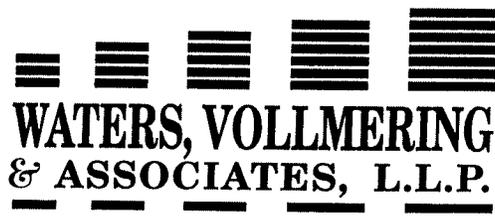


CITY OF ALVARADO, TEXAS
SEPTEMBER 30, 2008

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Alvarado, Texas (the City) as of and for the year then ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2009, on our consideration of the City of Alvarado, Texas' internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 to 16, and the required supplemental information on pages 47 through 49 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


Waters, Vollmering & Associates, LLP

Mansfield, Texas
February 10, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR ENDED SEPTEMBER 30, 2008

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, 2008. Comparative data is included for comparative 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 \$10,376,010 (net assets). Of this amount, \$3,759,974 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased this fiscal year by \$1,258,069.
- As of the close of the current fiscal year, the City of Alvarado's governmental funds reported combined ending fund balances of \$2,057,746. Approximately 90% or \$1,848,204 is available for spending at the City's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$615,535.
- The City's total liabilities increased by \$4,413,078 during the current fiscal year. The key factor in this increase was the issuance of new Certificate of Obligation debt.

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 assets* presents information on all of the City of Alvarado's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decrease in net assets 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 assets 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 7 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, the debt service fund and the royalty fund, all of which are considered major funds. Data from the other 3 funds are combined into a single, aggregated presentation.

Proprietary funds. The City of Alvarado maintains one type of proprietary fund. *Enterprise funds* are used to report same functions presented as *business-type activities* in the government-wide financial statements. The City of Alvarado uses an enterprise fund to account for its Water and Sewer Fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund, which is considered to be a major fund of the City of Alvarado.

Notes to the financial statement. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Alvarado, assets exceeded liabilities by \$10,376,010 at the close of the most recent fiscal year. This represents an increase of \$1,258,071 from the previous fiscal year.

The largest portion of the City of Alvarado's net assets is normally reflected by its investments in capital assets (e.g. land, buildings, machinery, and equipment) 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. This year the City's largest portion of net assets is shown in restricted capital assets. This is the result of a time difference between the issuance of general obligation debt to pay for the City's new wastewater treatment plant and the project not yet having been completed.

City of Alvarado's Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
Current Assets	\$1,715,534	\$2,408,206	\$1,661,665	\$5,904,739	\$3,377,198	\$8,312,945
Noncurrent Assets	3,826,834	3,939,888	7,876,164	8,503,627	11,703,001	12,443,515
Total Assets	<u>5,542,371</u>	<u>6,348,094</u>	<u>9,537,829</u>	<u>14,408,366</u>	<u>15,080,199</u>	<u>20,756,460</u>
Current Liabilities	468,610	516,513	282,923	457,411	751,532	973,924
Long-term Liabilities	945,993	914,232	4,264,735	8,492,294	5,210,728	9,406,526
Total Liabilities	<u>1,414,603</u>	<u>1,430,745</u>	<u>4,547,658</u>	<u>8,949,705</u>	<u>5,962,260</u>	<u>10,380,450</u>
Invested in capital assets, net of related debt	2,727,612	2,859,603	3,486,164	(262,373)	6,213,776	2,597,230
Restricted	188,948	209,542	-0-	3,809,264	188,948	4,018,806
Unrestricted	1,211,208	1,848,204	1,504,007	1,911,770	2,715,215	3,759,974
Total Net Assets	<u>\$4,127,768</u>	<u>\$4,917,349</u>	<u>\$4,990,171</u>	<u>\$5,458,661</u>	<u>\$9,117,939</u>	<u>\$10,376,010</u>

An additional portion of the City of Alvarado's net assets, \$4,018,806 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$3,759,974, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Alvarado is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

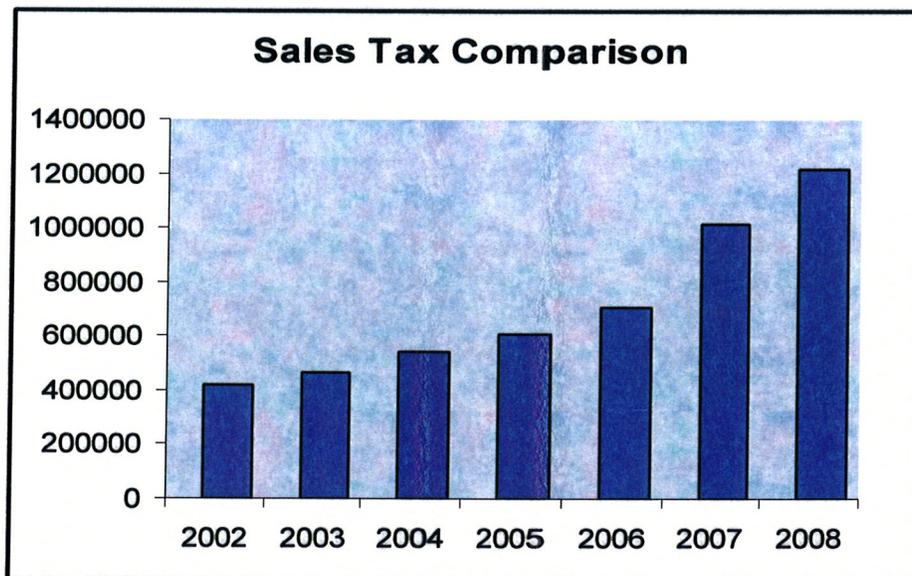
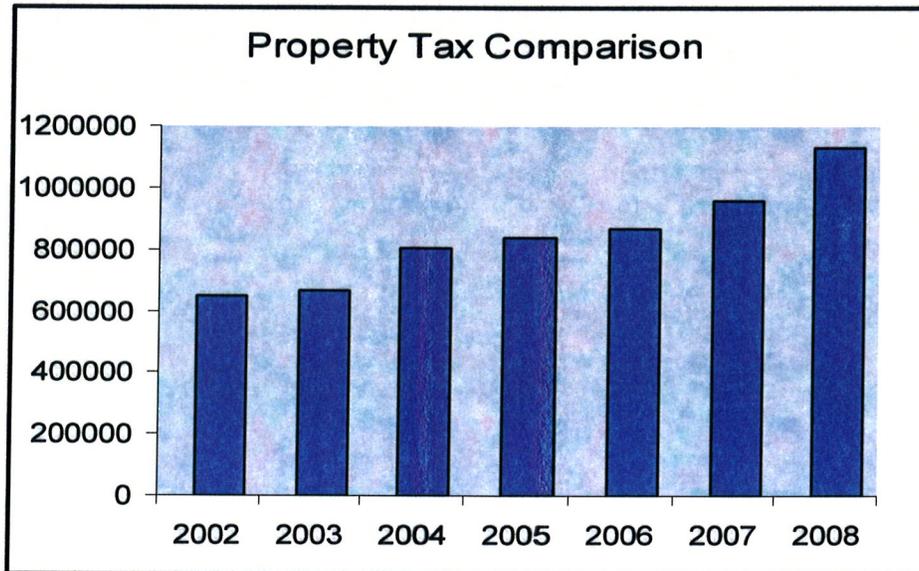
Analysis of the City's Operations – The following table provides a summary of the City's operations for the year ended September 30, 2008 that explains the increase in net assets.

City of Alvarado's Changes in Net Assets

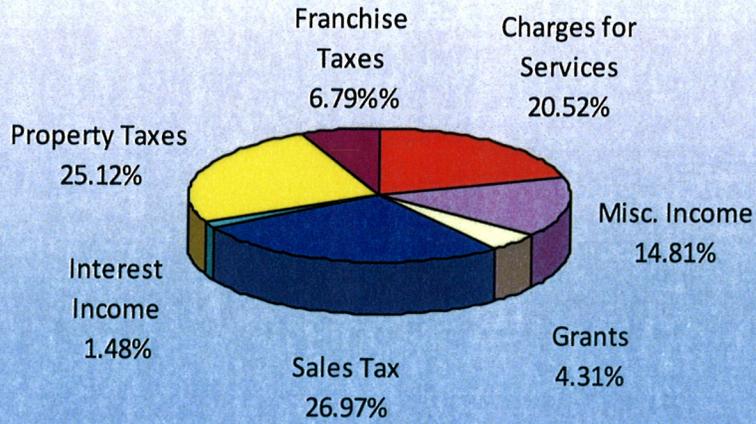
	Governmental Activities		Business Activities		Total	
	2007	2008	2007	2008	2007	2008
REVENUES:						
Program Revenues:						
Charges for Services	\$1,176,302	\$923,796	\$1,737,573	\$1,920,588	\$2,913,875	\$2,844,384
Operating Grants/Contributions	316,569	188,103	-0-	-0-	\$316,569	188,103
Capital Grants/Contributions	0	5,842	0-	0-	\$0	5,842
General Revenues:						
Property Taxes	960,927	1,130,583	-0-	-0-	\$960,927	1,130,583
Sales Tax	1,016,030	1,213,898	-0-	-0-	\$1,016,030	1,213,898
Franchise Tax	292,558	305,513	-0-	-0-	\$292,558	305,513
Administrative Fee	87,989	80,000	-0-	-0-	\$87,989	80,000
Interest Income	80,236	66,614	44,704	56,140	\$124,940	122,754
Other	77,210	588,227	-0-	-0-	\$77,210	588,227
Total Revenue	<u>4,007,821</u>	<u>4,502,576</u>	<u>1,782,277</u>	<u>1,976,728</u>	<u>5,790,098</u>	<u>6,479,304</u>
EXPENSES:						
General government	703,879	772,599	-0-	-0-	703,879	772,599
Public safety	1,860,528	2,169,061	-0-	-0-	1,860,528	2,169,061
Public works	176,361	150,202	-0-	-0-	176,361	150,202
Cultural & recreational	253,335	162,479	-0-	-0-	253,335	162,479
Social & welfare	369,320	173,255	-0-	-0-	369,320	173,255
Water & sewer	-0-	-0-	1,791,663	1,793,639	1,791,663	1,793,639
Total Expenses	<u>3,363,423</u>	<u>3,427,596</u>	<u>1,791,663</u>	<u>1,793,639</u>	<u>5,155,086</u>	<u>5,221,235</u>
Change in net assets before transfers	644,398	1,074,980	(9,386)	183,089	635,012	1,258,069
Transfers	(267,080)	(285,400)	267,080	285,400	0	0
Change in net assets	<u>377,318</u>	<u>789,580</u>	<u>257,694</u>	<u>468,489</u>	<u>635,012</u>	<u>1,258,069</u>
Net assets - Beginning	<u>3,750,451</u>	<u>4,127,769</u>	<u>4,732,478</u>	<u>4,990,172</u>	<u>8,482,929</u>	<u>9,117,941</u>
Net assets - Ending	<u>\$4,127,769</u>	<u>\$4,917,349</u>	<u>\$4,990,172</u>	<u>\$5,458,661</u>	<u>\$9,117,941</u>	<u>\$10,376,010</u>

Governmental Activities

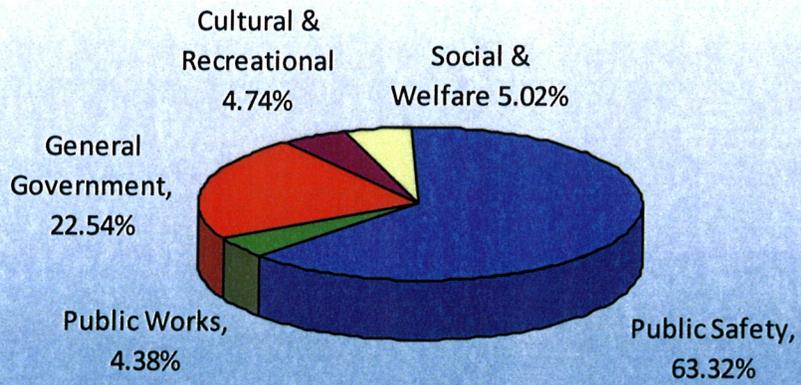
The City's general revenues increased when compared to the prior year by \$476,435 or 12.7%. The property taxes collected increased 17.7% due to the addition of new property throughout the City. The assessed value of the property in the City increased by \$26,165,508 compared to the previous year. The sales tax increased 19.5% compared to the prior year.



Revenues by Source - Governmental Activities

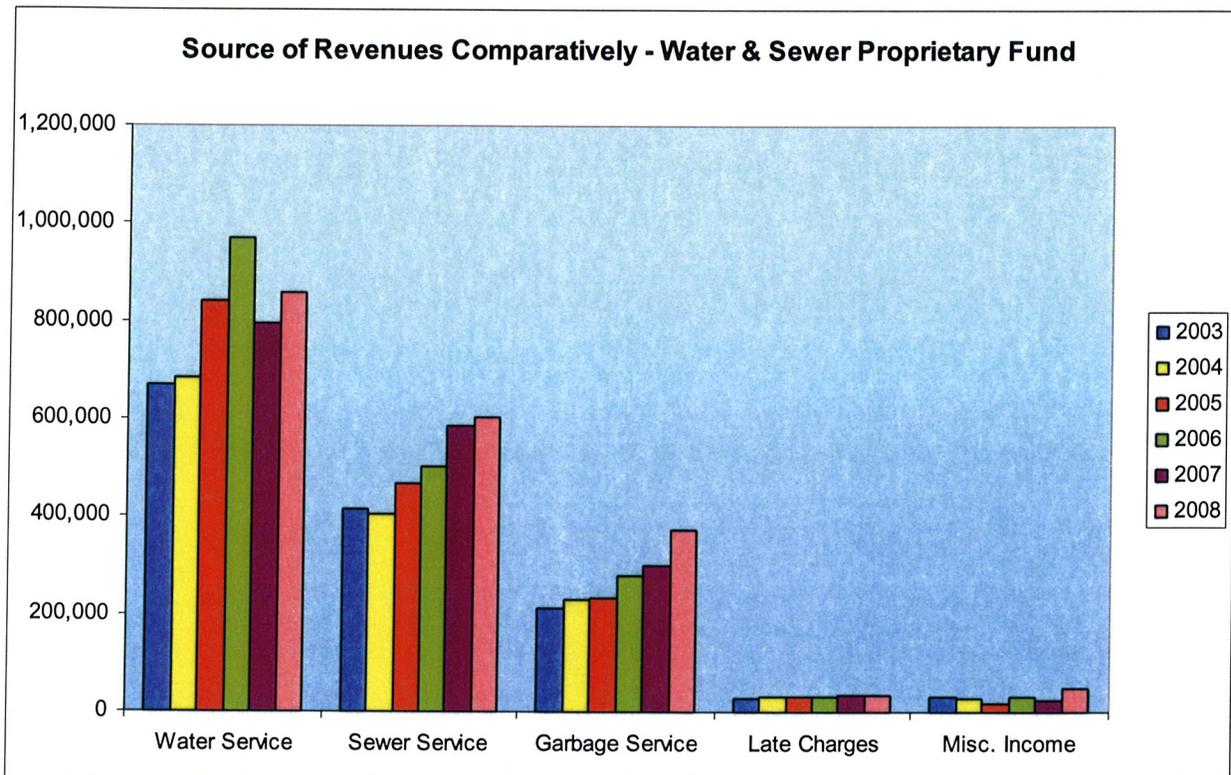


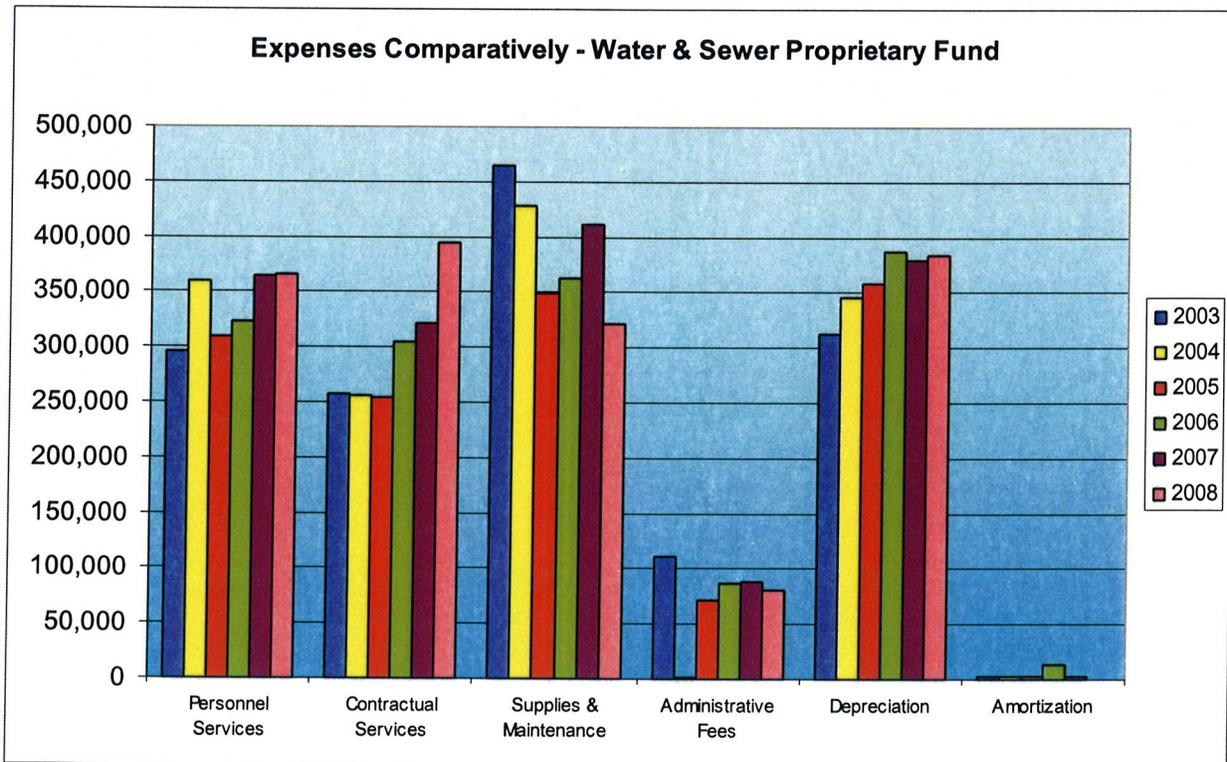
Expenses - Governmental Activities



Business-type activities

Revenues of the City's business-type activities were \$1,920,588 for the fiscal year ending September 30, 2008. Operating expenses for the City's business-type activities were \$ 1,547,551 for the year, resulting in a net operating profit of \$373,037. This net operating profit is based upon accrual accounting.





Financial Analysis of the Government's Funds

As noted earlier, the City of Alvarado uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of Alvarado'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 of Alvarado'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 \$2,057,746, an increase of \$657,590 in comparison with the prior year. Approximately \$1,848,204 of this total amount constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed (1) to pay debt service and (2) to pay for already designated capital improvement projects.

The general fund is the chief operating fund of the City of Alvarado. At the end of the current fiscal year, unreserved fund balance of the general fund was \$615,535.

The debt service fund has a total of \$124,686 which is reserved for the payment of debt service.

Proprietary funds. The City of Alvarado's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer fund at the end of the year amounted to \$1,911,770, an increase of \$407,762 in comparison with the prior year.

Capital Assets

The City of Alvarado's investment in capital assets for its governmental and business-type activities as of September 30, 2008, amounts to \$ 12,443,515 (net of accumulated depreciation.). This investment in capital assets includes land, buildings, equipment, infrastructure and construction in progress.

City of Alvarado's Capital Assets (Net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
Land	\$130,157	\$264,021	\$428,583	\$428,583	\$558,740	\$692,604
Buildings & Improvements	1,234,704	982,038	24,750	22,950	1,259,454	\$1,004,988
Infrastructure	1,871,750	1,880,605	-0-	-0-	1,871,750	\$1,880,605
Vehicles	357,624	325,135	27,553	17,986	385,177	\$343,121
Computer Equipment	4,112	18,291	-0-	-0-	4,095,295	\$18,291
Water System	-0-	-0-	4,091,183	4,047,078	2,637,518	\$4,047,078
Sewer System	-0-	-0-	2,637,518	2,560,267	236,750	\$2,560,267
Other Equipment	203,125	183,850	33,625	27,252	658,317	\$211,102
Construction in Progress	25,365	285,948	632,952	1,399,511	-0-	\$1,685,459
Total	\$3,826,837	\$3,939,888	\$7,876,164	\$8,503,627	\$11,703,001	\$12,443,515

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

- A new loafing shed for the Animal Control Department was built to house stray and lost animals within the City at the cost of \$12,022.
- Updated computer software was purchased for the Dispatch Department at the approximate cost of \$19,200.
- Painting the City's elevated water tower both inside and outside was completed during the year for \$62,800.
- 4 new vehicles were purchased and equipped for the Police Department at a cost of approximately \$90,000. This included 2 patrol vehicles and 2 administrative vehicles.
- Additional improvements were completed for Parkway Park including new walking trails, lights, swings, irrigation and landscaping for \$101,090.
- The Fire Department purchased a specialty washer & dryer set to allow cleaning bunker gear at the cost of \$14,136.
- Land was purchased on Highway 67 to build a future glass museum for \$144,865.
- New flooring was installed in The Council Chambers and entry at City Hall at the cost of approximately \$7,000.
- \$95,350 was spent during the year for water well repairs.
- Leonard Lift Station was upgraded for \$20,586.
- The new wastewater treatment plant construction continued with the City spending \$798,442 this budget year.

Debt Administration

Total Debt. The City of Alvarado's total debt outstanding at the end of the current fiscal year is \$9,860,579. This amount is an increase of \$4,361,620 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 \$9,281,330. Of this amount, \$8,858,000 is comprised of combination tax and revenue certificate of obligations debt to be paid from property tax revenue, as well as water and sewer revenues from the City. The remainder of the debt, \$423,330 is comprised of various notes for vehicles, equipment and buildings.

Current Debt. At the end of the current fiscal year, the City of Alvarado had total current liabilities of \$973,924 including accounts payable, accrued liabilities and current notes payable. \$336,352 of debt was retired during the fiscal year of 2008.

City of Alvarado Outstanding Debt at End of Year

	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
Certificates of Obligation	545,000	465,000	4,390,000	8,766,000	4,935,000	9,231,000
Capital Leases	409,523	492,532	-0-	-0-	409,523	492,532
Notes Payable	34,352	11,851	-0-	-0-	34,352	11,851
Compensated Absences	110,349	110,902	9,735	14,294	120,084	125,196
Totals	<u>1,099,224</u>	<u>1,080,285</u>	<u>4,399,735</u>	<u>8,780,294</u>	<u>5,498,959</u>	<u>9,860,579</u>

Economic Factors and Next Year's Budget and Rates

The City of Alvarado Economy

Economic Factors and Next Year's Budget and Rates

The City of Alvarado Economy

- The City benefits from its strategic location, which is approximately 20 miles from Fort Worth and 35 miles from Dallas.
- Alvarado has been fortunate to see continued increases in sales tax and property tax revenues.
- Local inflation factors remain low while the median income continues to rise.
- From January to December of 2008, 29 single family homes were permitted with an average value of \$110,500.
- Alvarado's third motel, La Quinta, opened this year.
- Alvarado Independent School District completed a new middle school and operation began upon the students return from winter break.
- The City began realizing royalties this year from 3 gas wells.
- Alvarado Shopping Center with approximately 10 rental spaces is currently under construction.
- Best Western Motel is under construction and will open next year.
- Other new commercial construction includes a Dairy Queen and AutoZone.
- Several restaurants are hoping to open in Alvarado within the next year.
- The City of Alvarado's property tax rate was \$.697313/100 for 2008.
- Huguley Clinic built and opened a new facility within the City.
- The City is working on cleaning up substandard buildings around town.
- Two local builders received awards from the City for their revitalization efforts.
- The new wastewater treatment plant is currently under construction and scheduled to be completed in May or June of 2009.

All of these factors were considered in preparing the City of Alvarado's budget for the 2009 fiscal year. The City estimated that its General Fund Operating Budget for fiscal year 2009 will increase approximately 4.7% or \$156,280 over fiscal year 2008 budget.

Requests for Information

This financial report is designed to provide a general overview of the City of Alvarado's finances for all those with an interest in the city's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Alvarado, Office of the Finance Director, 104 West College, Alvarado, Texas 76009.

BASIC FINANCIAL STATEMENTS

CITY OF ALVARADO, TEXAS
STATEMENT OF NET ASSETS
September 30, 2008

ASSETS	Governmental Activities	Business-type Activities	Total
Current assets:			
Cash	\$38,238	\$66,002	\$104,240
Deposits	-	-	-
Investments	2,190,623	1,143,642	3,334,265
Receivables			
Taxes receivable	109,194	-	109,194
Accounts receivable		249,539	249,539
Other	86,285	-	86,285
Inventory	-	53,013	53,013
Due from (to) other funds	(255,606)	255,606	-
Prepaid expenses	809	-	809
Restricted assets			
Cash	37,031	47,412	84,443
Deposits	-	114,742	114,742
Investments	201,632	1,534,143	1,735,775
Receivables from certificates of obligations	-	2,440,640	2,440,640
Total current assets	<u>2,408,206</u>	<u>5,904,739</u>	<u>8,312,945</u>
Noncurrent assets:			
Capital assets, net	3,939,888	8,503,627	12,443,515
Deferred bond issuance costs	-	-	-
Total noncurrent assets	<u>3,939,888</u>	<u>8,503,627</u>	<u>12,443,515</u>
 Total assets	 <u>6,348,094</u>	 <u>14,408,366</u>	 <u>20,756,460</u>
 LIABILITIES			
Current liabilities:			
Accounts payable	112,062	33,466	145,528
Accrued liabilities	129,204	15,275	144,479
Deferred tax revenue	109,194	-	109,194
Deposits	-	120,670	120,670
Current portion			
Notes payable	69,835	-	69,835
Revenue bonds payable	85,000	288,000	373,000
Capital leases	11,218	-	11,218
Total current liabilities	<u>516,513</u>	<u>457,411</u>	<u>973,924</u>
Noncurrent liabilities:			
Notes payable	422,696	-	422,696
Revenue bonds payable	380,000	8,478,000	8,858,000
Capital leases	634	-	634
Compensated absences	110,902	14,294	125,196
Total noncurrent liabilities	<u>914,232</u>	<u>8,492,294</u>	<u>9,406,526</u>
Total liabilities	<u>1,430,745</u>	<u>8,949,705</u>	<u>10,380,450</u>
 NET ASSETS			
Invested in capital assets, net of related debt	2,859,603	(262,373)	2,597,230
Restricted			
Debt service	124,686	-	124,686
Capital improvements	84,856	3,809,264	3,894,120
Unrestricted	1,848,204	1,911,770	3,759,974
Total net assets	<u>\$4,917,349</u>	<u>\$5,458,661</u>	<u>\$10,376,010</u>

See accompanying notes and auditor's report

CITY OF ALVARADO, TEXAS
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2008

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	\$772,599	\$97,227	-	-	(\$675,372)	-	(\$675,372)
Public safety	2,169,061	775,783	\$98,247	\$5,842	(1,289,189)	-	(1,289,189)
Public works	150,202	33,869	-	-	(116,333)	-	(116,333)
Cultural and recreational	162,479	7,978	6,836	-	(147,665)	-	(147,665)
Social and welfare	173,255	8,939	83,020	-	(81,296)	-	(81,296)
Total governmental activities	\$3,427,596	\$923,796	188,103	\$5,842	(\$2,309,855)	-	(\$2,309,855)
Business-type activities:							
Water and sewer	\$1,793,639	\$1,920,588	-	-	-	\$126,949	\$126,949
General revenues:							
Taxes:							
General property taxes					1,130,583	-	1,130,583
Sales tax					1,213,898	-	1,213,898
Franchise tax					305,513	-	305,513
Interest income					66,614	56,140	122,754
Administrative fee					80,000	-	80,000
Miscellaneous					588,227	-	588,227
Transfers					(285,400)	285,400	-
Total general revenues and proceeds					3,099,435	341,540	3,440,975
Change in net assets					789,580	468,489	1,258,069
Net assets-beginning					4,127,769	4,990,172	9,117,941
Net assets-ending					4,917,349	5,458,661	10,376,010

See accompanying notes and auditor's report

CITY OF ALVARADO, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2008

	General Fund	Debt Service Fund	Royalty Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$38,238	-	\$0	-	\$38,238
Deposits	-	-	-	-	-
Investments	875,907	-	591,255	\$723,461	2,190,623
Receivable					
Taxes receivable	109,194	-	-	-	109,194
Other	86,285	-	-	-	86,285
Due from other funds	-	\$42,096	-	2,809	44,905
Prepaid expenses	809	-	-	-	809
Restricted					
Cash	37,031	-	-	-	37,031
Deposits	-	-	-	-	-
Investments	119,042	82,590	-	-	201,632
Total assets	\$1,266,506	\$124,686	\$591,255	726,270	\$2,708,717
LIABILITIES					
Accounts payable	\$112,062	-	-	-	\$112,062
Accrued liabilities	129,204	-	-	-	129,204
Due to other funds	300,511	-	-	\$0	300,511
Deferred tax revenue	109,194	-	-	-	109,194
Total liabilities	650,971	-	-	-	650,971
FUND BALANCES					
Reserved for:					
Debt service fund	-	\$124,686	-	-	124,686
Capital improvement	-	-	-	84,856	84,856
Unreserved, reported in:					
General fund	615,535	-	-	-	615,535
Special revenue funds	-	-	\$591,255	641,414	1,232,669
Total fund balances	615,535	124,686	591,255	726,270	2,057,746
Total liabilities and fund balances	\$1,266,506	\$124,686	\$591,255	726,270	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds					3,939,888
Long-term liabilities, including bond payable, are not due and payable in the current period and therefore are not reported in the funds (Note B)					(969,383)
Compensated absences are not due and payable in the current period and therefore are not reported in the funds					(110,902)
Net assets of governmental activities					\$ 4,917,349

See accompanying notes and 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, 2008

	General Fund	Debt Service Fund	Royalty Fund	Other Governmental Funds	Total Governmental Funds
REVENUE:					
General property taxes, interest and penalties	\$629,894	\$500,689	-	-	\$1,130,583
Sales tax	833,419	-	-	\$380,479	1,213,898
Fines and forfeitures	744,114	-	-	-	744,114
Franchise tax	305,513	-	-	-	305,513
Rental fees	39,417	-	-	-	39,417
Intergovernmental	-	-	\$0	92,313	92,313
Licenses, fees and permits	156,763	-	-	-	156,763
Interest	44,924	-	500	21,190	66,614
Proceeds from disposition of property	3,545	-	-	-	3,545
Contributions and donations	8,807	-	-	-	8,807
Water/Sewer administrative fee	80,000	-	-	-	80,000
Miscellaneous	224,934	-	590,755	94,749	910,438
Total Revenue	3,071,330	500,689	591,255	588,731	4,752,005
EXPENDITURES:					
Current operating					
General government	551,790	-	-	42,849	594,639
Public safety	2,013,452	-	-	-	2,013,452
Public works	128,092	-	-	-	128,092
Cultural and recreational	132,443	-	-	-	132,443
Social and welfare	171,577	-	-	1,378	172,955
Capital Outlay	547,569	-	-	-	547,569
Debt Service					
Principal	-	166,352	-	-	166,352
Interest and fiscal charges	-	53,513	-	-	53,513
Total Expenditures	3,544,923	219,865	-	44,227	3,809,015
Excess (Deficiency) of Revenues Over (Under) Expenditures	(473,593)	280,824	591,255	544,504	942,990
OTHER FINANCING SOURCES:					
Loan proceeds	-	-	-	-	-
Transfers in	370,335	90,622	-	68,154	529,111
Transfers out	(85,278)	(353,554)	-	(375,679)	(814,511)
NET CHANGE IN FUND BALANCES	(188,536)	17,892	591,255	236,979	657,590
FUND BALANCE - October 1, 2007 (Note P)	804,071	106,794	-	489,291	1,400,156
FUND BALANCE - September 30, 2008	615,535	\$124,686	\$591,255	\$726,270	2,057,746

See accompanying notes and 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, 2008

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

Net change in fund balances - total governmental funds	\$657,590
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.	547,569
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.	(332,502)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and interfund transfers) is to decrease net assets.	(248,873)
Governmental funds report principle 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.	166,352
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.	(556)
Changes in net assets of governmental activities	<u>\$789,580</u>

CITY OF ALVARADO, TEXAS
STATEMENT OF NET ASSETS
WATER AND SEWER PROPRIETARY FUND
September 30, 2008

ASSETS

Current assets:	
Cash	\$66,002
Investments	1,143,642
Accounts receivable (net of allowance for uncollectible amounts)	249,539
Due from other funds	255,606
Inventory	53,013
Restricted assets	
Cash	47,412
Deposits	
Investments	1,534,143
Receivable from certificate of obligations	2,440,640
Total current assets	5,789,997
Noncurrent assets:	
Capital assets, net	8,503,627
Total noncurrent assets	8,503,627
Total assets	14,293,624

LIABILITIES

Current liabilities:	
Accounts payable	33,466
Accrued liabilities	15,275
Deposits	120,670
Current portion	
Revenue bonds payable	288,000
Total current liabilities	457,411
Noncurrent liabilities:	
Revenue bonds payable	8,478,000
Compensated absences payable	14,294
Total noncurrent liabilities	8,492,294
Total liabilities	8,949,705

NET ASSETS

Invested in capital assets, net of related debt	(262,373)
Restricted for:	
Capital Improvements	3,809,264
Unrestricted	1,911,770
Total net assets	\$5,458,661

See accompanying notes and auditor's report

CITY OF ALVARADO, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
WATER AND SEWER PROPRIETARY FUND
For the Fiscal Year Ended September 30, 2008

OPERATING REVENUES:	
Water service	\$856,981
Sewer service	603,769
Garbage service	373,376
Late charges	36,416
Miscellaneous income	50,046
Total operating revenues	<u>1,920,588</u>
OPERATING EXPENSES:	
Personnel services	365,819
Contractual services	394,505
Supplies and maintenance	321,979
Administrative fees	80,589
Depreciation	384,659
Total operating expenses	<u>1,547,551</u>
Operating income	373,037
NON-OPERATING REVENUES (EXPENSES)	
Interest income	56,140
Interest expense	(246,088)
Net non-operating revenues (expenses)	<u>(189,948)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	183,089
Operating transfers in	353,554
Operating transfers out	(68,154)
Net transfers	<u>285,400</u>
CHANGE IN NET ASSETS	468,489
NET ASSETS, October 1, 2007	4,990,172
NET ASSETS, September 30, 2008	<u><u>\$5,458,661</u></u>

See accompanying notes and auditor's report

CITY OF ALVARADO, TEXAS
STATEMENT OF CASH FLOWS
WATER AND SEWER PROPRIETARY FUND
For the Fiscal Year Ended September 30, 2008

CASH FLOWS FORM OPERATING ACTIVITIES:

Cash received from:	
Customers	\$1,956,971
Interfund payments	24,177
Cash paid to/for:	
Employees	(355,733)
Suppliers	(823,024)
Net cash flows provided by operating activities	802,391

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating transfers out	(\$68,154)	
Operating transfers in	353,554	
Net cash flows used by noncapital financing activities	285,400	

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition and construction of capital assets	(1,012,122)	
Principal paid on bonds, notes and lease obligations	(170,000)	
Interest paid on bonds, notes and lease obligations	(246,088)	
Net cash flows used in capital and related financing activities	(1,428,210)	

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds received from certificate of obligations	2,070,360	
Amount received from interest income	56,140	
Investment in Texpool Fund	(1,814,720)	
Net cash flows provided by investing activities	311,780	

Net decrease in cash and cash equivalents (28,639)

Cash and cash equivalents, October 1, 2007 94,641

Cash and cash equivalents, September 30, 2008 \$66,002

RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating income		\$373,037
Adjustments for transactions not requiring cash		
Depreciation	\$384,659	
Change in current assets and current liabilities		
(Increase) decrease in accounts receivable	31,699	
(Increase) decrease in inventory	(13,026)	
Increase (decrease) in accounts payable	11,252	
Increase (decrease) in accrued liabilities	5,527	
Increase (decrease) in customer deposits	4,684	
Increase (decrease) in compensated absences payable	4,559	
Total adjustments and changes	429,354	
Net cash provided by operating activities		\$802,391

NONCASH TRANSACTIONS

As of September 30, 2008, the City of Alvarado had issued and outstanding \$4,511,000 of certificate of obligations, of which \$2,440,640 had not yet been received as of September 30, 2008. The amount not yet received results in a noncash transaction and therefore not included in the above Statement of Cash Flow.

CITY OF ALVARADO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

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"). 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. 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 1893 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 generally accepted accounting principles, these financial statements present the City and its component units, for which the City is considered to be financially accountable. Since the library and citizens' center are not legally separate from the City's operation, data from these units are combined with data from the primary government in the General Fund. Blended component units, although legally separate entities, are in substance, part of the City's operations, and data from these units are combined with data from the primary government. Information regarding blended component units can be obtained at City Hall.

Blended 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. Results of operations are combined with data from the primary government in the Other Governmental Funds.

Alvarado Volunteer Fire Department - The volunteer fire department maintains significant control over its operations and also receives support from the City. Results of operations are combined with data from the primary government in the General Fund.

2. 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 assets and the statement of activities) report information on all of 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.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a functional category (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 requirements of a particular function or segment, and 3) grants and contributions that are restricted to meeting capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The City does not allocate indirect costs. An administrative service fee is charges by the General Fund to the proprietary fund to recover the direct costs of General Fund services provided (finance, personnel, purchasing, legal, technology management, etc.)

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

major funds, which are the capital projects fund, hotel and occupancy tax fund, grant fund and the AEDC special revenue fund. The non-major funds are combined in a separate column in the fund financial statements. The non-major funds are detailed in the combining section of the 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 government 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 judgment, are recorded only when the obligation has matured and will be paid shortly after year end (not to exceed one month).

Ad valorem, franchise and sales tax revenues recorded in the General Fund and ad valorem tax revenues recorded in the Debt Service Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is immaterial. Investment earnings 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 Royalty Fund is used to account for the accumulation of royalties from oil and gas leases on land held by the city. The primary source of revenue is royalty income. Expenses are decided by the City.

The Other Governmental Funds column is a summarization of all the non-major governmental fund types. These are as follows:

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The Special Revenue Fund – AEDC is used to account for the revenues collected for economic development and related expenditures.

The Special Revenue Fund – Grants is used to account for the proceeds of special revenue resources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

The Hotel Occupancy Tax Fund is used to account for the revenues collected for hotel and occupancy tax and related expenditures.

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, and Net Assets or Equity

Cash and Cash Equivalents

For purposes of the statement of cash flows, the proprietary fund type considers all highly liquid investments within a maturity of three months or less when purchased to be cash equivalents.

Inventory

Inventory consists primarily of water and sewer plant parts and supplies, valued at estimated FIFO. Inventory is expensed when purchased and adjusted to actual at year-end. Inventory as of September 30, 2008 was \$53,013.

Prepaid Expenditures/Expenses

Payments made to vendors for services that will benefit periods beyond are recorded as prepaid items.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are recorded in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized, while improvements and betterments are capitalized.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Building and Improvements	20-30 years
---------------------------	-------------

Water Systems	10-33 years
Sewer Systems	50 years
Vehicles, Machinery and Equipment	3-5 years
Infrastructure	30 years

Interest is capitalized on capital assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with the interest earned on invested proceeds over the same period. The City capitalized \$-0- in interest during the fiscal year 2008.

Property Tax

Property taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on October 1 and are due and payable on or before January 31st of the following year. All unpaid taxes become delinquent on February 1 of the following year. The Johnson County Central Appraisal District bills and collects property taxes on behalf of the City. Because the City's property tax susceptible to the accrual concept is immaterial, the City property tax revenues are recognized when received.

Compensated Absences

Vested or accumulated vacation leave is accrued in the government-wide and proprietary fund financial statements when incurred. No liability is recorded for nonvesting, accumulating rights to receive sick pay benefits. Vacation is earned in varying amounts up to a maximum of twenty (20) days for city employees with twelve (12) or more years of service and up to a maximum of approximately twenty-eight (28) days for fire suppression personnel with twelve (12) or more years of service. Employee vacation policy allows for the accrual and carryover of 240 hours. In addition, the City allows for the accrual of compensatory time for non-department heads. Compensatory and vacation time can either be paid or used. As of September 30, 2008, the liability for accrued vacation and compensatory time, calculated in accordance with GASB Statements 16, "Accounting for Compensated Absences," was \$110,902. The amount applicable to the Proprietary Fund was \$14,294 and has been recorded in that fund.

Deferred Bond Issuance Costs

In Government Fund types, bond issuance costs are amortized equally over the term of the bond. Bond issuance costs for Proprietary Fund types are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. In the proprietary fund, amortization expense is presented on the Statement of Revenue, Expense and Change in Fund Net Assets – Water and Sewer Proprietary Fund.

Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments". The City, using available market information and appropriate valuation methodologies, has determined the estimated fair value amounts. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the companies could realize in a current market exchange. The use of

different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Cash and Cash Equivalents, Investments, Accounts Receivable, Accounts Payable and Accrued Expenses – The carrying amounts of these items are a reasonable estimate of their value.

Long-term Debt – Interest rates that are currently available to the City for issuance of debt with similar terms and remaining maturities are used to estimate fair value for debt issues for which no market quotes are available. The carrying amount of this item is a reasonable estimate of fair value.

The fair value estimates presented herein are based on pertinent information available to management as of September 30, 2008. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

Interfund Transfers and Charges

Short-term advances between funds are accounted for in the appropriate interfund receivable and payable on the Balance Sheet – Governmental Funds and the Statement of Fund Net Assets – Proprietary Fund. All legally authorized transfers are appropriately treated as operating transfers and are included in the results of operations on the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds and Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund. In the past, 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 not paid through the General Fund. During the year ended September 30, 2008, the City chose to allocate a portion of the administrative services to the Water and Sewer Fund which totaled \$80,000.

Restricted Assets

Certain proceeds of Enterprise Fund Revenue Bonds, as well as certain resources set aside for their repayment are classified as Restricted Assets on the balance sheet because their use is limited by applicable bond covenants.

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 assets. Bond premiums and discounts, as well as issuance costs, 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 reported as deferred charges and amortized over the term of the related debt.

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

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.

Budget Control

The City operates as a Type A General Law Municipality under the Texas Local Government Code. The City Council adopts an annual budget prepared in accordance with generally accepted accounting principles in the United States of America. The City Council may transfer part or all of any unencumbered appropriation balance among programs within a specific fund, and, any revisions that alter the total expenditures must be approved by the City Council. The City Council may require their approval of these transfers above a limit they wish to establish. The current City Council has not established a limit that they wish to approve on transfers. Council approval is needed only if the expenditures exceed the certain thresholds set by the Council.

The City, for management purposes, adopts budgets for all funds. Legal budgets are adopted for all funds. Capital Projects are funded through the issuance of general obligation debt authorized for a specific purpose.

5. Implementation of New Accounting Principle

For fiscal year 2008, the City did not implement any new accounting policies.

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 assets – governmental activities as reported in the governmental-wide statement of net assets. One element of that reconciliation explains, “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$969,383 difference are as follows:

Bonds payable	\$465,000
Capital lease payable	11,851
Notes payable	<u>492,532</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$969,383</u>

NOTE C – CASH AND INVESTMENTS

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

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, 2008. At year-end, the carrying amount of the City's deposits was \$303,424, with respective bank balances of \$406,081. Included in the bank balances are Certificates of Deposit totaling \$114,742.

Investments

State statutes, city bond ordinances and city resolutions authorize the City's investments. The City is authorized to invest idle funds with the external government investment pool administered by the State of Texas, which is entitled the TexPool Fund. TexPool operates in a manner consistent with the SEC Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares. The City's investment policy does not contain any specific provisions intended to limit the City's exposure to interest rate risk or credit risk.

The City's investments carried at fair value as of September 30, 2008 are:

<u>Investments:</u>	<u>Fair Value</u>	<u>Effective Duration</u>	<u>Credit Risk</u>
Government Pools	\$5,070,041	N/A	AAAM

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, 2008, consisted of the following in the proprietary fund:

Accounts receivable	\$177,477
Unbilled accounts receivable	81,282
Gross receivables	<u>258,759</u>
Less: Allowance for uncollectible amounts	(9,220)
Net total receivables	<u><u>\$249,539</u></u>

NOTE E – CHANGES IN CAPITAL ASSETS

Primary Government

Capital asset activity for the year ended September 30, 2008 is as follows:

	Balance 9/30/07	Additions	Retirements	Balance 9/30/08
Land	\$130,157	\$144,864	\$(11,000)	\$264,021
Construction in Progress	25,365	260,583	(-0-)	285,948
Total non-depreciable capital assets	<u>155,522</u>	<u>405,447</u>	<u>(11,000)</u>	<u>549,969</u>
Building & Improvements	1,572,369	19,189	(371,676)	1,219,882
Infrastructure	2,138,445	80,878	(-0-)	2,219,323
Vehicles	1,059,084	88,898	(59,742)	1,088,240
Computer Equipment	74,385	19,191	(-0-)	93,576
Other Equipment	576,355	80,824	(-0-)	657,179
Total depreciable capital assets	<u>5,420,638</u>	<u>288,980</u>	<u>(431,418)</u>	<u>5,278,200</u>
Less accumulated depreciation for:				
Building & Improvements	337,665	33,982	(133,803)	237,844
Infrastructure	266,695	72,023	(-0-)	338,718
Vehicles	701,460	121,387	(59,742)	763,105
Computer Equipment	69,467	5,818	(-0-)	75,285
Other Equipment	374,036	99,293	(-0-)	473,329
Total accumulated depreciation	<u>1,749,323</u>	<u>332,503</u>	<u>(193,545)</u>	<u>1,888,281</u>
Total depreciable capital assets, net	<u>3,671,315</u>	<u>(43,523)</u>	<u>(237,873)</u>	<u>3,389,921</u>
Governmental activities capital assets, net	<u><u>\$3,826,837</u></u>	<u><u>\$361,924</u></u>	<u><u>\$(248,873)</u></u>	<u><u>\$3,939,888</u></u>

Business-Type Activities

Capital asset activity for the year ended September 30, 2008 is as follows:

	Balance 9/30/07	Additions	Retirements	Balance 9/30/08
Land	\$428,583	\$-0-	\$(-0-)	\$428,583
Construction in Progress	632,952	798,442	(31,883)	1,399,511
Total non-depreciable assets	1,061,535	798,442	(31,883)	1,828,094
Building & Improvements	36,000	-0-	(-0-)	36,000
Water System	6,322,776	208,152	(-0-)	6,530,928
Sewer System	3,634,259	37,411	(-0-)	3,671,670
Equipment	162,775	-0-	(-0-)	162,775
Vehicles	104,954	-0-	(-0-)	104,954
Total depreciable capital assets	10,260,764	245,563	(-0-)	10,506,327
Less accumulated depreciation for:				
Building & Improvements	11,250	1,800	(-0-)	13,050
Water System	2,231,593	252,257	(-0-)	2,483,850
Sewer System	996,741	114,662	(-0-)	1,111,403
Equipment	129,150	6,373	(-0-)	135,523
Vehicles	77,401	9,567	(-0-)	86,968
Total accumulated depreciation	3,446,135	384,659	(-0-)	3,830,794
Total depreciable capital assets, net	6,814,629	(139,096)	(-0-)	6,675,533
Governmental activities capital assets, net	\$7,876,164	\$659,346	\$(31,883)	\$8,503,627

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

Governmental activities:	
General government	\$124,447
Public safety	155,609
Public works	22,110
Cultural and recreational	30,037
Social and welfare	300
Total depreciation expense – governmental activities	<u>\$332,503</u>
Business-type activities:	
Water and sewer	<u>\$384,659</u>

NOTE F – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

For the year ended September 30, 2008, expenditures exceeded revenues in the General Fund by \$473,593.

NOTE G – INTERFUND BALANCES AND TRANSFERS

The composition of Interfund balances as of September 30, 2008, is as follows:

Fund	General Fund	Capital Projects Fund	Debt Service Fund	AEDC Fund	Grant Fund	Water & Sewer Fund
General Fund	\$ -0-	\$ -0-	\$42,096	\$(12,503)	\$ 15,309	\$255,606
Capital Projects Fund	-0-	-0-	-0-	-0-	-0-	-0-
Debt Service Fund	(42,096)	-0-	-0-	-0-	-0-	-0-
AEDC Fund	12,503	-0-	-0-	-0-	-0-	-0-
Grant Fund	(15,309)	-0-	-0-	-0-	-0-	-0-
Water & Sewer Fund	(255,606)	-0-	-0-	-0-	-0-	-0-
	<u>\$(300,508)</u>	<u>\$ -0-</u>	<u>\$42,096</u>	<u>\$(12,503)</u>	<u>\$15,309</u>	<u>\$255,606</u>

The purpose of interfund balances is to transfer cash to support daily operations.

The composition of interfund operating transfers for the year ended September 30, 2008, is as follows:

Fund	Transfers In	Transfers Out
General Fund	\$370,335	\$85,278
Debt Service Fund	90,622	353,554
Other Governmental Funds	68,154	375,679
Water and Sewer Fund	353,554	68,154
	<u>\$882,665</u>	<u>\$882,665</u>

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

All of the \$353,554 transferred out of the debt service fund was for principal, interest and fiscal fees associated with the Combination Tax Revenue Certificate of Obligations, Series 2001 bonds and into the Water and Sewer Proprietary Fund where the bonds are held.

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 2013, 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 at September 30, 2008, is comprised of the following:

<u>Description of Debt</u>	<u>Amount</u>
\$1,000,000 Combination Tax Revenue Certificate of Obligation, Series 1994, for improving and extending the City's sewer system due in annual installments of \$55,000 to \$105,000 beginning July, 2001 through July, 2013; interest payments of \$53,990 until 2001 then accruing interest at 4.8% to 5.75% in the remaining periods.	\$465,000

Annual debt service requirements to maturity for certificates of obligation debt, including interest are as follows:

Year Ending September 30	Principal	Interest	Total
2009	85,000	26,295	111,295
2010	90,000	21,578	111,578
2011	90,000	16,537	106,537
2012	95,000	11,452	106,452
2013	105,000	6,038	111,038
Total	\$465,000	\$81,900	\$546,900

Capital Lease:

Capital lease debt outstanding at September 30, 2008, is comprised of the following:

<u>Description of Debt</u>	<u>Amount</u>
Capital lease obligation secured by a vehicle costing \$21,930 maturing October 2008, requiring monthly installments of \$667 including interest accruing at 6.02% with a purchase option of \$1 at conclusion of the lease.	1,982
Capital lease obligation secured by a vehicle costing \$21,108 maturing December 2008, requiring monthly installments of \$642 including interest accruing at 6.02% with a purchase option of \$1 at conclusion of the lease.	1,908
Capital lease obligation secured by a vehicle costing \$20,705 maturing October 2009, requiring monthly installments of \$637 including interest accruing at 6.73% with a purchase option of \$1 at conclusion of the lease.	7,962
Total	<u><u>\$11,852</u></u>

Annual debt service requirements to maturity for capital lease debt, including interest of \$355, are as follows:

Year Ending September 30	Principal	Interest	Total
2009	\$11,218	\$351	\$11,569
2010	634	4	637
Total	<u><u>\$11,852</u></u>	<u><u>\$355</u></u>	<u><u>\$12,206</u></u>

Notes Payable:

Note payable debt outstanding at September 30, 2008, is comprised of the following:

<u>Description of Debt</u>	<u>Amount</u>
Note payable to a financial institution secured by equipment costing \$307,529 maturing July 2010, requiring monthly installments of \$1,392 including interest at 4.25%	\$29,395
Note payable to a financial institution secured by equipment costing \$105,257 maturing March 2012, requiring monthly installments of \$1,488 including interest at 5.5%.	56,669
Note payable to a financial institution secured by a building costing \$335,000 maturing October 2019, requiring monthly installments of \$2,531 including interest at 4.25%.	273,013
Note payable to a financial institution secured by land costing \$116,000 maturing April 2018, requiring monthly installments of \$1,235 including interest at 5%	111,509

Note payable to a financial institution secured by equipment costing \$29,916 maturing October 2010, requiring monthly installments of \$942 including interest at 6.6%

21,946

Total

\$492,532

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

Year Ending September 30	Principal	Interest	Total
2009	\$ 69,835	\$ 17,819	\$ 87,654
2010	304,007	7,511	311,518
2011	28,243	5,710	33,953
2012	19,771	3,974	23,745
2013	11,547	3,268	14,815
2014 - 2018	59,129	6,943	66,072
Total	<u>\$492,532</u>	<u>\$ 45,225</u>	<u>\$537,757</u>

Changes in long-term liabilities:

Long-term debt activity for the year ended September 30, 2008, was as follows:

	Amounts payable at beginning of year	Amounts added during year 2008	Amounts retired during fiscal year 2008	Amounts payable at end of year	Amounts due within one year
Certificates of Obligation	\$545,000	\$-0-	\$(80,000)	\$465,000	\$85,000
Notes Payable	409,523	146,860	(63,851)	492,532	69,835
Capital Lease	34,352	-0-	(22,501)	11,851	11,218
Compensated Absences	110,349	553	-0-	110,902	-0-
Total	<u>\$1,099,224</u>	<u>\$147,413</u>	<u>\$(166,352)</u>	<u>\$1,080,285</u>	<u>\$166,053</u>

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 2047, 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, 2008, is comprised of the following:

<u>Description of Debt</u>	<u>Amount</u>
\$2,200,000 Combination Tax Revenue Certificate of Obligation Series 2008B for construction of the waste water treatment plant due in annual installments ranging from \$35,000 to \$195,000, beginning September 2008 through 2022, interest payments ranging from \$7,605 to \$28,123 from September 2008 through 2022 with interest rate at 3.9%	2,165,000
\$2,346,000 Combination Tax Revenue Certificate of Obligation Series 2008A for construction of the waste water treatment plant due in annual installments ranging from \$12,000 to \$122,000 beginning September 2008 through 2047, interest payments ranging from \$5,490 to \$105,030 from September 2008 through 2022 with interest rate at 4.5%	2,346,000
\$4,505,000 Combination Tax Revenue Certificate of Obligation, Srs 2001 for construction and equipment of streets, improvements to the waterworks and sewer system due in annual installments ranging from \$35,000 to \$355,000 beginning Feb. 2005 - 2026, interest payments ranging from \$17,750 to \$300,000 from Feb. 2005 - 2026 with interest rates ranging from 4.85% to 5.5%. See Note O.	4,255,000
Total	<u><u>\$8,766,000</u></u>

Annual debt service requirements to maturity for certificates of obligation debt, including interest are as follows:

Year Ending September 30	Principal	Interest	Total
2009	\$ 300,000	\$ 442,035	\$ 742,035
2010	304,000	394,088	698,088
2011	320,000	379,941	699,941
2012	336,000	364,988	700,988
2013	347,000	349,231	696,231
2014 – 2018	1,997,000	1,467,175	3,464,175
2019 – 2023	2,296,000	980,760	3,276,760
2024 – 2028	1,255,000	499,200	1,754,200
2029 – 2033	304,000	336,240	640,240
2034 – 2038	378,000	261,540	639,540
2039 – 2043	471,000	168,525	639,525
2044 - 2047	458,000	52,650	510,650
Total	<u><u>\$8,766,000</u></u>	<u><u>\$5,696,373</u></u>	<u><u>\$14,462,373</u></u>

Changes in long-term liabilities:

Long-term debt activity for the year ended September 30, 2008, was as follows:

	Amounts payable at beginning of year	Amounts added during year 2008	Amounts retired during fiscal year 2008	Amounts payable at end of year	Amounts due within one year
Certificates of Obligation	\$4,390,000	\$4,546,000	\$(170,000)	\$8,766,000	\$288,000
Capital Lease	-0-	-0-	(-0-)	-0-	-0-
Compensated Absences	9,735	4,559	(-0-)	14,294	-0-
Total	\$4,399,735	\$4,550,559	\$(170,000)	\$8,780,294	\$288,000

NOTE I – RESTRICTED ASSETS

Restricted assets balance at September 30, 2008, was as follows:

Fund	Cash & Deposits	Investments	Accounts Receivable
General Fund			
Library	\$14,061	\$108	\$-0-
Fire Prevention	22,945	2,914	-0-
Animal Shelter	25	895	-0-
Court	-0-	90,142	-0-
TIRZ	-0-	22,172	-0-
Santa Fe Depot	-0-	2,811	-0-
Total General Fund	37,031	119,042	-0-
Debt Service Fund	-0-	82,590	-0-
Water and Sewer Fund	162,154	1,534,143	2,440,640
	\$199,185	\$1,735,775	2,440,640

NOTE J - RETIREMENT PLAN

1. Volunteer Fire Fighters

The City provides pension, disability, and death benefits for all of its active volunteer fire fighters through a non-traditional defined contribution plan in the state-wide Fire Fighters Relief and Retirement Fund Senate Bill 411, a cost-sharing multiple employer public employee retirement system.

Under Senate Bill 411, the contribution rate of the City is a minimum of \$12 per month for each volunteer. This rate is not actuarially determined and is one of the rates that can be adopted in accordance with the Senate Bill 411. However, the plan of benefits adopted by the City at the time of plan inception and when benefit increases are adopted is limited by statute to what the actuary determines can be adequately financed by the commitment of the City.

The plan provisions are adopted by the governing body of the city, within the options available in the state statutes governing Senate Bill 411. Members who are partially or fully vested can retire at age 55. A member is fully vested after 15 years.

Benefit amounts are determined by multiplying the vested percentage by six times the City's average monthly contribution over the years of service. For each year of qualified service (participation) after 15 years, the foregoing benefit is increased at the rate of 7% compounded annually.

There were no current year changes in actuarial assumptions, benefit provisions, actuarial funding methods, or other significant factors.

Separate information for each entity participating in Senate Bill 411 is not available. At August 31, 2006, (the date of the last actuarial valuation) the total PERS Pension Benefit Obligation was \$58,082,828 and the total PERS net assets available for benefits was \$42,268,305. The City's contribution for the year was \$2,720 for its covered members.

Ten year historical trend information is available in a separately issued document of Senate Bill 411. All relevant material can be obtained at the Texas Statewide Emergency Services Personnel Retirement Fund in Austin, Texas.

2. City Employees

Plan Description

The City provides pension benefits for all of its full-time employees (except for volunteer firefighters who are separately provided for above) through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of the 827 administered by the TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest of the current employee contribution rate and

city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and with the actuarial constraints also in the statutes. Plan provisions for the City were as follows (as of 4/04/07):

Deposit Rate: 6%
 Matching Ratio (city to Employee) 1.5 to 1
 A member is vested after 5 years
 Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City are: 5yrs/age 60, 20 yrs/any age.

Contributions

Under the state law governing TMRS, the City is required to contribute at an actuarially determined rate; these rates are provided to the city on an annual basis, following the completion of the actuarial evaluation. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rates finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The Projected Unit Credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2007 valuation is effective for rates beginning January 2008).

Actuarial Valuation Date	<u>12/31/07</u>	<u>12/31/06</u>	<u>12/31/05</u>
Actuarial Value of Assets	\$508,434	\$371,088	\$245,775
Actuarial Accrued Liability	\$738,497	\$571,329	\$439,312
Percentage Funded	68.80%	65.50%	55.9%
Unfunded Actuarial Accrued Liability (UAAL)	\$230,063	\$200,241	\$193,540
Annual Covered Payroll	\$1,715,098	\$1,519,196	\$1,381,916
UAAL as a Percentage of Covered Payroll	13.40%	13.20%	14.00%
Net Pension Obligation (NPO) at the			

Beginning of the Period	-0-	-0-	-0-
Annual Pension Cost:			
Annual required contribution (ARC)	\$57,001	\$51,459	\$48,579
Contributions Made	(57,001)	(51,459)	(48,579)
NPO at the end of the period	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Actuarial Assumptions

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years – Closed Period
Asset Valuation Method	Amortized Cost
Investment Rate of Return	7.00%
Projected Salary Increased	Varies by Age and Service
Includes Inflation At	3.0%
Cost-of-Living Adjustments	None
Payroll Growth Assumption	3.0%
Withdrawal rates for Male/Female	Mid/Mid-Low

The TMRS Board of trustees, at its December 2007 Board meeting, adopted changes in the actuarial funding method and assumptions for the December 31, 2007 actuarial valuation, as such, those changes are reflected in the 2007 numbers above. A complete list of the changes are contained in the 2007 TMRS Comprehensive Annual Financial Report. All pertinent information may be obtained by writing to P.O. Box 149153, Austin, Texas, 78714-9153.

NOTE K - 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 L – 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 M – CONTRACTS WITH OTHER GOVERNMENTAL ENTITIES AND OTHER CONTRACTS

HOME Grant

On October 1, 2004, the City entered into an agreement with the Texas Department of Housing and Community Affairs (TDHCA) under the HOME Program to reconstruct or rehabilitate a minimum of ten (10) units of which must be the principal residence of the homeowner assisted. The homeowners' primary residence must be located in the rural area of the City. The homeowner must also be individuals and families with special needs as defined in the contract. The total award amount to be provided by the TDHCA is \$451,360. The City will match \$114,000 of these funds. The contract will terminate on September 30, 2008. As of September 30, 2008, the City had spent \$1,944 of the matching funds and had spent and received \$50,546 of the award. Furthermore, no amounts were due or receivable as of September 30, 2008. The City anticipates that the projects will be complete within the contract period.

NOTE O – SUBSEQUENT EVENTS

Subsequent to the financial statement date, the City entered into an agreement to receive \$1,000,000 of Tax Anticipation Note for renovations to the public works building.

In the fiscal year ending September 30, 2009, the City intends to move the \$4,255,000 balance of the Combination Tax Revenue Certificate of Obligation, Series 2001 bonds from the Water and Sewer Proprietary Fund to the General Government Fund. The bonds are repayed with dedicated tax revenue received through the general and as such the City wants to associate the debt with the income used to repay the debt.

NOTE P – RECONCILIATION OF BEGINNING FUND BALANCE

	General Fund	Debt Service Fund	Royalty Fund	Other Governmental Funds	Total Governmental Funds
Beginning Fund Balance, as Previously Reported	\$874,003	\$106,794	\$-0-	\$419,359	\$1,400,156
Reclassification of Hotel Occupancy Tax	(69,932)			69,932	
Beginning Fund Balance, as Reported	<u>\$804,071</u>	<u>\$106,794</u>	<u>\$-0-</u>	<u>\$489,291</u>	<u>\$1,400,156</u>

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF ALVARADO, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended September 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUE:				
General Property Taxes, Interest and Penalties	\$594,462	\$594,462	\$629,894	\$35,432
Sales tax	796,500	796,500	833,419	36,919
Fines and forfeitures	939,600	939,600	744,114	(195,486)
Franchise tax	289,657	289,657	305,513	15,856
Rental fees	3,750	3,750	39,417	35,667
Licenses, fees and permits	108,312	108,312	156,763	48,451
Interest	30,174	30,174	44,924	14,750
Proceeds on sale of property	1,000	1,000	3,545	2,545
Donations	2,300	2,300	8,807	6,507
Water/Sewer administrative fee	80,000	80,000	80,000	-
Miscellaneous	165,558	165,558	224,934	59,376
Total Revenue	3,011,313	3,011,313	3,071,330	60,017
EXPENDITURES:				
Current operating				
General government	618,141	618,141	551,790	66,351
Public safety	2,231,847	2,231,847	2,013,452	218,395
Public works	330,219	330,219	128,092	202,127
Cultural and recreational	123,953	123,953	132,443	(8,490)
Social and welfare	165,261	165,261	171,577	(6,316)
Capital Outlay	30,678	30,678	547,569	(516,891)
Total Expenditures	3,500,099	3,500,099	3,544,923	(44,824)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(488,786)	(488,786)	(473,593)	15,193
OTHER FINANCING SOURCES:				
Loan proceeds	-	-	-	-
Transfers	-	-	285,057	285,057
NET CHANGE IN FUND BALANCES	(488,786)	(488,786)	(188,536)	300,250
FUND BALANCE - October 1, 2007 (Note P)	804,071	804,071	804,071	-
FUND BALANCE - September 30, 2008	\$315,285	\$315,285	615,535	\$300,250

See accompanying notes and auditor's report

CITY OF ALVARADO, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2008

NOTE A – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

1. Budgetary Information

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

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

All unused appropriations, except appropriations for capital expenditures, lapse at the close of the fiscal year to the extent they have not been expended or encumbered. An appropriation for capital expenditures shall continue in force until the purpose for which it was made has been accomplished or abandoned if three (3) years pass without any disbursement from or encumbrance of the appropriation. No supplemental budgetary appropriations occurred in the debt service funds or in the general fund. The revised budgets are used for budget versus actual comparisons. Revenues in the general fund were more than budget by \$60,017 and expenditures were more than budget by \$44,824.

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 \$219,865.

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 in the various departments amounted to \$157,125. The total actual capital outlays for the year also includes \$258,592 funded by grants which are transferred to the general fund.

NOTE B – RETIREMENT PLAN

**Texas Municipal Retirement System
Schedule of Funding Progress**

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date December 31, 2007	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Percentage Funded (1)/(2)	Unfunded AAL (2)-(1)	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll (4)/(5)
2005	\$245,772	\$439,312	55.9%	\$193,540	\$1,381,916	14.0%
2006	371,088	571,329	65.0%	200,241	1,519,196	13.2%
2007	508,434	738,497	68.8%	230,063	1,715,098	13.4%

The TMRS Board of trustees, at its December 2007 Board meeting, adopted changes in the actuarial funding method and assumptions for the December 31, 2007 actuarial valuation, as such, those changes are reflected in the 2007 numbers above. A complete list of the changes are contained in the 2007 TMRS Comprehensive Annual Financial Report. All pertinent information may be obtained by writing to P.O. Box 149153, Austin, Texas, 78714-9153.

**Texas Municipal Retirement System
Schedule of Employer Contributions**

Fiscal Year Ended	TMRS – Annual Required Contribution	Percentage of TMRS Contributed
9/30/2007	\$57,001	100%
9/30/2006	51,459	100%
9/30/2005	48,579	100%

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 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, 2008, which collectively comprise the City of Alvarado, Texas' basic financial statements and have issued our report thereon dated February 10, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audit contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Alvarado, Texas's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the City of Alvarado, Texas internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the City of Alvarado, Texas' internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City of Alvarado, Texas' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Alvarado, Texas' internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

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

Certified Public Accountants

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 of errors or fraud.

Signature approval on expense checks

The City needs to maintain a formal policy to identify the required support a city employee should submit when requesting expense reimbursement. At a minimum, reimbursed expense documentation should include the date and time of expense, expense amount, person entertained, and business purpose of the expense. Receipts should be presented for charges exceeding a specified amount, typically \$25. The expense report should be reviewed and approved by the supervisor of the employee submitting the claim for reimbursement. The expense reports that we reviewed did not have supervisor signature approval of the employee reports. When no supervisor signature is present, there is no verification of whether or not the expenses are legitimate business expenses. We recommend that the City has supervisors review all employee expenses submitted for reimbursement before it is submitted to the finance director.

Between the end of the fiscal year, September 30, 2008 and the issuance of the audit report, we determined that formal policies for expense checks had been documented and put into place. All expense checks must now be signed off by a supervisor and approved by either the City Manager or the Finance Director. Additionally, the City Manager and Finance Director must preapprove all travel expenses.

Signature stamp use by the court clerks

The judge is required to authorize all citation files that come through the Alvarado city court. During our court testing, it was noted that two signature stamps with the judge's name were left out on the court clerk's desk. By leaving the stamp in the open it becomes available for anyone's use which could result in court rulings being altered. We recommend that the court clerks keep the signature stamps under lock and key and that the signature stamp be used in the presence of the judge.

We discussed this finding with the court clerks as well as with the City judge. Both identified that the judge had to give approval to the court clerks for use of the stamp. After discussions both the clerks and the judge saw the value in keeping the signature stamp locked up when not in use. In order to provide more comfort over this control we reviewed historic trends of court citations to ensure that fines collected appeared consistent over the years. We found that over the years court fines collected have been reasonably consistent.

Water/Sewer Inventory

The City conducts an annual inventory count at the end of every fiscal year. During the planning of the audit we noticed that inventory balance had not changed from prior year. Upon inquiry we determined that an inventory is only done at the end of the year and not throughout the year. To allow for better safe guards over the City's inventory we would recommend that random counts be done through out the year and that the general ledger be updated to reflect those changes. This will allow more accurate reporting throughout the year.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Alvarado, Texas' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also

considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance

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.

This report is intended solely for the information and use of the City Council, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Waters, Vollmering & Associates, LLP

Mansfield, Texas

February 10, 2009