

**CITY OF ALVARADO, TEXAS**

**SEPTEMBER 30, 2011**

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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, 2011, 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.

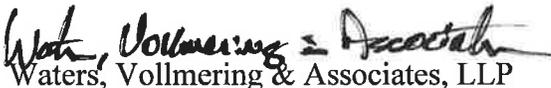
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2011, 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.

As discussed in note A to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*, as of October 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 16, and the budgetary comparison information on pages 49 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

  
Waters, Vollmering & Associates, LLP  
Mansfield, Texas  
February 2, 2012

# *City of Alvarado*

104 W. College  
Alvarado, Texas 76009

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

February 2, 2012

The Honorable Mayor, City Council and the Citizens of the City of Alvarado

The City council of the City of Alvarado requires that the City's Finance Department prepare a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Accordingly, the Annual Audited Financial Report for the City of Alvarado, Texas for the fiscal year ended September 30, 2011, is hereby issued.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making representations, the City has designed a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatements. As management, we assert, that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Waters, Vollmering & Associates, Independent Certified Public Accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements for the City for the fiscal year ended September 30, 2011, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended September 30, 2011, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

GAAP requires the management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report

## **Profile of the City**

The oldest town in Johnson County, Texas, Alvarado was incorporated in 1889 and is located at the intersection of Interstate Highway 35 and U.S. Highway 67, 20 miles south of Fort Worth. The City occupies approximately 4.67 square miles and serves a population of about 4,000. The City is empowered by state statute to levy a tax on both real and business personal property located within its boundaries.

The City operates under a council-manager form of government. Policy-making and legislative authority are vested in a governing Council consisting of the mayor and six (6) Council members. The City is divided into three (3) wards and two (2) Council members represent each ward. While the Council members must live in the ward they serve the Mayor is elected at large. The City Council is responsible for, among other things, passing ordinances, adopting the budget, appointing committees, and hiring the City Manager. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and appointing heads of various departments. The Mayor and City Council members serve two-year terms.

The basic financial statements of the City include governmental activities, organizations and functions for which the City is financially accountable as defined by the Government Accounting Standards Board (GASB). Based on these criteria, no other governmental organizations are included in this report.

### **Services Provided**

The City provides a full range of services, including public safety (police, fire, and animal control), maintenance of streets, drainage and infrastructure, sanitation services, maintenance of the treated water distribution system, both sanitary and storm water collection and treatment systems, recreational activities, cultural activities, and general administrative services.

### **Economic Conditions and Outlook**

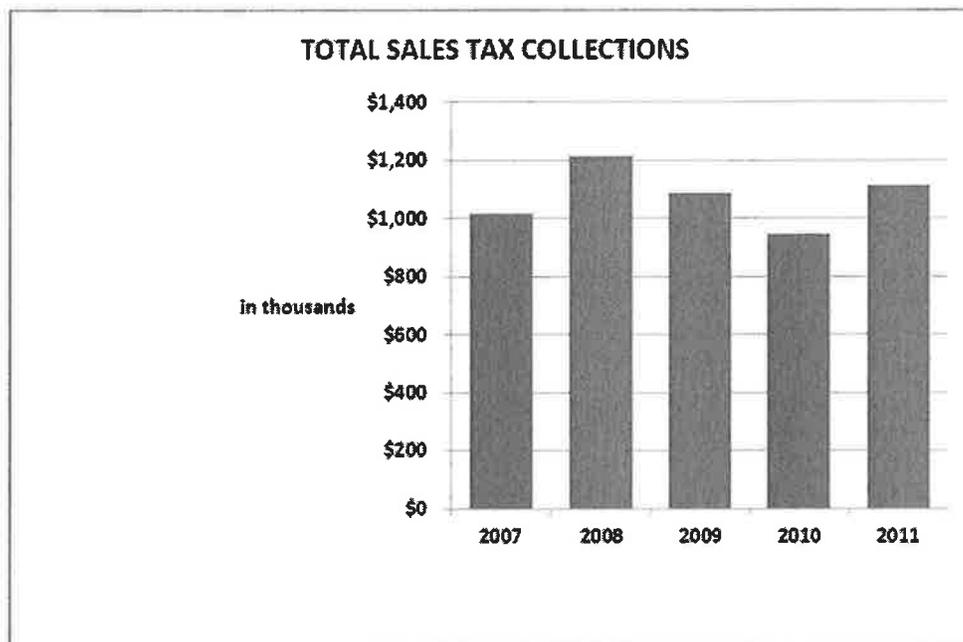
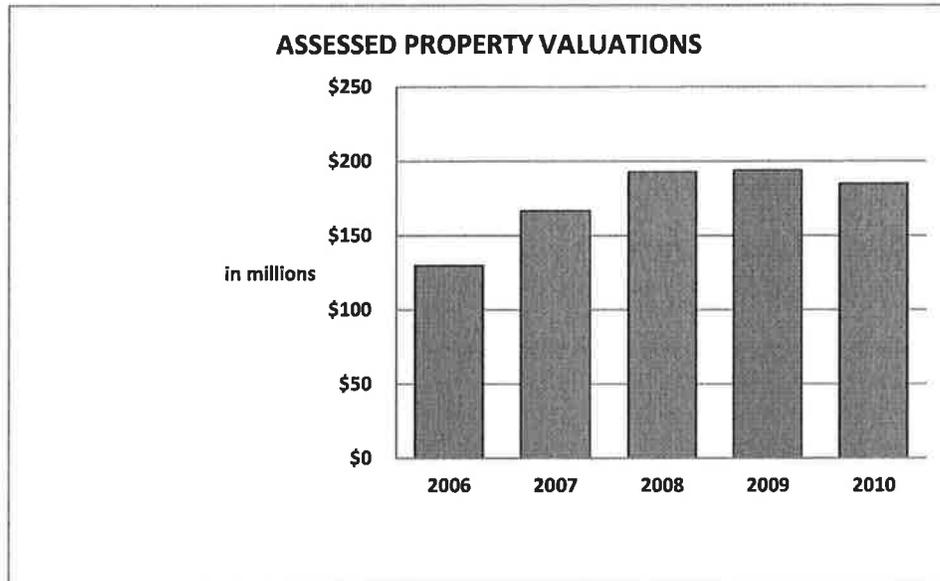
The information presented in the financial statements is perhaps best understood when it is considered from the broader aspect of the specific environment within which the City operates.

### **Local Economy**

2010-2011 proved to be economically challenging much like prior years. However, recent employment opportunities and growth prove encouraging. Sales tax collections showed an increase from \$947K to \$1.1M. This was a result of previously vacant key properties being occupied and a positive trend in the local economy. With the inflow of new businesses and an estimated 17% increase for the current year, this upward trend should continue.

Property valuations were \$185M, showing a decrease of approximately \$9M from the previous year. Alvarado was slow to feel the effects of the national economy and property valuations continued to adjust for the 2011 assessment. The 2012 assessment promises to change the trend with an estimated \$8M increase. The property tax rate was increased from \$0.697313 to \$0.722313 to help bridge the gap between lower property values and revenue needed for the continuation of City functions.

The charts below are based upon the 2010-2011 budget year as compared to prior years. Property Valuations noted below for the 2010-2011 budget period are based upon the 2010 assessed property valuations as determined by the Johnson County Appraisal District. Sales Tax collected represents amounts collected during the 2010-2011 budget year.



#### **Accounting System and Budgetary Control**

The City's accounting records and general government operations are maintained on a modified accrual basis, with the revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities incurred. Accounting records for the City utilities are maintained on the accrual basis.

The annual budget serves as a foundation of the City's financial planning and control. State law provides that the City Council shall adopt the annual budget prepared by the City Manager. The proposed budget must be submitted to the City Secretary no later than August 1<sup>st</sup>. The City Manager is authorized to transfer budgeted amounts between line items and departments; however any revisions that alter the total expenditures of any fund must be approved by the City Council.

Budgetary control has been established at the departmental level. Financial reports are produced showing budget and actual expenditures by line item, and are distributed monthly to the departmental management and to others by request.

Individual line items are reviewed and analyzed for budgetary compliance. Personnel expenditures are monitored and controlled at a position level and capital expenditures are monitored and controlled item by item. Revenue budgets are reviewed monthly.

Budget-to-actual comparisons are provided in this report for the General Fund on page 49.

### **Debt Management**

The City issues debt only for the purpose of acquiring or constructing capital assets for the general benefit of its citizens, and to allow the fulfillment of its various missions as a City. Debt may be issued for the purposes of purchasing land or right-of-way and/or improvements to land, for construction projects to provide for the general good, or for capital equipment. The City will uphold all related bond covenant agreements associated with bond issues. Bond issues are only conducted after consultation with an outside financial advisor. The City continues to contract with Southwest Securities to provide these services.

### **Cash Management**

The City utilizes its bank depository contract and its investment policy in the management of all cash. Under the Bank depository contract, the City operating account earns the bank's public fund interest rate. The City's investment policy embraces current state regulations on the investment of public funds and authorizes the City to invest in certificates of deposits, direct obligations of the United States Government or the State of Texas, obligations of an agency of the United States Government or the State of Texas, Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States and state government investment pools. The City requires all deposits and investments of City funds other than direct purchases of U.S. Treasuries or Agencies shall be secured by pledged collateral. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC or FSLIC. Evidence of pledged collateral is maintained by the Director of Finance. Repurchase agreements are documented by a specific agreement noting the collateral pledge in each agreement. Collateral is reviewed to assure that the market value of the pledged securities is adequate.

### **Tax Appraisal/Tax Collection Responsibilities**

The appraised value of taxable property in Alvarado is established by the Johnson County Appraisal District. The City of Alvarado and other taxing jurisdictions in Johnson County provide a pro-rata share of the budgeted expenditures incurred by the Appraisal District, based on individual levy. The Johnson County Tax Assessor-Collector provides tax collection services for the City and other taxing jurisdictions with Johnson County.

## **Risk Management**

Risk management within the City is a joint effort of all City departmental heads in coordination with the City's property and casualty provider. Under a contractual arrangement, the City's facilities, procedures, and claims are reviewed by a loss prevention representative with an insurance provider. The representative and department heads address area of needs as identified through both external and internal analysis.

The City purchases liability insurance with limits of \$2M for all exposures. The City also purchases workers' compensation coverage through a public entity insurance pool.

## **Acknowledgements**

The preparation of this report could not be accomplished without efforts of the entire City staff. Staff members are greatly appreciated for their hard work and contributions to this effort. It is through the guidance and leadership of the Mayor and City Council members that these efforts are able to be accomplished. The staff is thankful for the hard work of the Mayor and Council. Most of all the staff is thankful for the citizens of Alvarado and the opportunity to serve such a great community.

Respectfully Submitted,

Clint Davis  
City Manager

Kelle Whitfill  
Director of Finance and Administration

**CITY OF ALVARADO  
PRINCIPAL CITY OFFICIALS  
SEPTEMBER 30, 2011**

Mayor

Dewayne Richters

Council Members

Joe Sain

Tom Moore

Shawn Goulding

David Bayless

Jacob Wheat

Arrdeen Vaughan

City Manager

Clint Davis

City Secretary

Debbie Thomas

City Attorney

Bryn D. Meredith

Director of Finance

Kelle Whitfill

Director of Public Works

Terry Hafer

Police Chief

Brad Anderson

Fire Chief

Richard VanWinkle

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal. Comparative data is included for 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 \$14,514,180 (net assets). Of this amount, \$3,670,546 (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 \$931,998.
- As of the close of the current fiscal year, the City of Alvarado's governmental funds reported combined ending fund balances of \$2,831,826 which is an increase of \$1,292,501 from the previous year. Approximately 11% or \$322,722 is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, the Royalty Fund has a fund balance of \$1,328,113 which can be spent with Council approval (committed fund balance).
- Other Governmental Funds include Alvarado Economic Development Corporation with a fund balance of \$867,221, Hotel Fund with a fund balance of \$197,731, and Court Revenue Fund with a fund balance of \$116,039 (restricted fund balances).
- The City's total debt decreased by \$428,412 during the current fiscal year. The key factors in this decrease were the scheduled retirement of debt and restructuring of the 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 royalty fund, and the debt service fund, all of which are considered major funds. Data from the other 4 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 \$14,514,180 at the close of the most recent fiscal year. This represents an increase of \$931,998 from the previous fiscal year.

The largest portion of the City of Alvarado's net assets is reflected by its investments in capital assets (e.g. land, buildings, equipment, improvements, construction in progress and infrastructure) less any related debt used to acquire those assets that is still outstanding. The City of Alvarado uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Alvarado's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### City of Alvarado's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2011	2010	2011	2010	2011
Current Assets	\$ 2,550,328	\$ 3,847,768	\$ 2,371,138	\$ 2,471,720	\$ 4,921,466	\$ 6,319,488
Noncurrent Assets	6,304,517	6,098,675	13,543,161	12,815,611	\$ 19,847,678	18,914,286
Total Assets	8,854,845	9,946,443	15,914,299	15,287,331	24,769,144	25,233,774
Current Liabilities	1,479,205	1,645,339	711,314	689,476	2,190,519	2,334,815
LongTerm Liabilities	4,932,474	4,501,834	4,063,969	3,882,945	8,996,443	8,384,779
Total Liabilities	6,411,679	6,147,173	4,775,283	4,572,421	11,186,962	10,719,594
Invested in capital assets, net of related debt	903,841	967,444	9,257,993	8,695,199	10,161,834	9,662,643
Restricted	144,853	1,180,991	-	-	144,853	1,180,991
Unrestricted	1,394,472	1,650,835	1,881,023	2,019,711	3,275,495	3,670,546
Total Net Assets	\$ 2,443,166	\$ 3,799,270	\$ 11,139,016	\$ 10,714,910	\$ 13,582,182	\$ 14,514,180

An additional portion of the City of Alvarado's net assets, \$1,180,991 represents resources that are subject to external restrictions on how they may be used. Unrestricted net assets are \$3,670,546 which may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2011, 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.

**Governmental Activities.** Governmental activities reflected an increase in the City's net assets by \$1,356,104, from \$2,443,166 to \$3,799,270.

**Business-type Activities.** Net assets from business-type activities decreased by \$424,106 from \$11,139,016 to \$10,714,910.

The following table provides a summary of the City's operations for the year ended September 30, 2011, with the comparative totals for the year ended September 30, 2010.

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

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

	Governmental Activities		Business Activities		Total	
	2010	2011	2010	2011	2010	2011
<b>REVENUES:</b>						
Program Revenues:						
Charges for Services	\$ 1,370,273	\$ 2,343,892	\$ 2,293,258	\$ 2,481,582	\$ 3,663,531	\$ 4,825,474
Operating Grants/Contributions	-	58,881	-	-	-	58,881
Capital Grants/Contributions	444	409	996,737	1,196,432	997,181	1,196,841
General Revenues:						
Property Taxes	1,276,862	1,295,677	-	-	1,276,862	1,295,677
Sales Tax	722,369	947,341	-	-	722,369	947,341
Franchise Tax	416,144	398,965	-	-	416,144	398,965
Alcoholic beverage taxes	1,178	1,265	-	-	1,178	1,265
Unrestricted investment earnings	3,874	3,725	5,371	3,476	9,245	7,201
Other revenue	330,616	202,536	-	(921,200)	330,616	(718,664)
Special item inflow	-	-	-	-	-	-
<b>Total Revenue</b>	<b>4,121,760</b>	<b>5,252,691</b>	<b>3,295,366</b>	<b>2,760,290</b>	<b>7,417,126</b>	<b>8,012,981</b>
<b>EXPENSES:</b>						
General government	968,667	672,920	-	-	968,667	672,920
Public safety	2,081,578	2,343,298	-	-	2,081,578	2,343,298
Public works	147,512	405,221	-	-	147,512	405,221
Community development	260,818	229,555	-	-	260,818	229,555
Cultural & recreational	353,756	253,117	-	-	353,756	253,117
Social & welfare	60,987	60,768	-	-	60,987	60,768
Economic development	68,656	32,365	-	-	68,656	32,365
Interest on long-term debt	293,766	284,481	184,317	178,219	478,083	462,700
Water & sewer operations	-	-	2,365,776	2,621,040	2,365,776	2,621,040
Special item outflow	-	-	-	-	-	-
<b>Total Expenses</b>	<b>4,235,740</b>	<b>4,281,725</b>	<b>2,550,093</b>	<b>2,799,259</b>	<b>6,785,833</b>	<b>7,080,984</b>
Change in net assets before transfers	(113,980)	970,966	745,273	(38,969)	631,293	931,997
Transfers	(7,718)	385,138	7,718	(385,138)	-	0
<b>Change in net assets</b>	<b>(121,698)</b>	<b>1,356,104</b>	<b>752,991</b>	<b>(424,107)</b>	<b>631,293</b>	<b>931,997</b>
Net assets - Beginning	2,564,864	2,443,166	10,386,025	11,139,017	12,950,889	13,582,183
<b>Net assets - Ending</b>	<b>\$ 2,443,166</b>	<b>\$ 3,799,270</b>	<b>\$ 11,139,016</b>	<b>\$ 10,714,910</b>	<b>\$ 13,582,182</b>	<b>\$ 14,514,180</b>

## **Financial Analysis of the Government's Funds**

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

**Governmental Funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,831,826, an increase of \$1,292,501 in comparison with the prior year. Approximately \$322,722 of this total constitutes unassigned fund balance, which is available for spending at the government's discretion with \$1,328,113 as committed fund balance which may be used with Council approval. Refer to page 18 of this report for a more detailed presentation of governmental fund balances.

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

Unrestricted net assets of the City's Proprietary Funds at the end of the year amounted to \$2,019,711, an increase of \$138,688 from the previous year. There was a decrease in total net assets of \$424,107, resulting from the closure of the old wastewater treatment plant.

## **General Fund Budgetary Highlights**

In the General Fund, total governmental revenues increased when compared to the prior year by \$956,470 or 22%. Property taxes collected increased by \$18,815, although the certified assessed value of the property in the City decreased by \$9,383,313. The sales tax increased by 18% compared to the previous year. The largest increase in general fund revenues was provided in the Royalty Fund, showing an increase of \$702,438 or 160%.

## Capital Assets

The City of Alvarado's investment in capital assets for its governmental and business-type activities as of September 30, 2011, amounts to \$18,669,730 (net of accumulated depreciation.). This investment in capital assets includes land, buildings, equipment, infrastructure and construction in progress.

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

- Purchased a water truck to assist with street repairs for \$15,295;
- Purchased a street roller for \$25,745;
- Continuation of the street improvement program for \$143,750;
- Major repairs were necessary at Well #4 for \$44,396;
- Police Department built a new Evidence Room for \$8,219;
- An air conditioner was replaced at City Hall for \$6,850;
- An air conditioner was replaced at the Senior Citizen/Community Center for \$5,300;
- Offices at City Hall were carpeted at a cost of \$4,064;
- The lagoons at the old Wastewater Treatment Plant were formally closed;
- The City completed a Community Development Fund grant in the amount of \$350,000 for water system improvements;
- A Texas Capital Fund grant in the amount of \$750,000 was completed to improve sewer and road access for Sabre Communications Corporation.

The following table provides a summary of the City's capital assets for the year ended September 30, 2011 as compared to the summary of capital assets for the year ended September 30, 2010:

### CAPITAL ASSETS AT YEAR-END

	Governmental Activities		Business-Type Activities		Totals	
	2010	2011	2010	2011	2010	2011
Land	462,548	462,548	602,949	602,949	1,065,497	1,065,497
Buildings & Improvements	1,878,709	1,857,398	19,350	17,550	1,898,059	1,874,948
Infrastructure	2,892,391	2,927,109	-	-	2,892,391	2,927,109
Vehicles	406,767	269,427	15,392	7,033	422,159	276,460
Parks Improvements	184,873	127,588	-	-	184,873	127,588
Water System	-	-	3,571,808	3,811,350	3,571,808	3,811,350
Sewer System	-	-	8,341,129	8,059,134	8,341,129	8,059,134
Other Equipment	341,428	257,473	98,575	74,193	440,003	331,666
Construction in Progress	25,367	25,367	814,946	170,611	840,313	195,978
<b>Total</b>	<b>6,192,083</b>	<b>5,926,910</b>	<b>13,464,149</b>	<b>12,742,820</b>	<b>19,656,232</b>	<b>18,669,730</b>

## Debt Administration

**Total Debt.** The City of Alvarado's total debt outstanding at the end of the current fiscal year is \$9,194,804. This amount is a decrease of \$428,412 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 \$8,384,779. Of this amount, \$8,242,627 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, \$142,152, 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 \$2,334,815 including current bonds payable, current notes payable, compensated absences, accounts payable and other accrued liabilities.

The following table provides a summary of the City's outstanding debt for the year ended September 30, 2011 as compared to the summary of capital assets for the year ended September 30, 2010:

### OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-Type Activities		Totals	
	2010	2011	2010	2011	2010	2011
Certificates of Obligation	\$ 4,212,838	\$ 4,155,680	\$ 4,193,049	\$ 4,037,815	\$ 8,405,887	\$ 8,193,495
Tax Anticipation Notes	850,000	695,000	-	-	850,000	695,000
Capital Leases	129,483	97,356	13,107	9,806	142,590	107,162
Notes Payable	117,906	90,672	-	-	117,906	90,672
Compensated Absences	90,449	92,523	16,384	15,952	106,833	108,475
<b>Total</b>	<b>\$ 5,400,676</b>	<b>\$ 5,131,231</b>	<b>\$ 4,222,540</b>	<b>\$ 4,063,573</b>	<b>\$ 9,623,216</b>	<b>\$ 9,194,804</b>

## **Economic Factors and Next Year's Budget**

The following factors were considered in preparing the City of Alvarado's budget for the 2011 fiscal year:

- The City benefits from its strategic location, which is approximately 20 miles from Fort Worth and 35 miles from Dallas.
- Local inflation factors remain low while the median income continues to rise.
- The City increased the adopted tax rate from \$.722313 to \$.740505 per \$100 of valuation, keeping the tax rate equal to the effective rate.
- The City currently receives royalties from 11 gas wells.
- 2 single family homes requested permits with an average value of \$102,500 per structure.
- Miscellaneous repair permits are on the rise as homeowners are able to work on remodeling and add accessory buildings.
- Owners of the largest manufactured home subdivision in the City continue to clean up the subdivision and replace homes with newer ones.
- Continuation of the street improvement program for the City of Alvarado
- This year the City annexed two properties into the city limits, one with an existing convenience store and strip center already in operation.
- Development of property on the west side of I35 is moving forward with anticipated construction beginning this next budget year.
- A new Chinese restaurant opened this year.
- Chesapeake has received permits to drill 5 additional wells within the city limits.
- The City held a referendum election in November 2011 that will allow the sale of all alcoholic beverages within the city limits. Several stores are currently selling beer and wine with liquor stores opening soon.

All of these factors were considered in preparing the City of Alvarado's budget for the 2011 fiscal year. The City estimated that its General Fund Operating Budget for fiscal year 2012 will increase less than 1% or \$35,100 over fiscal year 2011 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, 2011

ASSETS	Governmental Activities	Business-type Activities	Total
<b>Current assets:</b>			
Cash	\$821,691	\$211,854	\$1,033,545
Investments	2,014,391	1,415,224	3,429,615
Receivables			
Taxes receivable	346,818	-	346,818
Accounts receivable	53,129	500,195	553,324
Other	168,998	-	168,998
Inventory	-	49,629	49,629
<b>Restricted assets</b>			
Cash	-	16,816	16,816
Deposits	25	118,869	118,894
Investments	442,716	159,133	601,849
Total current assets	<u>3,847,768</u>	<u>2,471,720</u>	<u>6,319,488</u>
<b>Noncurrent assets:</b>			
Capital assets, net	5,926,910	12,742,820	18,669,730
Deferred bond issuance costs	171,765	72,791	244,556
Total noncurrent assets	<u>6,098,675</u>	<u>12,815,611</u>	<u>18,914,286</u>
<b>Total assets</b>	<u>9,946,443</u>	<u>15,287,331</u>	<u>25,233,774</u>
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Accounts payable	384,830	376,541	761,371
Accrued liabilities	147,813	11,191	159,004
Due to other governments	187,369	-	187,369
Deferred tax revenue	295,930	-	295,930
Deposits	-	121,116	121,116
<b>Current portion</b>			
Revenue bonds payable	484,634	161,234	645,868
Notes payable	19,771	-	19,771
Capital leases	32,469	3,442	35,911
Compensated absences	92,523	15,952	108,475
Total current liabilities	<u>1,645,339</u>	<u>689,476</u>	<u>2,334,815</u>
<b>Noncurrent liabilities:</b>			
Revenue bonds payable	4,366,046	3,876,581	8,242,627
Notes payable	70,901	-	70,901
Capital leases	64,887	6,364	71,251
Total noncurrent liabilities	<u>4,501,834</u>	<u>3,882,945</u>	<u>8,384,779</u>
<b>Total liabilities</b>	<u>6,147,173</u>	<u>4,572,421</u>	<u>10,719,594</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	967,444	8,695,199	9,662,643
Restricted			
Debt service	-	-	-
Public Safety	1,180,991	-	1,180,991
Unrestricted	1,650,835	2,019,711	3,670,546
Total net assets	<u>3,799,270</u>	<u>\$10,714,910</u>	<u>\$14,514,180</u>

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended September 30, 2011

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
<b>Governmental activities:</b>							
General government:							
General government	\$672,920	\$1,231,040	\$58,881	-	\$617,001	-	\$617,001
Public safety	2,343,298	533,929	\$0	\$409	(1,808,960)	-	(1,808,960)
Public works	405,221	-	-	-	(405,221)	-	(405,221)
Cultural and recreational	253,117	6,074	-	-	(247,043)	-	(247,043)
Economic development	32,365	278,169	-	-	245,804	-	245,804
Community development	229,555	260,807	-	-	31,252	-	31,252
Social and welfare	60,768	33,873	-	-	(26,895)	-	(26,895)
Interest on long-term debt	284,481	-	-	-	(284,481)	-	(284,481)
Total governmental activities	\$4,281,725	\$2,343,892	58,881	\$409	(\$1,878,543)	-	(\$1,878,543)
<b>Business-type activities:</b>							
Water and sewer	\$2,799,259	\$2,481,582	\$1,196,432	-	-	\$878,755	\$878,755
<b>General revenues:</b>							
Taxes:							
General property taxes					1,295,677	-	1,295,677
Sales tax					948,606	-	948,606
Franchise tax					398,965	-	398,965
Interest income					3,725	3,476	7,201
Gain (Loss) on sale of capital assets					1,873	(921,200)	(919,327)
Administrative fee					172,723	-	172,723
Miscellaneous					27,940	-	27,940
Transfers					385,138	(385,138)	-
Total general revenues and proceeds					3,234,647	(1,302,862)	1,931,785
Change in net assets					1,556,104	(424,107)	931,997
Net assets-beginning					2,443,166	11,139,017	13,582,183
Net assets-ending					\$3,799,270	\$10,714,910	\$14,514,180

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
September 30, 2011

	General Fund	Debt Service Fund	Royalty Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash	\$164,112		\$541,290	\$116,289	\$821,691
Investments	320,054		797,240	897,097	2,014,391
Receivable					
Accounts	53,129				53,129
Property taxes	69,558	\$58,690			128,248
Sales taxes	164,435			54,135	218,570
Fines receivable	168,998				168,998
Restricted					
Intergovernmental Receivable	25				25
Investments		327,708		115,008	442,716
Total assets	<u>\$940,311</u>	<u>\$386,398</u>	<u>\$1,338,530</u>	<u>\$1,182,529</u>	<u>\$3,847,768</u>
<b>LIABILITIES</b>					
Accounts payable	\$28,869	\$344,006	\$10,417	\$1,538	\$384,830
Accrued liabilities	147,813				147,813
Due to other governments	187,369				187,369
Deferred tax revenue	237,452	58,478			295,930
Total liabilities	601,503	402,484	10,417	1,538	1,015,942
<b>FUND BALANCES</b>					
Fund balances:					
Nonspendable					
Restricted	16,086	(16,086)		1,180,991	1,180,991
Committed			1,328,113		1,328,113
Assigned					
Unassigned	322,722				322,722
Total fund balances	<u>338,808</u>	<u>(16,086)</u>	<u>1,328,113</u>	<u>1,180,991</u>	<u>\$2,831,826</u>
Total liabilities and fund balances	<u>\$940,311</u>	<u>\$386,398</u>	<u>\$1,338,530</u>	<u>\$1,182,529</u>	
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					
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)					
Compensated absences are not due and payable in the current period and therefore are not reported in the funds					
Net assets of governmental activities					
					<u>\$ 3,799,270</u>

CITY OF ALVARADO, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
For the Fiscal Year Ended September 30, 2011

	General Fund	Debt Service Fund	Royalty Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUE:</b>					
General property taxes, interest and penalties	\$706,079	\$589,598	-	-	\$1,295,677
Sales tax	836,341	-	-	278,169	1,114,510
Hotel tax	-	-	-	111,000	111,000
Fines and forfeitures	533,929	-	-	-	533,929
Franchise tax	398,965	-	-	-	398,965
Mixed beverage tax	1,265	-	-	-	1,265
Rental fees	33,873	-	-	-	33,873
Intergovernmental	319,688	-	-	-	319,688
Licenses, fees and permits	69,278	-	\$843	30,754	100,032
Interest	1,885	-	-	997	3,725
Contributions and donations	409	-	-	-	409
Water/Sewer administrative fee	178,797	-	-	-	178,797
Oil and gas royalties	-	-	1,131,008	-	1,131,008
Miscellaneous	21,595	6,807	-	77	28,479
<b>Total Revenue</b>	<b>3,102,104</b>	<b>596,405</b>	<b>1,131,851</b>	<b>420,997</b>	<b>5,251,357</b>
<b>EXPENDITURES:</b>					
Current operating					
General government	323,727	-	22,044	13,200	358,971
Public safety	2,074,503	-	-	20,193	2,094,696
Community development	210,368	-	-	19,187	229,555
Public works	92,007	-	-	-	92,007
Cultural and recreational	205,139	-	-	-	205,139
Social and welfare	60,290	-	-	-	60,290
Economic development	-	-	-	32,365	32,365
Capital Outlay	416,756	-	194,268	-	611,024
Debt Service	-	4,459,361	-	-	4,459,361
Principal	-	282,703	-	-	282,703
Interest	-	1,778	-	-	1,778
Paying agent	-	-	-	-	-
<b>Total Expenditures</b>	<b>3,382,790</b>	<b>4,743,842</b>	<b>216,312</b>	<b>84,945</b>	<b>8,427,889</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(280,686)</b>	<b>(4,147,437)</b>	<b>915,539</b>	<b>336,052</b>	<b>(3,176,532)</b>
<b>OTHER FINANCING SOURCES:</b>					
Transfers in	500,307	4,067,482	-	-	4,567,789
Transfers out	(31,265)	-	(32,085)	(35,406)	(98,756)
<b>NET CHANGE IN FUND BALANCES</b>	<b>188,356</b>	<b>(79,955)</b>	<b>883,454</b>	<b>300,646</b>	<b>1,292,501</b>
<b>FUND BALANCE - October 1, 2010, as adjusted (Note P)</b>	<b>150,452</b>	<b>63,869</b>	<b>444,659</b>	<b>880,345</b>	<b>1,539,325</b>
<b>FUND BALANCE - September 30, 2011</b>	<b>\$338,808</b>	<b>(\$16,086)</b>	<b>\$1,328,113</b>	<b>\$1,180,991</b>	<b>\$2,831,826</b>

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, 2011

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

Net change in fund balances - total governmental funds	\$1,292,501
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.	333,087
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.	(531,315)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and interfund transfers) is to decrease net assets.	82,835
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.	4,427,199
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to government funds. Issuance of long-term debt does not effect net assets. This is the amount of debt issued in the current period.	(4,155,680)
Governmental funds do not report compensated absences as expenditures. However, in the statement of activities the accrual of compensated absences increases the expenditure accounts. This is the amount of compensated absences expenditures for the current period.	<u>(92,523)</u>
Changes in net assets of governmental activities	<u><u>\$1,356,104</u></u>

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS  
STATEMENT OF NET ASSETS  
WATER AND SEWER PROPRIETARY FUND  
September 30, 2011

ASSETS

Current assets:	
Cash	\$211,854
Investments	1,415,224
Accounts receivable (net of allowance for uncollectible amounts)	500,195
Inventory	49,629
Restricted assets	
Cash	16,816
Deposits	118,869
Investments	159,133
Total current assets	2,471,720
Noncurrent assets:	
Capital assets, net	12,742,820
Deferred bond issuance costs	72,791
Total noncurrent assets	12,815,611
Total assets	15,287,331

LIABILITIES

Current liabilities:	
Accounts payable	376,541
Accrued liabilities	11,191
Deposits	121,116
Current portion	
Revenue bonds payable	161,234
Capital leases	3,442
Compensated absences	15,952
Total current liabilities	689,476
Noncurrent liabilities:	
Revenue bonds payable	3,876,581
Capital lease payable	6,364
Total noncurrent liabilities	3,882,945
Total liabilities	4,572,421

NET ASSETS

Invested in capital assets, net of related debt	8,695,199
Restricted for:	
Capital Improvements	2,019,711
Unrestricted	2,019,711
Total net assets	\$10,714,910

See accompanying notes and independent 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, 2011

<b>OPERATING REVENUES:</b>	
Water service	\$1,191,666
Sewer service	797,431
Garbage service	426,326
Late charges	59,061
Miscellaneous income	7,098
Total operating revenues	2,481,582
 <b>OPERATING EXPENSES:</b>	
Personnel services	533,514
Contractual services	840,636
Supplies and maintenance	434,172
Administrative fees	255,273
Depreciation and amortization	557,446
Total operating expenses	2,621,041
Operating income (loss)	(139,459)
 <b>NON-OPERATING REVENUES (EXPENSES)</b>	
Loss on sale of assets	(921,200)
Grant revenue	1,196,432
Interest income	3,476
Interest expense	(178,219)
Net non-operating revenues (expenses)	100,489
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	(38,970)
Operating transfers in	1,252,778
Operating transfers out	(1,637,915)
Net transfers	(385,137)
CHANGE IN NET ASSETS	(424,107)
NET ASSETS, October 1, 2010	11,139,017
NET ASSETS, September 30, 2011	\$10,714,910

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS  
STATEMENT OF CASH FLOWS  
WATER AND SEWER PROPRIETARY FUND  
For the Fiscal Year Ended September 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from:	
Customers	\$2,269,366
Interfund payments	255,273
Cash paid to/for:	
Employees	(533,646)
Suppliers	(1,840,492)
Net cash flows provided by operating activities	150,501

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating transfers out	(\$1,637,915)	
Operating transfers in	1,252,778	
Net cash flows used by noncapital financing activities		(385,137)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition and construction of capital assets	(751,330)	
Principal paid on bonds, notes and lease obligations	(158,535)	
Intergovernmental grants	1,196,432	
Interest paid on bonds, notes and lease obligations	(178,219)	
Net cash flows used in capital and related financing activities		108,348

CASH FLOWS FROM INVESTING ACTIVITIES:

Amount received from interest income	3,476	
Net cash flows provided by investing activities		3,476
Net decrease in cash and cash equivalents		(122,812)
Cash and cash equivalents, October 1, 2010		2,044,708
Cash and cash equivalents, September 30, 2011		\$1,921,896

RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating income (loss)		(\$139,459)
Adjustments for transactions not requiring cash		
Depreciation and amortization	\$557,446	
Miscellaneous expense	235	
Change in current assets and current liabilities		
(Increase) decrease in accounts receivable	(213,071)	
(Increase) decrease in inventory	(10,473)	
(Increase) decrease in other receivables	150	
Increase (decrease) in accounts payable	(45,050)	
Increase (decrease) in accrued liabilities	300	
Increase (decrease) in customer deposits	855	
Increase (decrease) in compensated absences payable	(432)	
Total adjustments and changes		289,960
Net cash provided by operating activities		\$150,501

See accompanying notes and independent auditor's report

**CITY OF ALVARADO, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011**

**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. 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.

## **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 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.

Alvarado Economic Development Corporation Fund (AEDC) – is used to account for the revenues collected for economic development and related expenditures.

The Grant Fund – is used to account for the proceeds of grants that are 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**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and investments with original maturities of three months or less from the end of the fiscal year.

For fiscal year 2011, the City invested in the external government investment pool administered by the State of Texas, which is entitled the TexPool Fund, as authorized by the City's investment policy. The City records interest revenue earned from investment activities in each respective fund and recognizes its investments on a fair value basis.

##### **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, 2011 was \$49,629.

##### **Prepaid Expenditures/Expenses**

Payments made to vendors for services that will benefit periods beyond are recorded as prepaid items. The nonspendable portion of the fund balance is provided equal to the amount of prepaid items, as the amount is not available for expenditure. These payments are recognized under the consumption method.

##### **Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are recorded in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. The 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 did not capitalize any interest during the fiscal year 2011.

**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. Property tax revenues are recognized when they are both measurable and available. Revenues are considered both measurable and 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 to be available if they are collected within 30 days of the end of the current fiscal period.

**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, 2011, the liability for accrued vacation and compensatory time, calculated in accordance with GASB Statements 16, "Accounting for Compensated Absences," was \$92,523 in the general fund. The amount applicable to the Proprietary Fund was \$15,952 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 AU Section 312, "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, 2011. 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, 2011, the City chose to allocate a portion of the administrative services to the Water and Sewer Fund which totaled \$172,723.

### **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.

### **Fund Balance Classification**

The preparation of financial statements in conformity with government accounting standards requires management to classify the fund balances. For *committed* fund balance classification, the City Council must take formal action to establish, modify or rescind a fund balance commitment. For *assigned* fund balance classification, the City Manager with a concurrence of the Finance Director is authorized to assign amounts for a specific purpose. The *restricted* fund balance classification includes amounts that have constraints that are externally imposed (creditors, grantors, etc) or imposed by enabling legislation. The *nonspendable* classification includes amounts that are not in spendable for or required to be maintained intact. The *unassigned* fund balance classification represents fund balance that has not been classified to another category. The City considers an amount spent when an expenditure is incurred for purposes for which both *restricted* or *unrestricted* fund balance is available. In addition, the City considers an amount spent when an expenditure is incurred for purposes for which an amount in the *committed*, *assigned*, or *unassigned* amounts could be used.

### **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**

In fiscal year 2011, the City implemented the following GASB statements:

Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions.*" The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. Part 4 of Note A establishes the City's accounting policies for determining the fund balance classification.

Statement No. 58, "*Accounting and Financial Reporting for Chapter 9 Bankruptcies.*" This Statement establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The City has determined that this statement has no impact on its financial statements.

Statement No. 59, "*Financial Instruments Omnibus.*" The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The investment portion of Note C identifies that the City's investment in 2a7-like pools are being measured at the net asset value per share provided by the pool.

The GASB has issued the following Statements which will become effective in future years as shown below:

Statement No. 60, "*Accounting and Financial Reporting for Service Concession Arrangements*" The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement will become effective for the City in fiscal year 2013. Management has not yet determined the effect of this statement on financial statements.

Statement No. 61, "*The Financial Reporting Entity: Omnibus an amendment of GASB No. 14 and 34*" The objective of this Statement is to improve financial reporting for a government financial reporting entity. This Statement will become effective for the City in fiscal year 2013. Management has not yet determined the effect of this statement on financial statements.

Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*" The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements: Financial Accounting

Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure. This Statement will become effective for the City in fiscal year 2013. Management has not yet determined the effect of this statement on financial statements.

Statement No. 63, “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*” This Statement provides financial reporting guidance for deferred outflow of resources and deferred inflow of resources. This Statement will become effective for the City in fiscal year 2013. Management has not yet determined the effect of this statement on financial statements.

Statement No. 64, “*Derivative Instruments: Application of Hedge Accounting Termination Provisions – an Amendment of GASB Statement No. 53*” The objective of this statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. This Statement will become effective for the City in fiscal year 2013. Management has not yet determined the effect of this statement on financial statements.

**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 \$4,866,943 difference are as follows:

Bonds payable	\$4,655,000
Issuance costs (to be amortized over life of debt)	(171,765)
Premium on issuance of bonds	195,680
Capital lease payable	41,804
Notes payable	<u>146,224</u>
 Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	 <u>\$4,866,943</u>

**NOTE C – CASH AND INVESTMENTS**

The City maintains a cash pool that is available for use by all funds. Each funds portion of this pool is reflected on the balance sheet or statement of net assets as “Cash” 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.

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

**Deposits**

State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The City’s deposits, including certificates of deposit, were fully insured or collateralized as required by the state statutes at September 30, 2011. At year-end, the carrying amount of the City’s deposits was \$461,186, with respective bank balances of \$701,241. Included in the bank balances are Certificates of Deposit totaling \$118,869.

**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, 2011 are:

Investments:	Fair Value	Effective Duration	Credit Risk
Government Pools			
Unrestricted	\$3,429,616	N/A	AAAM
Restricted	601,849	N/A	AAAM

TexPool is an external investment pool operated by the Texas Comptroller of Public Accounts and is not SEC registered. The Texas Interlocal Cooperation Act and the Texas Public Funds Investments Act provide for creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments. The State Comptroller has established an advisory board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

Interest Rate Risk – The City minimizes its interest rate risk by only investing in government investment pools.

Credit Risk – The City minimizes its credit risk by only investing in government investment pools. As noted in the above table, TexPool is rated AAAM by Standard & Pools. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Pools, as well as the office of the Comptroller of Public Accounts for review.

**NOTE D – RECEIVABLES**

Receivables at September 30, 2011, consisted of the following:

	Governmental Funds				Proprietary Fund
	General	Debt Service	Nonmajor	Total	Water & Sewer Enterprise
<b>Taxes Receivable</b>					
Ad valorem taxes	\$81,765	\$69,089	-	\$150,854	-
Allowance for uncollectible accounts	(12,207)	(10,399)	-	(22,606)	-
Sales taxes	164,435		\$54,135	218,570	-
<b>Total Taxes Receivable</b>	<b>233,993</b>	<b>58,690</b>	<b>54,135</b>	<b>346,818</b>	
<b>Services Receivable</b>					
Service accounts	53,129	-	-	53,129	\$346,381
Allowance for uncollectible accounts	-	-	-	-	(9,390)
<b>Total Services Receivable</b>	<b>53,129</b>	<b>-</b>	<b>-</b>	<b>53,129</b>	<b>336,991</b>
<b>Other Receivables</b>					
Court fees & other	443,090	-	-	443,090	163,204
Allowance for uncollectible accounts	(274,092)	-	-	(274,092)	-
	168,998	-	-	168,998	163,204
<b>Total Receivables</b>	<b>\$456,120</b>	<b>\$58,690</b>	<b>\$54,135</b>	<b>\$568,945</b>	<b>\$500,195</b>

**NOTE E – CHANGES IN CAPITAL ASSETS****Primary Government**

Capital asset activity for the year ended September 30, 2011 is as follows:

	Balance 9/30/10	Additions	Retirements	Transfers	Balance 9/30/11
Land	\$462,548	\$-0-	\$(-0-)	\$(-0-)	\$462,548
Construction in progress	25,367	-0-	(-0-)	(-0-)	25,367
Building & improvements	2,184,990	24,431	(-0-)	(-0-)	2,209,421
Infrastructure	3,429,355	150,968	(-0-)	(-0-)	3,580,323
Vehicles	1,320,057	156,347	(141,744)	(10,450)	1,324,210
Parks improvements	337,525	-0-	(-0-)	(-0-)	337,525
Equipment	1,076,592	1,342	(19,989)	10,450	1,068,395
Total capital assets	<u>8,836,434</u>	<u>333,087</u>	<u>(161,733)</u>	<u>-0-</u>	<u>9,007,789</u>
Less accumulated depreciation:					
Building & improvements	306,281	45,742	(-0-)	(-0-)	352,023
Infrastructure	536,964	116,250	(-0-)	(-0-)	653,214
Vehicles	913,290	216,291	(74,798)	(-0-)	1,054,783
Parks improvements	152,652	57,285	(-0-)	(-0-)	209,937
Equipment	735,164	95,747	(19,989)	(-0-)	810,922
Total accumulated depreciation	<u>2,644,351</u>	<u>531,315</u>	<u>(94,787)</u>	<u>(-0-)</u>	<u>3,080,879</u>
Governmental activities capital assets, net	<u>\$6,192,083</u>	<u>\$(198,226)</u>	<u>\$(66,946)</u>	<u>\$(-0-)</u>	<u>\$5,926,910</u>

**Business-Type Activities**

Capital asset activity for the year ended September 30, 2011 is as follows:

	Balance 9/30/10	Additions	Retirements	Transfers	Balance 9/30/11
Land	\$602,949	\$-0-	\$(-0-)	\$-0-	\$602,949
Construction in Progress	814,946	170,612	(-0-)	(814,947)	170,611
Building & Improvements	36,000	-0-	(-0-)	-0-	36,000
Water System	6,569,383	235,369	(-0-)	254,924	7,059,676
Sewer System	9,680,779	623,284	(1,430,579)	282,088	9,155,572
Equipment	272,764	-0-	(-0-)	-0-	272,764
Vehicles	111,232	-0-	(-0-)	-0-	111,232
Total capital assets	18,088,053	1,029,265	(1,430,579)	(277,935)	17,408,804
Less accumulated depreciation:					
Building & Improvements	16,650	1,800	(-0-)	-0-	18,450
Water System	2,997,575	250,751	(-0-)	-0-	3,248,326
Sewer System	1,339,650	266,167	(509,379)	-0-	1,096,438
Equipment	174,189	24,382	(-0-)	-0-	198,571
Vehicles	95,840	8,359	(-0-)	-0-	104,199
Total accumulated depreciation	4,623,904	551,459	(509,379)	-0-	4,665,984
Business-type activities capital assets, net	\$13,464,149	\$477,806	\$(-921,200)	\$(277,935)	\$12,742,820

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

Governmental activities:	
General government	\$198,978
Public safety	248,602
Public works	35,279
Cultural and recreational	47,978
Social and welfare	478
Total depreciation expense – governmental activities	<u>\$531,315</u>
Business-type activities:	
Water and sewer	<u>\$551,459</u>

During the fiscal year ended September 30, 2012, the City completed a project funded by grant monies that included the improvements of roads on by the Texas Department of Transportation. The City transferred the cost in the amount of \$277,9350 from the water-sewer proprietary fund to the general fund where it was expensed and given to the Texas Department of Transportation.

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

For the year ended September 30, 2011, expenditures exceeded revenues in the General Fund by \$280,686.

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

The composition of interfund operating transfers for the year ended September 30, 2011, is as follows:

Fund	Transfer to Other Funds	Transfer from Other Funds
General Fund	\$4,113,624	\$500,307
Debt Service Fund	-0-	4,067,482
Royalty Fund	32,086	-0-
Nonmajor Governmental Funds	36,942	-0-
Water and Sewer Fund	653,046	267,909
	\$4,835,698	\$4,835,698

The purpose of interfund operating transfers is to appropriately classify capital assets expenditures and debt expenditures in the correct fund. During the fiscal year 2011, the general fund moved approximately \$4,113,624, of which \$4,013,540 was a bond refinancing to the debt service fund (Note H).

**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 2026, 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).

On August 17, 2011, the City issued \$3,960,000 in General Obligation Refunding Bonds with an average interest rate of 3.0% at a premium of \$195,680. The net proceeds of \$4,013,540 (after payment of \$142,140 in bond issuance costs) were used to pay off the Combination Tax and

Revenue Certificates of Obligation, Series 2001 and Combination Tax and Revenue Certificates of Obligation, Series 1994.

Certificates of obligation debt outstanding and Tax anticipation note at September 30, 2011, is comprised of the following:

<u>Description of Debt</u>	<u>Amount</u>
\$3,960,000 General Obligation Refunding Bonds, Series 2011, to refinance the City's debt. Principal payments begin in 2012 and are due in annual installments \$210,000 to \$320,000 through August of 2026; interest payments of \$6,400 to \$60,525 from February 2012 through August 2026 with an interest rate of 2% to 4%.	\$3,960,000
Add: Premium on General Obligation Refunding Bonds, Series 2011	195,680
Subtotal Certificate of Obligation	4,155,680
\$1,000,000 2008 Tax Anticipation Note for city improvements, due in annual installments ranging from \$150,000 to \$185,000 beginning August 2010 through August 2015, interest payments ranging from \$4,172 to \$22,550 from February 2009 through August 2015 with interest rate of 4.51%	695,000
Total Certificate of obligation and tax anticipation	\$4,850,680

Annual debt service requirements to maturity for certificates of obligation debt, before netting of bond discounts and premiums are as follows:

Year Ending September 30	Principal	Premium	Interest	Total
2012	\$ 480,000	\$4,634	\$ 147,015	\$ 631,649
2013	485,000	8,108	138,653	631,761
2014	385,000	6,953	124,686	516,639
2015	400,000	7,826	112,594	520,420
2016	220,000	6,574	99,950	326,524
2017 – 2021	1,215,000	68,586	416,300	1,699,886
2022 – 2026	1,470,000	92,999	181,400	1,744,399
Total	\$4,655,000	\$195,680	\$1,220,598	\$6,071,278

Notes Payable:

Note payable debt outstanding at September 30, 2011, is comprised of the following:

<u>Description of Debt</u>	<u>Amount</u>
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%.	\$ 8,786

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%	81,886
Total	<u>\$90,672</u>

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

Year Ending September 30	Principal	Interest	Total
2012	\$ 19,771	\$ 4,054	\$ 23,825
2013	11,547	3,220	14,767
2014	12,138	2,627	14,765
2015	12,758	2,003	14,761
2016	13,412	1,348	14,760
2017 – 2018	21,046	722	21,768
Total	<u>\$90,672</u>	<u>\$ 13,974</u>	<u>\$104,646</u>

Capital Lease:

Capital lease debt outstanding at September 30, 2011, is comprised of the following:

<u>Description of Debt</u>	<u>Amount</u>
Capital lease obligation secured by equipment costing \$89,129 maturing July 2014, requiring monthly installments of \$20,016 including interest accruing at 3.99% with a purchase option of \$1 at conclusion of the lease.	\$55,552
Capital lease obligation secured by software costing \$86,968 maturing June 2014, requiring monthly installments of \$1,652 including interest accruing at 4.00% with a purchase option of \$1 at conclusion of the lease	41,804
Total	<u>\$97,356</u>

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

Year Ending September 30	Principal	Interest	Total
2012	\$32,469	\$3,601	\$36,070
2013	33,787	2,284	36,071
2014	31,100	956	32,056
Total	<u>\$97,356</u>	<u>\$6,841</u>	<u>\$104,197</u>

Changes in long-term liabilities:

Long-term debt activity for the year ended September 30, 2011, was as follows:

	Amounts payable at beginning of year	Amounts added during year 2011	Amounts retired during fiscal year 2011	Amounts payable at end of year	Amounts due within one year
Certificates of obligation	\$4,212,838	\$4,155,680	\$(4,212,838)	\$4,155,680	\$319,634
Tax anticipation notes	850,000	-0-	(155,000)	695,000	165,000
Notes payable	117,906	-0-	(27,234)	90,672	19,771
Capital lease obligation	129,483	-0-	(32,127)	97,356	32,469
Compensated Absences	90,449	2,074	(-0-)	92,523	92,523
Total	\$5,400,676	\$4,157,754	\$(4,427,199)	\$5,131,231	\$629,397

2. Business-type activities -

Combination Tax and Revenue Certificate of Obligation:

Combination tax and revenue certificate of obligation are serial debt collateralized by the full faith and credit of the City and are payable from the gross revenues of the water and sewer system. Gross revenues are to be used first to pay operating and maintenance expenses of the system, and second, to maintain revenue bond funds in accordance with the bond covenants. Remaining revenues may then be used for any lawful purpose. The debt matures annually in varying amounts through 2045, and interest is payable semi-annually. Certificates of obligation proceeds are recorded in the appropriate fund for which the debt was issued and approved by the City. The ordinances authorizing the issuance of the bonds created an interest and sinking fund.

Certificates of obligation debt outstanding at September 30, 2011, 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%	\$2,262,000
\$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%	1,790,000
Subtotal	\$4,052,000
Less: Net premiums and discounts on certificates of obligations	(14,185)
Total	<u>\$4,037,815</u>

Annual debt service requirements to maturity for certificates of obligation debt, before netting of bond discounts and premiums, are as follows:

Year Ending September 30	Principal	Premiums (Discounts)	Interest	Total
2012	\$ 161,000	234	\$ 171,600	\$ 332,834
2013	167,000	234	165,166	332,400
2014	174,000	234	158,492	332,726
2015	180,000	234	151,530	331,764
2016	186,000	234	144,330	330,564
2017 – 2021	1,049,000	(1,090)	603,500	1,651,410
2022 – 2026	420,000	(1,090)	424,758	843,668
2027 – 2031	279,000	(3,294)	361,894	637,600
2032 – 2036	346,000	(3,294)	293,402	636,108
2037 – 2041	431,000	(3,294)	208,174	635,880
2042 – 2046	659,000	(3,293)	107,554	763,261
Total	<u>\$4,052,000</u>	<u>(14,185)</u>	<u>\$2,790,400</u>	<u>\$6,828,215</u>

Changes in long-term liabilities:

Long-term debt activity for the year ended September 30, 2011, was as follows:

	Amounts payable at beginning of year	Amounts added during year 2011	Amounts retired during fiscal year 2011	Amounts payable at end of year	Amounts due within one year
Certificates of Obligation	\$4,193,049	\$ -0-	\$(155,234)	\$4,037,815	\$161,234
Capital Lease	13,107	-0-	(3,301)	9,806	3,442
Compensated Absences	16,384	-0-	(432)	15,952	15,952
<b>Total</b>	<b>\$4,222,540</b>	<b>\$-0-</b>	<b>\$(158,967)</b>	<b>\$4,063,573</b>	<b>\$180,628</b>

#### NOTE I – RESTRICTED ASSETS

Restricted assets balance at September 30, 2011, was as follows:

Fund	Cash & Deposits	Investments	Intergovernmental Receivable
<b>Government Activities:</b>			
Court	\$-0-	\$115,008	\$-0-
Animal Shelter	-0-	-0-	25
Debt Service Fund	-0-	327,708	-0-
Water and Sewer Fund	135,685	159,133	-0-
	<b>\$135,685</b>	<b>\$601,849</b>	<b>\$25</b>

#### NOTE J - RETIREMENT PLAN

The City participates in the Texas Municipal Retirement System.

##### Plan Description

The City provides pension benefits for all of its full-time employees 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. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

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.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas, 78714-9153, or by calling 800-924-8677; in addition, the report is available on the TMRS website at [www.tmr.com](http://www.tmr.com)

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 4/04/11):

Deposit Rate:	6%
Matching Ratio (city to Employee)	2 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 determined annually by the actuary, using the Projected Unit Credit actuarial cost method. 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 finance 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, 2010 valuation is effective for rates beginning January 2011).

Actuarial Valuation Date	12/31/10	12/31/09	12/31/08
Actuarial Value of Assets	\$1,225,240	\$915,288	\$733,422
Actuarial Accrued Liability	\$1,486,668	\$1,232,819	\$1,017,621
Percentage Funded	82.4%	74.2%	72.1%
Unfunded Actuarial Accrued Liability (UAAL)	\$261,428	\$317,531	\$284,199
Annual Covered Payroll	\$2,133,755	\$2,121,347	\$1,928,937
UAAL as a Percentage of Covered Payroll	12.3%	15.0%	14.7%
Net Pension Obligation (NPO) at the Beginning of the Period	-0-	-0-	-0-
Annual Pension Cost:			
Annual required contribution (ARC)	\$100,287	\$102,036	\$107,183
Contributions Made	(100,287)	(102,036)	(107,183)
NPO at the end of the period	\$0	\$0	\$0

Actuarial Assumptions

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	21.9 Years – Closed Period
Asset Valuation Method	10-year Smoothed Market
Investment Rate of Return	7.0%
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 schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

**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.

The City contracts with various engineering and construction companies to oversee significant construction projects. At September 30, 2011 the City was contracted with Dannebaum engineering to oversee the EPA grant project that was still ongoing at year-end.

**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 – FAIR VALUE MEASUREMENTS**

Financial Accounting Standards Codification No. 820, *Fair Value* Measurements (ASC 820), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

- Level 1 – quoted market prices in active markets for identical assets or liabilities
- Level 2 – inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

As of September 30, 2011, the City’s investments measured at fair value consisted of the following instruments and classifications within the fair value hierarchy:

	Fair Value Measurements Using Input Types			Total
	Level 1	Level 2	Level 3	
Governmental Activities				
Investments in Texpool (Note C)	\$2,457,107	\$ -0-	\$ -0-	\$2,457,107
Business-type Activities				
Investments in Texpool (Note C)	1,574,357	-0-	-0-	1,574,357
Total	\$4,031,464	\$ -0-	\$ -0-	\$4,031,464

The City employs the following approaches in valuing its investments:

- Investments in registered investment companies are valued using quoted market prices, as all have active markets.

**NOTE O – SUBSEQUENT EVENTS**

The City evaluated subsequent events through February 2, 2012, which is the same date that the financial statements were issued and no events were determined to be reported.

**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	\$75,775	\$63,869	\$444,659	\$955,022	\$1,539,325
Reclassification of Sales Tax	74,677			(74,677)	
Beginning Fund Balance, as Reported	<u>\$150,452</u>	<u>\$63,869</u>	<u>\$444,659</u>	<u>\$880,345</u>	<u>\$1,539,325</u>

The reconciliation of beginning fund balance is related to a reallocation of prior year sales tax to the correct fund.

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, 2011

	Budgeted Amounts			Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Amended	Final		
<b>REVENUE:</b>					
General Property Taxes, Interest and Penalties	\$750,021	\$750,021	\$750,021	\$706,079	(\$43,942)
Sales tax	691,740	761,050	761,050	837,606	76,556
Fines and forfeitures	679,000	640,000	640,000	533,929	(106,071)
Franchise fees & rental fees	434,250	386,607	386,607	432,838	46,231
Rental fees	-	-	-	-	-
Licenses, fees and permits	100,300	78,326	78,326	69,278	(9,048)
Interest	2,000	2,000	2,000	1,885	(115)
Intergovernmental	354,723	371,179	371,179	319,688	(51,491)
Donations	56,750	56,750	56,750	409	(56,341)
Water/Sewer administrative fee	45,176	41,176	41,176	178,797	137,621
Miscellaneous	51,750	92,296	92,296	21,595	(70,701)
Total Revenue	<u>3,165,710</u>	<u>3,179,405</u>	<u>3,179,405</u>	<u>3,102,104</u>	<u>(77,301)</u>
<b>EXPENDITURES:</b>					
Current operating					
General government	383,280	383,280	383,280	323,727	59,553
Public safety	2,185,204	2,198,899	2,198,899	2,074,503	124,396
Public works	96,068	96,068	96,068	92,007	4,061
Cultural and recreational	247,695	247,695	247,695	205,139	42,556
Community development	191,237	191,237	191,237	210,368	(19,131)
Social and welfare	62,226	62,226	62,226	60,290	1,936
Other	-	-	-	-	-
Capital Outlay	-	-	-	416,756	(416,756)
Total Expenditures	<u>3,165,710</u>	<u>3,179,405</u>	<u>3,179,405</u>	<u>3,382,790</u>	<u>(203,385)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>(280,686)</u>	<u>(280,686)</u>
<b>OTHER FINANCING SOURCES:</b>					
Loan proceeds	-	-	-	-	-
Transfers	-	-	-	469,042	469,042
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>188,356</u>	<u>188,356</u>
FUND BALANCE - October 1, 2010	<u>150,452</u>	<u>150,452</u>	<u>150,452</u>	<u>150,452</u>	<u>-</u>
FUND BALANCE - September 30, 2011	<u>150,452</u>	<u>150,452</u>	<u>\$150,452</u>	<u>338,808</u>	<u>\$188,356</u>

**CITY OF ALVARADO, TEXAS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**SEPTEMBER 30, 2011**

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

**1. Budgetary Information**

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

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

All unused appropriations, except appropriations for capital expenditures, lapse at the close of the fiscal year to the extent they have not been expended or encumbered. An appropriation for capital expenditures shall continue in force until the purpose for which it was made has been accomplished or abandoned if three (3) years pass without any disbursement from or encumbrance of the appropriation. No supplemental budgetary appropriations occurred in the debt service funds or in the general fund. The revised budgets are used for budget versus actual comparisons. Revenues in the general fund were less than budget by \$77,301 and expenditures were less than budget by \$213,371.

**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 \$4,743,842.

The City generally budgets capital outlays in the department with which they are associated, whereas for actual financial statement purposes they are all grouped on a separate line. Amounts budgeted for the general fund amounted to \$0. The total actual capital outlays for the year in the general fund amounted to \$416,716.

**NOTE B – RETIREMENT PLAN**

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

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date December 31,	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%
2008	733,422	1,017,621	72.1%	284,199	1,928,937	14.7%
2009	915,288	1,232,819	74.2%	317,531	2,121,347	15.0%
2010	1,225,240	1,486,668	82.4%	261,428	2,133,755	12.3%

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
9/30/2010	\$100,287	100%
9/30/2009	102,036	100%
9/30/2008	107,183	100%
9/30/2007	57,001	100%
9/30/2006	51,459	100%
9/30/2005	48,579	100%