unguaranteed residual value of \$15,794. | 43,384 |
| On 09/17/2024, Alvarado, TX entered into a 24-month lease as Lessee for the use of Vehicle - Unit# 28543V. An initial lease liability was recorded in the amount of \$22,617 and is required to make monthly fixed payments of \$952. The lease has an interest rate of 2.4030%. The lease has an unguaranteed residual value of \$15,721. | 11,211 |

| <u>Description of Lease Debt</u> | <u>Amount</u> |
|--|---------------|
| On 03/24/2025, Alvarado, TX entered into a 48-month lease as Lessee for the use of Vehicle - Unit# 28NJR4. An initial lease liability was recorded in the amount of \$54,724 and is required to make monthly fixed payments of \$1,177. The lease has an interest rate of 2.8990%. The lease has an unguaranteed residual value of \$14,660. | 48,016 |
| On 12/02/2024, Alvarado, TX entered into a 48-month lease as Lessee for the use of Vehicle - Unit# 28LVFG. An initial lease liability was recorded in the amount of \$32,853 and is required to make monthly fixed payments of \$690. The lease has an interest rate of 2.3700%. The lease has an unguaranteed residual value of \$8,265. | 26,513 |
| On 11/04/2024, Alvarado, TX entered into a 48-month lease as Lessee for the use of Vehicle - Unit# 28HM56. An initial lease liability was recorded in the amount of \$32,651 and is required to make monthly fixed payments of \$752. The lease has an interest rate of 2.3700%. The lease has an unguaranteed residual value of \$9,114. | 27,486 |
| On 11/21/2024, Alvarado, TX entered into a 48-month lease as Lessee for the use of Vehicle - Unit# 28G46C. An initial lease liability was recorded in the amount of \$32,651 and is required to make monthly fixed payments of \$694. The lease has an interest rate of 2.3700%. The lease has an unguaranteed residual value of \$8,550. | 25,373 |
| On 01/2020/25, Alvarado, TX entered into a 60-month lease as Lessee for the use of Vehicle - Unit# 28FZS9. An initial lease liability was recorded in the amount of \$44,377 and is required to make monthly fixed payments of \$777. The lease has an interest rate of 2.8990%. The lease has an unguaranteed residual value of \$2,703. | 38,615 |
| On 06/02/2025, Alvarado, TX entered into a 48-month lease as Lessee for the use of Vehicle - Unit# 28BG6Q. An initial lease liability was recorded in the amount of \$45,951 and is required to make monthly fixed payments of \$974. The lease has an interest rate of 2.8220%. The lease has an unguaranteed residual value of \$12,185. | 42,404 |

| <u>Description of Lease Debt</u> | <u>Amount</u> |
|--|-------------------|
| On 02/18/2025, Alvarado, TX entered into a 48-month lease as Lessee for the use of Vehicle - Unit# 283P54. An initial lease liability was recorded in the amount of \$49,258 and is required to make monthly fixed payments of \$1,057. The lease has an interest rate of 2.8990%. The lease has an unguaranteed residual value of \$13,085. | 42,170 |
| On 06/19/2025, Alvarado, TX entered into a 60-month lease as Lessee for the use of Vehicle - Unit# 289PCT. An initial lease liability was recorded in the amount of \$59,314 and is required to make monthly fixed payments of \$1,182. The lease has an interest rate of 7.5200%. | 56,524 |
| On 08/29/2025, Alvarado, TX entered into a 60-month lease as Lessee for the use of Vehicle - Unit# 289PCV. An initial lease liability was recorded in the amount of \$71,275 and is required to make monthly fixed payments of \$1,414. The lease has an interest rate of 7.2000%. | 70,151 |
| On 07/01/2023, Alvarado, TX entered into a 48-month lease as Lessee for the use of Vehicle - Unit# 26L28M. An initial lease liability was recorded in the amount of \$24,933 and is required to make monthly fixed payments of \$605. The lease has an interest rate of 7.9900%. | 11,811 |
| On 06/17/2023, Alvarado, TX entered into a 60-month lease as Lessee for the use of Vehicle - Unit# 25V65W. An initial lease liability was recorded in the amount of \$48,475 and is required to make monthly fixed payments of \$956. The lease has an interest rate of 7.2500%. | 28,535 |
| Total | <u>\$ 751,612</u> |

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

| Year Ending September 30 | Principal | Interest | Total |
|-----------------------------|-------------------|------------------|-------------------|
| 2026 | \$ 257,819 | \$ 15,787 | \$ 273,606 |
| 2027 | 212,499 | 9,322 | 221,821 |
| 2028 | 173,860 | 3,256 | 177,116 |
| 2029 | 78,248 | 534 | 78,782 |
| 2030 | 29,186 | -0- | 29,186 |
| Total | \$ 751,612 | \$ 28,899 | \$ 780,511 |

Changes in government activities long-term liabilities:

The following is a summary of transactions affecting long-term liabilities for the year ended September 30, 2025:

| | Amounts payable at beginning of year | Amounts added during year 2025 | Amounts retired during fiscal year 2025 | Amounts payable at end of year | Amounts due within one year |
|------------------------------------|--------------------------------------|--------------------------------|---|--------------------------------|-----------------------------|
| Certificates of obligation | \$9,533,750 | \$2,869,950 | \$ (652,300) | \$ 11,751,400 | \$ 659,250 |
| Bond premiums | 878,034 | 107,481 | (70,789) | 914,726 | 70,789 |
| Subtotal bonds payable | 10,411,784 | 2,977,431 | (723,089) | 12,666,126 | 730,039 |
| Notes payable | 217,901 | -0- | (70,707) | 147,194 | 72,610 |
| Leases payable | 575,447 | 480,901 | (304,736) | 751,612 | 257,819 |
| Compensated absences | 298,289 | 97,624 | (-0-) | 395,913 | 395,913 |
| OPEB liability | 95,583 | 1,706 | (-0-) | 97,289 | -0- |
| Net pension liability | 2,862,492 | 134,767 | (-0-) | 2,997,259 | -0- |
| Total long-term liabilities | \$14,461,496 | \$3,692,429 | \$ (1,098,532) | \$ 17,055,393 | \$ 1,456,381 |

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, 2025, 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%. | \$ 1,520,000 |
| Add: Net premiums and discounts on certificates of obligations | 155,332 |
| \$2,062,000 General Obligation Refunding Bonds, Series 2019, to refinance the City's debt. 75% is recorded in water/sewer fund. 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%. | 234,000 |
| \$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%. | 24,345,000 |
| Add: Net premium on combination tax and revenues certificate of obligation | 545,358 |
| \$5,415,000 Combination Tax & Revenue Certificates of Obligation, Series 2024, for City improvements. 47% allocated to general fund and the other 47% allocated to the proprietary fund. Principal payments begin August 2025 and are due in annual installments ranging from \$135,000 to \$335,000 through August 2049, interest payments ranging from \$7,119 to 116,044 from February 2025 to August 2049 with interest rate at 4%. | 2,481,600 |
| Add: Net premium on combination tax and revenues certificate of obligation | 91,503 |
| Total | \$29,372,793 |

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 |
|-----------------------------|--------------|-------------------------|--------------|--------------|
| 2026 | 792,750 | 32,998 | 1,247,198 | 2,072,946 |
| 2027 | 588,450 | 32,998 | 1,215,277 | 1,836,725 |
| 2028 | 615,800 | 32,998 | 1,186,505 | 1,835,303 |
| 2029 | 648,150 | 32,998 | 1,156,415 | 1,837,563 |
| 2030 | 677,850 | 32,998 | 1,124,757 | 1,835,605 |
| 2031 – 2035 | 3,928,300 | 164,989 | 5,092,810 | 9,186,099 |
| 2036 – 2040 | 4,954,650 | 164,989 | 4,061,036 | 9,180,675 |
| 2041 – 2045 | 5,687,750 | 126,156 | 2,945,465 | 8,759,371 |
| 2046 – 2050 | 6,511,900 | 112,635 | 1,716,816 | 8,341,351 |
| 2051 - 2053 | 4,175,000 | 58,434 | 359,762 | 4,593,196 |
| Total | \$28,580,600 | \$ 792,193 | \$20,106,041 | \$49,478,834 |

Leases Payable:

Lease debt outstanding at September 30, 2025, is comprised of the following:

| <u>Description of Lease Debt</u> | <u>Amount</u> |
|--|---------------|
| On 12/14/2023, Alvarado, TX entered into a 48-month lease for the use of Vehicle - Unit# 25WPPD. An initial lease liability was recorded in the amount of \$41,093 and is required to make monthly fixed payments of \$926, including interest accruing at 2.3500%. The lease has a guaranteed residual value payment of \$11,401. | \$ 23,283 |
| On 01/05/2024, Alvarado, TX entered into a 48-month lease for the use of Vehicle - Unit# 26FHJC. An initial lease liability was recorded in the amount of \$21,601 and is required to make monthly fixed payments of \$843, including interest accruing at 2.3500%. The lease has a guaranteed residual value payment of \$10,502. | 21,601 |
| On 01/05/2024, Alvarado, TX entered into a 48-month lease for the use of Vehicle - Unit# 26FHJG. An initial lease liability was recorded in the amount of \$36,849 and is required to make monthly fixed payments of \$839, including interest accruing at 2.3500%. The lease has a guaranteed residual value payment of \$9,751. | 21,503 |
| On 01/05/2024, Alvarado, TX entered into a 48-month lease for the use of Vehicle - Unit# 26FHJJ. An initial lease liability was recorded in the amount of \$36,896 and is required to make monthly fixed payments of \$840, including interest accruing at 2.3500%. The lease has a guaranteed residual value payment of \$10,470. | 21,531 |

| <u>Description of Lease Debt</u> | <u>Amount</u> |
|--|-------------------|
| On 10/24/2023, Alvarado, TX entered into a 48-month lease for the use of Vehicle - Unit# 26FHJP. An initial lease liability was recorded in the amount of \$34,867 and is required to make monthly fixed payments of \$824, including interest accruing at 3.5290%. The lease has a guaranteed residual value payment of \$10,038. | 18,642 |
| On 01/05/2024, Alvarado, TX entered into a 48-month lease for the use of Vehicle - Unit# 26FHJB. An initial lease liability was recorded in the amount of \$37,040 and is required to make monthly fixed payments of \$843, including interest accruing at 2.3500%. The lease has a guaranteed residual value payment of \$10,509. | 21,615 |
| On 04/09/2025, Alvarado, TX entered into a 48-month lease for the use of Vehicle - Unit# 283P56. An initial lease liability was recorded in the amount of \$49,372 and is required to make monthly fixed payments of \$1,051, including interest accruing at 2.8220%. The lease has a guaranteed residual value payment of \$13,196. | 43,875 |
| On 10/16/2024, Alvarado, TX entered into a 48-month lease for the use of Vehicle - Unit# 2853LX. An initial lease liability was recorded in the amount of \$46,325 and is required to make monthly fixed payments of \$1,001, including interest accruing at 2.3700%. The lease has a guaranteed residual value payment of \$12,509. | 35,668 |
| On 12/11/2024, Alvarado, TX entered into a 48-month lease for the use of Vehicle - Unit# 2853NF. An initial lease liability was recorded in the amount of \$49,350 and is required to make monthly fixed payments of \$1,027, including interest accruing at 2.3700%. The lease has a guaranteed residual value payment of \$12,946. | 40,042 |
| On 11/20/2024, Alvarado, TX entered into a 48-month lease for the use of Vehicle - Unit# 2853MR. An initial lease liability was recorded in the amount of \$47,700 and is required to make monthly fixed payments of \$1,027, including interest accruing at 2.3700%. The lease has a guaranteed residual value payment of \$12,755. | 37,798 |
| On 01/06/2025, Alvarado, TX entered into a 48-month lease for the use of Vehicle - Unit# 289WNW. An initial lease liability was recorded in the amount of \$39,702 and is required to make monthly fixed payments of \$845, including interest accruing at 2.8990%. The lease has a guaranteed residual value payment of \$10,452. | 32,938 |
| Total | <u>\$ 318,496</u> |

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

| Year Ending September 30 | Principal | Interest | Total |
|-----------------------------|-------------------|------------------|-------------------|
| 2026 | \$ 110,784 | \$ 6,881 | \$ 117,665 |
| 2027 | 127,691 | 3,417 | 131,108 |
| 2028 | 64,496 | 1,134 | 65,630 |
| 2029 | 15,525 | 117 | 15,643 |
| Total | \$ 318,496 | \$ 11,550 | \$ 330,046 |

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, 2025:

| | Amounts payable at beginning of year | Amounts added during year 2025 | Amounts retired during fiscal year 2025 | Amounts payable at end of year | Amounts due within one year |
|------------------------------------|--------------------------------------|--------------------------------|---|--------------------------------|-----------------------------|
| Certificates of obligation | \$26,801,250 | \$ 2,545,050 | \$ (765,700) | \$28,580,600 | \$ 792,750 |
| Bond premiums | 729,875 | 95,313 | (32,995) | 792,193 | 32,998 |
| Subtotal bonds payable | 27,531,125 | 2,640,363 | (798,695) | 29,372,793 | 825,748 |
| Leases payable | 223,872 | 232,449 | (137,825) | 318,496 | 110,784 |
| Compensated absences | 35,588 | 8,791 | (-0-) | 44,379 | 44,379 |
| OPEB liabilities | 11,489 | 1,092 | (-0-) | 12,581 | -0- |
| Net pension liabilities | 344,066 | 43,531 | (-0-) | 387,597 | -0- |
| Total long-term liabilities | \$28,146,140 | \$ 2,926,226 | \$ (936,520) | \$30,135,846 | \$ 980,911 |

NOTE I – RESTRICTED ASSETS

Restricted assets balance at September 30, 2025, was as follows:

| Fund | Cash & Deposits | Investments | Intergovernmental Receivable |
|------------------------|--------------------|---------------|---------------------------------|
| Government Activities: | | | |
| General Fund | \$ -0- | \$ 3,750,335 | \$ 25 |
| Court | -0- | 194,840 | -0- |
| Debt Service Fund | -0- | 352,454 | -0- |
| Special Projects | -0- | 3,019,033 | -0- |
| Impact Fees Funds | 2,544,763 | -0- | -0- |
| Water and Sewer Fund | -0- | 3,717,315 | 201,183 |
| | \$2,544,763 | \$ 11,033,977 | \$ 201,208 |

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

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

Benefits Provided

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

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

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

| | <u>Plan Year 2024</u> | <u>Plan Year 2023</u> |
|---|-----------------------|-----------------------|
| Employee deposit rate | 7% | 7% |
| 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, 2024, valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|--|------------|
| Inactive employees or beneficiaries currently receiving benefits | 84 |
| Inactive employees entitled to but not yet receiving benefits | 27 |
| Active employees | <u>66</u> |
| Total | <u>177</u> |

Contributions

The contribution rates for employees in TMRS is 7% of employee gross earnings, and the city matching percentage is 14.26%, 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 7% of their annual gross earnings during their fiscal year. The contribution rates for the City of Alvarado were 13.64% and 14.42% in calendar years 2023 and 2024 respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2024, were \$839,696 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2024, 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, 2024, 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 110% of the Public Safety table used for males and 100% of 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. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale MP-2021 to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are 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 MP-2021 to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2018 to December 31, 2022. The assumptions were adopted in 2023 and first used in the December 31, 2023, 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 estimates 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 weighing 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 2025 are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|-----------------------|-------------------|---|
| Global Equity | 35.0% | 7.1% |
| Core Fixed Income | 6.0% | 5.0% |
| Non-Core Fixed Income | 6.0% | 6.8% |
| Hedge Funds | 5.0% | 6.4% |
| Private Equity | 13.0% | 8.5% |
| Private Debt | 13.0% | 8.2% |
| Real Estate | 12.0% | 6.7% |
| Infrastructure | 6.0% | 6.0% |
| Other Private Mkts | 4.0% | 7.3% |
| Total | 100.0% | |

Discount Rate:

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

Changes in Net Pension Liability

| | Total Pension Liability (a) | Increase (Decrease) Plan Fiduciary Net Position (b) | Net Pension Liability (a) – (b) |
|---|--------------------------------|---|------------------------------------|
| Balance at 12/31/2023 | \$ 10,048,301 | \$ 6,841,743 | \$ 3,206,558 |
| Changes for the year: | | | |
| Service Cost | 1,007,758 | -0- | 1,007,758 |
| Interest | 700,095 | -0- | 700,095 |
| Changes in benefit terms | -0- | -0- | -0- |
| Difference between expected and actual experience | 449,120 | -0- | 449,120 |
| Changes of assumptions | -0- | -0- | -0- |
| Contributions – employer | -0- | 839,696 | (839,696) |
| Contributions – employee | -0- | 430,929 | (430,929) |
| Net investment income | -0- | 712,717 | (712,717) |
| Benefit payments, including refunds of employee contributions | (360,794) | (360,794) | -0- |
| Administrative expense | -0- | (4,559) | 4,559 |
| Other changes | -0- | (108) | 108 |
| Net changes | \$ 1,796,179 | \$ 1,617,881 | \$ 178,298 |
| Balance at 12/31/2024 | \$ 11,844,480 | \$ 8,459,624 | \$ 3,384,856 |

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 | \$5,461,847 | \$3,384,856 | \$1,713,441 |

Pension Plan Fiduciary Net Position:

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

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

For the year ended September 30, 2025, the city recognized pension expense of \$941,983.

At September 30, 2025, 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 | 4.3900 | \$ 449,120 | \$ 102,306 | \$ 346,814 |
| Difference in assumption changes actuarial (gains) or losses | 4.3900 | - | - | - |
| | | | <u>\$ 102,306</u> | <u>\$ 346,814</u> |
| <u>Due to Assets:</u> | | | | |
| Difference in projected and actual earnings on pension plan investments actuarial (gains) or losses | 5.0000 | \$ (250,899) | \$ (50,180) | \$ (200,719) |
| | | | <u>\$ (50,180)</u> | <u>\$ (200,719)</u> |
| <u>Total:</u> | | | | <u>\$ 146,095</u> |

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 |
|------------|---|
| 2025 | \$ 137,114 |
| 2026 | 210,021 |
| 2027 | 11,124 |
| 2028 | (10,283) |
| 2029 | - |
| Thereafter | - |
| Total | <u>\$ 347,976</u> |

NOTE K – OTHER POST-EMPLOYMENT BENEFITS – OPEB

Plan Description

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

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

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

The following employees were covered by the benefit terms at December 31, 2024, (measurement date):

| | |
|--|------------|
| Inactive employees or beneficiaries currently receiving benefits | 15 |
| Inactive employees entitled to but not yet receiving benefits | 10 |
| Active Employees | <u>84</u> |
| Total Employees | <u>109</u> |

Contributions

The contribution rates employees in SDBF is .03% of employee gross earnings, and the city matching percentages is .19%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the EAN actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year.

Employees for the City were required to contribute .03% of their gross earnings during the fiscal year. The contribution rates for the City were .19% and .17% in the calendar years 2024 and 2025 respectively. The City’s contributions to SDBF as of September 30, 2025, were \$8,811 and were equal to the required contributions.

Total OPEB Liability - SDBF

The City’s total OPEB liability of \$109,870 was measured as of December 31, 2024, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The City’s total OPEB liability in the December 31, 2024, 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, 2024 |
|-------------------------------------|---|
| Discount rate | 4.08%, based on the Fidelity Index’s “20-Year Municipal GO AA Index” rate as of December 31, 2024 |
| Inflation | 2.50% per year |
| Overall payroll growth | 3.60% to 11.85% 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. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence). |
| 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 the most recent Scale MP-2021 (with immediate convergence) to account for future mortality improvements subject to the floor. |

The actuarial assumptions used in the December 31, 2024, valuation were based on the results of an actuarial experience study for the period December 31, 2023.

Changes in Total OPEB Liability

| | Total OPEB Liability |
|--|-------------------------|
| Balance at 12/31/2023 | \$ 107,072 |
| Changes for the year: | |
| Service Cost | 10,465 |
| Interest on total OPEB liability | 4,199 |
| Differences between expected and actual experience | (3,412) |
| Changes in assumptions or other inputs | (6,607) |
| Benefit payments, aged adjusted premiums, net of retiree contributions | (1,847) |
| Balance at 12/31/2024 | \$ 109,870 |

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 4.08%. 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 (3.08%) | Current Discount Rate (4.08%) | 1% Increase in Discount Rate (5.08%) |
|----------------------|--|----------------------------------|--|
| Total OPEB Liability | \$133,184 | \$109,870 | \$91,694 |

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

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

For the year ended September 30, 2025, the City recognized OPEB expense of \$9,430. At September 30, 2025, 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 | \$ (21,494) | \$ -0- |
| Changes in expected and actual experience | (11,740) | -0- |
| Benefit payments subsequent to the measurement date | -0- | -0- |
| | \$ (33,234) | \$ -0- |
| Total | | \$ (33,234) |

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, 2025.

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 |
|------------|---|
| 2025 | (6,092) |
| 2026 | (5,032) |
| 2027 | (6,929) |
| 2028 | (9,444) |
| 2029 | (4,085) |
| Thereafter | (1,652) |
| | <hr/> |
| | <hr/> |
| | \$ (33,234) |

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 February 1, 2026, which is the same date that the financial statements were issued and noted no reportable subsequent events.

NOTE O – CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)

During the fiscal year ended September 30, 2025, the City received contributions in aid of construction totaling \$10,652,572. These contributions were provided primarily by developers to finance the construction and extension of water and sewer infrastructure necessary to serve new developments within the City’s service area. The contributions consisted primarily of cash.

The total amount of CIAC recognized as non-operating revenue in the City’s Water and Sewer Enterprise Fund was \$10,652,572. Of this amount, \$6,168,615 was received in cash and

\$4,483,957 as a receivable expected to be received within the next year. The related capital assets have been capitalized and will be depreciated over their estimated useful lives in accordance with the City's capital asset policy.

These contributions are nonexchange transactions and are reported as capital and related financing activities in the statement of cash flows.

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, 2025

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---|-------------------------|-------------------|-----------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUE: | | | | |
| General Property Taxes, Interest and Penalties | \$ 4,724,910 | \$ 4,724,910 | \$ 4,705,523 | \$ (19,387) |
| Sales tax | 2,512,861 | 2,997,102 | 3,026,487 | 29,385 |
| Fines and forfeitures | 985,000 | 985,000 | 814,380 | (170,620) |
| Franchise fees & rental fees | 586,930 | 586,930 | 620,737 | 33,807 |
| Rental fees | 45,470 | 45,470 | 39,169 | (6,301) |
| Mixed beverage tax | 800 | 800 | 873 | 73 |
| Licenses, fees and permits | 524,010 | 946,855 | 926,839 | (20,016) |
| Interest | 630,000 | 630,000 | 633,195 | 3,195 |
| Intergovernmental | 703,050 | 703,050 | 708,923 | 5,873 |
| Water/Sewer administrative fee | 92,112 | 92,112 | 98,644 | 6,532 |
| Charges for Services | 6,000 | 6,000 | - | (6,000) |
| Miscellaneous | 324,540 | 431,774 | 197,874 | (233,900) |
| Total Revenue | 11,135,683 | 12,150,003 | 11,772,644 | (377,359) |
| EXPENDITURES: | | | | |
| Current operating | | | | |
| General government | 2,046,555 | 2,537,271 | 2,076,515 | 460,756 |
| Public safety | 7,356,455 | 7,356,455 | 7,091,051 | 265,404 |
| Community development | 621,611 | 621,611 | 643,965 | (22,354) |
| Public works | 232,214 | 755,818 | 210,621 | 545,197 |
| Cultural and recreational | 878,848 | 878,848 | 627,537 | 251,311 |
| Social and welfare | - | - | 3,723 | (3,723) |
| Capital Outlay | - | - | 1,166,423 | (1,166,423) |
| Total Expenditures | 11,135,683 | 12,150,003 | 11,819,835 | 330,168 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | - | - | (47,191) | (47,191) |
| OTHER FINANCING SOURCES: | | | | |
| Loan proceeds | - | - | - | - |
| Transfers | - | - | (434,497) | (434,497) |
| NET CHANGE IN FUND BALANCES | - | - | (481,688) | (481,688) |
| FUND BALANCE - October 1, 2024 | - | - | 8,163,568 | 8,163,568 |
| FUND BALANCE - September 30, 2025 | \$ - | \$ - | \$ 7,681,880 | \$ 7,681,880 |

CITY OF ALVARADO, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
SEPTEMBER 30, 2025

Texas Municipal Retirement System

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

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---------------------|--------------------|---------------------|---------------------|--------------------|--------------------|---------------------|---------------------|----------------------|----------------------|
| Total Pension Liability | | | | | | | | | | |
| Service cost | \$ 229,927 | \$ 264,045 | \$ 278,523 | \$ 318,624 | \$ 342,548 | \$ 352,250 | \$ 351,619 | \$ 479,724 | \$ 789,068 | \$ 1,007,758 |
| Interest (on the Total pension liability) | 170,120 | 190,488 | 215,407 | 243,237 | 274,748 | 317,086 | 357,454 | 400,903 | 603,395 | 700,095 |
| Changes of benefit terms | - | - | - | - | - | - | - | 90,480 | 2,166,504 | - |
| Difference between expected and actual experience | (69,085) | (40,789) | 2,204 | 5,229 | 61,045 | 16,790 | (84,013) | (13,984) | 243,277 | 449,120 |
| Change of assumptions | 113,990 | - | - | - | 8,066 | - | - | - | (29,111) | - |
| Benefit payments, including refunds of employee contributions | (74,652) | (65,847) | (37,765) | (170,014) | (54,453) | (73,599) | (101,911) | (169,903) | (205,969) | (360,794) |
| Net Change in Total Pension Liability | 370,300 | 347,897 | 458,369 | 397,076 | 631,954 | 612,527 | 523,149 | 787,220 | 3,567,164 | 1,796,179 |
| Total Pension Liability - Beginning | 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 | 10,048,301 |
| Total Pension Liability - Ending (a) | \$ 2,722,945 | \$3,070,842 | \$ 3,529,211 | \$ 3,926,287 | \$4,558,241 | \$5,170,768 | \$5,693,917 | \$6,481,137 | \$ 10,048,301 | \$ 11,844,480 |
| Plan Fiduciary Net Position | | | | | | | | | | |
| Contributions - employer | \$ 99,341 | \$ 111,099 | \$ 137,684 | \$ 155,852 | \$ 165,378 | \$ 178,445 | \$ 178,314 | \$ 219,981 | \$ 313,597 | \$ 839,696 |
| Contributions - employee | 138,232 | 149,459 | 157,654 | 180,524 | 191,190 | 199,764 | 200,353 | 245,052 | 355,207 | 430,929 |
| Net investment income | 3,317 | 163,080 | 383,900 | (102,093) | 536,858 | 327,294 | 643,641 | (427,760) | 663,481 | 712,717 |
| Benefit payments, including refunds of employee contributions | (74,652) | (65,847) | (37,765) | (170,014) | (54,453) | (73,599) | (101,911) | (169,903) | (205,969) | (360,794) |
| Administrative expense | (2,020) | (1,840) | (1,987) | (1,972) | (3,030) | (2,114) | (2,976) | (3,696) | (4,211) | (4,559) |
| Other | (99) | (99) | (100) | (103) | (90) | (83) | 19 | 4,410 | (29) | (107) |
| Net Change in Plan Fiduciary Net Position | \$ 164,119 | \$ 355,852 | \$ 639,386 | \$ 62,194 | \$ 835,853 | \$ 629,707 | \$ 917,440 | \$ (131,916) | \$ 1,122,076 | \$ 1,617,881 |
| Plan Fiduciary Net Position - Beginning | 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 | 6,841,743 |
| Plan Fiduciary Net Position - Ending (b) | \$ 2,411,151 | \$2,767,003 | \$ 3,406,389 | \$ 3,468,583 | \$4,304,436 | \$4,934,143 | \$5,851,583 | \$5,719,667 | \$ 6,841,743 | \$ 8,459,624 |
| Net Pension Liability - Ending (a) - (b) | \$ 311,794 | \$ 303,839 | \$ 122,822 | \$ 457,704 | \$ 253,805 | \$ 236,625 | \$ (157,666) | \$ 761,470 | \$ 3,206,558 | \$ 3,384,856 |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 88.51% | 90.11% | 96.52% | 88.34% | 94.43% | 95.42% | 102.77% | 88.25% | 68.09% | 71.42% |
| Covered Employee Payroll | \$ 2,303,873 | \$2,490,988 | \$ 2,627,574 | \$ 3,008,729 | \$3,186,493 | \$3,329,396 | \$3,339,212 | \$3,881,261 | \$ 5,074,390 | \$ 6,156,126 |
| Net Pension Liability as a Percentage of Covered Payroll | 13.53% | 12.20% | 4.67% | 15.21% | 7.97% | 7.11% | -4.72% | 19.62% | 63.19% | 54.98% |

See accompanying notes and independent auditor's report

Schedule of Contributions
Last 10 Years

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|--|-----------|------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Actuarially Determined Contribution | \$ 99,341 | \$ 111,099 | \$ 137,684 | 155,852 | 165,378 | 178,445 | 178,314 | 219,981 | 313,597 | 839,696 |
| Contributions in relation to the actuarially determined contribution | 99,341 | 111,099 | 137,684 | 155,852 | 165,378 | 178,445 | 178,314 | 219,981 | 313,597 | 839,696 |
| Contribution deficiency (excess) | - | - | - | - | - | - | - | - | - | - |
| Covered employee payroll | 2,303,873 | 2,490,988 | 2,627,574 | 3,008,729 | 3,186,493 | 3,329,396 | 3,339,212 | 3,881,261 | 5,074,390 | 6,156,126 |
| Contributions as a percentage of covered employee payroll | 4.31% | 4.46% | 5.24% | 5.18% | 5.19% | 5.36% | 5.34% | 5.67% | 6.18% | 13.64% |

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 | 21 Years (longest amortization ladder) |
| Asset Valuation Method | 10 Year smooth market; 12% soft corridor |
| Inflation | 2.5% |
| Salary Increases | 3.6% to 11.85% including inflation |
| Investment Rate of Return | 6.75% |
| Retirement Age | Experience-based table of rates that vary by age Last updated for the 2023 valuation pursuant to an experience study of the period ending 2022. |
| Mortality | Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence). Pre-retirement: PUB(10) mortality tables, with 110% of the Public Safety table used for males and the 100% of the General Employee table used for females. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence). |

Other Information:

Notes

Adopted 100% repeating USC
Adopted 30% non-retroactive repeating COLA.

CITY OF ALVARADO, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
 SEPTEMBER 30, 2025

Texas Municipal Retirement System

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

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Total OPEB Liability | | | | | | | |
| Service cost | \$ 7,221 | \$ 7,010 | \$ 9,988 | \$ 11,353 | \$ 13,973 | \$ 7,104 | \$ 10,465 |
| Interest Cost (on total OPEB liability) | 2,480 | 2,803 | 2,827 | 2,719 | 2,689 | 3,937 | 4,199 |
| Changes of benefit terms | - | - | - | - | - | - | - |
| Difference between expected and actual experience | (2,167) | (3,497) | 1,084 | (8,712) | (3,911) | (2,079) | (3,412) |
| Change of assumptions | (6,480) | 19,771 | 19,244 | 4,757 | (56,437) | 5,468 | (6,607) |
| Benefit payments, including refunds of employee contributions | (301) | (319) | (333) | (1,002) | (1,553) | (2,030) | (1,847) |
| Net Change in Total OPEB Liability | 753 | 25,768 | 32,810 | 9,115 | (45,239) | 12,400 | 2,798 |
| Total Pension Liability - Beginning | 71,465 | 72,218 | 97,986 | 130,796 | 139,911 | 94,672 | 107,072 |
| Total Pension Liability - Ending (a) | \$ 72,218 | \$ 97,986 | \$ 130,796 | \$ 139,911 | \$ 94,672 | \$ 107,072 | \$ 109,870 |
| Covered Employee Payroll | \$ 3,008,729 | \$ 3,186,493 | \$ 3,329,396 | \$ 3,339,212 | \$ 3,881,261 | \$ 5,074,390 | \$ 6,156,126 |
| Total OPEB Liability as a Percentage of Covered Payroll | 2.40% | 3.08% | 3.93% | 4.19% | 2.44% | 2.11% | 1.78% |

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, 2024

Texas Municipal Retirement System

Schedule of Contributions - OPEB

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Actuarially Determined Contribution | \$ 3,941 | \$ 4,588 | \$ 4,642 | 4,034 | 5,434 | 9,261 | 8,399 |
| Contributions in relation to the actuarially determined contribution | 3,941 | 4,588 | 4,642 | 4,034 | 4,675 | 9,261 | 8,399 |
| Contribution deficiency (excess) | - | - | - | - | 759.00 | - | - |
| Covered employee payroll | 3,008,729 | 3,186,493 | 3,329,396 | 3,339,212 | 3,881,261 | 5,074,390 | 5,074,390 |
| Contributions as a percentage of covered employee payroll | 0.13% | 0.14% | 0.14% | 0.12% | 0.14% | 0.26% | 0.19% |

Notes to Schedule of Contributions

Valuation Date:

Notes

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

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|---|--|
| Inflation | 2.5% |
| Salary Increases | 3.6% to 11.85% including inflation |
| Discount Rate | 3.77%* |
| 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, 2023 valuation were based on the results of an actuarial experience study for the period ending December 31, 2022.

CITY OF ALVARADO, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2025

NOTE A – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

1. Budgetary Information

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

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

All unused appropriations, except appropriations for capital expenditures, lapse at the close of the fiscal year to the extent they have not been expended or encumbered. An appropriation for capital expenditures shall continue in force until the purpose for which it was made has been accomplished or abandoned if three (3) years pass without any disbursement from or encumbrance of the appropriation. No supplemental budgetary appropriations occurred in the debt service funds or in the general fund. The revised budgets are used for budget versus actual comparisons. Revenues in the general fund were less than budget by \$377,359 and expenditures were less than budget by \$330,168.

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 \$1,546,686.

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 \$214,278. The total actual capital outlays for the year in the general fund amounted to \$1,166,423.

SUPPLEMENTAL INFORMATION

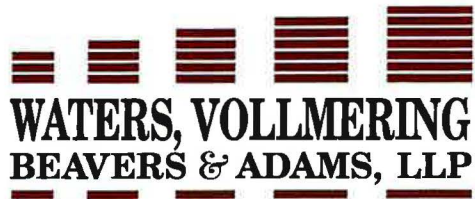
CITY OF ALVARADO, TEXAS
 COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUND
 GOVERNMENTAL FUNDS
 September 30, 2025

| | AEDC | Royalty Fund | Special Project Fund | Street Maintenance Fund | Court Revenue Fund | Habitat Occupancy Tax Fund | Prairielands Detention | Roadway Service Impact Area 1 | Roadway Service Impact Area 2 | Grant Fund | Juvenile Case Manager | Child Safety Fund | Court Technology | Insurance Proceeds | Grant - TXDel | Judicial Efficiency | Other Governmental Funds |
|---|--------------|--------------|----------------------|-------------------------|--------------------|----------------------------|------------------------|-------------------------------|-------------------------------|------------|-----------------------|-------------------|------------------|--------------------|---------------|---------------------|--------------------------|
| ASSETS | | | | | | | | | | | | | | | | | |
| Equity in pooled cash and cash equivalents | \$ 2,386,851 | \$ 56,443 | \$ - | \$ 150,455 | \$ - | \$ 146,849 | \$ 715,864 | - | \$ 2 | - | \$ 90,098 | \$ 17,754 | \$ 42,855 | \$ 21,046 | \$ - | \$ 14,762 | \$ 3,642,979 |
| Investments | 1,515,595 | 164,261 | - | - | - | 567,629 | - | - | - | - | - | - | - | - | - | - | 2,247,485 |
| Receivables, net | | | | | | | | | | | | | | | | | |
| Accounts | - | 9,248 | - | 86,081 | - | - | 87,720 | - | - | 241,400 | - | - | - | - | 295,320 | - | 719,769 |
| Property taxes | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Sales taxes | 86,082 | - | - | - | - | 77,733 | - | - | - | - | - | - | - | - | - | - | 163,815 |
| Fines receivable | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Due from other funds | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Prepaid expenses | - | - | - | - | - | 12,456 | - | - | - | - | - | - | - | - | - | - | 12,456 |
| Restricted | | | | | | | | | | | | | | | | | |
| Cash | - | - | - | - | - | - | - | 2,500,783 | 43,980 | - | - | - | - | - | - | - | 2,544,763 |
| Intergovernmental Receivable | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Investments | - | - | 3,019,033 | - | 194,840 | - | - | - | - | - | - | - | - | - | - | - | 3,213,873 |
| Total assets | \$ 3,988,528 | \$ 229,952 | \$ 3,019,033 | \$ 236,536 | \$ 194,840 | \$ 804,667 | \$ 803,584 | \$ 2,500,783 | \$ 43,982 | \$ 241,400 | \$ 90,098 | \$ 17,754 | \$ 42,855 | \$ 21,046 | \$ 295,320 | \$ 14,762 | \$ 12,545,140 |
| LIABILITIES | | | | | | | | | | | | | | | | | |
| Accounts payable | \$ 25,216 | \$ 529 | \$ 780,675 | - | \$ 35,461 | \$ 4,133 | \$ 23,188 | \$ 296,146 | - | \$ 222,079 | - | - | - | - | \$ 307,912 | - | \$ 1,695,339 |
| Accrued liabilities | 7,511 | - | - | - | - | 3,152 | - | - | - | - | - | - | - | - | - | - | 10,663 |
| Total liabilities | 32,727 | 529 | 780,675 | - | 35,461 | 7,285 | 23,188 | 296,146 | - | 222,079 | - | - | - | - | 307,912 | - | 1,706,002 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | | | | | | | | | | | | |
| Deferred inflows of property tax revenue | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total liabilities and deferred inflows of resources | 32,727 | 529 | 780,675 | - | 35,461 | 7,285 | 23,188 | 296,146 | - | 222,079 | - | - | - | - | 307,912 | - | 1,706,002 |
| FUND BALANCES | | | | | | | | | | | | | | | | | |
| Fund balances: | | | | | | | | | | | | | | | | | |
| Nonspendable | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Restricted | 3,955,801 | - | - | - | 159,379 | 797,382 | 780,396 | 2,204,637 | 43,982 | 19,321 | 90,098 | 17,754 | 42,855 | - | (12,592) | 14,762 | 5,845,835 |
| Capital improvement | - | - | 2,238,358 | 236,536 | - | - | - | - | - | - | - | - | - | - | - | - | 4,742,834 |
| Committed | - | - | - | - | - | - | - | - | - | - | - | - | - | 21,046 | - | - | 21,046 |
| Assigned | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Unassigned | - | 229,423 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 229,423 |
| Total fund balances | 3,955,801 | 229,423 | 2,238,358 | 236,536 | 159,379 | 797,382 | 780,396 | 2,204,637 | 43,982 | 19,321 | 90,098 | 17,754 | 42,855 | 21,046 | (12,592) | 14,762 | 10,839,138 |
| Total liabilities, deferred inflows and fund balances | \$ 3,988,528 | \$ 229,952 | \$ 3,019,033 | \$ 236,536 | \$ 194,840 | \$ 804,667 | \$ 803,584 | \$ 2,500,783 | \$ 43,982 | \$ 241,400 | \$ 90,098 | \$ 17,754 | \$ 42,855 | \$ 21,046 | \$ 295,320 | \$ 14,762 | \$ 12,545,140 |

CITY OF ALVARADO, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 OTHER GOVERNMENTAL FUNDS
 For the Fiscal Year Ended September 30, 2025

| | 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 | Juvenile Case Manager | Child Safety Fund | Court Technology | Insurance Proceeds | Grant Fund - TXDOT | Judicial Efficiency |
|---|---------------------|-------------------|-----------------------|-------------------------|--------------------|--------------------------|------------------------|-------------------------------|-------------------------------|------------------|-----------------------|-------------------|------------------|--------------------|--------------------|---------------------|
| REVENUE: | | | | | | | | | | | | | | | | |
| General property taxes, interest and penalties | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Sales tax | 505,959 | - | - | 505,959 | - | - | - | - | - | - | - | - | - | - | - | - |
| Hotel tax | - | - | - | - | - | 391,903 | - | - | - | - | - | - | - | - | - | - |
| Fines and forfeitures | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Franchise tax | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Mixed beverage tax | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Rental fees | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Intergovernmental | - | - | - | - | - | - | 914,576 | - | - | - | - | - | - | - | - | - |
| Licenses, fees and permits | - | - | - | - | 20,287 | - | - | - | - | - | 20,801 | 1,954 | 16,633 | - | - | 2,821 |
| Interest | 74,099 | 7,287 | 130,533 | 215 | 8,419 | 25,171 | 2,220 | 89,900 | 1,780 | 53 | 254 | 327 | 667 | 70 | - | 46 |
| Proceeds from disposition of property | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Grant Revenue | - | - | - | - | - | - | - | - | - | 296,327 | - | - | - | - | 583,944 | - |
| Contributions and donations | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Water/Sewer administrative fee | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Oil and gas royalties | - | 94,101 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Impact Fees | - | - | - | - | - | - | - | 528,695 | 3,194 | - | - | - | - | - | - | - |
| Miscellaneous | - | - | - | - | - | - | - | - | - | - | - | - | - | 12,177 | - | - |
| Total Revenue | 580,058 | 101,388 | 130,533 | 506,174 | 28,706 | 417,074 | 916,796 | 618,595 | 4,974 | 296,380 | 21,055 | 2,281 | 17,300 | 12,247 | 583,944 | 2,867 |
| EXPENDITURES: | | | | | | | | | | | | | | | | |
| Current operating | | | | | | | | | | | | | | | | |
| General government | - | - | 83,869 | - | - | - | - | - | - | 273,874 | - | - | - | 10,297 | - | - |
| Public safety | - | - | - | - | 1,005 | - | - | - | - | - | - | - | 6,027 | - | - | - |
| Community development | 387,734 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Public works | - | - | - | - | - | - | 246,743 | - | - | - | - | - | - | - | - | - |
| Cultural and recreational | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Social and welfare | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Economic development | - | 46,684 | - | 2 | - | 438,475 | - | - | - | - | - | - | - | - | - | - |
| Capital Outlay | 70,261 | 140,699 | 780,675 | 504,253 | - | 21,508 | 538,336 | - | - | 8,617 | - | - | - | - | 726,897 | - |
| Debt Service | | | | | | | | | | | | | | | | |
| Principal | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Interest | - | - | 5,062 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Paying agent | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Expenditures | 457,995 | 187,383 | 869,606 | 504,255 | 1,005 | 459,983 | 785,079 | - | - | 282,491 | - | - | 6,027 | 10,297 | 726,897 | - |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 122,063 | (85,995) | (739,073) | 1,919 | 27,701 | (42,909) | 131,717 | 618,595 | 4,974 | 13,889 | 21,055 | 2,281 | 11,273 | 1,950 | (142,953) | 2,867 |
| OTHER FINANCING SOURCES: | | | | | | | | | | | | | | | | |
| Bond proceeds received | - | - | 2,977,431 | - | - | - | - | - | - | 687 | - | - | - | - | 326,878 | - |
| Transfers in | - | - | 130,533 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Transfers out | - | - | (130,533) | - | - | - | (33,443) | (326,878) | - | - | - | - | - | - | - | - |
| NET CHANGE IN FUND BALANCES | 122,063 | (85,995) | 2,238,358 | 1,919 | 27,701 | (42,909) | 98,274 | 291,717 | 4,974 | 14,576 | 21,055 | 2,281 | 11,273 | 1,950 | 183,925 | 2,867 |
| FUND BALANCE - October 1, 2024 | 3,833,738 | 315,418 | - | 234,617 | 131,678 | 840,291 | 682,122 | 1,912,920 | 39,008 | 4,745 | 69,043 | 15,473 | 31,582 | 19,096 | (196,517) | 11,895 |
| FUND BALANCE - September 30, 2025 | \$ 3,955,801 | \$ 229,423 | \$ 2,238,358 | \$ 236,536 | \$ 159,379 | \$ 797,382 | \$ 780,396 | \$ 2,204,637 | \$ 43,982 | \$ 19,321 | \$ 90,098 | \$ 17,754 | \$ 42,855 | \$ 21,046 | \$ (12,592) | \$ 14,762 |

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, 2025, 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 February 1, 2026.

Report on 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.

- **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, some 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.

Certified Public Accountants

The City has taken continued steps for the upcoming audit year, to strengthen the separation of duties, including hiring a new accounting employee and looking to add another employee. Laura Cox, City of Alvarado Finance Officer, is working on putting new policies in place as the accounting staff continues to grow. Due to the City's limited number of accounting personnel, it is not always possible to achieve complete segregation of duties. We recommend that the City implement compensating controls, such as increased oversight by the City Council or Finance Committee, dual approvals for disbursements, and periodic independent review of reconciliations and financial reports, to mitigate the risks associated with limited segregation.

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

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

The City is continuing to take steps for the upcoming audit year for more timely bank reconciliations and monthly closings to be performed. The City has designated a specific employee to perform the monthly bank reconciliations. The City is actively looking at other ways to improve the timeliness of the monthly closings.

Report on 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 in 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 Beavers & Adams, LLP

Waters, Vollmering, Beavers & Adams, LLP
Mansfield, Texas
February 1, 2026