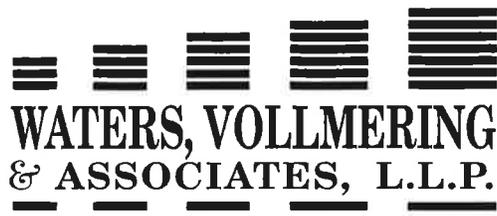


CITY OF ALVARADO, TEXAS

SEPTEMBER 30, 2014

TABLE OF CONTENTS

Independent Auditor's Report	1	
Management Discussion and Analysis	4 - 18	
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Position	19	
Statement of Activities	20	
Fund Financial Statements:		
Balance Sheet – Governmental Funds	21	
Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds	22	
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	23	
Statement of Net Position – Water and Sewer Proprietary Fund	24	
Statement of Revenues, Expenses and Changes in Fund Net Position – Water and Sewer Proprietary Fund	25	
Statement of Cash Flows – Water and Sewer Proprietary Fund	26	
Notes to Financial Statements	27 - 50	
Required Supplemental Financial Data		
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – General Fund	52	
Notes to Required Supplementary Information	53 – 55	
Independent Auditor's Report on Internal Control over Financial Reporting And on Compliance and Other Matters based on an Audit Of Financial Statement Performed in accordance with Governmental Auditing Standards		56 - 57



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Alvarado, Texas (the City) as of and for the year then ended September 30, 2014, 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, 2014, 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.

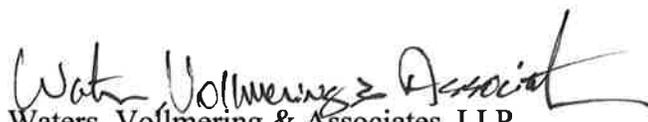
Other Matters

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 52 through 53, and the schedule of funding progress for the retirement plan on pages 54 and 55 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 January 23, 2015, 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
January 23, 2015

City of Alvarado

104 W. College
Alvarado, Texas 76009

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

January 23, 2015

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, 2014, 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, 2014, 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, 2014, 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

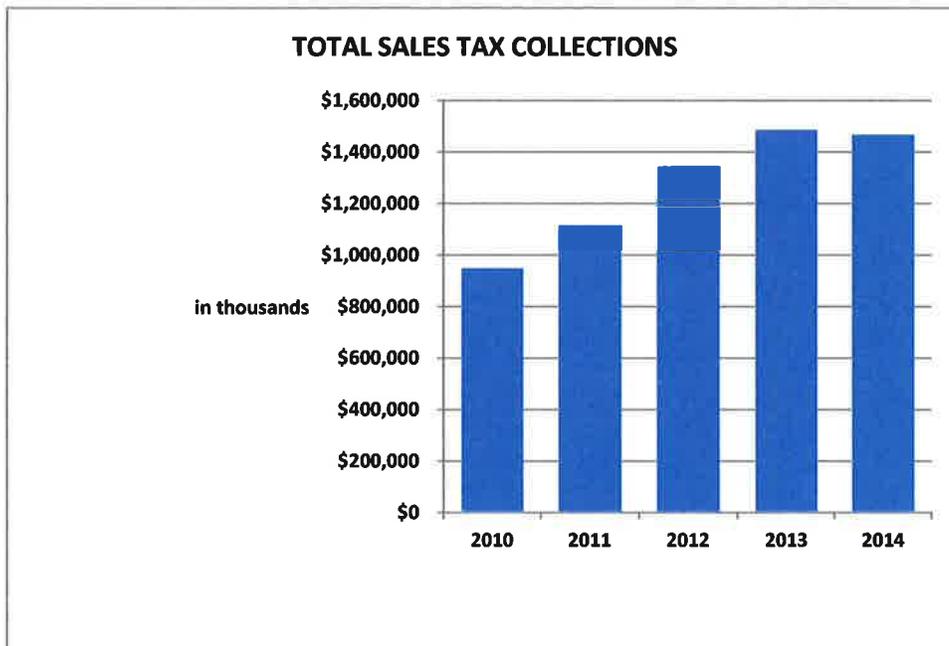
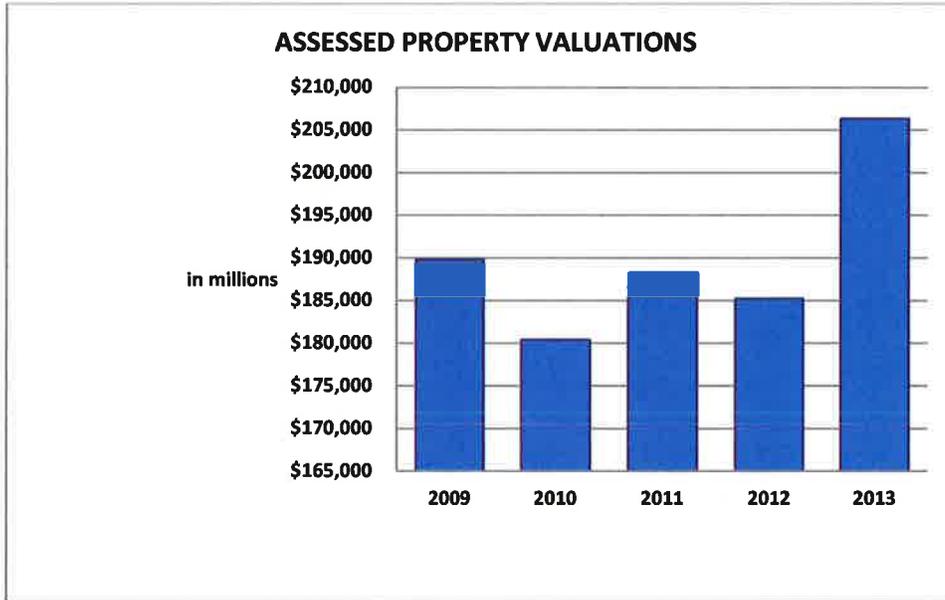
The information presented in the financial statements is perhaps best understood when it is considered from the broader aspect of the specific environment within which the City operates.

Local Economy

2013-2014 concluded with positive trends providing a better outlook than prior years. Additional employment opportunities and growth continue to drive the local economy. Though there was an increase in commerce, large allocations from oil and gas activity did not continue from 2013 into 2014. Because of this there was a slight drop of less than one percent in sales tax revenue. Sales tax collections decreased from \$1,485,473 to \$1,467,037, providing a decrease of \$18,436.

Property valuations for 2013 were \$206M, showing an increase of approximately \$21M from the previous year. The property tax rate was decreased from \$.700494 to \$0.665469 for the 2014 valuations. The 2014 valuations show an increase to \$304M. This is attributed to positive new residential growth, commercial growth, and the annexation of the Saber complex.

The charts below are based upon the 2013-2014 budget year as compared to prior years. Property Valuations noted below for the budget period are based upon the 2013 assessed property valuations as determined by the Johnson County Appraisal District. Sales Tax collected represents amounts collected during the 2013-2014 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 1st. 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 52.

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 reserves of \$1,558,012. Overall City reserves total \$5,092,051.

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, 2014**

Mayor

Dewayne Richters

Council Members

Joe Sain

Tom Moore

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 Dwigins

Police Chief

Brad Anderson

Fire Chief

Richard VanWinkle

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR ENDED SEPTEMBER 30, 2014

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, 2014. 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 \$17,616,824 (total net assets). Of this amount, \$4,673,895 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased this fiscal year by \$1,413,510.
- As of the close of the current fiscal year, the City of Alvarado's governmental funds reported combined ending fund balances of \$5,092,051 which is an increase of \$886,506 from the previous year. Approximately 42.87% or \$2,182,994 is available for spending at the City's discretion (unassigned fund balance).
- Alvarado Economic Development Corporation has a fund balance of \$1,681,779 with restricted usage limited to economic development or park projects.
- At the end of the current fiscal year, the Royalty Fund has a fund balance of \$1,365,753 which can be spent with Council approval (\$303,581 Committed, \$382,894 Assigned and \$679,278 Unassigned).
- Other Governmental Funds include Hotel Fund with a fund balance of \$402,117, and Court Revenue Fund with a fund balance of \$138,686 (all restricted fund balances).
- The City's total debt decreased by \$846,491 during the current fiscal year. The governmental funds debt decreased by \$509,356 and the water and sewer proprietary fund debt decreased by \$337,135 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 assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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

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

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

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

The City of Alvarado maintains 6 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, Alvarado Economic Development 4-B Fund,

Royalty Fund, and Debt Service Fund, all of which are considered major funds. Data from the other 2 funds (Hotel Tax 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 position may serve over time as a useful indicator of a government’s financial position. In the case of the City of Alvarado, assets exceeded liabilities by \$17,616,824 at the close of the most recent fiscal year. This represents an increase of \$1,413,510 from the previous fiscal year.

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

City of Alvarado’s Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
Current Assets	\$ 4,844,301	\$ 5,807,738	\$ 6,738,568	\$ 6,478,115	\$ 11,582,869	\$ 12,285,853
Noncurrent Assets	6,264,543	6,170,057	12,170,749	12,249,456	18,435,292	18,419,513
Total Assets	<u>11,108,844</u>	<u>11,977,795</u>	<u>18,909,317</u>	<u>18,727,571</u>	<u>30,018,161</u>	<u>30,705,366</u>
Current Liabilities	1,256,521	1,333,476	495,480	573,307	1,752,001	1,906,783
Long Term Liabilities	3,631,148	3,121,766	8,431,698	8,059,993	12,062,846	11,181,759
Total Liabilities	<u>4,887,669</u>	<u>4,455,242</u>	<u>8,927,178</u>	<u>8,633,300</u>	<u>13,814,847</u>	<u>13,088,542</u>
Invested in capital assets, net of related debt	2,015,632	2,430,502	3,416,371	3,841,221	5,432,003	6,271,723
Restricted	2,036,198	2,222,582	4,648,567	4,448,624	6,684,765	6,671,206
Unrestricted	2,169,345	2,869,469	1,917,201	1,804,426	4,086,546	4,673,895
Total Net Assets	<u>\$ 6,221,175</u>	<u>\$ 7,522,553</u>	<u>\$ 9,982,139</u>	<u>\$ 10,094,271</u>	<u>\$ 16,203,314</u>	<u>\$ 17,616,824</u>

An additional portion of the City of Alvarado’s net assets, \$6,671,206 represents resources that are subject to external restrictions on how they may be used. Unrestricted net assets of \$4,673,895 may be used to meet the government’s ongoing obligations to citizens and creditors.

As of September 30, 2014, the City of Alvarado is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental Activities. Governmental activities reflected an increase in the City's net position by \$1,301,378, from \$6,221,175 to \$7,522,553.

Business-type Activities. Net position from business-type activities increased by \$112,132 from \$9,982,139 to \$10,094,271.

The following table provides a summary of the City's operations for the year ended September 30, 2014, with the comparative totals for the year ended September 30, 2013.

City of Alvarado's Changes in Net Position

City of Alvarado's Changes in Net Position

	Governmental Activities		Business Activities		Total	
	2013	2014	2013	2014	2013	2014
REVENUES:						
Program Revenues:						
Charges for Services	\$ 1,854,908	\$ 2,330,788	\$ 2,541,708	\$ 2,577,715	\$ 4,396,616	\$ 4,908,503
Operating Grants/Contributions	-	-	-	13,571	-	13,571
Capital Grants/Contributions	19,174	25,754	-	-	19,174	25,754
General Revenues:						
Property Taxes	1,409,684	1,441,380	-	-	1,409,684	1,441,380
Sales Tax	1,294,952	1,265,557	-	-	1,294,952	1,265,557
Franchise Tax	379,944	412,414	-	-	379,944	412,414
Alcoholic beverage taxes	759	480	-	-	759	480
Unrestricted investment earnings	4,158	2,160	6,728	2,906	10,886	5,066
Gain/Loss on Sale of Assets	35,549	8,092	(5,930)	657	-	8,749
Other revenue	122,347	206,368	-	-	122,347	206,368
	-	-	-	-	-	-
Total Revenue	5,121,475	5,692,993	2,542,506	2,594,849	7,634,362	8,287,842
EXPENSES:						
General government	526,680	540,159	-	-	526,680	540,159
Public safety	2,190,233	2,340,240	-	-	2,190,233	2,340,240
Public works	300,075	303,874	-	-	300,075	303,874
Community development	143,099	201,021	-	-	143,099	201,021
Cultural & recreational	235,792	245,910	-	-	235,792	245,910
Social & welfare	63,736	68,671	-	-	63,736	68,671
Economic development	60,588	115,719	-	-	60,588	115,719
Interest on long-term debt	299,862	288,527	165,136	158,460	464,998	446,987
Water & sewer operations	-	-	2,571,448	2,611,751	2,571,448	2,611,751
Special item outflow	-	-	-	-	-	-
Total Expenses	3,820,065	4,104,121	2,736,584	2,770,211	6,556,649	6,874,332
Change in net assets before transfers	1,301,410	1,588,872	(194,078)	(175,362)	1,107,332	1,413,510
Transfers	14,871	(287,494)	(14,871)	287,494	-	0
Change in net assets	1,316,281	1,301,378	(208,949)	112,132	1,107,332	1,413,510
Net assets - Beginning	4,904,894	6,221,175	10,191,088	9,982,139	15,095,982	16,203,314
Net assets - Ending	\$ 6,221,175	\$ 7,522,553	\$ 9,982,139	\$ 10,094,271	\$ 16,203,314	17,616,824

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 \$5,092,051 an increase of \$886,506 in comparison with the prior year. Approximately \$2,182,994 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. \$303,581 of the fund balance is committed to specific projects. Refer to page 20 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 \$1,804,426, a decrease of \$112,776 from the previous year. There was an increase in total net position of \$112,132, 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 projections increased by \$155,492 or 4.64% when compared to the original budget. The upward trend in licenses and permits provided the largest increase of \$79,600 or a 7.87% increase over the original budgeted amount. The budget was revised and increased slightly at mid-year. The actual revenue increased by another \$182,285 or 5.20% of the final budgeted amount.

Total general fund revenues increased when compared to the prior year by \$364,002 or 10.95%.

Total general fund year-end expenditures increased by \$214,953 over the previous year but \$339,380 less than the final budget total. This was the result of each department practicing a conservative approach to spending.

CAPITAL ASSETS

The City of Alvarado's investment in capital assets for its governmental and business-type activities as of September 30, 2014, amounts to \$18,419,513 (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:

- New vehicles purchased this year included a pickup for Building Maintenance in the amount of \$21,811, a new vehicle for the Fire Department for \$38,795 and a Police Cruiser for \$36,255.
- The Annex Building which houses both the Police Department and the Public Works Department added new office space for Public Work employees in the amount of \$10,033.
- Continuation of the street improvement program around the City with expenditures of \$378,145.
- A new SCADA System was purchased for \$120,100 to monitor the utility processes for the Public Works Department.
- The Library purchased a scanner valued at \$8,420.
- A new gun range for Police officer training was built and although partially funded by donations, the City added fencing and awning for \$11,250.
- The Old Wagon Barn, renamed Heritage Museum, continued restoration work with the City's contribution of \$26,873.
- Chairs were replaced in the Council Chambers at City Hall for \$5,949.
- The drawer was replaced at the City hall drive-up utility payment window at the cost of \$5,110.
- Public Works purchased a Yamaha All- Terrain vehicle for \$9,475.
- Major water well repairs were necessary at Well #1 in the amount of \$14,725, Well #4 for \$50,905, Well #9 for \$21,262 and the Ground Storage Tank at Well#1 for \$10,650.
- Major sewer line repairs were completed at both Glenwood and Spears & Cotter in the amount of \$303,304.
- Work continues utilizing 2012 Bond Money on water projects, including a new well, storage tanks and transmission lines and upgrades at the Wastewater Treatment Plant. This year's expenditures totaled \$314,734.

The following table provides a summary of the City's capital assets for the year ended September 30, 2014 as compared to the summary of capital assets for the year ended September 30, 2013:

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

	Governmental Activities		Business-Type Activities		Totals	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Land	404,584	404,584	1,016,709	1,016,709	1,421,293	1,421,293
Buildings & Improvements	1,898,969	1,859,133		9,865	1,898,969	1,868,998
Infrastructure	3,182,338	3,415,144			3,182,338	3,415,144
Vehicles	292,674	261,944	35,059	31,477	327,733	293,421
Parks Improvements	54,452	44,603			54,452	44,603
Water System			3,382,210	3,257,642	3,382,210	3,257,642
Sewer System			7,373,931	7,516,461	7,373,931	7,516,461
Other Equipment	263,985	157,775	108,555	75,024	372,540	232,799
Construction in Progress	166,806	26,874	254,285	342,278	421,091	369,152
Total	<u>6,263,808</u>	<u>6,170,057</u>	<u>12,170,749</u>	<u>12,249,456</u>	<u>18,434,557</u>	<u>18,419,513</u>

DEBT ADMINISTRATION

Total Debt. The City of Alvarado's total debt outstanding at the end of the current fiscal year is \$12,170,717. This amount is a decrease of \$846,491 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 \$11,181,759. Of this amount, \$11,106,986 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 and a tax anticipation note to be paid from property tax revenue. The remainder of the debt, \$74,773, 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 \$988,958 including current bonds payable, current notes payable and compensated absences.

Bond Rating. As of November 27, 2013, the City received 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, 2014 as compared to the summary of capital assets for the year ended September 30, 2013:

OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-Type Activities		Totals	
	2013	2014	2013	2014	2013	2014
Certificates of Obligation	\$ 3,512,938	\$ 3,295,985	\$ 8,682,926	\$ 8,360,605	\$ 12,195,864	\$ 11,656,590
Tax Anticipation Notes	365,000	185,000	-		365,000	185,000
Capital Leases	196,557	51,662	71,452	47,630	268,009	99,292
Notes Payable	77,650	89,997	-		77,650	89,997
Compensated Absences	96,766	116,911	13,919	22,927	110,685	139,838
Total	<u>\$ 4,248,911</u>	<u>\$ 3,739,555</u>	<u>\$ 8,768,297</u>	<u>\$ 8,431,162</u>	<u>\$ 13,017,208</u>	<u>\$ 12,170,717</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following factors were considered in preparing the City of Alvarado's budget for the 2014 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 decreased the property tax rate from \$.700494 to \$.665469 per \$100 of valuation. This is the third year in a row the City has lowered the property tax rate.
- The City currently receives royalties from 29 gas wells.
- The City 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.
- 31 single family homes were completed during the last budget year with an average value of \$181,328.
- 5 new garden homes were constructed with an average value of \$52,000.
- Miscellaneous repair permits are being issued as homeowners work on remodeling and adding accessory buildings.
- The City continues their street improvement program.
- Sabre Tubular Industries, one of the leading providers of power delivery structure in the world, was annexed into the City limits in December 2013. They also built a large new testing station with a climate controlled observation building.
- Johnson County completed a new Sub-Courthouse for the residents of Alvarado.
- QuikTrip, a gas station and convenience store, opened their doors in March 2014 at the corner of Interstate 35 and Highway 67 and has exceeded their anticipated sales.
- Burger King followed in June 2014 by opening a restaurant next door to the QT on Highway 67.
- Additional new businesses that have opened in the City limits within the past year include Little Caesar's Pizza, Lifeway Dental and The Painted Peacock.
- CVS Pharmacy is under construction and a Party & Dollar Store is scheduled to open within a couple of months.
- A new Alvarado Junior High School is anticipated to be completed within the next year.
- Chicken Express remodeled their store this past year and Motor Home Specialist and Alvarado Truck Service Center expanded their operations.

These factors were considered in preparing the City of Alvarado's budget for the 2014-2015 fiscal year.

The City estimated that the General Fund Operating Budget for both revenues and expenditures for fiscal year ending 2015 will increase by 15% or \$523,608 from the fiscal year 2014 final budget. The property tax revenue is estimated to increase by \$533,449 because of the increase in taxable evaluations by \$97,794,359. Sales tax revenue is budgeted to increase slightly over the previous budget by \$99,240.

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, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash	\$799,447	\$72,157	\$871,604
Investments	4,161,072	1,434,174	5,595,246
Receivables (net)			
Taxes receivable	1,967	-	1,967
Accounts receivable	54,278	338,027	392,305
Other	286,837	-	286,837
Inventory	-	45,364	45,364
Restricted assets			
Cash	-	4,372,020	4,372,020
Deposits	25	119,753	119,778
Investments	504,112	96,620	600,732
Total current assets	<u>5,807,738</u>	<u>6,478,115</u>	<u>12,285,853</u>
Noncurrent assets:			
Capital assets, net	<u>6,170,057</u>	<u>12,249,456</u>	<u>18,419,513</u>
Total assets	<u>11,977,795</u>	<u>18,727,571</u>	<u>30,705,366</u>
LIABILITIES			
Current liabilities:			
Accounts payable	507,561	31,254	538,815
Accrued liabilities	208,126	17,188	225,314
Deposits	-	153,696	153,696
Current portion			
Revenue bonds payable	407,826	326,778	734,604
Notes payable	16,486	-	16,486
Capital leases	76,566	21,464	98,030
Compensated absences	116,911	22,927	139,838
Total current liabilities	<u>1,333,476</u>	<u>573,307</u>	<u>1,906,783</u>
Noncurrent liabilities:			
Revenue bonds payable	3,073,159	8,033,827	11,106,986
Notes payable	35,176	-	35,176
Capital leases	13,431	26,166	39,597
Total noncurrent liabilities	<u>3,121,766</u>	<u>8,059,993</u>	<u>11,181,759</u>
Total liabilities	<u>4,455,242</u>	<u>8,633,300</u>	<u>13,088,542</u>
NET POSITION			
Invested in capital assets, net of related debt	2,430,502	3,841,221	6,271,723
Restricted			
Public Safety	2,222,582	-	2,222,582
Capital improvements	-	4,448,624	4,448,624
Unrestricted	2,869,469	1,804,426	4,673,895
Total net position	<u>\$7,522,553</u>	<u>\$10,094,271</u>	<u>\$17,616,824</u>

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2014

Functions/Programs	Program Revenues			Net (Expense) Revenue and Change in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government:							
General government	\$540,159	\$957,643	\$0	-	\$417,484	-	\$417,484
Public safety	2,340,240	783,683	-	\$25,754	(1,530,803)	-	(1,530,803)
Public works	303,874	-	-	-	(303,874)	-	(303,874)
Cultural and recreational	245,910	-	-	-	(245,910)	-	(245,910)
Economic development	115,719	366,507	-	-	250,788	-	250,788
Community development	201,021	190,848	-	-	(10,173)	-	(10,173)
Social and welfare	68,671	32,107	-	-	(36,564)	-	(36,564)
Interest on long-term debt	288,527	-	-	-	(288,527)	-	(288,527)
Total governmental activities	\$4,104,121	\$2,330,788	-	\$25,754	(\$1,747,579)	-	(\$1,747,579)
Business-type activities:							
Water and sewer	\$2,770,211	\$2,577,715	\$13,571	-	-	(\$178,925)	(\$178,925)
General revenues:							
Taxes:							
General property taxes					1,441,380	-	1,441,380
Sales tax					1,266,037	-	1,266,037
Franchise tax					412,414	-	412,414
Interest income					2,160	2,906	5,066
Gain (Loss) on sale of capital assets					8,092	657	8,749
Administrative fee					102,295	-	102,295
Miscellaneous					104,073	-	104,073
Transfers					(287,494)	287,494	-
Total general revenues and proceeds					3,048,957	291,057	3,340,014
Change in net position					1,301,378	112,132	1,413,510
Net position-beginning of period					6,221,175	9,982,139	16,203,314
Net position-ending					7,522,553	\$10,094,271	\$17,616,824

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2014

	ASSETS		LIABILITIES		DEFERRED INFLOWS OF RESOURCES	
	General Fund	Debt Service Fund	AEDC	Royalty Fund	Other Governmental Funds	Total Governmental Funds
Cash	\$594,014	-	\$101,367	\$104,066	\$0	\$799,447
Investments	985,336		1,518,056	1,289,815	367,865	4,161,072
Receivables, net				141	-	54,278
Accounts	54,137				-	119,212
Property taxes	52,347	\$66,865	62,356		37,269	286,837
Sales taxes	187,212				-	109,809
Fines receivable	109,809				-	-
Restricted					-	25
Intergovernmental Receivable	25				143,294	504,112
Investments	23,856	336,962	1,681,779	\$1,394,022	\$548,428	\$6,034,792
Total assets	\$2,006,736	\$403,827	\$1,681,779	\$1,394,022	\$548,428	\$6,034,792

Accounts payable	\$81,321	\$392,300		\$27,017	6,923	\$507,561
Accrued liabilities	206,172			1,252	702	208,126
Total liabilities	287,493	392,300	-	28,269	7,625	715,687

Deferred inflows of property tax revenue	161,231	65,823	-		-	227,054
Total liabilities and deferred inflows of resources	448,724	458,123	-	28,269	7,625	942,741

FUND BALANCES		FUND BALANCES		FUND BALANCES		FUND BALANCES	
Fund balances:							
Nonspendable	54,296	(54,296)	1,681,779	303,581	540,803	2,222,582	
Restricted				382,894	-	303,581	
Committed				679,278	-	382,894	
Assigned	1,503,716		-	1,365,753	540,803	2,182,994	
Unassigned	1,558,012	(54,296)	1,681,779	1,394,022	\$548,428	\$3,092,051	
Total fund balances	\$2,006,736	\$403,827	\$1,681,779	\$1,394,022	\$548,428	\$3,092,051	

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

Long-term liabilities, including bond payable, are not due and payable in the current period and therefore are not reported in the funds (Note B)

Compensated absences are not due and payable in the current period and therefore are not reported in the funds

Net position of governmental activities

\$ 7,522,553

CITY OF ALVARADO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Fiscal Year Ended September 30, 2014

	General Fund	Debt Service Fund	AEIDC	Royalty Fund	Other Governmental Funds	Total Governmental Funds
REVENUE:						
General property taxes, interest and penalties	\$633,101	\$808,279	-	-	-	\$1,441,380
Sales tax	1,100,530	-	\$366,507	-	165,027	1,467,037
Hotel tax	-	-	-	-	-	165,027
Fines and forfeitures	783,683	-	-	-	-	783,683
Franchise tax	412,414	-	-	-	-	412,414
Mixed beverage tax	480	-	-	-	-	480
Rental fees	32,107	-	-	-	-	32,107
Intergovernmental	190,848	-	-	-	-	190,848
Licenses, fees and permits	274,688	-	-	-	-	274,688
Interest	1,169	-	467	\$369	155	2,160
Proceeds from disposition of property	26,395	-	-	-	-	26,395
Contributions and donations	25,754	-	-	-	-	25,754
Water/Sewer administrative fee	102,295	-	-	-	-	102,295
Oil and gas royalties	-	-	-	630,461	-	630,461
Miscellaneous	104,073	-	-	-	-	104,073
Total Revenue	3,687,537	808,279	366,974	630,830	217,676	5,711,296
EXPENDITURES:						
Current operating						
General government	470,740	-	12,000	22,736	1,200	506,676
Public safety	2,101,730	-	-	-	51,665	2,153,395
Community development	165,814	-	35,207	-	-	201,021
Public works	102,761	-	-	-	-	102,761
Cultural and recreational	223,155	-	-	-	-	223,155
Social and welfare	64,352	-	-	-	-	64,352
Economic development	-	-	-	-	115,719	115,719
Capital Outlay	37,320	-	-	300,219	23,159	360,698
Debt Service	-	520,991	-	-	-	520,991
Principal	-	287,227	-	-	-	287,227
Interest	-	1,300	-	-	-	1,300
Paying agent	-	-	-	-	-	-
Total Expenditures	3,165,872	809,518	47,207	322,955	191,743	4,537,295
Excess (Deficiency) of Revenues Over (Under) Expenditures	521,665	(1,239)	319,767	307,875	25,933	1,174,001
OTHER FINANCING SOURCES:						
Transfers in	-	140,344	-	-	-	140,344
Transfers out	(129,228)	(135,000)	(146,594)	(4,294)	(12,723)	(427,839)
NET CHANGE IN FUND BALANCES	392,437	4,105	173,173	303,581	13,210	886,506
FUND BALANCE - October 1, 2013	1,165,575	(58,401)	1,508,606	1,062,172	527,593	4,205,545
FUND BALANCE - September 30, 2014	\$1,558,012	(\$54,296)	\$1,681,779	\$1,365,753	\$540,803	\$5,092,051

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
 RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 For the Year Ended September 30, 2014

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

Net change in fund balances - total governmental funds	\$886,506
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, less a like-kind asset exchange of \$5,000	360,698
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.	(436,145)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and interfund transfers) is to increase net position.	86,239
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.	520,991
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.	-
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>(116,911)</u>
Changes in net position of governmental activities	<u><u>\$1,301,378</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, 2014

ASSETS

Current assets:	
Cash	\$72,157
Investments	1,434,174
Accounts receivable (net of allowance for uncollectible amounts)	338,027
Inventory	45,364
Restricted assets	
Cash	4,372,020
Deposits	119,753
Investments	96,620
Total current assets	6,478,115
Noncurrent assets:	
Capital assets, net	12,249,456
Total assets	18,727,571

LIABILITIES

Current liabilities:	
Accounts payable	31,254
Accrued liabilities	17,188
Deposits	153,696
Current portion	
Revenue bonds payable	326,778
Capital leases	21,464
Compensated absences	22,927
Total current liabilities	573,307
Noncurrent liabilities:	
Revenue bonds payable	8,033,827
Capital lease payable	26,166
Total noncurrent liabilities	8,059,993
Total liabilities	8,633,300

NET POSITION

Invested in capital assets, net of related debt	3,841,221
Restricted for:	
Capital Improvements	4,448,624
Unrestricted	1,804,426
Total net position	\$10,094,271

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, 2014

OPERATING REVENUES:	
Water service	\$1,195,997
Sewer service	795,595
Garbage service	466,593
Late charges	66,019
Miscellaneous income	53,511
Total operating revenues	2,577,715
 OPERATING EXPENSES:	
Personnel services	545,396
Contractual services	961,332
Supplies and maintenance	350,058
Administrative fees	102,295
Other fees	109,285
Depreciation	554,852
Total operating expenses	2,623,218
Operating income (loss)	(45,503)
 NON-OPERATING REVENUES (EXPENSES)	
Loss on sale of assets	657
Grant revenue	13,571
Interest income	2,906
Accretion of bond premiums/discounts	13,321
Interest expense	(160,314)
Net non-operating revenues (expenses)	(129,859)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(175,362)
Operating transfers in	546,594
Operating transfers out	(259,100)
Net transfers	287,494
CHANGE IN NET POSITION	112,132
NET POSITION, October 1, 2013	9,982,139
NET POSITION, September 30, 2014	\$10,094,271

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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from:	
Customers	\$2,592,822
Interfund payments	
Cash paid to/for:	
Employees	(533,609)
Suppliers	(1,497,660)
Net cash flows provided by operating activities	561,553

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating transfers out	(\$259,100)	
Operating transfers in	546,594	
Net cash flows provided by noncapital financing activities	287,494	

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition and construction of capital assets	(633,559)	
Principal paid on bonds, notes and lease obligations	(332,822)	
Proceeds on sale of assets	657	
Intergovernmental grants	13,571	
Interest paid on bonds, notes and lease obligations	(160,314)	
Net cash flows used in capital and related financing activities	(1,112,467)	

CASH FLOWS FROM INVESTING ACTIVITIES:

Amount received from interest income	2,906	
Net cash flows provided by investing activities	2,906	
Net decrease in cash and cash equivalents		(260,514)
Cash and cash equivalents, October 1, 2013		6,355,238
Cash and cash equivalents, September 30, 2014		\$6,094,724

RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating income (loss)		(\$45,503)
Adjustments for transactions not requiring cash		
Depreciation	\$554,852	
Change in current assets and current liabilities		
(Increase) decrease in accounts receivable	902	
(Increase) decrease in inventory	(964)	
Increase (decrease) in accounts payable	26,274	
Increase (decrease) in accrued liabilities	2,779	
Increase (decrease) in customer deposits	14,205	
Increase (decrease) in compensated absences payable	9,008	
Total adjustments and changes	607,056	
Net cash provided by operating activities		\$561,553

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

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 royalty fund. The major enterprise fund is the water and sewer fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major category funds. The City has four non-major funds, which are the capital projects fund, hotel and occupancy tax fund, grant fund and the AEDC special revenue fund. The non-major funds are combined in a separate column in the fund financial statements.

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

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

3. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are susceptible to accrual, as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues (except grant revenues) to be available if they are collected within 30 days of the end of the current fiscal period. The City considers the availability period for grants to be one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgment, are recorded only when the obligation has matured and will be paid shortly after year end (not to exceed one month).

Ad valorem, franchise and sales tax revenues recorded in the General Fund and ad valorem tax revenues recorded in the Debt Service Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is immaterial. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, as soon as all eligibility requirements have been met, including monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if all eligibility requirements are met.

Business type activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The principal operating revenues of the City's water and sewer are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The government reports the following major governmental funds:

The General Fund is the operating fund of the City. All general tax revenues and other receipts that are not restricted by law or contractual agreements to some other fund are accounted for in this fund. General operating expenditures, the fixed charges, and the capital improvement costs that are not paid through other funds are paid from the General Fund.

The Debt Service Fund is used to account for the accumulation of resources for and the payment of principal, interest and related costs on general long-term debt. The primary source of revenue is ad valorem taxes, which are levied by the City.

Alvarado Economic Development Corporation Fund (AEDC) – is used to account for the revenues collected for economic development 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 Other Governmental Funds column is a summarization of all the non-major governmental fund types. These are as follows:

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

The Grant Fund – is used to account for the proceeds of grants that are restricted to expenditures for specified purposes.

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

The government reports the following major proprietary fund:

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

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

Cash and Cash Equivalents

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

For fiscal year 2014, 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, 2014 was \$45,364.

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.

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.

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 2014.

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, 2014, the liability for accrued vacation and compensatory time, calculated in accordance with GASB Statements 16, "Accounting for Compensated Absences," was \$116,911 in the general fund. The amount applicable to the Proprietary Fund was \$22,927 and has been recorded in that fund.

Deferred Outflows/Inflows of Resources

The City has deferred inflows of resources. The deferred inflows of resources are an acquisition of net assets by the City that is applicable to a future reporting period and consist of deferred property tax revenues in the general fund. The deferred outflows of resources are a consumption of net assets by the City that is applicable to a future reporting period.

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.

Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of AU Section 312, "Disclosures about Fair Value of Financial Instruments." The City, using available market information and appropriate valuation methodologies, has determined the estimated fair value amounts. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the companies could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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

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

The fair value estimates presented herein are based on pertinent information available to management as of September 30, 2014. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

Interfund Transfers and Charges

Short-term advances between funds are accounted for in the appropriate interfund receivable and payable on the Balance Sheet – Governmental Funds and the Statement of Fund Net Assets – Proprietary Fund. All legally authorized transfers are appropriately treated as operating transfers and are included in the results of operations on the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds and Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund. 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, 2014, the City chose to allocate a portion of the administrative services to the Water and Sewer Fund which totaled \$102,295.

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.

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.

Budget Control

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

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

5. Implementation of New Accounting Principles

Pronouncements Effective for the 2014 Financial Statements – With this financial report the City has changed its financial reporting to comply with Government Accounting Standards Board (GASB):

Statement No. 66, *“Technical Corrections – 2012 an amendment of GASB Statements No. 10 and 62”* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No 54 *“Fund Balance Reporting and Governmental Fund Type Definitions,”* and No. 62 *“Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASBA and AICPA Pronouncements.”* The City implemented GASB 66 during fiscal year 2014. This statement had no significant impact on the City.

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

Statement No. 67, *“Financial Reporting for Pension Plans – and amendment of GASB Statement No. 25”* The objective of this Statement is to improve financial reporting by state and local government pension plans. This Statement will become effective for the City in fiscal year 2015. Management has not yet determined the effect of this statement on financial statements.

Statement No. 68, *“Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27”* The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement will become effective for the City in fiscal year 2015. Management has not yet determined the effect of this statement on financial statements.

Statement No. 69, *“Government Combinations and Disposal of Government Operations”* The object of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. This Statement will become effective for the City in fiscal year 2015. Management has not yet determined the effect of this statement on financial statements.

Statement No. 70, *“Accounting and Financial Reporting for Nonexchange Financial Guarantees”* This Statement establishes accounting and financial reporting standards for financial guarantees that are nonexchange transactions extended or received by a state or local government. This Statement will become effective for the City in fiscal year 2015. Management has not yet determined the effect of this statement on financial statements.

Statement No. 71, *“Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68”* This Statement amends paragraph 137 of Statement 68. The requirements of this Statement apply to all state and local governments that

are required to apply the provisions of Statement 68 for defined benefit pensions. The provision of this Statement should be applied simultaneously with the provisions of Statement 68. Management has not yet determined the effect of this statement on financial statements.

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

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

The government fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the governmental-wide statement of net assets. One element of that reconciliation explains, “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$3,622,644 difference are as follows:

Bonds payable	\$3,305,000
Premium on issuance of bonds	175,985
Capital lease payable	89,997
Notes payable	<u>51,662</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$3,622,644</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 statues 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, 2014. At year-end, the carrying amount of the City’s deposits was \$474,640, with respective bank balances of \$659,522. Included in the bank balances are Certificates of Deposit totaling \$119,753.

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, 2014 are:

<u>Investments:</u>	<u>Fair Value</u>	<u>Effective Duration</u>	<u>Credit Risk</u>
Government Pools			
Unrestricted	\$5,595,246	N/A	AAAM
Restricted	600,732	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, 2014, consisted of the following:

	Governmental Funds					Total	Proprietary Fund
	General	Debt Service	AEDC	Royalty	Other		Water & Sewer Fund
Taxes Receivable							
Ad valorem taxes	\$66,500	\$84,936	-	-	-	\$151,436	-
Allowance for uncollectible acct	(14,153)	(18,071)	-	-	-	(32,224)	-
Sales taxes	187,212		\$62,356	-	\$37,269	286,837	-
Total Taxes Receivable	239,559	66,865	62,356	-	37,269	406,049	
Services Receivable							
Service accounts	54,137	-	-	\$141	-	54,278	\$347,070
Allowance for uncollectible accts	-	-	-	-	-	-	(9,043)
Total Services Receivable	54,137	-	-	141	-	54,278	338,027
Other Receivables							
Court fees & other	420,120	-	-	-	-	420,120	
Allowance for uncollectible accts	(310,311)	-	-	-	-	(310,311)	
	109,809	-	-	-	-	109,809	
Total Receivables	\$403,505	\$66,865	\$62,356	\$141	\$37,269	\$570,136	\$338,027

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

Capital asset activity for the year ended September 30, 2014 is as follows:

	Balance 9/30/13	Additions	Retirements	Transfers	Balance 9/30/14
Land	\$404,584	\$-0-	\$(-0-)	\$(-0-)	\$404,584
Construction in progress	166,806	26,874	(-0-)	(166,804)	26,874
Building & improvements	2,331,935	11,250	(-0-)	(-0-)	2,343,185
Infrastructure	4,092,562	211,341	(-0-)	166,804	4,470,707
Vehicles	1,511,985	101,863	(94,128)	(-0-)	1,519,720
Parks improvements	337,525	-0-	(-0-)	(-0-)	337,525
Equipment	1,281,743	14,370	(121,015)	(-0-)	1,175,098
Total capital assets	10,127,140	365,698	(215,143)	-0-	10,277,693
Less accumulated depreciation:					
Building & improvements	432,966	51,086	(-0-)	(-0-)	484,052
Infrastructure	910,224	145,339	(-0-)	(-0-)	1,055,563
Vehicles	1,219,311	121,614	(83,149)	(-0-)	1,257,776
Parks improvements	283,073	9,849	(-0-)	(-0-)	292,922
Equipment	1,017,758	108,257	(108,692)	(-0-)	1,017,323
Total accumulated depreciation	3,863,332	436,145	(191,841)	(-0-)	4,107,636
Governmental activities capital assets, net	\$6,263,808	\$(70,443)	\$(23,302)	\$(-0-)	\$6,170,057

Business-Type Activities

Capital asset activity for the year ended September 30, 2014 is as follows:

	Balance 9/30/13	Additions	Retirements	Transfers	Balance 9/30/14
Land	\$1,016,709	\$-0-	\$(-0-)	\$-0-	\$1,016,709
Construction in Progress	254,285	226,595	(-0-)	(138,602)	342,278
Building & Improvements	-0-	4,294	(-0-)	5,739	10,033
Water System	7,167,004	97,543	(-0-)	-0-	7,264,547
Sewer System	9,033,127	290,542	(-0-)	132,863	9,456,532
Equipment	385,056	5,110	(-0-)	-0-	390,166
Vehicles	134,139	9,475	(14,692)	-0-	128,922
Total capital assets	17,990,320	633,559	(14,692)	-0-	18,609,187
Less accumulated depreciation:					
Building & Improvements	-0-	168	(-0-)	-0-	168
Water System	3,784,794	222,111	(-0-)	-0-	4,006,905
Sewer System	1,659,196	280,875	(-0-)	-0-	1,940,071
Equipment	276,501	38,641	(-0-)	-0-	315,142
Vehicles	99,080	13,057	(14,692)	-0-	97,445
Total accumulated depreciation	5,819,571	554,852	(14,692)	-0-	6,359,731
Business-type activities capital assets, net	\$12,170,749	\$78,707	\$(-0-)	\$(-0-)	\$12,249,456

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

Governmental activities:	
General government	\$21,848
Public safety	186,110
Public works	201,113
Cultural and recreational	22,755
Social and welfare	4,319
Total depreciation expense – governmental activities	<u>\$436,145</u>
Business-type activities:	
Water and sewer	<u>\$554,852</u>

NOTE F – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

For the year ended September 30, 2014, revenues exceeded expenditures in the General Fund by \$521,665.

NOTE G – INTERFUND BALANCES AND TRANSFERS – GOVERNMENT WIDE

The composition of interfund operating transfers for the year ended September 30, 2014, is as follows:

Fund	Transfer to Other Funds	Transfer from Other Funds
General Fund	\$129,228	\$-0-
Debt Service Fund	135,000	140,344
AEDC Fund	146,594	-0-
Royalty Fund	4,294	-0-
Nonmajor Governmental Funds	12,723	-0-
Water and Sewer Fund	259,100	546,595
	<u>\$686,939</u>	<u>\$686,939</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 2026, and interest is payable semi-annually. Certificates of obligation proceeds are recorded in the appropriate fund for which the debt was issued and approved by the City. The ordinances authorizing the issuance of the bonds created an interest and sinking fund (Debt Service Fund).

Certificates of obligation debt outstanding and Tax anticipation note at September 30, 2014, is comprised of the following:

<u>Description of Debt</u>	<u>Amount</u>
\$3,960,000 General Obligation Refunding Bonds, Series 2011, to refinance the City's debt. Principal payments begin in 2012 and are due in annual installments \$210,000 to \$320,000 through August of 2026; interest payments of \$6,400 to \$60,525 from February 2012 through August 2026 with an interest rate of 2% to 4%.	\$3,120,000
Add: Premium on General Obligation Refunding Bonds, Series 2011	175,985
Subtotal Certificate of Obligation	<u>3,295,985</u>
\$1,000,000 2008 Tax Anticipation Note for city improvements, due in annual installments ranging from \$150,000 to \$185,000 beginning August 2010 through August 2015, interest payments ranging from \$4,172 to \$22,550 from February 2009 through August 2015 with interest rate of 4.51%	185,000
Total Certificate of obligation and tax anticipation	<u>\$3,480,985</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
2015	\$ 400,000	\$7,826	\$ 112,594	\$ 520,420
2016	220,000	6,574	99,950	326,524
2017	230,000	6,574	95,550	332,124
2018	235,000	6,574	90,950	332,524
2019	240,000	6,574	83,900	330,474
2020 – 2024	1,355,000	55,439	289,500	1,699,939
2025 – 2026	625,000	86,424	37,800	749,224
Total	<u>\$3,305,000</u>	<u>\$175,985</u>	<u>\$810,244</u>	<u>\$4,291,229</u>

Notes Payable:

Note payable debt outstanding at September 30, 2014, 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%.	\$ 51,662
Total	<u>\$ 51,662</u>

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

Year Ending September 30	Principal	Interest	Total
2015	\$ 16,486	\$ 2,268	\$ 18,754
2016	17,210	1,544	18,754
2017	17,966	789	18,755
Total	\$51,662	\$ 4,601	\$56,263

Capital Lease:

Capital lease debt outstanding at September 30, 2014, is comprised of the following:

Description of Debt	Amount
Capital lease obligation secured by equipment costing \$194,630 maturing October 2014, requiring annual installments of \$67,235 including interest accruing at 3.99% with a purchase option of \$1 at conclusion of the lease.	\$65,008
Capital lease obligation secured by equipment costing \$160,109 maturing November 2016, requiring monthly installments of \$2,926 including interest accruing at 3.69%	24,989
Total	\$89,997

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

Year Ending September 30	Principal	Interest	Total
2015	\$76,566	\$7,807	\$84,373
2016	12,548	309	12,857
2017	883	9	892
Total	\$89,997	\$8,125	\$98,122

Changes in long-term liabilities:

Long-term debt activity for the year ended September 30, 2014, was as follows:

	Amounts payable at beginning of year	Amounts added during year 2014	Amounts retired during fiscal year 2014	Amounts payable at end of year	Amounts due within one year
Certificates of obligation	\$3,328,443	\$ -0-	\$(208,443)	\$3,120,000	\$215,000
Tax anticipation notes	365,000	-0-	(180,000)	185,000	185,000
Notes payable	77,650	-0-	(25,988)	51,662	16,486
Capital lease obligation	196,557	-0-	(106,560)	89,997	76,566
Compensated Absences	96,766	20,145	(-0-)	116,911	116,911
Subtotal	4,064,416	20,145	(520,991)	3,563,570	609,963
Bond premiums	184,495	-0-	(8,510)	175,985	7,826
Total	\$4,248,911	\$20,145	\$(529,501)	\$3,739,555	\$617,789

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, 2014, 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%	\$1,370,000
\$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%	2,180,000

<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%	4,675,000
Subtotal	<u>\$8,225,000</u>
Add: Net premiums and discounts on certificates of obligations	135,605
Total	<u><u>\$8,360,605</u></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
2015	\$ 320,000	\$ 6,778	\$ 301,793	\$ 628,571
2016	316,000	6,778	291,793	614,571
2017	318,000	6,778	281,755	606,533
2018	334,000	6,778	271,530	612,308
2019	341,000	6,778	260,643	608,421
2020 – 2024	1,440,000	29,422	1,137,657	2,607,079
2025 – 2029	1,271,000	29,422	927,678	2,228,100
2030 – 2034	1,697,000	22,644	659,314	2,378,958
2035 – 2039	1,345,000	22,644	321,532	1,689,176
2040 – 2044	492,000	(2059)	147,334	637,275
2045 – 2047	351,000	(358)	32,042	382,684
Total	<u>\$8,225,000</u>	<u>135,605</u>	<u>\$4,633,071</u>	<u>\$12,993,676</u>

Capital Lease:

Capital lease debt outstanding at September 30, 2014, 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%	\$47,630
Total	<u><u>\$47,630</u></u>

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

Year Ending September 30	Principal	Interest	Total
2015	\$21,464	\$1,353	\$22,817
2016	22,102	574	22,676
2017	4,064	17	4,081
Total	\$47,630	\$1,944	\$49,574

Changes in long-term liabilities:

Long-term debt activity for the year ended September 30, 2014, was as follows:

	Amounts payable at beginning of year	Amounts added during year 2014	Amounts retired during fiscal year 2014	Amounts payable at end of year	Amounts due within one year
Certificates of Obligation	\$8,534,000	\$-0-	\$(309,000)	\$8,225,000	\$320,000
Capital Lease	71,452	-0-	(23,822)	47,630	21,464
Compensated Absences	13,919	9,008	(-0-)	22,927	22,927
Subtotal	8,619,371	9,008	(332,822)	8,295,557	364,391
Bond Premiums	148,926	-0-	(13,321)	135,605	6,778
Total	\$8,768,297	\$9,008	\$(346,143)	\$8,431,162	\$371,169

NOTE I – RESTRICTED ASSETS

Restricted assets balance at September 30, 2014, was as follows:

Fund	Cash & Deposits	Investments	Intergovernmental Receivable
Government Activities:			
General Fund	\$-0-	\$23,856	\$25
Court	-0-	143,294	-0-
Debt Service Fund	-0-	336,962	-0-
Water and Sewer Fund	4,491,773	96,620	-0-
	\$4,491,773	\$600,732	\$25

NOTE J - RETIREMENT PLAN

The City participates in the Texas Municipal Retirement System.

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of the 827 administered by the TMRS, an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest of the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and with the actuarial constraints also in the statutes. Plan provisions for the City were as follows (as of 5/30/2014):

Deposit Rate:	6%
Matching Ratio (city to Employee)	2 to 1
A member is vested after	5 years
Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City are: 5yrs/age 60, 20 yrs/any age.	

Contributions

Under the state law governing TMRS, the contribution rate for the City is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases. The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2013 valuation is effective for rates beginning January 2015).

The annual pension cost and net pension obligation/(asset) are as follows:

Actuarial Valuation Date	12/31/13	12/31/12	12/31/11
Actuarial Value of Assets	\$1,876,869	\$1,681,073	\$1,450,132
Actuarial Accrued Liability	\$2,045,628	\$1,818,337	\$1,649,968
Percentage Funded	91.8%	92.5%	87.9%
Unfunded Actuarial Accrued Liability (UAAL)	\$168,759	\$137,264	\$199,836
Annual Covered Payroll	\$1,981,463	\$2,089,264	\$2,165,476
UAAL as a Percentage of Covered Payroll	8.5%	6.6%	9.2%
Net Pension Obligation (NPO) at the Beginning of the Period	-0-	-0-	-0-
Annual Pension Cost:			
Annual required contribution (ARC)	\$69,747	\$72,915	\$103,726
Contributions Made	(69,747)	(72,915)	(103,726)
NPO at the end of the period	\$0	\$0	\$0

Actuarial Assumptions

Valuation Date	12/31/2013	12/31/2012	12/31/2011
Actuarial Cost Method	Entry Age Normal	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	30 years; closed period	19.5 years; closed period	20.6 years; closed period
Amortization Period for new Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Investment Rate of Return	7.0%	7.0%	7.0%
Projected Salary Increased	Varies by Age and Service	Varies by Age and Service	Varies by Age and Service
Includes Inflation At Cost-of-Living Adjustments	3.0%	3.0%	3.0%
Payroll Growth Assumption	None	None	None
Withdrawal rates for Male/Female	3.0%	3.0%	3.0%
	Mid/Mid-Low	Mid/Mid-Low	Mid/Mid-Low

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

NOTE K - COMMITMENTS AND CONTINGENCIES

Audits of Grant Activities

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

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 January 23, 2015, which is the same date that the financial statements were issued. The following subsequent event was determined to be reportable:

The City has been in a long-term land contract with an agency that went bankrupt during fiscal year 2014. During the fiscal year 2015 the City will purchase the land.

NOTE N – CHANGE IN BEGINNING FUND BALANCE – GOVERNMENTAL FUNDS

For the period ended September 30, 2014 the Royalty Fund qualified to be a major fund and therefore, reported separately from the Other Governmental Funds heading. For the period ended September 30, 2013 the Royalty Fund did not qualify as a major fund and therefore, was included in 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:

	Royalty Fund	Other Governmental Fund
Fund Balance – October 1, 2013, as previously reported	\$-0-	\$1,589,765
Royalty fund change to major fund	1,062,172	(1,062,172)
Fund Balance – October 1, 2014, as adjusted	<u>\$1,062,172</u>	<u>\$ 527,593</u>

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF ALVARADO, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended September 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUE:				
General Property Taxes, Interest and Penalties	\$667,350	\$667,350	\$633,101	(\$34,249)
Sales tax	1,202,000	1,201,480	1,101,010	(100,470)
Fines and forfeitures	650,000	665,000	783,683	118,683
Franchise fees & rental fees	377,750	370,140	412,414	42,274
Rental fees	32,100	32,100	32,107	7
Licenses, fees and permits	101,100	180,700	274,688	93,988
Interest	1,600	1,600	1,169	(431)
Intergovernmental	175,014	180,583	190,848	10,265
Donations	1,000	1,000	-	(1,000)
Water/Sewer administrative fee	115,496	115,496	102,295	(13,201)
Charges for Services	16,150	16,150	-	(16,150)
Grants	-	25,753	25,754	1
Miscellaneous	10,200	47,900	130,468	82,568
Total Revenue	<u>3,349,760</u>	<u>3,505,252</u>	<u>3,687,537</u>	<u>182,285</u>
EXPENDITURES:				
Current operating				
General government	467,635	563,828	470,740	93,088
Public safety	2,259,127	2,291,176	2,101,730	189,446
Public works	172,358	172,358	102,761	69,597
Cultural and recreational	230,294	236,278	223,155	13,123
Community development	148,077	160,277	165,814	(5,537)
Social and welfare	67,269	67,479	64,352	3,127
Capital Outlay	5,000	13,856	37,320	(23,464)
Total Expenditures	<u>3,349,760</u>	<u>3,505,252</u>	<u>3,165,872</u>	<u>339,380</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>521,665</u>	<u>521,665</u>
OTHER FINANCING SOURCES:				
Loan proceeds	-	-	-	-
Transfers	-	-	(129,228)	(129,228)
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>-</u>	<u>392,437</u>	<u>392,437</u>
FUND BALANCE - October 1, 2013	<u>338,806</u>	<u>338,806</u>	<u>1,165,575</u>	<u>826,769</u>
FUND BALANCE - September 30, 2014	<u><u>\$338,806</u></u>	<u><u>\$338,806</u></u>	<u><u>\$1,558,012</u></u>	<u><u>\$1,219,206</u></u>

**CITY OF ALVARADO, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2014**

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 \$182,285 and expenditures were less than budget by \$339,380.

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 \$809,518.

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 \$13,856. The total actual capital outlays for the year in the general fund amounted to \$37,320.

NOTE B – RETIREMENT PLAN

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

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date December 31,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Percentage Funded (1)/(2)	Unfunded AAL (2)-(1)	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll (4)/(5)
2005	\$245,772	\$439,312	55.9%	\$193,540	\$1,381,916	14.0%
2006	371,088	571,329	65.0%	200,241	1,519,196	13.2%
2007	508,434	738,497	68.8%	230,063	1,715,098	13.4%
2008	733,422	1,017,621	72.1%	284,199	1,928,937	14.7%
2009	915,288	1,232,819	74.2%	317,531	2,121,347	15.0%
2010	1,225,240	1,486,668	82.4%	261,428	2,133,755	12.3%
2011	1,450,132	1,649,968	87.9%	199,836	2,165,476	9.2%
2012	1,681,073	1,818,337	92.5%	137,264	2,089,264	6.6%
2013	1,876,869	2,045,628	91.8%	168,759	1,981,463	8.5%

In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and the development of the Annuity Purchase Rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report.

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

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

Fiscal Year Ended	TMRS – Annual Required Contribution	Percentage of TMRS Contributed
9/30/2013	\$69,747	100%
9/30/2012	\$ 72,915	100%
9/30/2011	103,726	100%
9/30/2010	100,287	100%
9/30/2009	102,036	100%
9/30/2008	107,183	100%
9/30/2007	57,001	100%
9/30/2006	51,459	100%
9/30/2005	48,579	100%

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, 2014, 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 January 23, 2015.

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.

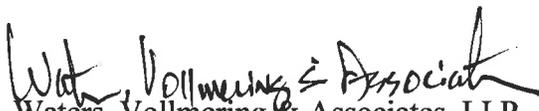
By adopting a new inventory policy that requires more frequent inventory counts, the City's internal controls over financial reporting will improve and reduce the possibility of the inventory being misstated and a large adjustment being required at the end of the year. We recommend that management review 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
January 23, 2015