

**CITY OF ALVARADO, TEXAS**  
**SEPTEMBER 30, 2016**

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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 ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express opinions 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 from material misstatement

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 18, the budgetary comparison information on pages 56 and related notes on page 59, the schedule of changes in net pension liability and related ratios on page 57, and the schedule of contributions on pages 58 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.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2017, on our consideration of the City of Alvarado, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Waters, Vollmering & Associates, LLP

Mansfield, Texas

February 10, 2017

# *City of Alvarado*

104 W. College  
Alvarado, Texas 76009

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

February 10, 2017

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, 2016, 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, 2016, 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, 2016, 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/educational activities including Senior Services and the Public Library, and general administrative services.

## **Economic Conditions and Outlook**

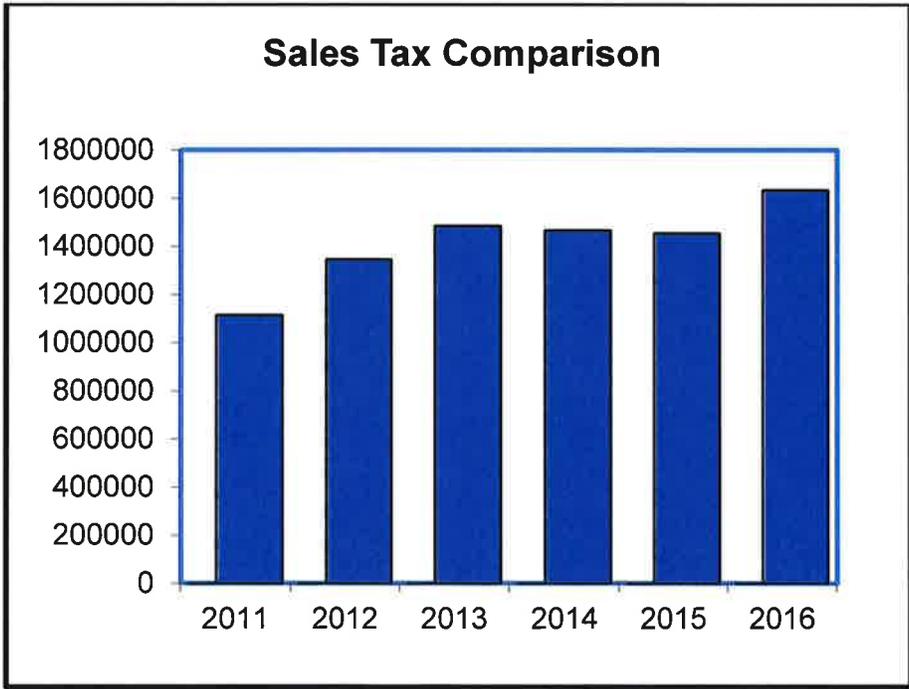
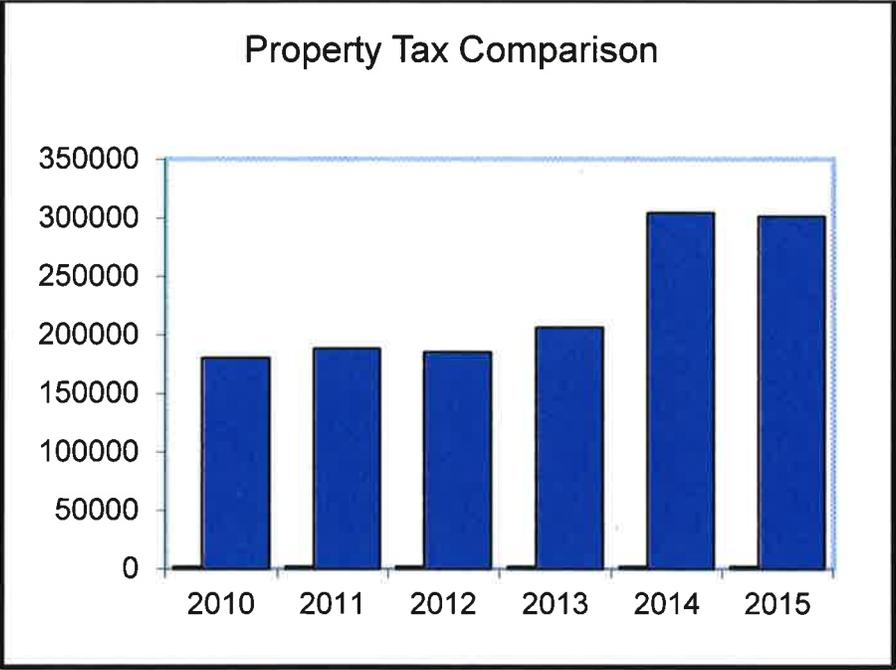
The information presented in the financial statements is perhaps best understood when it is considered from the broader aspect of the specific environment within which the City operates.

### **Local Economy**

2015-2016 started the budget year with continued downhill revenues resulting from the oil and gas industry's decline in the area, but concluded with positive trends providing the City with an optimistic outlook. Additional employment opportunities and growth continue to drive the local economy. Sales tax revenue increased from \$1,455,124 in 2015 to \$1,633,921 in 2016, providing an increase of \$178,797.

Taxable property valuations for 2015 showed a minor decrease of \$2.9 M from the previous year but the 2016 valuations are providing an increase of \$3.7 M for an evaluation of \$304.9. The property tax rate was increased from \$0.665469/\$100 to \$0.733000/\$100 for the 2015 valuations, while the rate for 2016 remains the same value of \$.0733000

The charts below are based upon the 2015-2016 budget year as compared to prior years. Property Valuations noted below for the budget period 2015-2016 are based upon the 2015 assessed property valuations as determined by the Johnson County Appraisal District. The chart for Sales Tax collected also represents the amounts collected during the 2015-2016 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 56.

## **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.

## **Reserve Requirements**

In 2013, the City Council adopted an official Fund Balance Policy. According to this policy the city will reserve General Funds equal to three months of operating expenses. This requirement has been fulfilled with General fund unrestricted reserves of \$2,531,404. Overall governmental funds unrestricted reserves total \$3,027,091.

## **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  
Finance Director

**CITY OF ALVARADO  
PRINCIPAL CITY OFFICIALS  
SEPTEMBER 30, 2016**

Mayor

Dewayne Richters

Council Members

Joe Sain

Beverly Short

Shawn Goulding

Michael Bennett

Jacob Wheat

Arrdeen Vaughan

City Manager

Clint Davis

City Secretary

Debbie Thomas

City Attorney

Tim Srolla

Director of Finance

Kelle Whitfill

Director of Public Works

Michael Dwiggin

Police Chief

Brad Anderson

Fire Chief

Richard VanWinkle

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

### **FISCAL YEAR ENDED SEPTEMBER 30, 2016**

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, 2016. 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 \$19,791,781 (total net position). Of this amount, \$5,343,701 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position increased this fiscal year by \$719,766.
- As of the close of the current fiscal year, the City of Alvarado's governmental funds reported combined ending fund balances of \$8,813,849. Approximately 34.34% or \$3,027,091 is available for spending at the City's discretion (unassigned fund balance).
- Special Project Fund has a fund balance of \$3,289,248 with restricted usage limited to capital improvements.
- Other Governmental Funds include Royalty Fund with a fund balance of \$1,182,162 (\$303,581 committed, \$382,894 assigned and \$495,687 unassigned), Hotel Fund with a fund balance of \$484,786 (restricted fund balance), Court Revenue Fund with a fund balance of \$158,960 (restricted) and Alvarado Economic Development Corporation with a fund balance of \$1,167,289 (restricted).
- The City's total debt decreased by \$476,248 during the current fiscal year. The governmental funds debt decreased by \$213,334 and the water and sewer proprietary fund debt decreased by \$262,914, both due to scheduled retirement of 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 position* presents information on all of the City of Alvarado's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decrease in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes.)

Both of the government-wide financial statements distinguish functions of the City of Alvarado that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Alvarado include general government, public safety, public works, and culture and recreation. The business-type activity of the City of Alvarado includes a Water and Sewer Fund.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Alvarado, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Alvarado can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources* as well as on *balance of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Alvarado maintains 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, Debt Service Fund, and Special Project Fund, all of which are considered major funds. Data from the other 4 funds (AEDC Fund, Hotel Tax Fund, Royalty Fund and Court Fund) 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 \$19,791,781 at the close of the most recent fiscal year. This represents an increase of \$719,766 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 Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2016	2015	2016	2015	2016
<b>ASSETS</b>						
Current Assets	\$ 10,025,579	\$ 9,751,592	\$ 4,990,699	\$ 3,492,916	\$ 15,016,278	\$ 13,244,508
Noncurrent Assets	6,040,075	7,015,081	13,965,882	15,835,986	20,005,957	22,851,067
Total Assets	<u>16,065,654</u>	<u>16,766,673</u>	<u>18,956,581</u>	<u>19,328,902</u>	<u>35,022,235</u>	<u>36,095,575</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred pension contributions	165,661	164,901	33,931	33,775	199,436	198,676
Deferred pension actuarial losses	16,824	114,859	3,447	23,525	20,271	138,384
Total Deferred Outflows	<u>182,485</u>	<u>279,760</u>	<u>37,378</u>	<u>57,300</u>	<u>219,707</u>	<u>337,060</u>
<b>LIABILITIES</b>						
Current Liabilities	1,185,746	1,449,740	774,321	1,301,126	1,960,067	2,750,866
LongTerm Liabilities	6,448,137	6,346,616	7,748,102	7,497,019	14,196,239	13,843,635
Total Liabilities	<u>7,633,883</u>	<u>7,796,356</u>	<u>8,522,423</u>	<u>8,798,145</u>	<u>16,156,306</u>	<u>16,594,501</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred pension expense	11,436	38,473	2,342	7,880	11,436	46,353
Total Deferred Inflows	<u>11,436</u>	<u>38,473</u>	<u>2,342</u>	<u>7,880</u>	<u>11,436</u>	<u>46,353</u>
<b>NET POSITION</b>						
Invested in capital assets, net of related debt	(711,588)	487,821	5,906,054	8,039,768	5,194,466	8,527,589
Restricted	6,105,917	5,100,283	2,651,399	820,208	8,757,316	5,920,491
Unrestricted	3,208,494	3,623,500	1,911,739	1,720,201	5,120,233	5,343,701
Total Net Position	<u>\$ 8,602,823</u>	<u>\$ 9,211,604</u>	<u>\$ 10,469,192</u>	<u>\$ 10,580,177</u>	<u>\$ 19,072,015</u>	<u>\$ 19,791,781</u>

An additional portion of the City of Alvarado's net position, \$5,920,491 represents resources that are subject to external restrictions on how they may be used. Unrestricted net assets of \$5,343,701 may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2016, the City of Alvarado is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

**Governmental Activities.** Governmental activities reflected an increase in the City's net position by \$608,781, from \$8,602,823 to \$9,211,604.

**Business-type Activities.** Net position from business-type activities increased by \$110,98 from \$10,469,192 to \$10,580,177.

The following table provides a summary of the City's operations for the year ended September 30, 2016, with the comparative totals for the year ended September 30, 2015.

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

	Governmental Activities		Business Activities		Total	
	2015	2016	2015	2016	2015	2016
<b>REVENUES:</b>						
Charges for Services	\$ 1,866,822	\$ 1,565,328	\$ 2,587,717	\$ 2,657,994	\$ 4,454,539	\$ 4,223,322
Operating Grants/Contributions			226,882	-	226,882	-
Capital Grants/Contributions	-	-			-	-
General Revenues:						
Property Taxes	2,052,381	2,217,509			2,052,381	2,217,509
Sales Tax	1,275,452	1,859,747			1,275,452	1,859,747
Franchise Tax	429,545	450,438			429,545	450,438
Alcoholic beverage taxes	522	571			522	571
Unrestricted investment earnings	3,558	26,897	4,004	10,866	7,562	37,763
Gain/Loss on Sale of Assets	(16,081)	(58,824)	-	(22,921)		(81,745)
Other revenue	245,777	309,993	500	-	246,277	309,993
<b>Total Revenue</b>	<b>5,857,976</b>	<b>6,371,659</b>	<b>2,819,103</b>	<b>2,645,939</b>	<b>8,693,160</b>	<b>9,017,598</b>
<b>EXPENSES:</b>						
General government	782,758	590,465			782,758	590,465
Public safety	2,335,262	2,772,064			2,335,262	2,772,064
Public works	311,686	312,238			311,686	312,238
Community development	245,613	430,075			245,613	430,075
Cultural & recreational	278,343	281,694			278,343	281,694
Social & welfare	67,699	72,336			67,699	72,336
Economic development	84,446	262,856			84,446	262,856
Pension expense	73,212	128,515				128,515
Interest on long-term debt	269,042	370,250	151,467	149,011	420,509	519,261
Water & sewer operations			2,606,604	2,928,328	2,606,604	2,928,328
Special item outflow					-	-
<b>Total Expenses</b>	<b>4,448,061</b>	<b>5,220,493</b>	<b>2,758,071</b>	<b>3,077,339</b>	<b>7,132,920</b>	<b>8,297,832</b>
Change in net assets before transfers	1,409,915	1,151,166	61,032	(431,400)	1,470,947	719,766
Transfers	(316,568)	(542,385)	316,568	542,385	-	0
<b>Change in net assets</b>	<b>1,093,347</b>	<b>608,781</b>	<b>377,600</b>	<b>110,985</b>	<b>1,470,947</b>	<b>719,766</b>
Net assets - Beginning	7,509,476	8,602,823	10,091,592	10,469,192	17,601,068	19,072,015
<b>Net assets - Ending</b>	<b>\$ 8,602,823</b>	<b>\$ 9,211,604</b>	<b>\$ 10,469,192</b>	<b>\$ 10,580,177</b>	<b>\$ 19,072,015</b>	<b>19,791,781</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 \$8,813,849, a decrease of \$478,664 in comparison with the prior year. Approximately \$3,027,091 of this total constitutes unassigned fund balance, which is available for spending at the government's discretion with \$382,894 as an assigned fund balance which may be used with Council approval. \$3,289,248 of the fund balance is committed to specific projects while \$1,811,035 of the balance has restrictions and \$303,581 is committed for other purposes. Refer to page 21 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 \$1,720,201, a decrease of \$191,540 from the previous year. There was an increase in total net capital assets of \$2,133,714, which was mainly the result of an increase in capital assets, net of related debt.

### General Fund Budgetary Highlights

The City's general fund revenue increased by \$476,179 when compared to the original budget projections. The budget was revised and increased by \$125,505 at mid-year. Sales taxes and Fines & Forfeitures were the two categories that provided the largest increases over their budgeted amounts.

Total general fund revenues increased when compared to the prior year by \$632,252 or over 15.74%.

Total general fund year-end expenditures increased by only \$65,888 over the previous year and were \$519,687 less than the final budgeted amount. This decrease was the result of each department practicing a conservative approach to spending and also included a few budgeted expenditures that were carried over into the next budget year.

## CAPITAL ASSETS

The City of Alvarado's investment in capital assets for its governmental and business-type activities as of September 30, 2016, amounts to \$22,851,067 (net of accumulated depreciation.). This investment in capital assets includes land, buildings and improvements, machinery, equipment, infrastructure and construction in progress.

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

- The Parks Department purchased a new van this year in the amount of \$29,704.
- Parks purchased a new John Deere mower for \$10,145.
- Continuing improvements to the City computer system, a new server was purchased for \$8,083.
- The Annex Building which houses both the Police Department and the Public Works Department added improvements to their building, valued at \$17,621.
- A new training center within the Annex Building was built for the Police Department for \$55,000.
- The City continued their street improvements around the City with expenditures this year of \$353,639.
- The 2015 bond issue to provide for major improvements to Cummings Street continued with expenses this year totaling \$520,353.
- The 2015 Bond issue also provided for the Lakeview Outfall Sanitary Sewer project spending \$67,043.
- Work began to correct a drainage issue on Chris Court spending \$25,000.
- The Fire Department added a new Thermal Imager for \$10,844.
- City Hall replaced an air conditioner for \$9,968.
- The Police Department purchased 5 new vehicles for their fleet totaling \$227,085.
- The Police Department also purchased new computers for their vehicles for \$69,310.
- The Street Department purchased speed humps for \$10,759 and steel barricades for \$8,203.
- The Old Wagon Barn, renamed Heritage Museum, continued with restoration work totaling expenses this year of \$73,501.
- The Public Works Department purchased 4 new vehicles for \$110,719.
- Repairs were completed on the Preston & Sabre lift station for \$5,720 and an addition pump for use at one of the lift stations was purchased at \$12,966.
- One of the City water wells was plugged because it was no longer producing.
- Major water well repairs were necessary at Well #9 in the amount of \$38,860.
- Major water well repairs were also necessary at Well#4 for \$44,868.
- The Wastewater Treatment Plant replaced blowers for \$15,849, repaired a pump for \$6,814 and purchased lights for \$8,877.
- Work continued on a Regional Lift Station located on Hwy 67 and I35 with \$702,105 spent this budget year. This is a joint project between the City and the Economic Development Fund.
- The Parks Grant that was approved in 2013 at Lake Alvarado to improve the boat ramp and add restrooms should begin construction in the next budget year and expenses this year totaled \$4,610 for the engineering.
- Using funds approved by the Economic Development Board, work continued on a I-35 water line project with \$249,429 spent this year.
- Major projects utilizing the 2012 Bond Issue continue, including a new well, storage tanks and transmission lines and upgrades at the Wastewater Treatment Plant. This year's water expenditures totaled \$1,265,326.
- Land that had been purchased for a future museum site was sold for commercial construction.

The following table provides a summary of the City’s capital assets for the year ended September 30, 2016 as compared to the summary of capital assets for the year ended September 30, 2015:

**City of Alvarado’s Capital Assets  
(Net of depreciation)  
CAPITAL ASSETS AT YEAR-END**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Totals</b>	
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Land	404,584	357,193	1,016,709	1,005,509	1,421,293	1,362,702
Buildings & Improvements	1,827,828	1,856,452	9,665	9,465	1,837,493	1,865,917
Infrastructure	3,317,358	3,517,249			3,317,358	3,517,249
Vehicles	192,527	317,553	18,961	104,892	211,488	422,445
Parks Improvements	36,129	37,874			36,129	37,874
Water System			3,100,748	2,925,057	3,100,748	2,925,057
Sewer System			7,542,723	7,624,705	7,542,723	7,624,705
Other Equipment	127,055	151,978	130,344	90,561	257,399	242,539
Construction in Progress	134,594	776,782	2,146,732	4,075,797	2,281,326	4,852,579
<b>Total</b>	<u><u>6,040,075</u></u>	<u><u>7,015,081</u></u>	<u><u>13,965,882</u></u>	<u><u>15,835,986</u></u>	<u><u>20,005,957</u></u>	<u><u>22,851,067</u></u>

## DEBT ADMINISTRATION

**Total Debt.** The City of Alvarado’s total debt outstanding at the end of the current fiscal year is \$14,408,072. This amount is a decrease of \$476,248 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 \$13,484,443. Of this amount, \$13,397,044 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, \$134,797, 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 debt of \$923,629 including current bonds payable, current notes payable and compensated absences.

**Bond Rating.** In July 2015, the City was notified that they continue to have a favorable bond rating of “AA” from Standard and Poors Rating Service.

The following table provides a summary of the City’s outstanding debt for the year ended September 30, 2016 as compared to the summary of capital assets for the year ended September 30, 2015:

### City of Alvarado’s Capital Assets (Net of depreciation) OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-Type Activities		Totals	
	2015	2016	2015	2016	2015	2016
Certificates of Obligation	\$ 6,702,216	\$ 6,340,295	\$ 8,033,828	\$ 7,711,050	\$ 14,736,044	\$ 14,051,345
Tax Anticipation Notes	-	-			-	-
Capital Leases	14,272	169,000	26,000	85,168	40,272	254,168
Notes Payable	35,175	17,965			35,175	17,965
Compensated Absences	61,495	72,564	11,334	12,030	72,829	84,594
Total	\$ 6,813,158	\$ 6,599,824	\$ 8,071,162	\$ 7,808,248	\$ 14,884,320	\$ 14,408,072

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

The following factors were considered in preparing the City of Alvarado's budget for the 2016-2017 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's 2016 property tax rate remained at \$.733 per \$100 of valuation.
- The City currently receives royalties from 29 gas wells.
- Alvarado continues to enjoy sales tax revenue from the sale of alcoholic beverages at several stores selling beer and wine and two package stores selling all types of liquor.
- 11 single family homes were completed during the last budget year.
- Land has been purchased with a proposed intent to develop 2 new communities within the city limits, one to build 250 homes and the other to add 300 new homes.
- The City continues an annual street improvement program.
- The City is actively working to improve the City parks. A grant was received to improve the park at Alvarado Lake. A new park, George Washington Carver Park, is in the process of being opened, while the City has recently received donated land for 2 additional neighborhood parks.
- Edward Jones & Co. opened a new office within the City limits in September.
- QuikTrip, a gas station and convenience store, which opened their doors in March 2014 at the corner of Interstate 35 and Highway 67 has exceeded their anticipated sales and is planning an expansion.
- Both the 2012 & 2015 Combination Tax and Revenue Certificate of Obligations continue to provide improvements for water, sewer and Cummings Street projects around the City.
- A yogurt shop opened within the City.
- A new distillery began production during this budget year.
- G&L General Store located in the downtown area received a grant to assist with improvements.
- O'Reilly Auto Parks is in the process of building a new business here in the City.
- A new Starbucks has broken land on I-35.
- Prairielands Detention Center which will house ICE detainees has been completed within the City limits and has the capacity to house 700 detainees. It is anticipated that the Center will be utilized by January 2017.

These factors were considered in preparing the City of Alvarado's budget for the 2017-2018 fiscal year.

The City estimated that the General Fund Operating Budget will increase around 12% for fiscal year ending 2018 compared to fiscal year's 2017 final budget. Almost every revenue stream is budgeted for an increase. Total expenditures for 2017-2018 are budgeted to increase by the same 12%.

### **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 POSITION  
September 30, 2016

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash	\$984,221	\$81,362	\$1,065,583
Investments	4,349,628	1,341,922	5,691,550
Receivables (net)			
Taxes receivable	315,031	-	315,031
Accounts receivable	83,916	334,424	418,340
Other	637	-	637
Inventory	-	58,505	58,505
Prepaid expenses	863	-	863
Restricted assets			
Cash	97,055	1,446,911	1,543,966
Deposits	25	120,041	120,066
Investments	3,920,216	109,751	4,029,967
Total current assets	<u>9,751,592</u>	<u>3,492,916</u>	<u>13,244,508</u>
Noncurrent assets:			
Capital assets, net	7,015,081	15,835,986	22,851,067
Total noncurrent assets	<u>7,015,081</u>	<u>15,835,986</u>	<u>22,851,067</u>
Total assets	<u>16,766,673</u>	<u>19,328,902</u>	<u>36,095,575</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred pension contributions	164,901	33,775	198,676
Deferred pension actuarial losses	114,859	23,525	138,384
	<u>279,760</u>	<u>57,300</u>	<u>337,060</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	784,910	762,288	1,547,198
Accrued liabilities	152,833	8,238	161,071
Deposits	-	166,366	166,366
Current portion			
Revenue bonds payable	343,079	311,222	654,301
Notes payable	17,965	-	17,965
Capital leases	78,389	40,982	119,371
Compensated absences	72,564	12,030	84,594
Total current liabilities	<u>1,449,740</u>	<u>1,301,126</u>	<u>2,750,866</u>
Noncurrent liabilities:			
Revenue bonds payable	5,997,216	7,399,828	13,397,044
Notes payable	-	-	-
Capital leases	90,611	44,186	134,797
Net pension liability	258,789	53,005	311,794
Total noncurrent liabilities	<u>6,346,616</u>	<u>7,497,019</u>	<u>13,843,635</u>
Total liabilities	<u>7,796,356</u>	<u>8,798,145</u>	<u>16,594,501</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred pension expense	38,473	7,880	46,353
	<u>38,473</u>	<u>7,880</u>	<u>46,353</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	487,821	8,039,768	8,527,589
Restricted			
Public Safety	1,811,035	-	1,811,035
Capital improvements	3,289,248	820,208	4,109,456
Unrestricted	3,623,500	1,720,201	5,343,701
Total net position	<u>\$9,211,604</u>	<u>\$10,580,177</u>	<u>\$19,791,781</u>

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended September 30, 2016

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:							
Public safety	\$590,465	\$422,095	\$0	\$0	(\$168,370)	-	(\$168,370)
Public works	2,772,064	917,404	-	-	(1,854,660)	-	(1,854,660)
Cultural and recreational	312,238	-	-	-	(312,238)	-	(312,238)
Economic development	281,694	-	-	-	(281,694)	-	(281,694)
Community development	262,856	-	-	-	(262,856)	-	(262,856)
Social and welfare	430,075	192,106	-	-	(237,969)	-	(237,969)
Pension expense	72,336	33,723	-	-	(38,613)	-	(38,613)
Interest on long-term debt	128,515	-	-	-	(128,515)	-	(128,515)
Total governmental activities	370,250	-	-	-	(370,250)	-	(370,250)
	\$5,220,493	\$1,565,328	-	-	(\$3,655,165)	-	(\$3,655,165)
<b>Business-type activities:</b>							
Water and sewer	\$3,077,339	\$2,657,994	\$0	-	-	(\$419,345)	(\$419,345)
<b>General revenues:</b>							
Taxes:							
General property taxes					2,217,509	-	2,217,509
Sales tax					1,860,318	-	1,860,318
Franchise tax					450,438	-	450,438
Interest income					26,897	10,866	37,763
Gain (Loss) on sale of capital assets					(58,824)	(22,921)	(81,745)
Administrative fee					75,000	-	75,000
Miscellaneous					234,993	-	234,993
Transfers					(542,385)	542,385	-
Total general revenues and proceeds					4,263,946	530,330	4,794,276
Change in net position					608,781	110,985	719,766
Net position-beginning of period					8,602,823	10,469,192	19,072,015
Net position-ending					\$9,211,604	\$10,580,177	\$19,791,781

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
September 30, 2016

	General Fund	Debt Service Fund	Special Project Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash	\$ 983,824	\$ -	\$ -	\$ 397	\$ 984,221
Investments	1,526,086	-	-	2,823,542	4,349,628
Receivables, net					
Accounts	28,916	-	-	55,000	83,916
Property taxes	66,559	40,601	-	-	107,160
Sales taxes	216,353	-	-	94,173	310,526
Fines receivable	290,380	-	-	-	290,380
Miscellaneous	637	-	-	-	637
Prepaid expenses	863	-	-	-	863
Restricted					
Cash	97,055	-	-	-	97,055
Intergovernmental Receivable	25	-	-	-	25
Investments	129,024	343,162	3,289,248	158,782	3,920,216
Total assets	\$ 3,339,722	\$ 383,763	\$ 3,289,248	\$ 3,131,894	\$ 10,144,627
<b>LIABILITIES</b>					
Accounts payable	\$ 291,163	\$ 357,739	\$ -	\$ 136,008	\$ 784,910
Accrued liabilities	150,144	-	-	2,689	152,833
Total liabilities	441,307	357,739	-	138,697	937,743
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred inflows of property tax revenue	354,080	38,955	-	-	393,035
Total liabilities and deferred inflows of resources	795,387	396,694	-	138,697	1,330,778
<b>FUND BALANCES</b>					
Fund balances:					
Nonspendable	-	-	-	-	-
Restricted	12,931	(12,931)	-	1,811,035	1,811,035
Capital improvement	-	-	3,289,248	-	3,289,248
Committed	-	-	-	303,581	303,581
Assigned	-	-	-	382,894	382,894
Unassigned	2,531,404	-	-	495,687	3,027,091
Total fund balances	2,544,335	(12,931)	3,289,248	2,993,197	8,813,849
Total liabilities, deferred inflows and fund balance:	\$ 3,339,722	\$ 383,763	\$ 3,289,248	\$ 3,131,894	\$ 10,144,627
Amounts reported for governmental activities in the statement of net position are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (Note B)					
Other long-term assets and liabilities are not available to pay for current-period expenditures, and therefore, are deferred in the funds					
Long-term liabilities, including bond payable and pension expense, are not due and payable in the current period and therefore are not reported in the funds (Note B)					
Compensated absences are not due and payable in the current period and therefore are not reported in the funds					
Net position of governmental activities					
					\$ 9,211,604

CITY OF ALVARADO, TEXAS  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
 GOVERNMENTAL FUNDS  
 For the Fiscal Year Ended September 30, 2016

	General Fund	Debt Service Fund	Special Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUE:</b>					
General property taxes, interest and penalties	\$1,367,976	\$849,533	-	-	\$2,217,509
Sales tax	1,225,441	-	-	\$408,480	1,633,921
Hotel tax	-	-	-	225,826	225,826
Fines and forfeitures	917,404	-	-	-	917,404
Franchise tax	450,438	-	-	-	450,438
Mixed beverage tax	571	-	-	-	571
Rental fees	33,723	-	-	-	33,723
Intergovernmental	192,106	-	-	-	192,106
Licenses, fees and permits	211,226	-	-	53,929	265,155
Interest	16,264	-	-	10,633	26,897
Proceeds from disposition of property	23,985	-	-	-	23,985
Water/Sewer administrative fee	75,000	-	-	-	75,000
Oil and gas royalties	-	-	-	156,940	156,940
Miscellaneous	135,286	-	-	99,705	234,991
<b>Total Revenue</b>	<b>4,649,420</b>	<b>849,533</b>	<b>-</b>	<b>955,513</b>	<b>6,454,466</b>
<b>EXPENDITURES:</b>					
Current operating					
General government	605,778	-	-	20,895	626,673
Public safety	2,532,950	-	-	26,751	2,559,701
Community development	225,567	-	-	204,508	430,075
Public works	146,353	-	-	-	146,353
Cultural and recreational	254,809	-	-	-	254,809
Social and welfare	68,018	-	-	-	68,018
Economic development	-	-	-	262,856	262,856
Capital Outlay	133,090	-	520,354	567,412	1,220,856
Debt Service	-	-	-	-	-
Principal	-	435,345	-	-	435,345
Interest	-	369,050	-	-	369,050
Paying agent	-	1,200	-	-	1,200
<b>Total Expenditures</b>	<b>3,966,565</b>	<b>805,595</b>	<b>520,354</b>	<b>1,082,422</b>	<b>6,374,936</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>682,855</b>	<b>43,938</b>	<b>(520,354)</b>	<b>(126,909)</b>	<b>79,530</b>
<b>OTHER FINANCING SOURCES:</b>					
Transfers in	35,221	96,304	3,876,644	-	4,008,169
Transfers out	(3,385,553)	(131,456)	(67,042)	(982,311)	(4,566,362)
<b>NET CHANGE IN FUND BALANCES</b>	<b>(2,667,477)</b>	<b>8,786</b>	<b>3,289,248</b>	<b>(1,109,220)</b>	<b>(478,663)</b>
<b>FUND BALANCE - October 1, 2015 (as adjusted, see Note N)</b>	<b>5,211,812</b>	<b>(21,717)</b>	<b>-</b>	<b>4,102,417</b>	<b>9,292,512</b>
<b>FUND BALANCE - September 30, 2016</b>	<b>\$2,544,335</b>	<b>(\$12,931)</b>	<b>\$3,289,248</b>	<b>\$2,993,197</b>	<b>\$8,813,849</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, 2016

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

Net change in fund balances - total governmental funds	(\$478,663)
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	1,220,856
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.	(430,152)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and interfund transfers) is to increase net position.	161,822
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.	435,345
The issuance of long-term debt (e.g. bonds, leases, compensated absences) provides current financial resources to government funds. Issuance of long-term debt does not effect net position. This is the amount of debt issued in the current period.	(227,863)
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>(72,564)</u>
Changes in net position of governmental activities	<u><u>\$608,781</u></u>

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS  
STATEMENT OF NET POSITION  
WATER AND SEWER PROPRIETARY FUND  
September 30, 2016

ASSETS

Current assets:	
Cash	\$81,362
Investments	1,341,922
Accounts receivable (net of allowance for uncollectible amounts)	334,424
Inventory	58,505
Restricted assets	
Cash	1,446,911
Deposits	120,041
Investments	109,751
Total current assets	3,492,916
Noncurrent assets:	
Capital assets, net	15,835,986
Total assets	19,328,902

DEFERRED OUTFLOW OF RESOURCES

Deferred pension contributions	33,775
Deferred pension actuarial losses	23,525
	57,300

LIABILITIES

Current liabilities:	
Accounts payable	762,288
Accrued liabilities	8,238
Deposits	166,366
Current portion	
Revenue bonds payable	311,222
Capital leases	40,982
Compensated absences	12,030
Total current liabilities	1,301,126
Noncurrent liabilities:	
Revenue bonds payable	7,399,828
Capital lease payable	44,186
Net pension liability	53,005
Total noncurrent liabilities	7,497,019
Total liabilities	8,798,145

DEFERRED INFLOW OF RESOURCES

Deferred pension expense	7,880
	7,880

NET POSITION

Invested in capital assets, net of related debt	8,039,768
Restricted for:	
Capital Improvements	820,208
Unrestricted	1,720,201
Total net position	\$10,580,177

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
WATER AND SEWER PROPRIETARY FUND  
For the Fiscal Year Ended September 30, 2016

OPERATING REVENUES:

Water service	\$1,252,533
Sewer service	793,516
Garbage service	483,892
Late charges	69,682
Miscellaneous income	58,371
Total operating revenues	2,657,994

OPERATING EXPENSES:

Personnel services	559,140
Contractual services	1,133,937
Supplies and maintenance	428,409
Administrative fees	75,000
Other fees	110,719
Depreciation	628,411
Total operating expenses	2,935,616

Operating income (loss)	(277,622)
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NON-OPERATING REVENUES (EXPENSES)

Loss on sale of assets	(22,921)
Interest income	10,866
Accretion of bond premiums/discounts	7,288
Interest expense	(149,011)
Net non-operating revenues (expenses)	(153,778)

INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(431,400)
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Operating transfers in	3,389,614
Operating transfers out	(2,847,229)
Net transfers	542,385

CHANGE IN NET POSITION	110,985
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NET POSITION, October 1, 2015	10,469,192
NET POSITION, September 30, 2016	\$10,580,177

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, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from:	
Customers	\$2,905,073
Interfund payments	11,200
Cash paid to/for:	
Employees	(524,363)
Suppliers	(1,282,030)
Net cash flows provided by operating activities	1,109,880

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating transfers out	(\$2,847,229)	
Operating transfers in	3,389,614	
Net cash flows provided by noncapital financing activities		542,385

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition and construction of capital assets	(2,534,492)	
Principal paid on bonds, notes and lease obligations	(367,950)	
Interest paid on bonds, notes and lease obligations	(149,011)	
Net cash flows used in capital and related financing activities		(3,051,453)

CASH FLOWS FROM INVESTING ACTIVITIES:

Amount received from interest income	10,866	
Proceeds received from capital leases	111,118	
Net cash flows provided by investing activities		121,984

Net decrease in cash and cash equivalents (1,277,204)

Cash and cash equivalents, October 1, 2015 4,377,191

Cash and cash equivalents, September 30, 2016 \$3,099,987

RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating income (loss)		(\$277,622)
Adjustments for transactions not requiring cash		
Depreciation	\$628,411	
Pension	26,322	
Change in current assets and current liabilities		
(Increase) decrease in accounts receivable	245,964	
(Increase) decrease in inventory	(25,385)	
(Increase) decrease in deferred outflows	(25,460)	
Increase (decrease) in accounts payable	502,620	
Increase (decrease) in accrued liabilities	(1,832)	
Increase (decrease) in customer deposits	1,115	
Increase (decrease) in net pension liability	35,051	
Increase (decrease) in compensated absences payable	696	
Total adjustments and changes		1,387,502
Net cash provided by operating activities		\$1,109,880

See accompanying notes and independent auditor's report

**CITY OF ALVARADO, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Alvarado, Texas (the "City"), have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to government entities. 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 1889 by charter as a general law city. The City is governed by an elected mayor and six-member Council. Two council members are elected for each of three wards while the mayor is elected at large. As required by 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 Presented Component Units*

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

## 2. Basis of Presentation

### *Government-wide and Fund Financial Statements*

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all 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.

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 the special project 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 AEDC fund, hotel and occupancy tax fund, special revenue fund and the royalty fund. The non-major funds are combined in a separate column in the fund financial statements.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by category) and the component units. Each

presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

### **3. Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are susceptible to accrual, as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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 Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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

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 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 government reports the following major proprietary fund:

The Water and Sewer Fund accounts for the operation of the City's water and sewer utility. Activities of the Fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for general obligation and revenue bonds. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.

#### **4. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balances**

##### **Deposits and Investments**

The City'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.

The City maintains a cash pool that is available for use by all funds. Each fund's portion of this pool is reflected on the balance sheet or statement of net position as "Cash, Cash Equivalents, and Investments" under each fund's caption.

For fiscal year 2016, 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 which is not in excess of market. Inventory is expensed when purchased and adjusted to actual at year-end. Inventory as of September 30, 2016 was \$58,505

##### **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 2016.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until the appropriate future period.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenues) until that time.

The components of the deferred outflows of resources and deferred inflows of resources are as follows:

	Governmental Activities	Proprietary Activities
Deferred outflow of resources		
Deferred pension contributions	\$ 164,901	\$ 33,775
Deferred pension activities	114,859	23,525
Total deferred outflow of resources	<u>\$ 279,760</u>	<u>\$ 57,300</u>
Deferred inflow of resources		
Deferred pension expense	\$ 38,473	\$ 7,880
Total deferred inflow of resources	<u>\$ 38,473</u>	<u>\$ 7,880</u>

In the fund financials, revenues that have met the eligibility criteria for future years except for the time availability have been reclassified from liabilities to deferred inflows of resources. In the government wide financials, the deferred revenue from property taxes has been reclassified from liabilities to offset the property tax receivable.

**Compensated Absences**

Vested or accumulated vacation leave is accrued in the government-wide and proprietary fund financial statements when incurred. No liability is recorded for nonvesting, accumulating rights

to receive sick pay benefits. Vacation is earned in varying amounts up to a maximum of twenty (20) days for city employees with twelve (12) or more years of service and up to a maximum of approximately twenty-eight (28) days for fire suppression personnel with twelve (12) or more years of service. Employee vacation policy allows for the accrual and carryover of 240 hours. In addition, the City allows for the accrual of compensatory time for non-department heads. Compensatory and vacation time can either be paid or used. As of September 30, 2016, the liability for accrued vacation and compensatory time, calculated in accordance with GASB Statements 16, "Accounting for Compensated Absences," was \$72,564 in the general fund. The amount applicable to the Proprietary Fund was \$12,030 and has been recorded in that fund.

### **Interfund Charges**

The City allocates to the Water and Sewer Fund a portion of the salaries and wages and related costs of personnel who perform administrative services for the fund but are paid through the General Fund. During the year ended September 30, 2016, the City chose to allocate a portion of the administrative services to the Water and Sewer Fund which totaled \$75,000.

### **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.

### **Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### **Long-term Obligations**

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

### **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.

### **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 form 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.

### **Net Position**

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

Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is excluded from the calculation of net investment in capital assets.

Restricted – Consists of assets with constraints placed on the use either by (1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. When an expense is incurred for purposes for which there are both restricted and unrestricted assets available, it is the City’s policy those expenses to restricted assets, to the extent such are available, and then to unrestricted assets.

Unrestricted – All other assets that constitute the components of net position that do not meet the definition of “restricted” or “investment in capital assets.”

### **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. New Accounting Principles**

Pronouncements Effective for the 2016 Financial Statements – With this financial report the City has changed its financial reporting to comply with Government Accounting Standards Board (GASB):

In February 2015, the GASB issued Statement No. 72, *“Fair Value Measurement and Application.”* This statement addresses accounting and financial reporting issues related to fair value measurements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. The City has implemented GASB 72 in this annual report, however, it does not have any current impact on the City.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB 67 and 68.”* This statement will improve the usefulness of information for decisions made by the various users of the general purpose external financial reports. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. The City has implemented GASB 73 in this annual report, however, it does not have any current impact on the City.

In June 2015, the GASB issued Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*" This statement will establish the hierarchy of GAAP for state and local governments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. The City has implemented GASB 76 in this annual report, however, it does not have any current impact on the City.

In December 2015, the GASB issued Statement No. 79, "*Certain External Investment Pools and Pool Participants.*" This Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except of certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. The City has implemented GASB 79 in this annual report, however, it does not have any current impact on the City.

In June 2015, the GASB issued Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*" This statement will improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local government OPEB plans for making decisions and assessing accountability. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2015, the GASB issued Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefit Other Than Pensions.*" This statement will improve accounting and financial reporting by statement and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In August 2015, the GASB issued Statement No. 77, "*Tax Abatement Disclosures.*" This statement will improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In December 2015, the GASB issued Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.*" This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of

employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. The requirements of this statement are effective for reporting periods beginning after December 31, 2015. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In January 2016, the GASB issued Statement No. 80, “*Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14.*” The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation for certain component units. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2016, the GASB issued Statement No. 81, “*Irrevocable Split-Interest Agreements.*” The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2016, the GASB issued Statement No. 82, “*Pension Issues an amendment of GASB Statements No. 67, No. 68 and No. 73.*” The objective of this statement is to address certain issues that have been raised with respect to Statements No. 67, No. 68. And No. 73. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In November 2016, the GASB issued Statement No. 83, “*Certain Asset Retirement Obligations.*” This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires the recognition occur when the liability is both incurred and reasonably estimable. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

## **NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:

The government fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the governmental-wide statement of net position. One element of that reconciliation explains, “long-term liabilities, including bonds payable and pension expense, are not due and payable in the current

period and therefore are not reported in the funds.” The details of this \$6,786,049 difference are as follows:

Bonds payable	\$6,035,000
Premium on issuance of bonds	305,295
Capital lease payable	169,000
Notes payable	17,965
Net pension liability	<u>258,789</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$6,786,049</u>

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

The governmental funds statement of revenues, expenditures, and changes in fund balances included reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$7,015,081 difference are as follows:

Capital outlay	\$ 11,826,552
Depreciation expense	<u>(4,811,471)</u>
Net adjustment to decrease net changes in fund balance – total governmental funds to arrive at changes in net position of government activities	<u>\$ 7,015,081</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, 2016. At year-end, the carrying

amount of the City's deposits was \$426,408, with respective bank balances of \$532,502. Included in the bank balances are Certificates of Deposit totaling \$120,066.

**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, 2016 are:

Investments:	Fair Value	Effective Duration	Credit Risk
Government Pools			
Unrestricted	\$5,691,550	N/A	AAAM
Restricted	4,029,967	N/A	AAAM

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

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

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

**NOTE D – RECEIVABLES**

Receivables at September 30, 2016, consisted of the following:

	General	Debt Service	Other	Total	Proprietary Fund Water & Sewer Fund
Taxes Receivable					
Ad valorem taxes	\$90,191	\$55,227	-	\$145,418	-
Allowance for uncollectible acct	(23,632)	(14,626)	-	(38,258)	-
Ad valorem, net	66,559	40,601	-	107,160	-
Sales taxes	216,353	-	\$94,173	310,526	-
Total Taxes Receivable	282,912	40,601	94,173	417,686	
Services Receivable					
Service accounts	28,916	-	55,000	83,916	\$339,206
Allowance for uncollectible accts	-	-	-	-	(4,782)
Total Services Receivable	28,916	-	55,000	83,916	334,424
Other Receivables					
Court fees & other	752,565	-	-	752,565	
Allowance for uncollectible accts	(462,185)	-	-	(462,185)	
	290,380	-	-	290,380	
Total Receivables	\$602,208	\$40,601	\$149,173	\$791,982	\$334,424

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

Capital asset activity for the year ended September 30, 2016 is as follows:

	Balance 9/30/15	Additions	Retirements	Transfers	Balance 9/30/16
Land	\$404,584	\$-0-	\$(58,591)	\$11,200	\$357,193
Construction in progress	134,594	642,188	(-0-)	(-0-)	776,782
Building & improvements	2,363,449	82,590	(-0-)	(-0-)	2,446,039
Infrastructure	4,522,310	353,638	(-0-)	(-0-)	4,875,948
Vehicles	1,514,534	256,788	(80,458)	(-0-)	1,690,864
Parks improvements	337,525	10,146	(-0-)	(-0-)	347,671
Equipment	1,224,856	107,199	(-0-)	(-0-)	1,332,055
Total capital assets	10,501,852	1,452,549	(139,049)	11,200	11,826,552
Less accumulated depreciation:					
Building & improvements	535,621	53,966	(-0-)	(-0-)	589,587
Infrastructure	1,204,952	153,747	(-0-)	(-0-)	1,358,699
Vehicles	1,322,007	131,762	(80,458)	(-0-)	1,373,311
Parks improvements	301,396	8,401	(-0-)	(-0-)	309,797
Equipment	1,097,801	82,276	(-0-)	(-0-)	1,180,077
Total accumulated depreciation	4,461,777	430,152	(80,458)	(-0-)	4,811,471
Governmental activities capital assets, net	\$6,040,075	\$1,022,397	\$(58,591)	\$11,200	\$7,015,081

**Business-Type Activities**

Capital asset activity for the year ended September 30, 2016 is as follows:

	Balance 9/30/15	Additions	Retirements	Transfers	Balance 9/30/16
Land	\$1,016,709	\$-0-	\$(-0-)	\$(11,200)	\$1,005,509
Construction in Progress	2,146,732	2,284,821	(2,366)	(353,390)	4,075,797
Building & Improvements	10,033	-0-	(-0-)	-0-	10,033
Water System	7,334,320	88,728	(207,433)	-0-	7,215,615
Sewer System	9,780,906	50,225	(-0-)	353,390	10,184,521
Equipment	484,684	-0-	(-0-)	-0-	484,684
Vehicles	128,922	110,718	(-0-)	-0-	239,640
Total capital assets	<u>20,902,306</u>	<u>2,534,492</u>	<u>(209,799)</u>	<u>(11,200)</u>	<u>23,215,799</u>
Less accumulated depreciation:					
Building & Improvements	368	200	(-0-)	-0-	568
Water System	4,233,572	242,008	(185,022)	-0-	4,290,558
Sewer System	2,238,183	321,632	(-0-)	-0-	2,559,816
Equipment	354,340	39,782	(-0-)	-0-	394,123
Vehicles	109,961	24,789	(-0-)	-0-	134,748
Total accumulated depreciation	<u>6,936,424</u>	<u>628,411</u>	<u>(185,022)</u>	<u>-0-</u>	<u>7,379,813</u>
Business-type activities capital assets, net	<u>\$13,965,882</u>	<u>\$1,906,081</u>	<u>\$(-24,777)</u>	<u>\$(-11,200)</u>	<u>\$15,835,986</u>

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

Governmental activities:	
General government	\$ 8,333
Public safety	212,363
Public works	165,885
Cultural and recreational	26,885
Community development	12,368
Social and welfare	4,318
Total depreciation expense – governmental activities	<u>\$430,152</u>
Business-type activities:	
Water and sewer	<u>\$628,411</u>

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

For the year ended September 30, 2016, revenues exceeded expenditures in the General Fund by \$682,855.

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

The composition of interfund operating transfers for the year ended September 30, 2016, is as follows:

Fund	Transfer to Other Funds	Transfer from Other Funds
General Fund	\$3,385,553	\$35,221
Debt Service Fund	131,456	96,304
Special Project Fund	67,042	3,876,644
Nonmajor Governmental Funds	982,311	-0-
Subtotal	4,566,362	4,008,169
Fixed Asset Fund	-0-	15,808
Water and Sewer Fund	2,847,229	3,389,614
	<u>\$7,413,591</u>	<u>\$7,413,591</u>

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

**NOTE H - LONG TERM DEBT**

1. Governmental activities –

Combination Tax and Revenue Certificate of Obligation:

Combination tax and revenue certificate of obligation are serial debt collateralized by the full faith and credit of the City and are payable from property tax and sales tax revenue. The debt matures annually in varying amounts through 2027, and interest is payable semi-annually. Certificates of obligation proceeds are recorded in the appropriate fund for which the debt was issued and approved by the City. The ordinances authorizing the issuance of the bonds created an interest and sinking fund (Debt Service Fund).

Certificates of obligation debt outstanding and Tax anticipation note at September 30, 2016, 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%.	\$2,685,000
Add: Premium on General Obligation Refunding Bonds, Series 2011	160,430
\$3,475,000 2015 Certificate of Obligation for city improvements, due in annual installments ranging from \$125,000 to \$230,000 beginning August 2016 through August 2035, interest payments ranging from \$4,025 to \$58,568 from February 2016 through August 2035 with interest rate of 3.0% to 3.5%	3,350,000
Add: Premium on General Obligation Refunding Bonds, Series 2015	144,865
Total Certificate of obligation	<u>\$6,340,295</u>

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

Year Ending September 30	Principal	Premium	Interest	Total
2017	\$ 360,000	\$16,921	\$ 208,950	\$ 585,871
2018	370,000	16,921	196,050	582,971
2019	380,000	16,921	184,950	581,871
2020	395,000	16,921	173,550	585,471
2021	410,000	16,921	157,200	584,121
2022 – 2026	2,290,000	84,606	563,200	2,937,806
2027 – 2031	950,000	68,042	246,000	1,264,042
2032 – 2035	880,000	68,042	78,225	1,026,267
Total	<u>\$6,035,000</u>	<u>\$305,295</u>	<u>\$1,808,125</u>	<u>\$8,148,420</u>

Notes Payable:

Note payable debt outstanding at September 30, 2016, is comprised of the following:

<u>Description of Debt</u>	<u>Amount</u>
Note payable to a financial institution secured by equipment costing \$86,208 maturing March 2017, requiring annual installments of \$18,754 including interest at 4.39%.	\$ 17,965
Total	<u>\$ 17,965</u>

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

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 17,965	\$ 789	\$ 18,754
Total	<u>\$17,965</u>	<u>\$ 789</u>	<u>\$ 18,754</u>

Capital Lease:

Capital lease debt outstanding at September 30, 2016, is comprised of the following:

<u>Description of Debt</u>	<u>Amount</u>
Capital lease obligation secured by vehicles costing \$338,982 maturing November 2018, requiring annual installments of \$9,726 including interest accruing at 2.116%.	\$166,935
Capital lease obligation secured by equipment costing \$160,109 maturing November 2016, requiring monthly installments of \$2,926 including interest accruing at 3.69%	2,065
Total	<u>\$169,000</u>

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

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 78,389	\$2,135	\$ 80,524
2018	77,562	888	78,450
2019	13,049	34	13,083
Total	<u>\$169,000</u>	<u>\$3,057</u>	<u>\$172,057</u>

Changes in long-term liabilities:

Long-term debt activity for the year ended September 30, 2016, was as follows:

	Amounts payable at beginning of year	Amounts added during year 2016	Amounts retired during fiscal year 2016	Amounts payable at end of year	Amounts due within one year
Certificates of obligation	\$6,380,000	\$-0-	\$(345,000)	\$6,035,000	\$360,000
Notes payable	35,175	-0-	(17,210)	17,965	17,965
Capital lease obligation	14,272	227,863	(73,135)	169,000	78,389
Compensated Absences	61,495	11,069	(-0-)	72,564	72,564
Subtotal	6,490,942	238,932	(435,345)	6,294,529	528,918
Bond premiums	322,216	-0-	(16,921)	305,295	16,921
Total	\$6,813,158	\$238,932	\$(452,266)	\$6,599,824	\$545,839

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, 2016, 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%	\$1,065,000
\$2,346,000 Combination Tax Revenue Certificate of Obligation Series 2008A for construction of the waste water treatment plant due in annual installments ranging from \$12,000 to \$122,000 beginning September 2008 through 2047, interest payments ranging from \$5,490 to \$105,030 from September 2008 through 2022 with interest rate at 4.5%	2,119,000

<u>Description of Debt</u>	<u>Amount</u>
\$4,810,000 Combination Tax Revenue Certificate of Obligation Series 2012 for improvements to the waste water treatment plant, sewer, and water improvements due in annual installments ranging from \$135,000 to \$330,000 beginning August 2014 through 2037, interest payments ranging from \$6,600 to \$76,482 from February 2013 through 2037 with interest rate ranging from 2% to 4%	4,405,000
Subtotal	<u>\$7,589,000</u>
Add: Net premiums and discounts on certificates of obligations	122,050
Total	<u>\$7,711,050</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
2017	\$ 318,000	\$ 6,778	\$ 281,755	\$ 606,533
2018	334,000	6,778	271,529	612,307
2019	341,000	6,778	260,769	608,547
2020	347,000	5,308	249,723	602,031
2021	354,000	5,308	238,439	597,747
2022 – 2026	1,125,000	26,539	1,046,346	2,197,885
2027 – 2031	1,529,000	26,539	830,639	2,386,178
2032 – 2036	1,821,000	31,481	531,752	2,384,233
2037 – 2041	761,000	6,541	221,374	988,915
2042 – 2046	537,000	(-0-)	102,064	639,064
2047	122,000	(-0-)	5,490	127,490
Total	<u>\$7,589,000</u>	<u>122,050</u>	<u>\$4,039,880</u>	<u>\$11,750,930</u>

Capital Lease:

Capital lease debt outstanding at September 30, 2016, is comprised of the following:

<u>Description of Debt</u>	<u>Amount</u>
Capital lease obligation secured by equipment costing \$160,109 maturing November 2016, requiring monthly installments of \$2,926 including interest accruing at 3.69%	\$3,761
Capital lease obligation secured by vehicles costing \$338,982 maturing November 2018, requiring annual installments of \$9,726 including interest accruing at 2.116%.	81,407
Total	<u>\$85,168</u>

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

Year Ending September 30	Principal	Interest	Total
2017	\$40,982	\$1,612	\$42,594
2018	37,823	433	38,256
2019	6,363	17	6,380
<b>Total</b>	<b>\$85,168</b>	<b>\$2,062</b>	<b>\$87,230</b>

Changes in long-term liabilities:

Long-term debt activity for the year ended September 30, 2016, was as follows:

	Amounts payable at beginning of year	Amounts added during year 2016	Amounts retired during fiscal year 2016	Amounts payable at end of year	Amounts due within one year
Certificates of Obligation	\$7,905,000	\$-0-	\$(316,000)	\$7,589,000	\$318,000
Capital Lease	26,000	111,118	(51,950)	85,168	40,982
Compensated Absences	11,334	696	(-0-)	12,030	12,030
Subtotal	7,942,334	111,814	(367,950)	7,686,198	371,012
Bond Premiums	128,828	-0-	(6,778)	122,050	6,778
<b>Total</b>	<b>\$8,071,162</b>	<b>\$111,814</b>	<b>\$(374,728)</b>	<b>\$7,808,248</b>	<b>\$377,790</b>

#### NOTE I – RESTRICTED ASSETS

Restricted assets balance at September 30, 2016, was as follows:

Fund	Cash & Deposits	Investments	Intergovernmental Receivable
<b>Government Activities:</b>			
General Fund	\$97,055	\$129,024	\$25
Court	-0-	158,782	-0-
Debt Service Fund	-0-	343,162	-0-
Special Project Fund	-0-	3,289,248	-0-
Water and Sewer Fund	1,566,952	109,751	-0-
	<b>\$1,664,007</b>	<b>\$4,029,967</b>	<b>\$25</b>

## NOTE J - RETIREMENT PLAN

The City participates in the Texas Municipal Retirement System.

### Plan Description

The City of Alvarado participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

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

### Benefits Provided

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

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

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

	Plan Year 2016	Plan Year 2015
Employee deposit rate	6%	6%
Matching Ratio (city to Employee)	2 to 1	2 to 1
Years required for vesting	5 years	5 years
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	0%,	0%,
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Employees covered by benefit terms:

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to but not yet receiving benefits	44
Active employees	<u>57</u>
Total	110

### Contributions

The contribution rates for employees in TMRS is 6% of employee gross earnings, and the city matching percentage is 4.33% , both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Alvarado were required to contribute 6% of their annual gross earnings during their fiscal year. The contribution rates for the City of Alvarado were 4.31% and 4.46% in calendar years 2015 and 2016 respectively. The City's contributions to TMRS for the fiscal year end September 30, 2016 were \$99,341, and were equal to the required contributions.

### Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

### Actuarial Assumptions:

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation:	2.5% per year
Overall payroll growth:	3.0% per year
Investment Rate of Return:	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates of active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservation) with an adjustment to time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return (Arithmetic)</b>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

**Discount Rate:**

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

Changes in Net Pension Liability

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
<b>Balance at 12/31/2014</b>	\$ 2,352,645	\$ 2,247,032	\$ 105,613
Changes for the year:			
Service Cost	229,927	-0-	229,927
Interest	170,120	-0-	170,120
Changes in benefit terms	-0-	-0-	-0-
Difference between expected and actual experience	(69,085)	-0-	(69,085)
Changes of assumptions	113,990	-0-	113,990
Contributions – employer	-0-	99,341	(99,341)
Contributions – employee	-0-	138,232	(138,232)
Net investment income	-0-	3,317	(3,317)
Benefit payments, including refunds of employee contributions	(74,652)	(74,652)	-0-
Administrative expense	-0-	(2,020)	2020
Other changes	-0-	(99)	99
Net changes	\$ 370,300	\$ 164,119	\$ 206,181
<b>Balance at 12/31/2015</b>	<b>\$ 2,722,945</b>	<b>\$ 2,411,151</b>	<b>\$ 311,794</b>

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City’s net pension liability	\$814,396	\$311,794	\$(88,740)

Pension Plan Fiduciary Net Position:

Detailed information the pension plan’s Fiduciary Net Position is available in a separate-issued TMRS financial report. That report may be obtained on the Internet at [www.tmr.com](http://www.tmr.com).

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

For the year ended September 30, 2016, the city recognized pension expense of \$154,837.

At September 30, 2016, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**SCHEDULE OF OUTFLOWS AND INFLOWS - CURRENT AND FUTURE EXPENSE**

	Recognition Period (or amortization yrs)	Total (Inflow) or Outflow of Resources	2015 Recognized in current pension	Deferred (Inflow)/Outflow in future expense
<u>Due to Liabilities:</u>				
Difference in expected and actual experience actuarial (gains) or losses	5.1000	\$ (69,085)	\$ (13,546)	\$ (55,539)
Difference in assumption changes actuarial (gains) or losses	5.1000	<u>113,990</u>	<u>22,351</u>	<u>91,639</u>
			<u>\$ 8,805</u>	<u>\$ 36,100</u>
<u>Due to Assets:</u>				
Difference in projected and actual earnings on pension plan investments actuarial (gains) or losses	5.0000	\$ 153,975	\$ 30,795	\$ 123,180
			<u>\$ 30,795</u>	<u>\$ 123,180</u>
<u>Total:</u>				<u>\$ 159,280</u>

\$198,676 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Net deferred outflows (inflows) of resources
2016	\$ 48,194
2017	48,194
2018	47,870
2019	39,600
2020	880
Thereafter	-
Total	<u>\$ 184,738</u>

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

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

The City contributes to the SDBF at a contractually required rates as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2016, 2015 and 2014 were \$3,129, \$2,760, and \$2,492, respectively, which equaled the required contributions each year.

## **NOTE K - COMMITMENTS AND CONTINGENCIES**

### Audits of Grant Activities

The City receives Federal and State grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement by the Federal and State grantor agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of the City management, such disallowances, if any, will not be significant.

## **NOTE L – RISK MANAGEMENT**

The City manages its risk through the purchasing of insurance policies through the Texas Municipal League. Significant losses are covered by commercial insurance for all major programs. For such insured programs, there have been no significant reductions in insurance coverage, and settlement amounts have not exceeded insurance coverage for the current year or three prior years.

## **NOTE M – SUBSEQUENT EVENTS**

The City evaluated subsequent events through February 10, 2017, which is the same date that the financial statements were issued and no events were determined to be reported

**NOTE N – CHANGE IN BEGINNING FUND BALANCE – GOVERNMENTAL FUNDS**

For the period ended September 30, 2016 the Alvarado Economic Development Corp (AEDC) Fund did not qualify to be a major fund and therefore, was included in the Other Governmental Funds heading. For the period ended September 30, 2015 the AEDC Fund did qualify as a major fund and therefore, was reported separately from the Other Governmental Funds on the Statement of Revenues, Expenses and Change in Fund Balance. The effect of these changes on beginning fund balance are as follows:

	<u>AEDC Fund</u>	<u>Other Governmental Fund</u>
Fund Balance – October 1, 2015, as previously reported	\$1,930,337	\$2,172,080
AEDC fund change to minor fund	<u>(1,930,337)</u>	<u>1,930,337</u>
Fund Balance – October 1, 2015, as adjusted	<u>\$-0-</u>	<u>\$ 4,102,417</u>

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF ALVARADO, TEXAS  
 REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 GENERAL FUND  
 For the Fiscal Year Ended September 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUE:</b>				
General Property Taxes, Interest and Penalties	\$1,363,508	\$1,363,508	\$1,367,976	\$4,468
Sales tax	1,110,500	1,110,500	1,226,012	115,512
Fines and forfeitures	750,000	750,000	917,404	167,404
Franchise fees & rental fees	412,750	446,975	450,438	3,463
Rental fees	33,000	33,000	33,723	723
Licenses, fees and permits	203,320	212,820	211,226	(1,594)
Interest	1,200	10,693	16,264	5,571
Intergovernmental	191,713	179,513	192,106	12,593
Donations	-	200	-	(200)
Water/Sewer administrative fee	75,000	75,000	75,000	-
Charges for Services	16,750	16,750	-	(16,750)
Grants	-	13,455	-	(13,455)
Miscellaneous	15,500	86,332	159,271	72,939
<b>Total Revenue</b>	<b>4,173,241</b>	<b>4,298,746</b>	<b>4,649,420</b>	<b>350,674</b>
<b>EXPENDITURES:</b>				
Current operating				
General government	598,889	714,036	605,778	108,258
Public safety	2,655,887	2,710,673	2,532,950	177,723
Public works	178,501	178,501	146,353	32,148
Cultural and recreational	458,217	459,755	254,809	204,946
Community development	240,953	241,153	225,567	15,586
Social and welfare	70,815	70,815	68,018	2,797
Capital Outlay	140,921	111,319	133,090	(21,771)
<b>Total Expenditures</b>	<b>4,344,183</b>	<b>4,486,252</b>	<b>3,966,565</b>	<b>519,687</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(170,942)	(187,506)	682,855	870,361
<b>OTHER FINANCING SOURCES:</b>				
Loan proceeds	-	-	-	-
Transfers	170,942	26,564	(3,350,332)	(3,376,896)
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>(160,942)</b>	<b>(2,667,477)</b>	<b>(2,506,535)</b>
<b>FUND BALANCE - October 1, 2015</b>			<b>5,211,812</b>	<b>5,211,812</b>
<b>FUND BALANCE - September 30, 2016</b>	<b>\$0</b>	<b>(\$160,942)</b>	<b>\$2,544,335</b>	<b>\$2,705,277</b>

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS  
 REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED  
 SEPTEMBER 30, 2016

Texas Municipal Retirement System

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

	2014	2015	2016	2017	2018
<b>Total Pension Liability</b>					
Service cost	\$ 193,562	\$ 229,927			
Interest (on the Total pension liability)	148,149	170,120			
Changes of benefit terms	-	-			
Difference between expected and actual experience	17,303	(69,085)			
Change of assumptions	-	113,990			
Benefit payments, including refunds of employee contributions	(51,997)	(74,652)			
<b>Net Change in Total Pension Liability</b>	<b>307,017</b>	<b>370,300</b>			
<b>Total Pension Liability - Beginning</b>	<b>2,045,628</b>	<b>2,352,645</b>			
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 2,352,645</b>	<b>\$ 2,722,945</b>			
<b>Plan Fiduciary Net Position</b>					
Contributions - employer	\$ 79,745	\$ 99,341			
Contributions - employee	124,602	138,232			
Net investment income	113,434	3,317			
Benefit payments, including refunds of employee contributions	(51,997)	(74,652)			
Administrative expense	(1,184)	(2,020)			
Other	(97)	(99)			
<b>Net Change in Plan Fiduciary Net Position</b>	<b>\$ 264,503</b>	<b>\$ 164,119</b>			
<b>Plan Fiduciary Net Position - Beginning</b>	<b>1,982,529</b>	<b>2,247,032</b>			
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 2,247,032</b>	<b>\$ 2,411,151</b>			
<b>Net Pension Liability - Ending (a) - (b)</b>	<b>\$ 105,613</b>	<b>\$ 311,794</b>			
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	<b>95.51%</b>	<b>88.51%</b>			
<b>Covered Employee Payroll</b>	<b>\$ 2,076,696</b>	<b>\$ 2,303,873</b>			
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	<b>5.09%</b>	<b>13.53%</b>			

See accompanying notes and independent auditor's report

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

	2014	2015	2016	2017	2018
Actuarially Determined Contribution	\$ 79,745	\$ 99,341	-	-	-
Contributions in relation to the actuarially determined contribution	79,745	99,341	-	-	-
Contribution deficiency (excess)	-	-	-	-	-
Covered employee payroll	2,076,696	2,303,873			
Contributions as a percentage of covered employee payroll	3.84%	4.31%			

Notes to Schedule of Contributions

**Valuation Date:**

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

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 Year smooth market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the Cit's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

**Other Information:**

Notes There were no benefit changes during the year.

**CITY OF ALVARADO, TEXAS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**SEPTEMBER 30, 2016**

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

**1. Budgetary Information**

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

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

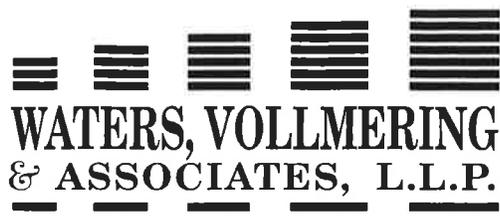
All unused appropriations, except appropriations for capital expenditures, lapse at the close of the fiscal year to the extent they have not been expended or encumbered. An appropriation for capital expenditures shall continue in force until the purpose for which it was made has been accomplished or abandoned if three (3) years pass without any disbursement from or encumbrance of the appropriation. No supplemental budgetary appropriations occurred in the debt service funds or in the general fund. The revised budgets are used for budget versus actual comparisons. Revenues in the general fund were more than budget by \$350,674 and expenditures were less than budget by \$519,687.

**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 \$805,595.

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 \$111,319. The total actual capital outlays for the year in the general fund amounted to \$133,090.

SUPPLEMENTAL REPORT



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Alvarado, Texas as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Alvarado, Texas' basic financial statements and have issued our report thereon dated February 10, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City of Alvarado, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Alvarado, Texas' internal control. Accordingly, we do not express an opinion of the effectiveness of the City of Alvarado, Texas' internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control that we consider to be significant deficiencies.

**Water/Sewer Inventory Control**

A good system of internal control provides for a city policy on internal controls of inventory. The inventory should include requirements of regular physical counts and adjustments for the actual inventory counted. When inventory is determined to be scrap it should be clearly marked or taken offsite to be discarded. Currently, the City does an inventory count once a year at the end of the year. During the test counting it was discovered that several inventory assets that were identified as scrap but not set up apart from the other inventory assets.

By adopting a new inventory policy that requires more frequent inventory counts, the City's internal controls over financial reporting will improve and reduce the possibility of the inventory being misstated and a large adjustment being required at the end of the year. We recommend that management review the current policy for inventory and prepare a new policy that includes regular inventory accounts, and separating inventory that is determined to be scrap or obsolete so it can be destroyed.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Alvarado, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Waters, Vollmering & Associates, LLP  
Mansfield, Texas  
February 10, 2017