

REGULAR MEETING OF THE CITY OF ALVARADO CITY COUNCIL
104 W. COLLEGE
July 20, 2020
6:30 P.M.

AGENDA

The City of Alvarado City Council will meet in a Regular Called Session on Monday, July 20, 2020 at 6:30 p.m. by videoconference. An electronic copy of the agenda packet has been made available on the City's website and a recording of the meeting will be made available at: <https://us02web.zoom.us/j/98967890821>. Meeting I.D. Number 989 6789 0821.

THE CITY COUNCIL INTENDS TO PARTICIPATE IN THE MEETING VIA VIDEOCONFERENCE.

Members of the public may dial the following number to join the meeting starting at 6:30 pm: 1-346-248-7799 #1 (Houston) 1-669-900-6833 #2 (San Jose). Please email the City Secretary at: thomasd@cityofalvarado.org if you plan to provide comments during the meeting and indicate which item you would like to comment on. In order to facilitate the comments during the meeting, each name on the speaking list will be called at which time you will be provided an opportunity to comment. You are encouraged to email your public hearing comments to the City Secretary at: thomasd@cityofalvarado.org, any comments submitted will be read aloud during the respective public hearing

CALL TO ORDER- Roll Call

CITY MANAGERS REPORTS:

Sanitation Update.

CONSENT AGENDA:

- A. Minutes from the regular called meeting on June 15, 2020.

REGULAR AGENDA:

1. Presentation of the annual audit for the fiscal year 2019/2020.
- 2.. Discussion by Todd Massey regarding community relations.
3. Presentation by Stephen Dunnahoe, AQUA Utilities, regarding acquisition of public utilities.

4. Consideration and action regarding a government product lease agreement with Quadient Leasing for postage machine for city hall.
5. Consideration and action regarding wastewater plan as presented by Freese and Nichols.
6. Consideration and action regarding an ordinance of the City of Alvarado, Texas designating person to fulfill duties imposed by Tax Code Chapter 26.
7. Budget Workshop for fiscal year 2020/2021.

EXECUTIVE SESSION

Pursuant to the Texas Open Meetings Act, Chapter 551 of the Texas Government Code executive session may be held under one or more of Sections 551.071, 551.073, 551.074, 551-.76, 551.087, 413.183(f) and 418.106(d) & (e), either at the end of The Regular Session or at any time during the meeting on any item on the agenda if a need rises for the City Council to seek advice from the City Attorney or otherwise convene in closed session as permitted by such sections of the Open Meetings Act. The City Council may take action on any agenda item listed for executive session consideration upon reconvening in open session. Please refer to agenda for the items posted.

- a. §551.071 Consultation with Attorney The City Council may convene in Executive Session to conduct a private consultation with its Attorney on any legally posted agenda item, when the City Council seeks the advice of its Attorney about pending or contemplated litigation, a settlement offer, or on a matter in which the duty of the Attorney to the governmental body under the Texas Disciplinary Rules of Professional Conduct of the State Bar of Texas clearly conflicts with the provision of Chapter 551, including the following items:
 1. Esquire Development vs City of Alvarado.
8. Consideration and action regarding items discussed in Executive Session.
9. Adjourn.

NON-DISCRIMINATION STATEMENT

The City of Alvarado does not discriminate on the basis of race, color, national origin, sex, religion, or disability in the employment or the provision of services. I, the undersigned

Regular Council Meeting
Agenda
July 20, 2020
Page Three

authority do hereby certify that the above Agenda was posted on the City's website at :<https://www.cityofalvarado.org/index.asp?> on July 15, 2020 at 4:00 p.m. and remained so posted continuously for at least 72 hours preceding the scheduled time of said meeting.

Debbie Thomas, TRMC
City Secretary

CITY OF ALVARADO

County of Johnson

State of Texas

June 15, 2020

MINUTES

The City Council of the City of Alvarado met in Regular Called Session on Monday, June 15, 2020 at 6:30 p.m. via videoconferencing through Zoom. The following were present for roll call:

Tom Durlington	*	Mayor
Shawn Goulding	*	Mayor Pro Tem
Beverly Short	*	Councilperson
Cherry Bryant	*	Councilperson
Jacob Wheat	*	Councilperson
Michael Bennett	*	Councilperson

Others Present:

Rick Holden	*	City Manager
Debbie Thomas	*	City Secretary
Paula Hardison	*	Finance Director
Ashley Dierker	*	City Attorney

INVOCATION

Mayor Durlington called this regular meeting to order at 6:30 P.M. and gave the invocation.

CITY MANAGER'S REPORT

Rick Holden, City Manager, updated the council regarding sales tax revenues and stated that there were no dramatic decreases at this time.

He also gave an update on the 2019/2010 audit. It is finished and will be presented at the July regular meeting.

He also addressed the council regarding the property valuation estimates for ad valorem taxes. He stated that we do have an increase in valuation. The state legislature has capped the allowable tax rate increase is 3.5%. We will have to budget accordingly.

The Pickleball court will be placed on the July regular meetings agenda.

CONSENT AGENDA

Motion was made by Councilperson Beverly Short, duly seconded by Councilperson Cherry Bryant to approve the consent agenda as presented. This motion supported six votes in approval and zero votes opposed. Motion carried.

PUBLIC HEARING AND CONSIDERATION AND ACTION REGARDING AN APPLICATION FOR A SPECIFIC USE PERMIT TO OPEN AND USE A TRUCK PARKING LOT ON THE EAST SIDE OF PROPERTY KNOWN AS LOT 2, BLOCK 1, GHANDI ADDITION, ALSO KNOWN A 1163 HWY 67 W., ALVARADO, JOHNSON COUNTY, TEXAS

Mayor Tom Durlington opened this public hearing at 6:34 p.m. Jayed Mallick addressed the council regarding his plans to update this truck parking lot. He eventually will pave it with concrete or asphalt but at this time does not have the funds to do this. He would like to open it to help his business and will keep it in good condition until he has the funds to bring it up to city code. Mayor Tom Durlington then closed this public hearing at 6:55 p.m. After discussion, motion was made by Councilperson Lydia Moon to approve the Specific Use Permit for a period of one year with the condition that the owner provides a barrier for the city fire hydrant that is on the corner of his parking lot. This motion died from lack of a second. Motion was made by Councilperson Lydia Moon, duly seconded by Councilperson Cherry Bryant, to approve the Specific Use Permit for a period of six months, renewable for another six months with the following conditions that will be added to the Specific Use Permit:

Owner shall be responsible for any damage to City utilities including fire hydrants located on the lot. Owner shall at his expense provide suitable barricades to protect city above ground utility structure as directed and approved by City Staff.

Owner shall provide and maintain sufficient surface rock/gravel material and compaction thereof to minimize rutting and ponding of water on the lot.

Owner at his expense shall within 24 hours of notification from city provide necessary clean-up of any "tracking" of mud, gravel, or rocks that might occur, both on the private common access drives and on the public's right-of-way along Parkway Drive or U.S. 67 (as approved by TXDot). This motion supported six votes in approval and zero votes opposed. Motion carried.

PUBLIC HEARING AND CONSIDERATION AND ACTION REGARDING REQUEST FOR ZONING CHANGES FROM MF(MULTI-FAMILY) TO A TF (TWO FAMILY) ZONING DISTRICT FOR PROPERTY KNOWN AS ABSTRACT #625, TRACT 6A AND 6C, G.S. MCINTOSH, ALSO KNOWN AS BURNET BLVD., ALVARADO, JOHNSON COUNTY, TEXAS.

This item was skipped.

CONSIDERATION AND ACTION REGARDING A FINAL PLAT FOR PROPERTY KNOWN AS LOT 1, BLCOK 1, ORIGINAL TOWN ADDITION, ALSO KNOWN AS 510 W. COTTER, ALVARADO, JOHNSON COUNTY, TEXAS.

After discussion, motion was made by Councilperson Beverly Short, duly seconded by Councilperson Michael Bennett, to approve the plat as presented. This motion supported six votes in approval and zero votes opposed. Motion carried.

CONSIDERATION AND ACTION REGARDING A FINAL PLAT FOR PROPERTY KNOWN AS ABSTRACT 313, TRACT 71, IRA GLAZE SURVEY, ALSO KNOWN AS 303 S WATSON, ALVARADO, JOHNSON COUNTY, TEXAS.

After discussion, motion was made by Councilperson Lydia Moon, duly seconded by Councilperson Michael Bennett, to approve the plat as presented. This motion supported six votes in approval and zero votes opposed. Motion carried.

CONSIDERATION AND ACTION REGARDING ECONOMIC DEVELOPMENT GRANTS FOR ALVARADO BUSINESSES, THE APPLICATION PROCESS, AND APPROPRIATE QUALIFICATIONS AND GUIDELINES.

The Alvarado Economic Development Board met and approved a COVID-19 grant process to help small businesses within the city limits of Alvarado. They approved a maximum of \$100,000 with individual grants at \$5,000.00. After discussion, motion was made by Councilperson Cherry Bryant, duly seconded by Councilperson Beverly Short, to authorize the Mayor to approve and appoint the City Manager and appropriate staff on a committee to review and approve the Economic Development Grant applications for Alvarado businesses. This motion supported six votes in approval and zero votes opposed. Motion carried.

CONSIDERATION AND ACTION REGARDING AUTHORIZING FREESE AND NICHOLS TO COMPLETE A WATER ANALYSIS FOR POSSIBLE CONVERSION TO JOHNSON COUNTY SPECIAL UTILITY DISTRICT.

Rick Holden, City Manager addressed the council in reference to the possible conversion of our water company to Johnson County Special Utility District. In order to do this, it would have to be by referendum of our citizens. A water analysis study will have to be performed to see if it is feasible. The

Regular Called Council Meeting
Minutes
June 15, 2020
Page Four

water study will cost \$60,000.00. After discussion, motion was made by Mayor Pro Tem Shawn Goulding, duly seconded by Councilperson Michael Bennett, to authorize a water analysis with Freese and Nichols not to exceed \$60,000.00. This motion supported six votes in approval and zero votes opposed. Motion carried.

CONSIDERATION AND ACTION REGARDING CALLING FOR AN ELECTION TO BE HELD ON NOVEMBER 3, 2020 IN CONJUNCTION WITH JOHNSON COUNTY FOR THE PURPOSE OF ALLOCATING A PERCENTAGE OF ECONOMIC DEVELOPMENT SALES TAX TO STREET REPAIRS.

Rick Holden, City Manager, explained to the council that at the current time the EDC receives ½ percent sales tax. The proposed sales tax would be ¼ % to EDC and ¼% to street repairs. Motion was made by Mayor Pro Tem Shawn Goulding, duly seconded by Councilperson Beverly Short, to approve an election to be held on November 3, 2020 in conjunction with Johnson County and propose ¼% to EDC and ¼% for street repairs. This motion supported six votes in approval and zero votes opposed. Motion carried.

CONSIDERATION AND ACTION REGARDING APPROVAL OF EMPLOYEE HEALTH BENEFITS BEGINNING ON AUGUST 1, 2020 AND ENDING JULY 31, 2021 AND ALLOCATING \$150.00 PER MONTH FOR DEPENDENT COVERAGE.

Rick Holden, City Manager explained to the Council that the city pays 100% of employee health coverage. BCBS will be increased by 6% with a \$15,000.00 one-time credit. All other coverages will remain the same. After discussion, motion was made by Councilperson Beverly Short, duly seconded by Councilperson Lydia Moon, to approve the employee health benefits as presented and allocate \$150.00 per month for dependent coverage. This motion supported six votes in approval and zero votes opposed. Motion carried.

EXECUTIVE SESSION

Mayor Tom Durlington then convened into Executive Session at 7:43 p.m.
Mayor Durlington reconvened into open session at 8:10 p.m.

CONSIDERATION AND ACTION REGARDING ITEMS DISCUSSED IN EXECUTIVE SESSION.

No action was taken.

Regular Called Council Meeting
Minutes
June 15, 2020
Page Five

COUNCIL COMMENTS

There were no council comments at this meeting.

ADJOURNMENT

Mayor Tom Durlington then adjourned this regular meeting of the Alvarado City Council at 8:11 p.m.

Passed and approved this the _____ day of _____, 2020.

Mayor Tom Durlington

Debbie Thomas, TRMC, City Secretary

CITY MANAGER BRIEFS FOR Council July 20, 2020

We will be using ZOOM for our meeting.

CITY MANAGER REPORTS

1. Sanitation Update: I will provide a verbal update.

REGULAR AGENDA

1. We will accept the 2019 audit as completed. For various reasons we are later than usual in completing the audit. Overall, we are in good shape “numbers wise”. There are some administrative improvements we need to make going forward including the possibility of adding a third- party contractor to assist in the required reporting aspects. The Council should ratify receipt of the audit.
2. Todd Massey has asked to address the Council regarding some possible opportunities to improve community relations between our City, Police Dept etc... and the community. There is no action to be taken by Council at this point.
3. Stephen Dunnahoe with AQUA utilities will make a brief presentation regarding possible sale of our water/sewer utilities to a private company. At this point the information should be informative. It is legally possible to sell those assets but only after a referendum vote by the Alvarado citizens. My responsibility is to share options with you and give choices where possible to solve future issues. No action will be required here but you may wish to further evaluate such options going forward. The presentation is attached for your review.
4. Our postage machine lease has expired. We can lease a new one going forward. Ashley has reviewed the contract should you decide to authorize. Debbie has included a copy in your packet.
5. Freese & Nichols has prepared the Phase 1& 2 estimates to make necessary improvements to the sewer collection systems to meet our current issues. This is one of the first plans from the water/wastewater master plan that was recently accomplished. I have attached the presentation for your review. We will review and discuss during our meeting and if possible obtain Council authorization to move forward with engineering/design and subsequently to

- secure funding and authorize construction.
6. We are required to adopt an ordinance naming Scott Porter as our tax assessor and authorizing him to calculate the taxes associated with our next fiscal year budget preparation.
 7. Budget Workshop: I plan to ask for feedback on Council priorities and initiatives, to discuss the budget process and finally ask for any citizen input. This is a workshop only and requires no formal action.

EXECUTIVE SESSION

We will meet via Zoom to discuss the Esquire Development vs City of Alvarado lawsuit with our attorney(s). We will reconvene the regular session if any action is required following exec session.

CITY OF ALVARADO, TEXAS

SEPTEMBER 30, 2019

TABLE OF CONTENTS

Independent Auditor's Report	1	
Management Discussion and Analysis	3 - 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 - 59	
Required Supplemental Financial Data		
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – General Fund	60	
Schedule of Changes in Net Pension Liability and Related Ratios.....	61	
Schedule of Contributions.....	62	
Notes to Required Supplementary Information	63	
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.....		64 - 66



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Alvarado, Texas (the City) as of and for the year ended September 30, 2019, 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, 2019, 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

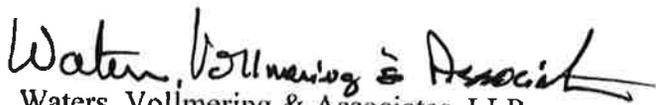
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 18, the budgetary comparison information on pages 57 and related notes on page 60, the schedule of changes in net pension liability and related ratios on page 58, and the schedule of contributions on pages 59 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Alvarado, Texas' basic financial statements. The accompanying introductory section, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2020, 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

June 16, 2020

City of Alvarado

*104 W. College St.
Alvarado, Texas 76009*

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

June 16, 2020

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, 2019, 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, 2019, 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, 2019, 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 4,600. 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

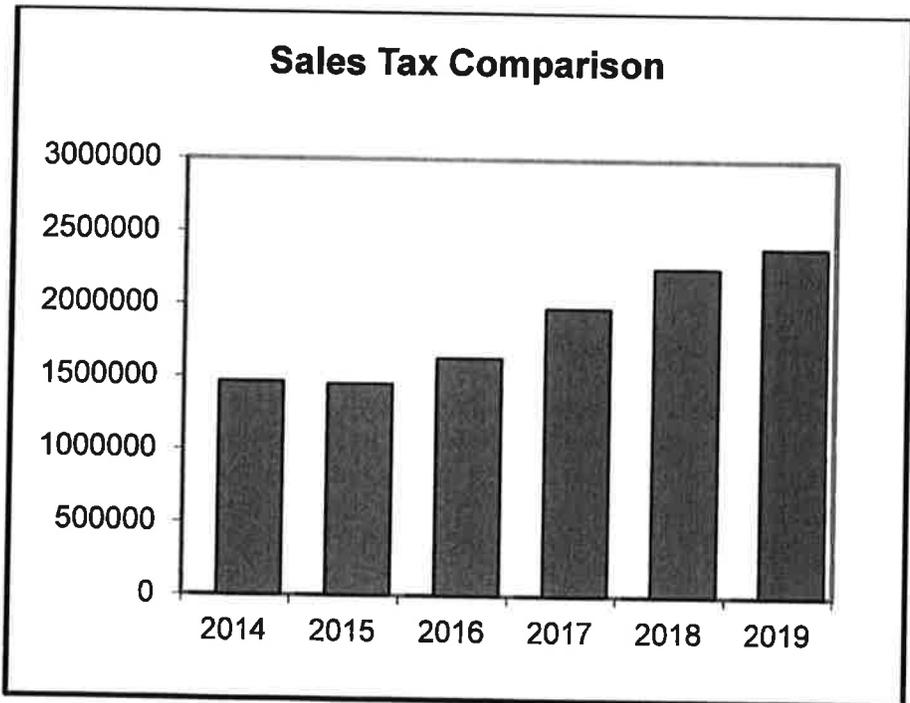
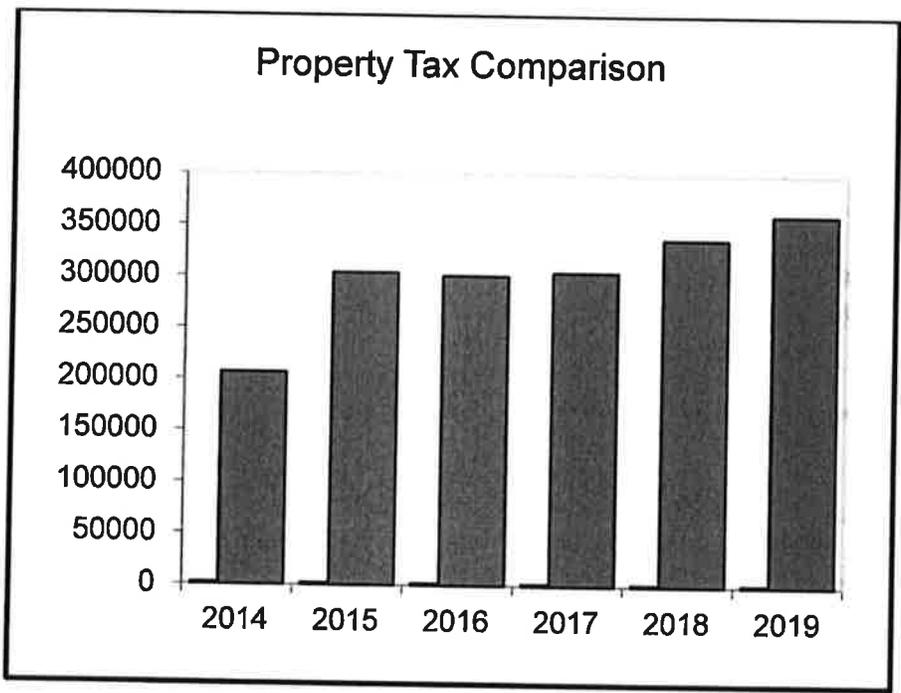
The information presented in the financial statements is perhaps best understood when it is considered from the broader aspect of the specific environment within which the City operates.

Local Economy

FY 2018-2019 concluded with positive trends providing the City with an optimistic outlook. Additional employment opportunities and growth continue to drive the local economy. Sales tax revenue increased from \$ 2,257,535 in 2018 to \$ 2,399,216 in 2019, providing an increase of \$ 141,681 or 6.3%.

The property tax rate for 2019 changed from the previous of \$.709555/\$100 to a value of \$.732031/\$100.

The charts below are based upon the 2018-2019 budget year as compared to prior years. Property Valuations noted below for the budget period 2018-2019 are based upon the 2018 assessed property valuations as determined by the Johnson County Appraisal District. The chart for Sales Tax collected also represents the amounts collected during the 2018-2019 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.

Debt Management

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

Reserve Requirements

In 2013, the City Council adopted an official Fund Balance Policy. According to this policy the city will reserve General Funds equal to three months of operating expenses. This requirement has been fulfilled with General fund unrestricted reserves of \$ 5,598,396. Overall governmental funds unrestricted reserves total \$ 6,267,122.

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,



Rick Holden
City Manager



Paula Hardison
Finance Director

**CITY OF ALVARADO
PRINCIPAL CITY OFFICIALS
SEPTEMBER 30, 2019**

Mayor

Tom Durington

Council Members

Cherry Bryant

Beverly Short

Shawn Goulding

Michael Bennett

Jacob Wheat

Lydia Moon

City Manager

Rick Holden

City Secretary

Debbie Thomas

City Attorney

Ashley Dierker

Director of Finance

Paula Hardison

Director of Public Works

Michael Dwiggin

Police Chief

Brad Anderson

Fire Chief

Richard VanWinkle

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR ENDED SEPTEMBER 30, 2019

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, 2019. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal. Comparative data is included for analysis of government wide activities.

FINANCIAL HIGHLIGHTS

- The assets of the City of Alvarado exceeded its liabilities at the close of the most recent fiscal year by \$ 25,757,312 (total net position). Of this amount, \$ 7,855,938 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position increased this fiscal year by \$ 2,468,814.
- As of the close of the current fiscal year, the City of Alvarado's governmental funds reported combined ending fund balances of \$ 10,097,798. Approximately 62.1% or \$ 6,267,122 is available for spending at the City's discretion (unassigned fund balance).
- Special Project Fund has a fund balance of \$ 545,259 with restricted usage limited to capital improvements.
- AEDC has a fund balance of \$ 2,001,453 with restricted usage.

Other Governmental Funds has a fund balance of \$1,952,690. This includes Royalty fund which has a fund balance of \$1,355,201 (\$303,581 committed, \$382,894 assigned and \$668,726 unassigned), Hotel and Court Funds have a fund balance of \$ 597,489 (restricted).

- The City's total debt decreased by \$834,902 during the current fiscal year. The governmental funds debt increased by \$3,680,361 and the water and sewer proprietary fund debt decreased by \$4,515,263 due to moving 2012 Co Bonds to General Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the City of Alvarado's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Alvarado's finances, in a manner similar to private-sector business.

The *statement of net position* presents information on all of the City of Alvarado's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decrease in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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

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

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

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

The City of Alvarado maintains 7 individual funds for governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the General Fund, Debt Service Fund, and Special Project Fund, all of which are considered major funds. Data from the other 4 funds (AEDC Fund, Hotel Tax Fund, Royalty Fund and Court Fund) are combined into a single, aggregated presentation.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Alvarado, assets exceeded liabilities by \$25,757,312 at the close of the most recent fiscal year. This represents an increase of \$2,468,814 from the previous fiscal year.

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

City of Alvarado's Net Position

ASSETS	Governmental Activities		Business-Type Activities		Total	
	2018	2019	2018	2019	2018	2019
Current Assets	\$ 8,628,479	\$ 11,437,108	\$ 3,211,222	\$ 2,457,019	\$ 11,839,701	\$ 13,894,127
Noncurrent Assets	9,717,352	10,276,552	16,256,171	16,294,748	25,973,523	26,571,300
Total Assets	18,345,831	21,713,660	19,467,393	18,751,767	37,813,224	40,465,427
DEFERRED OUTFLOWS OF RESOURCES						
Deferred pension contributions	213,470	227,819	43,723	47,280	257,193	275,099
Deferred pension actuarial losses	(70,667)	278,271	4,693	74,710	(65,974)	352,981
Total Deferred Outflows	142,803	506,090	48,416	121,990	191,219	628,080
LIABILITIES						
Current Liabilities	1,548,175	2,008,359	1,109,472	967,062	2,657,647	2,975,421
Long Term Liabilities	5,902,276	9,714,797	6,810,639	2,483,668	12,712,915	12,198,465
Total Liabilities	7,450,451	11,723,156	7,920,111	3,450,730	15,370,562	15,173,886
DEFERRED INFLOWS OF RESOURCES						
Deferred pension expense	4,213	131,364	5,264	30,945	9,477	162,309
Total Deferred Inflows	4,213	131,364	5,264	30,945	9,477	162,309
NET POSITION						
Invested in capital assets, net of related debt	3,523,003	414,677	9,117,202	13,671,167	12,640,205	14,085,844
Restricted	3,384,930	3,144,201	638,555	671,329	4,023,485	3,815,530
Unrestricted	4,126,037	6,806,352	1,834,677	1,049,586	5,960,714	7,855,938
Total Net Position	\$ 11,033,970	\$ 10,365,230	\$ 11,590,434	\$ 15,392,082	\$ 22,624,404	\$ 25,757,312

An additional portion of the City of Alvarado's net position, \$3,815,530 represents resources that are subject to external restrictions on how they may be used. Unrestricted net assets of \$7,855,938 may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2019, the City of Alvarado is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental Activities. Governmental activities reflected a decrease in the City's net position from the previous year by \$668,740, from \$11,033,970 to \$10,365,230.

Business-type Activities. Net position from business-type activities increased by \$3,801,648, from \$11,590,434 to 15,392,082.

The following table provides a summary of the City's operations for the year ended September 30, 2019, with the comparative totals for the year ended September 30, 2018.

City of Alvarado's Changes in Net Position

	Governmental Activities		Business Activities		Total	
	2018	2019	2018	2019	2018	2019
REVENUES:						
Charges for Services	\$ 1,543,706	\$ 2,412,642	\$ 3,066,647	\$ 3,074,039	\$ 4,610,353	\$ 5,486,681
Operating Grants/Contributions	12,500	-	12,500		25,000	-
Capital Grants/Contributions					-	-
General Revenues:						
Property Taxes	2,211,531	2,432,505			2,211,531	2,432,505
Sales Tax	2,257,535	2,399,216			2,257,535	2,399,216
Franchise Tax	468,706	487,074			468,706	487,074
Alcoholic beverage taxes	514	600			514	600
Unrestricted investment earnings					-	-
Gain/Loss on Sale of Assets	25,611	-				-
Other revenue	275,052	397,032	79,299		354,351	397,032
Total Revenue	6,795,155	8,129,069	3,158,446	3,074,039	9,927,990	11,203,108
EXPENSES:						
General government	680,315	447,736			680,315	447,736
Public safety	3,182,961	3,542,473			3,182,961	3,542,473
Public works	381,562	180,136			381,562	180,136
Community development	286,335	642,733			286,335	642,733
Cultural & recreational	366,942	356,678			366,942	356,678
Social & welfare	76,813	88,146			76,813	88,146
Economic development	234,015	143,825			234,015	143,825
Pension expense	134,116	192,175			134,116	192,175
Interest on long-term debt	340,795	342,232	127,253		468,048	342,232
Water & sewer operations			2,929,875	2,929,875	2,929,875	2,929,875
Special item outflow					-	-
Total Expenses	5,683,854	5,936,134	3,057,128	2,929,875	8,740,982	8,866,009
Change in net assets before transfers	1,111,301	2,683,412	101,318	(214,598)	1,212,619	2,468,814
Transfers	(154,538)	270,523	154,538	(270,523)	-	-
Change in net assets	956,763	2,953,935	255,856	(485,121)	1,212,619	2,468,814
Net assets - Beginning	10,077,207	7,411,295	11,334,578	15,877,203	21,411,785	23,288,498
Net assets - Ending	\$ 11,033,970	\$ 10,365,230	\$ 11,590,434	\$ 15,392,082	\$ 22,624,404	25,757,312

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 \$10,097,798 which is an increase of \$2,494,862 in comparison with the prior year. Approximately \$6,267,122 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. \$2,598,942 of the fund balance is committed to specific projects while \$545,259 of the balance has restrictions and \$303,581 is committed for other purposes. Refer to page 22 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.

There was a decrease in the total net position of the City's Proprietary Fund of \$485,121 from the previous year. Unrestricted net assets of the City's Proprietary Funds at the end of the year amounted to \$1,049,586, a decrease of \$785,091 from the previous year.

General Fund Budgetary Highlights

When compared to the prior year, total General Fund revenues for the City increased by \$1,813,868 or above by 36.9%. There was an increase of \$477,977 from Contributions and Donations and an increase of Intergovernmental revenue of \$752,364 from Prairieland Detention. This revenue stream was moved to the General Fund this fiscal year.

Total general fund year-end expenditures increased by \$991,873 above the previous year with \$1,092,838 contributed to the purchase of Capital Outlay items.

CAPITAL ASSETS

The City of Alvarado's investment in capital assets for its governmental and business-type activities as of September 30, 2019, amounts to \$26,571,300 (net of accumulated depreciation.). This investment in capital assets includes land, buildings and improvements, machinery, equipment, infrastructure and construction in progress.

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

- The Police Department purchased a 2018 Ford F-150 Pick-Up Truck for \$46,000.
- The Police Department purchased equipment for vehicle improvements for \$21,266.37.
- The Police Department purchased 2 in-car cameras for \$ 13,095.95.
- Concrete pad at the Police Gun Range for \$ 17,418.00.
- The Police Department leased 12 Tasers for \$5,783.40.
- The Police Department leased 30 radios for \$ 8,157.60.
- The CVE Department purchased Loadmeter wheel load weighers for \$9,790.
- The CVE Department purchased a 2018 Ford Explorer for \$34,164.32 with in-car computer for \$1449.77 and in-car camera for \$5,370.
- The Fire purchased a 2019 Ford Expedition for \$ 56,168.
- The Fire department purchased V-FORCE fire protective clothing for \$9,436.
- Street improvements with expenditures of \$35,864.40 for Apache Trail & Wildwood Drive.
- Jessup Street Repairs were \$ 56,086. Council meeting in August 2019 approved to use Royalty fund proceeds in TexPool for Jessup St. Rehabilitation.
- Lake Alvarado improvements to the boat ramp and add restrooms completed and re-opened in July 2019. Expenses for this year were \$767,030.32.
- Court purchased 5 Dell Optiplex Micro 3060 Computers for \$5,362.30.
- The 2015 Bond issue provided for the Lakeview Outfall Sanitary Sewer project totaling \$541,399.06. This project completed in 2019.
- 2012 Bond issue provided for Waste Water Treatment Plant Headworks Improvement Design project totaling \$ 5896.78. This project completed in 2019.
- Parks purchased a utility trailer for \$7,580.
- Parks purchased a Vac Trailer for \$ 49,488.95.
- 250,000 gallon tank assessment for \$ 63,070.25

The following table provides a summary of the City's capital assets for the year ended September 30, 2018 as compared to the summary of capital assets for the year ended September 30, 2017:

**CITY OF ALVARADO
CAPITAL ASSETS AT YEAR-END**

	Governmental Activities		Business-Type Activities		Totals	
	2018	2019	2018	2019	2018	2019
Land	357,193	357,193	1,005,509	1,005,509	1,362,702	1,362,702
Buildings & Improvements	1,838,528	1,777,841	9,065	8,865	1,847,593	1,786,706
Infrastructure	3,535,264	5,802,334			3,535,264	5,802,334
Vehicles	914,819	853,496	54,159	32,015	968,978	885,511
Parks Improvements	219,583	1,153,782			219,583	1,153,782
Water System			6,166,191	5,892,852	6,166,191	5,892,852
Sewer System			7,744,718	7,623,071	7,744,718	7,623,071
Other Equipment	238,558	209,946	120,802	139,426	359,360	349,372
Construction in Progress	2,613,407	121,960	1,155,727	1,593,010	3,769,134	1,714,970
Total	<u>9,717,352</u>	<u>10,276,552</u>	<u>16,256,171</u>	<u>16,294,748</u>	<u>25,973,523</u>	<u>26,571,300</u>

+

DEBT ADMINISTRATION

Total Debt. The City of Alvarado's total debt outstanding at the end of the current fiscal year is \$12,583,414. This amount is a decrease of \$834,902 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 \$11,635,371. Of this amount, \$11,152,718 is comprised of combination tax and revenue certificate of obligations debt to be paid from property tax revenue, as well as water and sewer revenues from the City. The remainder of the debt, \$482,653 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 \$948,043 including current bonds payable, current notes payable and compensated absences.

Bond Rating. The City continues to have a favorable bond rating of "AA" from Standard and Poor's Rating Service.

The following table provides a summary of the City's outstanding debt for the year ended September 30, 2019 as compared to the summary of capital assets for the year ended September 30, 2018.

CITY OF ALVARADO OUTSTANDING DEBT AT YEAR-END (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2018	2019	2018	2019	2018	2019
Certificates of Obligation	\$ 5,576,452	\$ 9,317,309	\$ 7,132,610	\$ 2,623,581	\$ 12,709,062	\$ 11,940,890
Tax Anticipation Notes	-	-	-	-	-	-
Capital Leases	617,897	544,566	6,359	-	624,256	544,566
Notes Payable	-	-	-	-	-	-
Compensated Absences	69,301	82,136	15,697	15,822	84,998	97,958
Total	<u>\$ 6,263,650</u>	<u>\$ 9,944,011</u>	<u>\$ 7,154,666</u>	<u>\$ 2,639,403</u>	<u>\$ 13,418,316</u>	<u>\$ 12,583,414</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 2018-2019 fiscal year:

- The City benefits from its strategic location, which is approximately 20 miles from Fort Worth and 35 miles from Dallas.
- Local inflation factors remain low while the median income continues to rise.
- The City's property tax rate for 2019-2020 was set below the roll-back rate at \$.732031 per \$100 of valuation.
- The City currently receives royalties from 29 gas wells.
- Alvarado continues to enjoy sales tax revenue from the sale of alcoholic beverages at several stores selling beer and wine and two package stores selling all types of liquor.
- Bloomfield Homes platted and began construction of Phase 1 of a new residential subdivision across from the Jr. High School, approximately 174 homes.
- The Parks of Alvarado subdivision began platting and civil construction for roads and utility infrastructure for approximately 400 new single family homes.
- The City continues an annual street improvement program.
- The boat ramp project was completed at Lake Alvarado and re-opened in July 2019.
- The "inclusive park" at Parkway Park was completed in 2019.
- Freese & Nichols Engineers completed a water/sewer/streets master plan and began work on an impact fee process to facilitate infrastructure growth.

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, 2019

ASSETS	Governmental Activities	Business-type Activities	Total
Current assets:			
Equity in pooled cash and cash equivalents	\$ 1,713,199	\$ 307,600	\$ 2,020,799
Investments	6,768,986	850,286	7,619,272
Receivables (net)			
Taxes receivable	414,753	-	414,753
Accounts receivable	674,717	423,212	1,097,929
Inventory	-	48,514	48,514
Restricted assets			
Cash	-	671,329	671,329
Deposits	25	122,844	122,869
Investments	1,865,428	33,234	1,898,662
Total current assets	<u>11,437,108</u>	<u>2,457,019</u>	<u>13,894,127</u>
Noncurrent assets:			
Capital assets, net	<u>10,276,552</u>	<u>16,294,748</u>	<u>26,571,300</u>
Total noncurrent assets	<u>10,276,552</u>	<u>16,294,748</u>	<u>26,571,300</u>
Total assets	<u><u>21,713,660</u></u>	<u><u>18,751,767</u></u>	<u><u>40,465,427</u></u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension contributions	227,819	47,280	275,099
Deferred bond discounts	-	18,333	18,333
Deferred OPEB assumptions	7,355	889	8,244
Deferred pension actuarial losses	<u>270,916</u>	<u>55,488</u>	<u>326,404</u>
	506,090	121,990	628,080
LIABILITIES			
Current liabilities:			
Accounts payable	1,489,527	126,976	1,616,503
Accrued liabilities	214,154	11,103	225,257
Due to other funds	(364,371)	364,371	-
Deposits	-	218,790	218,790
Current portion			
Revenue bonds payable	525,000	230,000	755,000
Notes payable	61,913	-	61,913
Compensated absences	82,136	15,822	97,958
Total current liabilities	<u>2,008,359</u>	<u>967,062</u>	<u>2,975,421</u>
Noncurrent liabilities:			
Revenue bonds payable	8,792,309	2,393,581	11,185,890
Notes payable	482,653	-	482,653
Net OPEB liability	59,941	12,277	72,218
Net pension liability	<u>379,894</u>	<u>77,810</u>	<u>457,704</u>
Total noncurrent liabilities	<u>9,714,797</u>	<u>2,483,668</u>	<u>12,198,465</u>
Total liabilities	<u><u>11,723,156</u></u>	<u><u>3,450,730</u></u>	<u><u>15,173,886</u></u>
DEFERRED INFLOWS OF RESOURCES			
Deferred bond premiums	-	4,041	4,041
Deferred pension expense	<u>131,364</u>	<u>26,904</u>	<u>158,268</u>
	131,364	30,945	162,309
NET POSITION			
Invested in capital assets, net of related debt	414,677	13,671,167	14,085,844
Restricted			
Public Safety	2,598,942	-	2,598,942
Capital improvements	545,259	671,329	1,216,588
Unrestricted	<u>6,806,352</u>	<u>1,049,586</u>	<u>7,855,938</u>
Total net position	<u><u>\$ 10,365,230</u></u>	<u><u>\$ 15,392,082</u></u>	<u><u>\$ 25,757,312</u></u>

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2019

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	\$ 447,736	\$ 1,072,845	\$ -	\$ -	\$ 625,109	\$ -	\$ 625,109
Public safety	3,542,473	969,393	-	-	(2,573,080)	-	(2,573,080)
Public works	180,136	-	-	-	(180,136)	-	(180,136)
Cultural and recreational	356,678	-	-	-	(356,678)	-	(356,678)
Economic development	143,825	107,198	-	-	(36,627)	-	(36,627)
Community development	642,733	226,156	-	490,477	73,900	-	73,900
Social and welfare	88,146	37,050	-	-	(51,096)	-	(51,096)
Pension expense	192,175	-	-	-	(192,175)	-	(192,175)
Interest on long-term debt	342,232	-	-	-	(342,232)	-	(342,232)
Total governmental activities	\$5,936,134	\$2,412,642	-	490,477	(\$3,033,015)	-	(\$3,033,015)
Business-type activities:							
Water and sewer	\$ 3,350,960	\$ 3,074,039	\$ -	\$ -	-	\$ (276,921)	(\$276,921)
General revenues:							
Taxes:							
General property taxes					2,432,505	-	2,432,505
Sales tax					2,399,216	-	2,399,216
Franchise tax					487,074	-	487,074
Interest income					196,682	62,323	259,005
Gain (Loss) on sale of capital assets					-	-	-
Administrative fee					85,000	-	85,000
Miscellaneous					115,950	-	115,950
Transfers					270,523	(270,523)	-
Total general revenues and proceeds					5,986,950	(208,200)	5,778,750
Change in net position					2,953,935	(485,121)	2,468,814
Net position-beginning of period (as adjusted - Note O)					7,411,295	15,877,203	23,288,498
Net position-ending					\$ 10,365,230	\$ 15,392,082	\$ 25,757,312

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2019

	General Fund	Debt Service Fund	Special Project Fund	AEDC	Other Governmental Funds	Total Governmental Funds
ASSETS						
Equity in pooled cash and cash equivalents	\$ 663,150	\$ -	\$ -	\$ 887,511	\$ 162,538	\$ 1,713,199
Investments	4,064,561	-	-	1,023,031	1,681,394	6,768,986
Receivables, net	646,148	-	-	-	28,569	674,717
Accounts	64,245	34,568	-	-	98,813	197,626
Property taxes	284,300	-	-	94,724	33,737	412,761
Sales taxes	217,923	-	-	-	-	217,923
Fines receivable	364,371	-	-	-	-	364,371
Due from other funds	-	-	-	-	-	-
Restricted	25	-	-	-	-	25
Intergovernmental Receivable	45,631	359,096	1,294,546	-	166,155	1,865,428
Investments	6,350,354	393,664	1,294,546	2,005,266	2,072,395	12,116,223
Total assets	\$ 12,116,223	\$ 747,760	\$ 2,589,092	\$ 3,915,807	\$ 3,942,887	\$ 23,441,272
LIABILITIES						
Accounts payable	\$ 273,301	\$ 347,116	\$ 749,287	\$ 120	\$ 119,703	\$ 1,489,527
Accrued liabilities	210,461	-	-	3,693	-	214,154
Total liabilities	483,762	347,116	749,287	3,813	119,703	1,703,681
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows of property tax revenue	280,868	33,876	-	-	-	314,744
Total liabilities and deferred inflows of resources	764,630	380,992	749,287	3,813	119,703	2,018,425
FUND BALANCES						
Fund balances:						
Nonspendable	-	-	-	-	-	-
Restricted	(12,672)	12,672	-	2,001,453	597,489	2,598,942
Capital improvement	-	-	545,259	-	545,259	1,090,518
Committed	-	-	-	-	303,581	303,581
Assigned	-	-	-	-	382,894	382,894
Unassigned	5,598,396	12,672	-	-	668,726	6,279,814
Total fund balances	5,585,724	12,672	545,259	2,001,453	1,952,690	10,097,798
Total liabilities, deferred inflows and fund balances	\$ 6,350,354	\$ 393,664	\$ 1,294,546	\$ 2,005,266	\$ 2,072,395	\$ 12,116,223

Amounts reported for governmental activities in the statement of net position are different because:
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the Funds (Note B)
Other long-term assets and liabilities are not available to pay for current-period expenditures, and therefore, are deferred in the funds
Long-term liabilities, including bond payable and pension expense, are not due and payable in the current period and therefore are not reported in the Funds (Note B)
Compensated absences are not due and payable in the current period and therefore are not reported in the funds

Net position of governmental activities	10,276,552	374,726	(10,301,710)	(82,136)	\$ 10,365,230
---	------------	---------	--------------	----------	---------------

CITY OF ALVARADO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Fiscal Year Ended September 30, 2019

	General Fund	Debt Service Fund	Special Projects Fund	AEDC	Other Governmental Funds	Total Governmental Funds
REVENUE:						
General property taxes, interest and penalties	\$ 1,581,406	\$ 851,099	\$ -	\$ -	\$ -	\$ 2,432,505
Sales tax	1,612,395	-	-	538,245	-	2,150,640
Hotel tax	-	-	-	-	247,976	247,976
Fines and forfeitures	969,393	-	-	-	-	969,393
Franchise tax	487,074	-	-	-	-	487,074
Mixed beverage tax	600	-	-	-	-	600
Rental fees	37,050	-	-	-	-	37,050
Intergovernmental	1,029,658	-	-	-	-	1,029,658
Licenses, fees and permits	223,437	-	-	-	45,905	269,342
Interest	95,863	-	29,586	-	42,224	196,882
Contributions and donations	490,477	-	-	29,009	-	490,477
Water/Sewer administrative fee	85,000	-	-	-	-	85,000
Oil and gas royalties	-	-	-	-	107,198	107,198
Miscellaneous	116,490	-	-	-	-	116,490
Total Revenue	6,728,843	851,099	29,586	567,254	443,303	8,620,085
EXPENDITURES:						
Current operating	565,883	-	-	-	12,261	578,144
General government	3,270,820	-	-	-	19,530	3,290,350
Public safety	197,862	-	-	157,122	-	354,984
Community development	136,093	-	-	-	-	136,093
Public works	354,851	-	-	-	-	354,851
Cultural and recreational	71,638	-	-	-	-	71,638
Social and welfare	-	-	-	-	136,517	136,517
Economic development	-	-	-	-	118,857	118,857
Capital Outlay	1,092,838	-	-	-	-	1,092,838
Debt Service	-	583,331	-	-	-	583,331
Principal	-	341,032	-	-	-	341,032
Interest	-	1,200	-	-	-	1,200
Paying agent	-	-	-	-	-	-
Total Expenditures	5,689,985	925,563	-	157,122	287,165	7,059,835
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,038,858	(74,464)	29,586	410,132	156,138	1,560,250
OTHER FINANCING SOURCES:						
Transfers in	1,097,061	89,650	-	-	-	1,186,711
Transfers out	(89,650)	-	(541,399)	(275,139)	(10,000)	(916,188)
NET CHANGE IN FUND BALANCES	2,046,269	15,186	(511,813)	134,993	146,138	1,830,773
FUND BALANCE - October 1, 2018 - as adjusted (Note O)	3,539,455	(2,514)	1,057,072	1,866,460	1,806,552	8,267,025
FUND BALANCE - September 30, 2019	\$ 5,585,724	\$ 12,672	\$ 545,259	\$ 2,001,453	\$ 1,952,690	\$ 10,097,798

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, 2019

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

Net change in fund balances - total governmental funds	\$ 1,830,773
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of assets acquired during the year	1,211,692
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.	(652,492)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and interfund transfers) is to increase net position.	62,767
Governmental funds report principal reductions as expenditures. However, in the statement of activities the payment of the debt principal reduces the outstanding liability. This is the amount of principal payments during the current period.	583,331
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>(82,136)</u>
Changes in net position of governmental activities	<u><u>\$ 2,953,935</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, 2019

ASSETS

Current assets:	
Equity in pooled cash and cash equivalents	\$ 307,600
Investments	850,286
Accounts receivable (net of allowance for uncollectible amounts)	423,212
Inventory	48,514
Restricted assets	
Cash	671,329
Deposits	122,844
Investments	33,234
Total current assets	2,457,019
Noncurrent assets:	
Capital assets, net	16,294,748
Total noncurrent assets	16,294,748
Total assets	18,751,767

DEFERRED OUTFLOW OF RESOURCES

Deferred bond discounts	18,333
Deferred OPEB assumptions	889
Deferred pension contributions	47,280
Deferred pension actuarial losses	55,488
	121,990

LIABILITIES

Current liabilities:	
Accounts payable	126,976
Accrued liabilities	11,103
Due to other funds	364,371
Deposits	218,790
Current portion	
Revenue bonds payable	230,000
Compensated absences	15,822
Total current liabilities	967,062
Noncurrent liabilities:	
Revenue bonds payable	2,393,581
Net OPEB liability	12,277
Net pension liability	77,810
Total noncurrent liabilities	2,483,668
Total liabilities	3,450,730

DEFERRED INFLOW OF RESOURCES

Deferred bond premiums	4,041
Deferred pension expense	26,904
	30,945

NET POSITION

Invested in capital assets, net of related debt	13,671,167
Restricted for:	
Capital Improvements	671,329
Unrestricted	1,049,586
Total net position	\$ 15,392,082

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, 2019

OPERATING REVENUES:	
Water service	\$ 1,390,535
Sewer service	979,180
Garbage service	559,267
Late charges	70,228
Miscellaneous income	74,829
Total operating revenues	3,074,039
OPERATING EXPENSES:	
Personnel services	623,329
Contractual services	1,298,228
Supplies and maintenance	411,321
Administrative fees	85,000
Other fees	112,876
Depreciation	722,727
Total operating expenses	3,253,481
Operating income (loss)	(179,442)
NON-OPERATING REVENUES (EXPENSES)	
Interest income	62,323
Accretion of bond premiums/discounts	9,059
Interest expense	(106,538)
Net non-operating revenues (expenses)	(35,156)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(214,598)
Operating transfers in	-
Operating transfers out	(270,523)
Net transfers	(270,523)
CHANGE IN NET POSITION	(485,121)
NET POSITION, October 1, 2018 (as adjusted, see Note O)	15,877,203
NET POSITION, September 30, 2019	\$ 15,392,082

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, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from:		
Customers	\$	3,101,077
Cash paid to/for:		
Employees		(575,258)
Suppliers		(1,956,573)
Net cash flows provided by operating activities		569,246

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating transfers out	\$	(270,523)
Net cash flows used by noncapital financing activities		(270,523)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition and construction of capital assets	(761,295)	
Principal paid on bonds, notes and lease obligations	(225,000)	
Interest paid on bonds, notes and lease obligations	(106,538)	
Net cash flows used in capital and related financing activities		(1,092,833)

CASH FLOWS FROM INVESTING ACTIVITIES:

Amount received from interest income	62,323	
Net cash flows provided by investing activities		62,323
Net decrease in cash and cash equivalents		(731,787)
Cash and cash equivalents, October 1, 2018		2,717,080
Cash and cash equivalents, September 30, 2019	\$	1,985,293

RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating income (loss)		\$	(179,442)
Adjustments for transactions not requiring cash			
Depreciation	\$	722,727	
Miscellaneous (income) expense		(24,221)	
Accretion of bond premiums		(9,709)	
Pension		39,361	
Change in current assets and current liabilities			
(Increase) decrease in accounts receivable		9,733	
(Increase) decrease in inventory		12,683	
(Increase) decrease in deferred outflows		(73,574)	
Increase (decrease) in accounts payable		(27,901)	
Increase (decrease) in accrued liabilities		(580)	
Increase (decrease) in customer deposits		17,305	
Increase (decrease) in net pension liability		57,058	
Increase (decrease) in deferred inflows		25,681	
Increase (decrease) in compensated absences payable		125	
Total adjustments and changes		748,688	
Net cash provided by operating activities	\$		569,246

See accompanying notes and independent auditor's report

**CITY OF ALVARADO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Alvarado, Texas (the “City”), have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) applicable to state and local governments. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. These notes are organized to provide concise explanations, including required disclosures of budgetary matters, assets, liabilities, fund balance, revenues, expenditures/expenses, and other information considered important to gaining a clear picture of the City’s financial activities for the fiscal year ended September 30, 2019. The more significant accounting policies established in GAAP and used by the City are discussed below.

1. Reporting Entity

The City is a municipal corporation formed in 1889 by charter as a general law city. The City is governed by an elected mayor and six-member Council. Two council members are elected for each of three wards while the mayor is elected at large.

As required by Governmental Accounting Standards Board (GASB) Statement No. 61, the accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Component units are included in the reporting entity because of the significance of their operational relationship with the City. A City is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if City officials appoint a voting majority of the organization’s governing body and are able to either impose their will on that organization, or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the City. The City may also be financially accountable for governmental organizations that are fiscally dependent on it. Lastly, even if the City is not financially accountable, an organization should be included if its exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

Blended component units, although legally separate entities, are in substance, part of the City’s operations. Component units are included in the City’s financial statements using the blended method in any of these circumstances:

- a) The component unit's governing body is substantively the same as the governing body of the City *and* there is a financial benefit or burden relationship *or* management of the primary has operational responsibility for the component unit.
- b) The component unit provides services entirely, or almost entirely, to the City or exclusively, benefits the City.
- c) The component unit's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with resources of the City. Otherwise, the organization is a discretely presented component unit and its data is reported together with, but separately from, the data of the City in the government-wide financial statements

Information regarding blended component units can be obtained at City Hall.

Blended Presented Component Units

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

Related Corporation

Prairielands Public Facility Corporation – This entity was created in July 2011, as a nonprofit public facilities corporation to act on behalf of the City of Alvarado, Texas to finance or provide for the acquisition, construction, rehabilitation, renovation, repair, equipping, furnishing, and placement in service of certain correctional (public) facilities of the City. The entity's board of directors is appointed by the City Council and the City Management maintains significant continuing management oversight with respect to policies. Additionally, the City is ultimately responsible for all fiscal matters. Although the Prairielands Public Facility Corporation financial matters are ratified or denied by the City, the City is not legally entitled to the Prairielands Public Facility Corporation resources or is it legally obligated for the indebtedness of the Prairielands Public Facility Corporation. The Prairielands Public Facility Corporation has the full legal right, power and authority to enter into that certain Prairieland Detention Center Housing Agreement dated July 1, 2015 and certain Intergovernmental Service Agreement dated as of February 24, 2015 between the City of the United States Department of Homeland Security, U.S. Immigration and Customs Enforcement. The Prairielands Public Facility Corporation provides these services exclusively for the City and issues separate financial statements.

2. Basis of Presentation

Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the non-fiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function (Police, Public Works, etc.) or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment, and 3) grants and contributions that are restricted to meeting capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The City does not allocate indirect costs. An administrative service fee is 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, the AEDC fund and the special project fund. The major enterprise fund is the water and sewer fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major category funds. The City has three non-major funds, which are the hotel and occupancy tax fund, special revenue fund and the royalty fund. The non-major funds are combined in a separate column in the fund financial statements.

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

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

3. Measurement Focus and Basis of Accounting

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

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

Ad valorem taxes, franchise taxes, sales taxes, certain public safety and other revenues recorded in the General Fund and ad valorem tax revenues recorded in the Debt Service Fund are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash, because they are generally not measurable until actually received. Interest earnings revenue are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, as soon as all eligibility requirements have been met, including monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if all eligibility requirements are met.

Business type activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from nonoperating

items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

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

The government reports the following major governmental funds:

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

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

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

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

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

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

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

The Royalty Fund is used to account for the accumulation of royalties from oil and gas leases on land held by the city. The primary source of revenue is royalty income. Expenses are decided by the City.

The government reports the following major proprietary fund:

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

customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.

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

Deposits and Investments

The City considers both restricted and unrestricted demand deposits, cash on hand, investments in highly liquid investment pools and investments with maturities at the time of purchase of under 90 days to be cash equivalents.

The City pools substantially all cash and investments except for separate cash and investment accounts which are maintained in accordance with legal restrictions. Each fund's equity share of the total pooled cash and investments is included on the accompanying statement of net position and balance sheet under the caption "Equity in pooled cash and cash equivalents".

For fiscal year 2019, the City invested in the external government investment pool administered by the State of Texas, which is entitled the TexPool Fund, as authorized by the City's investment policy. The City records interest revenue earned from investment activities in each respective fund and recognizes its investments on a fair value basis.

Receivables and payables

Transactions between funds that representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "interfund loans receivable/payable to/from other funds" (i.e. long term interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." There are no internal balances as of September 30, 2019.

Property taxes attach an enforceable lien on property as of January 1. The City's property taxes are levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. Assessed values are established at 100% of estimated market value. Taxes are due by January 31 following the October 1 levy date and are considered delinquent after February 1 of each year. The Johnson County Central Appraisal District bills and collects property taxes on behalf of the City. Any uncollected property taxes as of September 30, which are not expected to be collected within 60 days, are recorded as taxes receivable and deferred revenues. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable their validity seems certain.

Inventory

Inventory consists primarily of water and sewer plant parts and supplies, valued at estimated FIFO which is not in excess of market. Inventory is expensed when purchased and adjusted to actual at year-end. Inventory as of September 30, 2019 was \$48,514.

Prepaid Expenditures/Expenses

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

Capital Assets

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

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

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

Building and Improvements	20-30 years
Water Systems	10-33 years
Sewer Systems	50 years
Vehicles, Machinery and Equipment	3-5 years
Infrastructure	30 years

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 2019.

Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenues) until that time. The City has the following items that qualify for reporting as deferred outflows and inflows of resources:

Deferred Gain on Refunding – These deferred inflows result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Pension and OPEB-related Deferred Outflows/Inflows – these deferred outflows or inflows result from pension and OPEB contributions after the measurement date (deferred and recognized in the following fiscal year); the differences in projected and actual earnings on pension and OPEB plan investments (deferred and amortized over a closed five year period equal to the average of expected remaining service lives of employees that are provided the plans).

Unavailable revenue – The City reports certain deferred inflows related to unavailable tax revenues at the fund level. In the fund financials, revenues that have met the eligibility criteria for future years except for the time availability have been reclassified from liabilities to deferred inflows of resources. In the government wide financials, the deferred revenue from property taxes has been reclassified from liabilities to offset the property tax receivable.

Compensated Absences

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, 2019, the liability for accrued vacation and compensatory time, calculated in accordance with GASB Statements 16, “Accounting for Compensated Absences,” was \$82,136 in the general fund. The amount applicable to the Proprietary Fund was \$15,822 and has been recorded in that fund.

Interfund Charges

The City allocates to the Water and Sewer Fund a portion of the salaries and wages and related costs of personnel who perform administrative services for the fund but are paid through the General Fund. During the year ended September 30, 2019, the City chose to allocate a portion of the administrative services to the Water and Sewer Fund which totaled \$85,000.

Pensions

For purposes of measuring the net pension liability, pension related deferred outflows of resources and deferred inflows of resources and pension expense, City specific information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS’s Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period

that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions.

Long-term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance cost, during the current period. The face amounts of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Restricted Assets

Certain proceeds of bonds, as well as certain resources set aside for their repayment are classified as restricted assets on the statement of net position and balance sheet because their use is limited by applicable bond covenants or contractual agreements. Customer deposits received by water and wastewater services are, by law, considered to be restricted assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Final settlement amounts could differ from those estimates.

Fund Balance Classification

The City reports governmental fund balances per GASB 54 definitions as follows:

Nonspendable – Amounts that are not in spendable form or are required to be maintained intact, such as inventory, or permanent funds.

Restricted – Amounts that can be spent only for specific purposes stipulated by external parties, such as grants, court technology fees and construction.

Committed – Amounts that can be used only for specific purposes set by resolution of the City Council, such as street construction and building maintenance

Assigned – Amounts intended to be used for specific purpose. The City Council has delegated the responsibility to assign funds to the City Manager or the Director Finance as approved by the fund balance policy. Assignments may occur subsequent to fiscal year end.

Unassigned – Amounts not contained in other classifications that can be used for any purpose.

For the purpose of fund balance classification expenditures are to be spend first from restricted fund balance, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The City will utilize funds for expenditures from the most restrictive fun balance first when more than one fund balance classification is available. The City considers an amount spent when an expenditure in incurred for purposes for which both *restricted* or *unrestricted* fund balance is available. In addition, the City considers an amount spent when an expenditure in incurred for purposes for which an amount in the *committed*, *assigned*, or *unassigned* amounts could be used.

Net Position

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

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

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

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

Budget Control

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

Council approval is needed only if the expenditures exceed the certain thresholds set by the Council.

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

5. New Accounting Principles

Pronouncements Effective for the 2019 Financial Statements

With this financial report the City has changed its financial reporting to comply with Government Accounting Standards Board (GASB):

In November 2016, the GASB issued Statement No. 83, "*Certain Asset Retirement Obligations.*" This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance of this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. There was no effect on the financial statements from implementation of this standard.

In March 2018, the GASB issued Statement No. 88, "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.*" The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

New accounting standards effective in future years

The GASB has issued the following statements which will be effective in future years as described below. The impact on the City's financial statements of implementation has not yet been determined for the following:

In January 2017, the GASB issued Statement No. 84, "*Fiduciary Activities.*" The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

In June 2017, the GASB issued Statement No. 87, "*Leases.*" The objective of this Statement is to better meet the information needs of financial statements users by improving accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

In June 2018, the GASB issued Statement No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period.*" The objectives of the Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 90, "*Majority Equity Interests – an amendment of GASB Statements and No. 14 and No. 61*" is effective for periods beginning after December 15, 2018. The primary objectives of the Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

GASB Statement No. 91, "*Conduit Debt Obligations*" is effective for periods beginning after December 15, 2020. The primary objectives are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

GASB Statement No. 92, "*Omnibus*" is effective primarily for periods beginning after June 15, 2020 with the requirements related to GASB 87 implementation, reinsurance recoveries and terminology related to derivative instruments effective immediately. The primary objective is to address implantation issues which have been identified related to GASB 87, *Leases*, reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68, as amended and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits; The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements; Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs); reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to

nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments.

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

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

The government fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the governmental-wide statement of net position. One element of that reconciliation explains, “long-term liabilities, including bonds payable and pension expense, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$10,301,710 difference are as follows:

Bonds payable	\$8,945,000
Premium on issuance of bonds	372,309
Capital lease payable	-0-
Notes payable	544,566
Net OPEB liability	59,941
Net pension liability	379,894
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$10,301,710</u>

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

The governmental funds statement of revenues, expenditures, and changes in fund balances included reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$10,276,552 difference are as follows:

Capital outlay	\$ 16,575,511
Depreciation expense	<u>(6,298,959)</u>
Net adjustment to decrease net changes in fund balance – total governmental funds to arrive at changes in net position of government activities	<u>\$ 10,276,552</u>

NOTE C – CASH, EQUITY IN POOLED CASH, AND INVESTMENTS

The City pools substantially all cash and investments except for separate cash and investment accounts which are maintained in accordance with legal restrictions. Each fund’s equity share of the total pooled cash and investments is included on the accompanying statement of net position and balance sheet under the caption “Equity in pooled cash and cash equivalents”.

Except for bond-related and other restricted transactions, the City conducts all its banking and investment transactions with the depository bank, First Financial Bank, Alvarado.

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

Deposits

State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The City’s deposits, including certificates of deposit, were fully insured or collateralized as required by the state statutes at September 30, 2019. At year-end, the carrying amount of the City’s deposits was \$232,841, with respective bank balances of \$359,064. Included in the bank balances are Certificates of Deposit totaling \$122,869.

Investments

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

The City’s investments carried at fair value as of September 30, 2019 are:

Investments:	Fair Value	Effective Duration	Credit Risk
Government Pools			
Unrestricted	\$7,619,272	N/A	AAAM
Restricted	1,898,662	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, 2019, consisted of the following:

	General	Debt Service	AEDC	Other	Total	Proprietary Fund Water & Sewer Fund
Taxes Receivable						
Ad valorem taxes	\$78,082	\$41,986	-	-	\$120,068	-
Allowance for uncollectible acct	(13,837)	(7,418)	-	-	(21,255)	-
Ad valorem, net	64,245	34,568	-	-	98,813	-
Sales taxes	284,300	-	\$94,724	\$33,737	412,761	-
Total Taxes Receivable	348,545	34,568	94,724	33,737	511,574	
Services Receivable						
Service accounts	167,352	-	-	28,569	195,921	\$430,573
Allowance for uncollectible accts	-	-	-	-	-	(7,361)
Total Services Receivable	167,352	-	-	28,569	195,921	423,212
Other Receivables						
Grant receivable	478,796	-	-	-	478,796	
Court fees & other	776,381	-	-	-	776,381	
Allowance for uncollectible accts	(558,458)	-	-	-	(558,458)	
	696,719	-	-	-	696,719	
Total Receivables	\$1,212,616	\$34,568	\$94,724	\$62,306	\$1,404,214	\$423,212

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

Capital asset activity for the year ended September 30, 2019 is as follows:

	<u>Balance 9/30/18</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance 9/30/19</u>
Land	\$357,193	\$-0-	\$(-0-)	\$(-0-)	\$357,193
Construction in progress	2,613,407	767,030	(-0-)	(3,258,477)	121,960
Building & improvements	2,546,205	-0-	(-0-)	(-0-)	2,546,205
Infrastructure	5,232,572	109,371	(-0-)	2,414,063	7,756,006
Vehicles	2,544,285	167,608	(30,252)	(-0-)	2,681,641
Parks improvements	554,336	117,979	(-0-)	844,414	1,516,729
Equipment	1,546,070	49,707	(-0-)	(-0-)	1,595,777
Total capital assets	<u>15,394,068</u>	<u>1,211,695</u>	<u>(30,252)</u>	<u>(-0-)</u>	<u>16,575,511</u>
Less accumulated depreciation:					
Building & improvements	707,677	60,687	(-0-)	(-0-)	768,364
Infrastructure	1,697,308	256,364	(-0-)	(-0-)	1,953,672
Vehicles	1,629,466	228,928	(30,249)	(-0-)	1,828,145
Parks improvements	334,753	28,194	(-0-)	(-0-)	362,947
Equipment	1,307,512	78,319	(-0-)	(-0-)	1,385,831
Total accumulated depreciation	<u>5,676,716</u>	<u>652,492</u>	<u>(30,249)</u>	<u>(-0-)</u>	<u>6,298,959</u>
Governmental activities capital assets, net	<u>\$9,717,352</u>	<u>\$559,203</u>	<u>\$(-3)</u>	<u>\$(-0-)</u>	<u>\$10,276,552</u>

Business-Type Activities

Capital asset activity for the year ended September 30, 2019 is as follows:

	Balance 9/30/18	Additions	Retirements	Transfers	Balance 9/30/19
Land	\$1,005,509	\$-0-	\$(-0-)	\$(-0-)	\$1,005,509
Construction in Progress	1,155,727	690,878	(-0-)	(253,595)	1,593,010
Building & Improvements	10,033	-0-	(-0-)	-0-	10,033
Water System	10,936,017	20,928	(-0-)	-0-	10,956,945
Sewer System	10,986,318	-0-	(-0-)	261,851	11,248,169
Equipment	457,431	49,489	(-0-)	(8,256)	498,664
Vehicles	201,184	-0-	(-0-)	-0-	201,184
Total capital assets	24,752,219	761,295	(-0-)	(-0-)	25,513,514
Less accumulated depreciation:					
Building & Improvements	968	200	(-0-)	-0-	1,168
Water System	4,769,817	294,276	(-0-)	-0-	5,064,093
Sewer System	3,241,600	383,498	(-0-)	-0-	3,625,098
Equipment	336,629	22,609	(-0-)	-0-	359,238
Vehicles	147,025	22,144	(-0-)	-0-	169,169
Total accumulated depreciation	8,496,039	722,727	(-0-)	-0-	9,218,766
Business-type activities capital assets, net	\$16,256,171	\$38,569	\$(-0-)	\$(-0-)	\$16,294,748

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

Governmental activities:	
General government	\$ 42,934
Public safety	252,123
Public works	44,043
Cultural and recreational	1,827
Community development	287,749
Social and welfare	16,508
Economic	7,308
Total depreciation expense – governmental activities	\$652,492
Business-type activities:	
Water and sewer	\$722,727

NOTE F – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

For the year ended September 30, 2019, revenues exceeded expenditures in the General Fund by \$1,038,857.

NOTE G – INTERFUND BALANCES AND TRANSFERS – GOVERNMENT WIDE

The composition of interfund operating transfers for the year ended September 30, 2019, is as follows:

Fund	Transfer to Other Funds	Transfer from Other Funds
General Fund	\$89,650	\$ 1,097,061
Debt Service Fund	-0-	89,650
Special Project Fund	541,399	-0-
AEDC Fund	275,139	-0-
Nonmajor Governmental Funds	10,000	-0-
Water and Sewer Fund	270,523	-0-
	<u>\$1,186,711</u>	<u>\$1,186,711</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 2037, 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, 2019, 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%.	\$1,980,000
Add: Premium on General Obligation Refunding Bonds, Series 2011	140,709
\$3,475,000 2015 Certificate of Obligation for city improvements, due in annual installments ranging from \$125,000 to \$230,000 beginning August 2016 through August 2035, interest payments ranging from \$4,025 to \$58,568 from February 2016 through August 2035 with interest rate of 3.0% to 3.5%	2,945,000
Add: Premium on General Obligation Refunding Bonds, Series 2015	113,822
\$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%	4,020,000
Add: Premium on General Obligation Refunding Bonds, Series 2012	117,778
Total Certificate of obligation	<u>\$9,317,309</u>

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

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Premium</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 525,000	\$23,464	\$ 310,713	\$ 859,177
2021	540,000	23,464	296,263	859,727
2022	555,000	23,464	278,763	857,227
2023	580,000	23,464	258,925	862,389
2024	600,000	23,464	237,125	860,589
2025 – 2029	2,540,000	150,240	880,800	3,571,040
2030 – 2034	2,655,000	85,118	496,425	3,236,543
2035 – 2039	950,000	19,631	77,000	1,046,631
Total	<u>\$8,945,000</u>	<u>\$372,309</u>	<u>\$2,836,014</u>	<u>\$12,153,323</u>

Notes Payable:

Notes Payable debt outstanding at September 30, 2019, is comprised of the following:

<u>Description of Debt</u>	<u>Amount</u>
Note payable secured by vehicle costing \$678,182 maturing November 2029, requiring annual installments of \$76,572 including interest accruing at 2.69%	\$544,566
Total	\$544,566

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

Year Ending September 30	Principal	Interest	Total
2020	\$ 61,913	\$14,659	\$ 76,572
2021	63,579	12,992	76,571
2022	65,291	11,281	76,572
2023	67,048	9,523	76,571
2024	68,853	7,718	76,571
2025-2029	217,882	11,834	229,716
Total	\$544,566	\$68,007	\$612,573

Changes in long-term liabilities:

Long-term debt activity for the year ended September 30, 2019, was as follows:

	Amounts payable at beginning of year	Amounts added during year 2019	Amounts retired during fiscal year 2019	Amounts payable at end of year	Amounts due within one year
Certificates of obligation	\$9,455,000	\$-0-	\$(510,000)	\$8,945,000	\$525,000
Notes payable	617,897	-0-	(73,331)	544,566	61,913
Compensated Absences	69,301	12,835	(-0-)	82,136	82,136
Subtotal	10,142,198	12,835	(583,331)	9,571,702	669,049
Bond premiums	395,773	-0-	(23,464)	372,309	23,464
Total	\$10,537,971	\$12,835	\$(606,795)	\$9,944,011	\$692,513

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, 2018, is comprised of the following:

<u>Description of Debt</u>	<u>Amount</u>
\$2,885,000 General Obligation Refunding Bonds Series 2017 for refunding of the combination tax revenue certificate of obligation series 2008A and 2008B due in annual installments ranging from \$55,000 to \$250,000 beginning August 2018 through 2042, interest payments ranging from \$26,963 to \$53,263 from February 2018 through 2042 with interest rate ranging from 4% to 4.25%.	\$2,410,000
Add: Net premiums and discounts on certificates of obligations	213,581
Total	<u><u>\$2,623,581</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
2020	\$ 230,000	\$ 9,708	\$ 97,525	\$ 337,233
2021	235,000	9,708	88,325	333,033
2022	250,000	9,708	78,925	338,633
2023	55,000	9,708	68,925	133,633
2024	60,000	9,708	66,725	136,433
2025 – 2029	335,000	48,541	296,225	679,766
2030 – 2034	410,000	48,541	223,225	681,766
2035 – 2039	490,000	48,541	134,825	673,366
2040 – 2044	345,000	19,418	29,750	394,168
Total	<u>\$2,410,000</u>	<u>213,581</u>	<u>\$1,084,450</u>	<u>\$3,708,031</u>

Changes in long-term liabilities:

Long-term debt activity for the year ended September 30, 2019, was as follows:

	Amounts payable at beginning of year	Amounts added during year 2019	Amounts retired during fiscal year 2019	Amounts payable at end of year	Amounts due within one year
Certificates of Obligation	\$2,635,000	\$-0-	\$(225,000)	\$2,410,000	\$230,000
Capital Lease	6,359	-0-	(6,359)	-0-	-0-
Compensated Absences	15,697	125	(-0-)	15,822	15,822
Subtotal	2,657,056	125	(231,359)	2,425,822	245,822
Bond Premiums	223,290	-0-	(9,709)	213,581	9,708
Total	\$2,880,346	\$125	\$(241,067)	\$2,639,403	\$255,530

NOTE I – RESTRICTED ASSETS

Restricted assets balance at September 30, 2019, was as follows:

Fund	Cash & Deposits	Investments	Intergovernmental Receivable
Government Activities:			
General Fund	\$-0-	\$45,631	\$25
Court	-0-	166,155	-0-
Debt Service Fund	-0-	359,096	-0-
Special Project Fund	-0-	1,294,546	-0-
Water and Sewer Fund	794,173	33,234	-0-
	\$794,173	\$1,898,662	\$25

NOTE J - RETIREMENT PLAN

The City participates in the Texas Municipal Retirement System.

Plan Description

The City of Alvarado participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member board of

Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

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

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

	<u>Plan Year 2017</u>	<u>Plan Year 2018</u>
Employee deposit rate	6%	6%
Matching Ratio (city to Employee)	2 to 1	2 to 1
Years required for vesting	5 years	5 years
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	0%,	0%,
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Employees covered by benefit terms:

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	12
Inactive employees entitled to but not yet receiving benefits	49
Active employees	<u>64</u>
Total	125

Contributions

The contribution rates for employees in TMRS is 6% of employee gross earnings, and the city matching percentage is 5.18%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Alvarado were required to contribute 6% of their annual gross earnings during their fiscal year. The contribution rates for the City of Alvarado were 5.18% and 5.19% in calendar years 2018 and 2019 respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2019 were \$155,852 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2018, and the Total Pension liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The Total Pension Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

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

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

Actuarial assumptions used in the December 31, 2018, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and

by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservation) with an adjustment to time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.30%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.39%
Real Return	10.0%	3.78%
Real Estate	10.0%	4.44%
Absolute Return	10.0%	3.56%
Private Equity	5.0%	7.75%
Total	100.0%	

Discount Rate:

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

Changes in Net Pension Liability

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/2017	\$ 3,529,211	\$ 3,406,389	\$ 122,822
Changes for the year:			
Service Cost	318,624	-0-	318,624
Interest	243,237	-0-	243,237
Changes in benefit terms	-0-	-0-	-0-
Difference between expected and actual experience	5,229	-0-	5,229
Changes of assumptions	-0-	-0-	-0-
Contributions – employer	-0-	155,852	(155,852)
Contributions – employee	-0-	180,524	(180,524)
Net investment income	-0-	(102,093)	102,093
Benefit payments, including refunds of employee contributions	(170,014)	(170,014)	-0-
Administrative expense	-0-	(1,972)	1,972
Other changes	-0-	(103)	103
Net changes	\$ 397,076	62,194	\$ 334,882
Balance at 12/31/2018	\$ 3,926,287	\$ 3,468,583	\$ 457,704

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$737,686	\$122,822	\$(370,180)

Pension Plan Fiduciary Net Position:

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

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

For the year ended September 30, 2019, the city recognized pension expense of \$222,045.

At September 30, 2019, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

SCHEDULE OF OUTFLOWS AND INFLOWS - CURRENT AND FUTURE EXPENSE

	Recognition Period (or amortization yrs)	Total (Inflow) or Outflow of Resources	2019 Recognized in current pension	Deferred (Inflow)/Outflo w in future expense
<u>Due to Liabilities:</u>				
Difference in expected and actual experience actuarial (gains) or losses	4.6300	\$ 5,229	\$ 1,229	\$ 4,100
Difference in assumption changes actuarial (gains) or losses	4.6300	-	-	-
			<u>\$ 1,229</u>	<u>\$ 4,100</u>
<u>Due to Assets:</u>				
Difference in projected and actual earnings on pension plan investments actuarial (gains) or losses	5.0000	\$ 332,024	\$ 66,405	\$ 265,619
			<u>\$ 66,405</u>	<u>\$ 265,619</u>
<u>Total:</u>				<u>\$ 269,719</u>

\$275,099 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Net deferred outflows (inflows) of resources
2019	\$ 60,294
2020	21,572
2021	26,720
2022	67,117
2023	-
Thereafter	-
Total	<u>\$ 175,703</u>

NOTE K – OTHER POST-EMPLOYMENT BENEFITS – OPEB

Plan Description

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

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

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

The following employees were covered by the benefit terms at December 31, 2018, (measurement date):

Inactive employees or beneficiaries currently receiving benefits	6
Inactive employees entitled to but not yet receiving benefits	6
Active Employees	<u>64</u>
Total Employees	<u>76</u>

Contributions

The contribution rates employees in SDBF is .01% of employee gross earnings, and the city matching percentages is .15%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the EAN actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year.

Employees for the City were required to contribute .01% of their gross earnings during the fiscal year. The contribution rates for the City were .14% and .15% in the calendar years 2018 and 2019 respectively. The City’s contributions to SDBF as of September 30, 2019 were \$4,588 and were equal to the required contributions.

Total OPEB Liability - SDBF

The City's total OPEB liability of \$72,218 was measured as of December 31, 2018, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The City's total OPEB liability in the December 31, 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	December 31, 2018
Discount rate	3.71%, based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2018
Inflation	2.50% per year
Overall payroll growth	3.50% to 10.50% per year, including inflation
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68
Mortality rates – service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates – disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

Discount Rate

The TMRS SDBF is treated as unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. Under GASBS No. 75 (paragraph 155), the discount rate for an unfunded OPEB plan should be based on 20-year-tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 3.71% based on the 20-Year Municipal GO AA Index published by bondbuyer.com is used as of the measurement date of December 31, 2018.

Changes in Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at 12/31/2017	\$ 71,465
Changes for the year:	
Service Cost	7,221
Interest on total OPEB liability	2,480
Differences between expected and actual experience	(2,167)
Changes in assumptions or other inputs	(6,480)
Benefit payments, aged adjusted premiums, net of retiree contributions	(301)
Balance at 12/31/2018	<u>\$ 72,218</u>

The total OPEB liability attributable to the governmental activities will be liquidated primarily by the general fund.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The total OPEB liability of the City has been calculated using a discount rate of 3.71%. The following presents the total OPEB liability using a discount rate 1% higher and 1% lower than the current discount rate.

	1% Decrease in Discount Rate (2.71%)	Current Discount Rate (3.71%)	1% Increase in Discount Rate (4.71%)
Total OPEB Liability	\$89,777	\$72,218	\$59,100

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

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

For the year ended September 30, 2019, the City recognized OPEB expense of \$9,491. At September 30, 2019, the City reported deferred outflows of resources related to OPEB from the following sources:

Changes of assumptions	<u>\$(5,671)</u>
Changes in expected and actual experience	<u>(1,896)</u>
Benefit payments subsequent to the measurement date	<u>-0-</u>
	<u>\$ (7,567)</u>

Benefit payments subsequent to the measurement date and before fiscal year-end will be recognized as a reduction of the total OPEB liability in the year ending September 31, 2020.

Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

	Amortization of Deferred Outflows of Resources	
2019	\$	(210)
2020		(210)
2021		(210)
2022		(210)
2023		(210)
Thereafter		(1,286)
	<u>\$</u>	<u>(2,336)</u>

NOTE L - COMMITMENTS AND CONTINGENCIES

Audits of Grant Activities

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

NOTE M – RISK MANAGEMENT

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

NOTE N – SUBSEQUENT EVENTS

The City evaluated subsequent events through June 16, 2020, which is the same date that the financial statements were issued and determined the following events were noted:

Bond Issuances

On April 30, 2020, the City issued \$3,575,000 in General Obligation Refunding Bonds, Series 2020. Proceeds from the sale of the General Obligation Refunding Bonds, Series 2020 will be

used to refund a portion of the City’s Combination Tax and Revenue Certificates of Obligation , Series 2012, in order to achieve debt service savings and pay costs related to the issuance of the Bonds.

Other Matters

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency on International Concern by the World Health Organization on January 30, 2020. Certain City revenues, such as sales and hotel occupancy taxes and recreation program fees as well as expenditures related to providing emergency and other services, could be adversely affected. The extent to which coronavirus may impact the City’s financial statements will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.

NOTE O – PRIOR PERIOD ADJUSTMENT

During the current year it was determined that revenues in the amount of \$664,090 were inadvertently recorded in 2019 that related to the prior year governmental fund financial statements. The misstatement resulted in a change in fund balance as identified below.

During the current year it was determined that the Certificates of Obligation, Series 2012 were being reported in the Water/Sewer Proprietary Fund but should have been reported in the General Fund. The City reclassified the Certificates of Obligation to the Government Fund. The effects of these changes on beginning fund balances and beginning statement of net position are as follows:

	General Fund	Water & Sewer Proprietary Fund
Fund Balance – October 1, 2018, as previously reported	\$2,875,365	\$11,590,434
Prior year revenue adjustment C.O. Series 2012 reclassification	664,090	-0- 4,286,769
Fund Balance – October 1, 2018, as adjusted	<u>\$3,539,455</u>	<u>\$15,877,203</u>

	Governmental Activities	Business- type Activities
Net position – October 1, 2018, as previously reported	\$11,033,970	\$11,590,434
Prior year revenue adjustment	664,090	-0-
C.O. Series 2012 reclassification	(4,286,765)	4,286,769
Net position – October 1, 2018, as adjusted	<u>\$7,411,295</u>	<u>\$15,877,203</u>

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF ALVARADO, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 GENERAL FUND
 For the Fiscal Year Ended September 30, 2019

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUE:				
General Property Taxes, Interest and Penalties	\$ 1,525,000	\$ 1,525,000	\$ 1,581,406	\$ 56,406
Sales tax	1,250,000	1,250,000	1,612,395	362,395
Fines and forfeitures	880,532	880,532	969,393	88,861
Franchise fees & rental fees	437,003	437,003	487,074	50,071
Rental fees	33,000	33,000	37,050	4,050
Mixed beverage tax	500	500	600	100
Licenses, fees and permits	180,500	180,500	223,437	42,937
Interest	25,000	25,000	95,863	70,863
Intergovernmental	773,465	773,465	1,029,658	256,193
Donations	100	100	-	(100)
Water/Sewer administrative fee	85,000	85,000	85,000	-
Charges for Services	-	-	-	-
Grants	-	-	490,477	490,477
Miscellaneous	57,570	57,570	116,490	58,920
Total Revenue	5,247,670	5,247,670	6,728,843	1,481,173
EXPENDITURES:				
Current operating				
General government	687,969	687,969	565,883	122,086
Public safety	3,554,601	3,554,601	3,270,820	283,781
Community development	225,816	225,816	197,862	27,954
Public works	246,541	246,541	136,093	110,448
Cultural and recreational	522,071	522,071	354,851	167,220
Social and welfare	72,247	72,247	71,638	609
Capital Outlay	162,425	162,425	1,092,838	(930,413)
Total Expenditures	5,471,670	5,471,670	5,689,985	(218,315)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(224,000)	(224,000)	1,038,858	1,262,858
OTHER FINANCING SOURCES:				
Loan proceeds	-	-	-	-
Transfers	224,000	224,000	1,007,411	783,411
NET CHANGE IN FUND BALANCES	-	-	2,046,269	2,046,269
FUND BALANCE - October 1, 2018	-	-	3,539,455	3,539,455
FUND BALANCE - September 30, 2019	\$ -	\$ -	\$ 5,585,724	\$ 5,585,724

See accompanying notes and independent auditor's report

CITY OF ALVARADO, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
SEPTEMBER 30, 2019

Texas Municipal Retirement System

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

	2014	2015	2016	2017	2018	2019
Total Pension Liability						
Service cost	\$ 193,562	\$ 229,927	\$ 264,045	\$ 278,523	\$ 318,624	
Interest (on the Total pension liability)	148,149	170,120	190,488	215,407	243,237	
Changes of benefit terms	-	-	-	-	-	
Difference between expected and actual experience	17,303	(69,085)	(40,789)	2,204	5,229	
Change of assumptions	-	113,990	-	-	-	
Benefit payments, including refunds of employee contributions	(51,997)	(74,652)	(65,847)	(37,765)	(170,014)	
Net Change in Total Pension Liability	307,017	370,300	347,897	458,369	397,076	
Total Pension Liability - Beginning	2,045,628	2,352,645	2,722,945	3,070,842	3,529,211	
Total Pension Liability - Ending (a)	\$ 2,352,645	\$ 2,722,945	\$3,070,842	\$3,529,211	\$3,926,287	
Plan Fiduciary Net Position						
Contributions - employer	\$ 79,745	\$ 99,341	\$ 111,099	\$ 137,684	\$ 155,852	
Contributions - employee	124,602	138,232	149,459	157,654	180,524	
Net investment income	113,434	3,317	163,080	383,900	(102,093)	
Benefit payments, including refunds of employee contributions	(51,997)	(74,652)	(65,847)	(37,765)	(170,014)	
Administrative expense	(1,184)	(2,020)	(1,840)	(1,987)	(1,972)	
Other	(97)	(99)	(99)	(100)	(103)	
Net Change in Plan Fiduciary Net Position	\$ 264,503	\$ 164,119	\$ 355,852	\$ 639,386	\$ 62,194	
Plan Fiduciary Net Position - Beginning	1,982,529	2,247,032	2,411,151	2,767,003	3,406,389	
Plan Fiduciary Net Position - Ending (b)	\$ 2,247,032	\$ 2,411,151	\$2,767,003	\$3,406,389	\$3,468,583	
Net Pension Liability - Ending (a) - (b)	\$ 105,613	\$ 311,794	\$ 303,839	\$ 122,822	\$ 457,704	
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	95.51%	88.51%	90.11%	96.52%	88.34%	
Covered Employee Payroll	\$ 2,076,696	\$ 2,303,873	\$2,490,988	\$2,627,574	\$3,008,729	
Net Pension Liability as a Percentage of Covered Payroll	5.09%	13.53%	12.20%	4.67%	15.21%	

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

	2014	2015	2016	2017	2018	2019
Actuarially Determined Contribution	\$ 79,745	\$ 99,341	\$ 111,099	137,684	155,852	
Contributions in relation to the actuarially determined contribution	79,745	99,341	111,099	137,684	155,852	
Contribution deficiency (excess)	-	-	-	-	-	
Covered employee payroll	2,076,696	2,303,873	2,490,988	2,627,574	3,008,729	
Contributions as a percentage of covered employee payroll	3.84%	4.31%	4.46%	5.24%	5.18%	

Notes to Schedule of Contributions

Valuation Date:

Notes

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smooth market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes

There were no benefit changes during the year.

CITY OF ALVARADO, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2019

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.

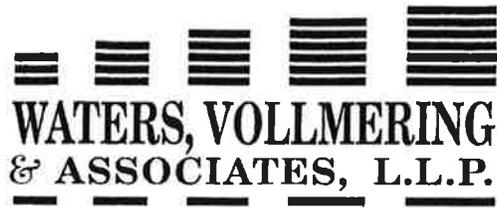
All unused appropriations, except appropriations for capital expenditures, lapse at the close of the fiscal year to the extent they have not been expended or encumbered. An appropriation for capital expenditures shall continue in force until the purpose for which it was made has been accomplished or 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 \$1,481,173 and expenditures were more than budget by \$218,315.

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 \$925,563.

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 \$1,722,918. The total actual capital outlays for the year in the general fund amounted to \$1,211,695.

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, 2019, and the related notes to the financial statements, which collectively comprise the City of Alvarado, Texas' basic financial statements and have issued our report thereon dated February June 16, 2020.

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.

Certified Public Accountants

Bank Reconciliations

A good system of internal control provides for a timely and accurate bank reconciliation be prepared for each bank or investment account in the trial balance at the end of each month. The City's finance department has one employee who is responsible for not only the daily financial activities, but also is responsible for preparing the monthly bank reconciliations. Preparing bank reconciliations should include making any necessary journal entries to the trial balance so that the ending balance is complete and accurate. Monthly bank reconciliations are not being prepared in a timely manner and are typically 6 months to a year behind in preparation.

By adopting more timely bank reconciliations, the City's internal control over their cash and investment accounts will improve and assist in reducing the possibilities of not detecting and preventing fraud or irregularities in a timely manner. We recommend that management review the current process for preparing monthly bank reconciliations and prepare a more defined process that includes a due date of when bank reconciliations should be completed.

Closing Procedures

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

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

Lack of Segregation of Duties

A good system of internal control provides for a proper segregation of the accounting functions. The City has a small number of people in their offices performing a variety of duties, so of which may be incompatible. The City does not have the proper segregation of duties over cash receipts and disbursements, accounts receivable, accounts payable, and manual journal entries. Proper segregation is not always possible in a small organization, but limited segregation to the extent possible can and should be implemented to reduce risk of errors or fraud. Also, separating these duties will improve internal controls over cash and other assets and reduce the possibility of irregularities. We recommend that management review the current assignment of accounting functions. Isolate any incompatible accounting functions that are the responsibility of one employee and reassign the responsibilities for these duties, if practical, or create a supervisory review of these functions. Where possible, duties should be segregated to reduce the risk or errors or fraud.

Compliance and Other Matters

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

City of Alvarado, TX's Response to Findings

City of Alvarado, TX's response to the findings identified in our audit are included below. City of Alvarado, TX's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion.

The city manager has initiated preliminary steps for the use of a third party to assist with some of the more complex accounting issues including reconciliations, monthly closings and other more technical accounting matters that may arise during the year. The outside third party will help mitigate the lack of separation of duties as well as being able to provide more timely monthly closing specifically addressing the findings in this letter. The city manager will propose these options to the city council at a future council meeting.

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
June 16, 2020

City of Alvarado Water & Wastewater Utility Systems



July 20, 2020

Confidential



Aqua Team

Bob Laughman
President
Aqua Texas, Inc.

Steve Dunnahoe
Business Development Manager
Aqua Texas, Inc.

Terry Franks
Business Development Director
Aqua Texas, Inc.



AGENDA

- Introduction
- Aqua Company Overview
- Employees
- Emergency Response and Customer Service
- Capital Planning and Water and Sewer Systems Experience
- Environmental Stewardship
- Overview of Fair Market Value
- Rates
- Aqua's Difference in the City of Alvarado
- Acquisition Process and Partnership with the City of Alvarado



Company Overview

- Changed name from Aqua America to Essential Utilities, prior to closing the acquisition of Peoples Gas in March 2020
- One of the largest publicly traded water, wastewater and natural gas providers in the U.S.
- Serving approximately 5 million people across 10 states under the Aqua and Peoples brands
- Ticker Symbol – (WTRG) - \$10.0 billion in market capitalization
- Stable investment grade rated company (A- at S&P) with strong access to capital
- Total annual capital budget of approximately \$950 million

Operating in 10 states

Over 3,100 employees serving more than 5 million people

Combined rate base greater than \$7.0 billion



- Founded in 1886, headquartered in Bryn Mawr, PA
- Large multi-state water & wastewater company with \$5.0 billion of rate base as of year-end 2019
- >99% earnings from the regulated water and wastewater utility business
- 225 MGD water production



- Founded in 1885; headquartered in Pittsburgh, PA
- Largest natural gas distribution company in PA with \$2.3 billion of rate base as of year-end 2019
- 15,000 miles of distribution pipeline,
- 2,400 miles of gathering pipeline and 310 miles of intrastate transmission pipeline
- >98% of earnings from regulated gas distribution



Aqua Texas

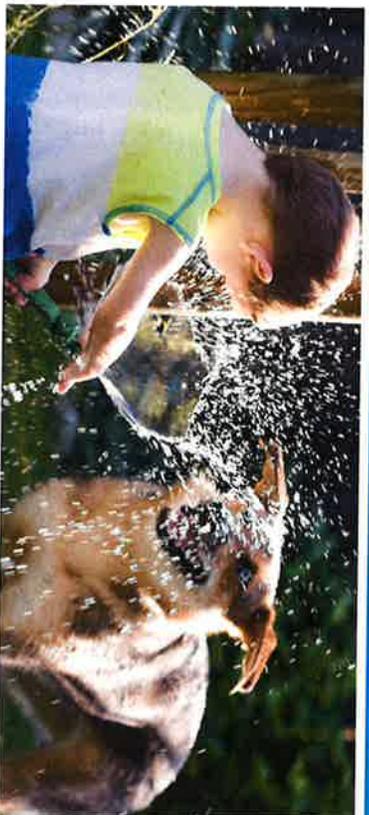


OUR CORE VALUES:

Integrity, Respect and the Pursuit of Excellence

OUR MISSION:

Protecting and providing Earth's most essential resource.



OUR VISION:

At Aqua America, we know that water is a precious resource – one that plays a critical role in sustaining life. We take seriously our responsibility to protect and provide this essential resource. We are committed to sustainable business practices; excellent customer service; attracting and developing top talent; the strategic growth of our company; delivering shareholder value; investing in technology and infrastructure; and giving back to the communities in which we operate. We do all these with integrity and transparency.



AQUASM

TEXAS

At A Glance



196k PEOPLE SERVED



120 EMPLOYEES



57 WASTEWATER TREATMENT PLANTS



53 COUNTIES



1,600+ MILES OF PIPE



480 WATER TREATMENT PLANTS



375 WATER SYSTEMS

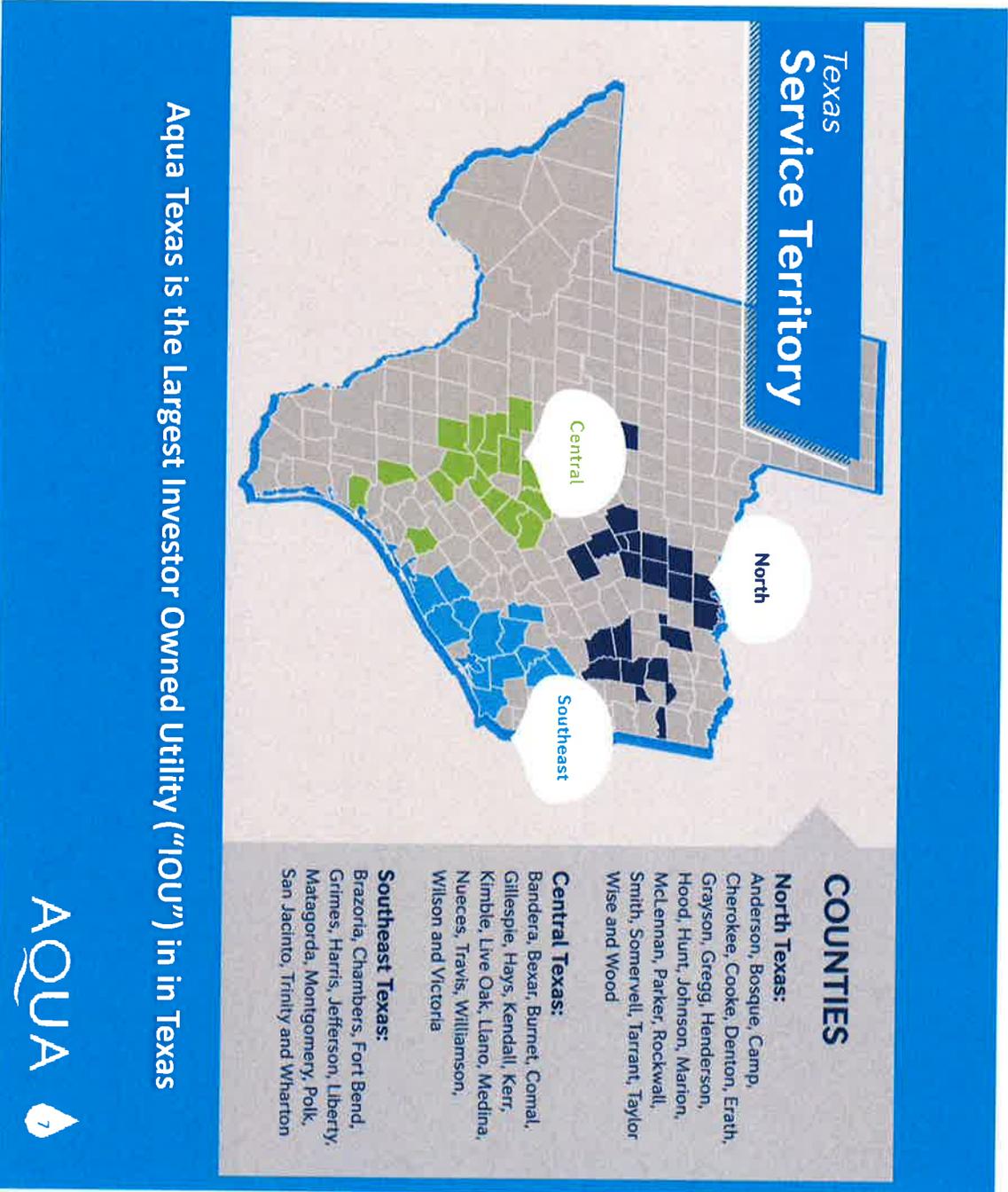


18 MILLION GALLONS DAILY



750 WELLS

Texas Coverage



Aqua Texas is the Largest Investor Owned Utility ("IOU") in Texas



Aqua TX Team – North Division

Strong deep bench in TX focused on delivering safe and reliable water & wastewater service.

Robert Laughman
President Aqua Texas Inc.
BS Engineering
17+ Years

Daniel Rimann
Vice President of Operations
BS Engineering
34+ Years

Scott Foltz
Environmental Compliance Manager
BS Chemical Engineering
23+ Years

Mario Chapa, P.E.
State Engineer
MS Environmental Engineering
20 + Years

Darryl Waldock
Area Manager
BS Engineering
38+ Years

Nola Farris
Area Supervisor
"C" Water "C" WW
20+ Years

Aqua Texas 26 Operators in North Texas Region

Alvarado's Utility System Requires 2 Experienced Operators



Capital Investment

Aqua prudently and efficiently invests capital to maintain compliance and the highest levels of service. In the communities whose systems we acquire, we assume all of responsibilities of Capital Investment as part of our continued operations.



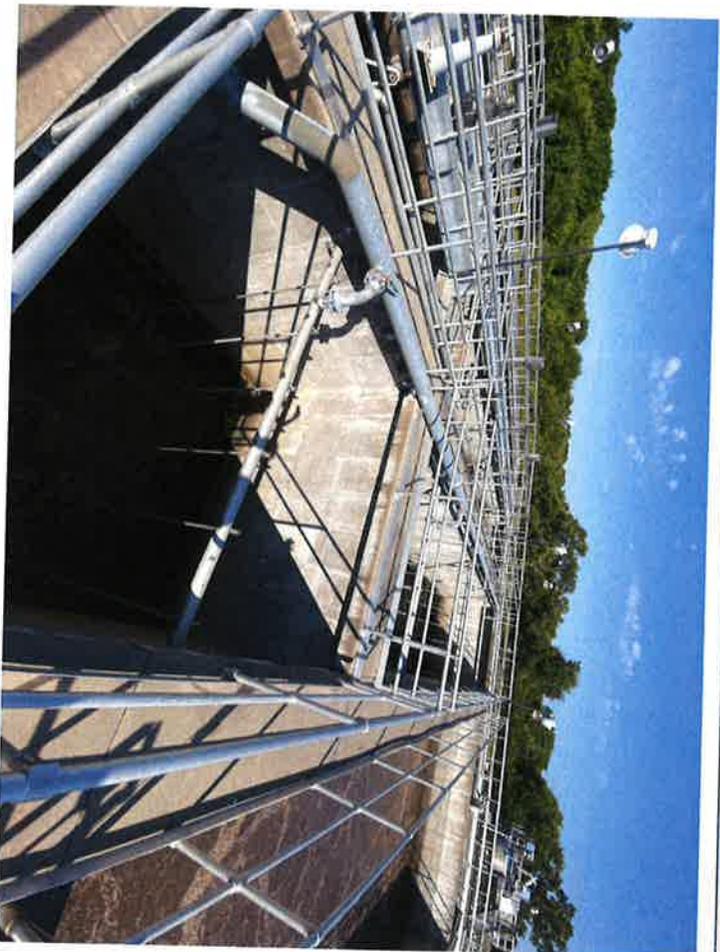
Austin Texas Surface Water Treatment Plant



Aqua TX spent over **\$59M in 2019** to replace and rehabilitate aging infrastructure including iron removal plants, water mains, wastewater treatment plants, and wastewater collection systems. From 2015 to 2019, Aqua TX replaced 100+ miles of water and wastewater pipe

Proposed Capital Investment in Alvarado

Aqua is committed to investing in the infrastructure in Alvarado. The five year capital plan includes over \$20M in improvements over the first five years.



Alvarado Wastewater Treatment Plant



Water in Alvarado

- Aggressive Main Replacements Plan
- Tank Painting and Repair
- Well Security Improvements
- Service Renewals
- Meter Replacements (AMR)
- SCADA Improvements
- Treatment Upgrades

Sewer in Alvarado

- Plant Upgrades
- Main replacements
- Lift Station Improvements
- Grinder Systems
- Permanent Generators
- Pump Replacements

Reliability and Emergency Response



- Multiple resources to address water and wastewater emergencies
 - On-call employees and contractors including operators, engineers, and environmental specialists
 - Operations control center staffed 24/7/365 for critical operations and security checks

Customer Service and Care



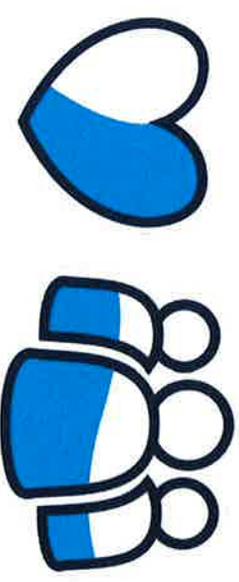
Customer Service

- Maintain TX Emergency Operations Plan
- Outstanding Customer service during Severe Weather Events
- U.S. based 24/7/365 Aqua-owned customer service call centers
- Extensive data management system to protect customer information



Convenient Bill Pay

- Convenient bill pay options on our website
- WaterSmart also provides outage alerts and tips to help with water conservation, leak identification, pipe protection, etc.



TX Shares Program

- The TX Shares Program can assist ratepayers who may have encountered some financial difficulties

J.D. Power 2020 Water Utility Residential Survey

By customer satisfaction, according to J.D. Power's survey, Aqua is the top-rated midsize private utility in the South region

J.D. Power Survey Index Criteria

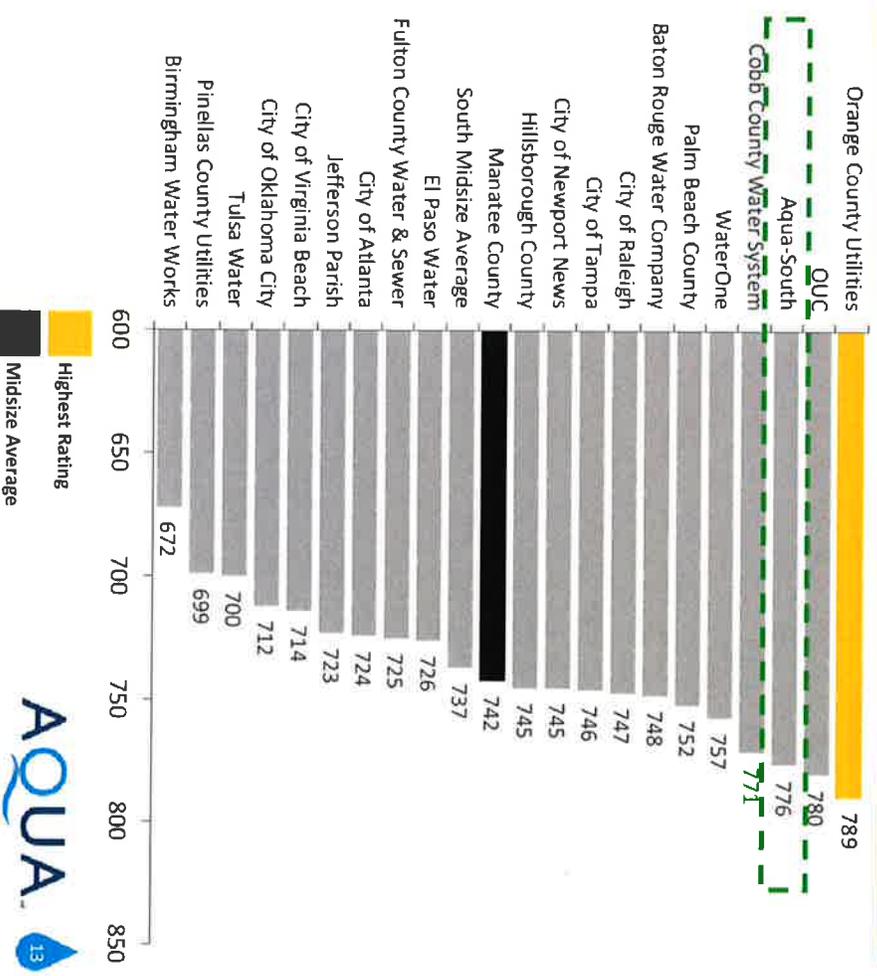


Key Factors

J.D. Power Survey Scope



J.D. Power Results for Mid-Sized South



Environmental and Regulatory Responsibilities

Aqua strives to be the best custodian of the environment with a focus on conservation and stewardship. Aqua will take over all the responsibilities of the complex compliance requirements following an acquisition. In addition, Aqua has very strong relationships with all regulators with whom we work with.

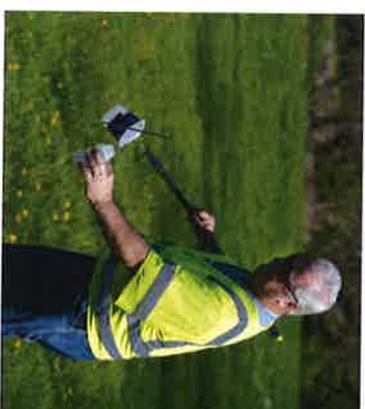
Working with Environmental Regulators



TCEQ



Aqua employees with the "TreeVitalize" grant program



Working with the Texas Public Utility Commission



Aqua Texas is an entirely regulated utility, falling under the purview of the Texas PUC and TCEQ. Aqua Texas can only change its rates after obtaining approval from the Texas PUC



Community Engagement

Aqua Texas is deeply entrenched within the local communities where we operate. After all, our employees not only work in local communities, but live there too.

Aqua's corporate giving and volunteer program, the Ripple Effect, provides employees the opportunity to volunteer during the workday for events like tree plantings, stream clean-ups, food banks and activities sponsored by Habitat for Humanity, the American Red Cross and many others.



Our core values guide and inspire our work as we interact with each other and our customers.

FMV Overview

Legislation Overview

- Signed into law – June 2019
- Valuation process allows municipalities to receive fair market value for systems
- Removes regulatory roadblocks between buyers and sellers
- Improves transparency and certitude of acquisition process

Problem Addressed by Legislation

- Underfunded Municipal Water and Wastewater Systems
- Deferred Maintenance is a disservice to the rate payers
- EPA estimates \$31.6B infrastructure needed over next 20 years
- \$190B private capital available for water and wastewater infrastructure
- \$1B investment = \$3.46B economic output
- Supports 28,500 jobs

Why Municipalities are Embracing FMV

- Increased water and wastewater regulations
- Aging infrastructure (and workforce)
- Avoid future expected or unexpected capital needs
- Desire to focus on core operations
- Ability to put the sale proceeds to work in the community
- Continued delivery of safe water and wastewater services

FMV Legislative Overview

May 20, 2020

Dear Fellow Legislators,

As Texas moves forward and, hopefully, out of the shadow of the corona-virus soon, we know that realities may be harsh for many of the communities that we serve.

We, the House and Senate, provided communities with an excellent tool that may provide an economic shot in the arm at this critical time. House Bill 3542, known as "Fair Market Value" legislation, was passed unanimously by both houses of the Texas Legislature and is now law in Texas. Specifically, House Bill 3542, allows regulated water utilities who operate in Texas to pay full value for an asset a municipality possesses that may have become a significant burden on them. By allowing the purchaser to pay "Fair Market Value", this could provide not only immediate relief from necessary capital expenditures but also could provide much needed funds for municipal coffers to continue to operate without tax increases or other measures.

This tool has been welcomed by cities across the country for relieving municipalities from owning and operating water and wastewater utilities, which are heavy in labor and capital requirements, while providing funding for a cost-free tax revenue stream.

We know there are many difficulties and stresses ahead for Texas, our municipalities, and for the Texans we represent. Sharing one possible tool the Texas Legislature had the foresight to pass before any of us had ever heard of COVID-19 may be one way we can help in our recovery and working to keep Texas strong.

If you have any questions or need additional information, please do not hesitate to reach out to our offices.

Thank you,



Rep. Dade Phelan



Sen. Eddie Lucio

Key Excerpts

"House Bill 3542, allows regulated water utilities who operate in Texas to pay full value for an asset a municipality possesses that may have become a significant burden on them..."

"This tool has been welcomed by cities across the country for relieving municipalities from owning and operating water and wastewater utilities, which are heavy in labor and capital requirements, while providing funding for a cost-free tax revenue stream."

How FMV Works

Below is an illustrative example of the FMV process. Aqua will work with Alvarado's advisers to refine the process to meet your needs.



Municipality and purchaser agree on a fixed sale price.

3

Separate Appraisals

Note: Assessment does not change the sale price both parties agree upon.



VALUATION



Protects Ratepayers

+

If appraiser's average is higher than sale price = rates based on sale price

-

If appraiser's average is lower than sale price = rates based on appraiser average

PUC acts as a financial regulator every step of the way.

PUC reviews and sets rates.



PUC approves utility purchase.

Rates Information

- If a transaction occurs, Aqua would adopt the City's current rates until the next Aqua TX rate case
- Heavily regulated - Aqua does not set customer rates
- Only the TX Public Utility Commission (PUC) can approve and determine customer rates
 - Expenditures must be deemed **prudent**
- Rates can only change as a result of a legal rate proceeding which includes:
 - Public hearings
 - Review by Office of Consumer Advocate and other advocates
 - Analysis of expenditures to ensure prudence



Summary of FMV

- Completely voluntary; withdraw anytime during the process until APA is signed
- Three valuation experts separately appraise value
- PUC approves purchase
- PUC reviews and sets rates
- Consumer advocate works on your behalf at the PUC

Our Expertise



Wastewater
Collection System
and Treatment



Water Treatment
and Distribution



Emergency
Preparedness and
Response



Continuous System
Monitoring and
Preventive
Maintenance



Capital Planning
and Asset
Management



Regulatory and
Environmental
Compliance



Prioritization of
safety on all
projects and
operations



We're Ready for Your Questions

WaterByAqua.com



**Government Product Lease Agreement
with Meter Rental Agreement**

Section (A) Office Information

Office Number 2270	Office Name Neopost Central District	Phone # (972) 890-7618	Date 06/10/2020
------------------------------	--	----------------------------------	---------------------------

Section (B) Billing Information

Company Name	City of Alvarado		
DBA			
Billing Address	104 W COLLEGE AVE		
City State Zip+4	ALVARADO	TX	76009-4319
Contact Name	Dana Duncan	Phone	(817) 790-3351
Contact Title	City Clerk	Fax	
Email Address	dduncan@cityofalvarado.org		PO #

Section (C) Installation Information (if different from billing information)

Company Name	City of Alvarado		
Installation Address	104 W COLLEGE AVE		
City State Zip+4	ALVARADO	TX	76009-4319
Contact Name	Dana Duncan	Phone	(817) 790-3351
Contact Title	City Clerk	Fax	
Email Address	dduncan@cityofalvarado.org		
Main Post Office		PO 5-Digit Zip Code	

Section (D) Products

Qty	Model / Part Number	Description (include Serial Number, if applicable)
1	IN600AFSH	From Local Stock Only...IN Series 600 Base w/ Autofeeder, Sealer & Catch Tray
1	DS40I	DS40i Folder Inserter
1	ICMFP-1	Desktop Solution - Power Conditioning Line Filter

Section (E) Lease Payment Information & Schedule

Tax Status: <input checked="" type="checkbox"/> Taxable <input type="checkbox"/> Tax Exempt <i>Certificate attached</i> Billing Frequency: <input type="checkbox"/> Monthly <input checked="" type="checkbox"/> Quarterly <input type="checkbox"/> Annually Billing Method: <input checked="" type="checkbox"/> Standard <input type="checkbox"/> Arrears	Number of Months		Monthly Payment (Plus applicable taxes)	
	First	60	\$231.94	
	Current Lease Number:			
<input type="checkbox"/> ACH (Customer to submit authorization form)				

Section (F) Postage Meter & Postage Funding Information

Meter Model	IN600AFAI	Machine Model	IN600AFSH
Postage Funding Method:		Postage Funding Account:	
<input checked="" type="checkbox"/> Bill Me <input type="checkbox"/> Prepay by Check <input type="checkbox"/> ACH Debit (Submit customer authorization form) <input type="checkbox"/> OMAS <input type="checkbox"/> CPU (include authorization form)		<input type="checkbox"/> POC <input type="checkbox"/> TMS <input checked="" type="checkbox"/> New <input type="checkbox"/> Existing	
Agency Code <input type="text"/>		Sub Agency Code <input type="text"/>	
Existing Account Number:			

Service Products (Check all that apply)

<input checked="" type="checkbox"/> Online Postal Rates iMeter™ App (SP10) <input type="checkbox"/> Online Postal Expense Manager iMeter™ App (SP20/NeoStats) <input type="checkbox"/> Online E-Services iMeter™ App (SP30) <input checked="" type="checkbox"/> NeoShip PLUS (EP70PLUS) <input checked="" type="checkbox"/> NeoShip Install & User Guide (EP70GUIDES) <input type="checkbox"/> RunMyMail <input type="checkbox"/> 3G/4G Cell Service <input checked="" type="checkbox"/> Maintenance - Standard <input checked="" type="checkbox"/> Installation/Training <input type="checkbox"/> Software Support for premise (non-cloud) solutions

Section (G) Approval

Existing customers who currently fund the Postage account by ACH Debit will not be converted to the Postage Funding Account unless initial here _____.

This document consists of a Government Product Lease Agreement with Quadient Leasing USA, Inc.; and a Postage Meter Rental Agreement, Maintenance Agreement and an Online Services and Software Agreement with Quadient, Inc.; and a Postage Funding Account Agreement with Quadient Finance USA, Inc. Your signature constitutes an offer to enter into such agreements, and acknowledges that you have received, read, and agree to all applicable terms and conditions (version Government-Equipment-Lease-Terms-USPS-Direct-V1-2020), which are also available at www.quadient.com/Government-Equipment-Lease-Terms-USPS-Direct-V1-2020, and that you are authorized to sign the agreements on behalf of the customer identified above. The applicable agreements will become binding on the companies identified above only after an authorized individual accepts your offer by signing below, or when the equipment is shipped to you.

***** SEE PURCHASE ORDER *****

Authorized Signature _____	Print Name and Title _____	Date Accepted _____
Accepted by Quadient Inc. and its Affiliates _____		Date Accepted _____

My Wish List

Item	Price	Qty	UOM	Subtotal
<u>IN Series 600 Base w/ AutoFeeder, Sealer, Catch Tray, Ink Ca</u>	2442.00	1	EACH	2442.00

Commodity Code: 60071

Delivery Days: 20

Item Detail: IN Series 600 Base w/ AutoFeeder, Sealer, Catch Tray, Ink Cartridge & LAN Cable

Contractor: Quadient Inc.

Contract: 2003

Supplier Part Number: IN600AFSH

Min. Order Quantity: 1

Item	Price	Qty	UOM	Subtotal
<u>Desktop Solution - Power Conditioning Line Filter for IN360/</u>	95.00	1	EACH	95.00

Commodity Code: 60071

Delivery Days: 20

Item Detail: Desktop Solution - Power Conditioning Line Filter for IN360/600 bases and DS-35, DS-63 & DS-65 inserters

Contractor: Quadient Inc.

Contract: 2003

Supplier Part Number: ICMFP-1

Min. Order Quantity: 1

Item	Price	Qty	UOM	Subtotal
<u>DS40i Folder Inserter</u>	3413.00	1	EACH	3413.00

Commodity Code: 60071

Delivery Days: 20

Item Detail: DS40i Folder Inserter

Contractor: Quadient Inc.

Contract: 2003

Supplier Part Number: DS40I

Min. Order Quantity: 1

Order Total: \$5950.00

DANA DUNCAN

From: Karr, Andrew <a.karr@quadiant.com>
Sent: Wednesday, June 10, 2020 3:12 PM
To: DANA DUNCAN
Cc: hardisonp@cityofalvarado.org
Subject: RE: Proposal and Quote
Attachments: City of Alvarado - TX Smart Buy Shopping List.pdf

Yes. I will get these over to you shortly. Here is the shopping list for Paula on the Texas Smart Buy Contract.

From: DANA DUNCAN <duncand@cityofalvarado.org>
Sent: Wednesday, June 10, 2020 2:46 PM
To: Karr, Andrew <a.karr@quadiant.com>
Subject: [External Email] RE: Proposal and Quote

Hello Andrew,

Thank you and hope we can get this all in place. Do you have a place where we can look over reviews or references on the two machines?

From: Karr, Andrew <a.karr@quadiant.com>
Sent: Wednesday, June 10, 2020 11:22 AM
To: DANA DUNCAN <duncand@cityofalvarado.org>
Subject: Proposal and Quote

Hi Dana,

I will call you at 1:00 today to discuss.



quadiant

ANDREW KARR Account Executive

a.karr@quadiant.com

972-890-7618

3030 LBJ Freeway

Suite 1250
Dallas, TX 75234

www.quadiant.com

Quadiant employees are exempt from the requirement to stay at home while working, as our business is an Essential Business because Quadiant is part of the federal critical infrastructure sectors. Therefore, we may continue to service our customers.

[Learn more about Quadiant](#)

BUSINESS CASE

DS40 and IX-5

Prepared for: Dana Duncan

Proposal date: 06-10-2020

Valid until: 06-30-2020

Submitted by: Andrew Karr

Major Account Executive

972-890-8719

a.karr@quadient.com

Central District

Submitted to: Dana Duncan

Because connections matter.

quadi⁷ent

06-10-2020

Dana Duncan
Dana Duncan
104 West College St
Alvorado, TX 76009

Ms. Duncan

With your team's valued assistance, we have completed a detailed analysis of Alpha Graphic's mailing operation. The information provided has allowed us to make precise recommendations to advance your key business objectives.

The following pages examine the costs and challenges associated with your current systems and methods, the process improvements delivered by Quadi⁷ent's recommended solution and acquisition options for your consideration.

We're ready to get started as soon as you are. Upon receipt of your approval, we will coordinate implementation on your preferred timetable. We look forward to partnering with your company.

Sincerely,
Andrew Karr
Major Account Executive
972-890-8719
Central District





Local Support Team



Sales

Andrew Karr
Major Account Executive
Central District
972-890-7618
a.karr@quadiant.com

Guy Bostelmann
Workflow Analyst
Central District
214-236-3254
g.bostelmann@quadiant.com

Joe Pellegrini
Sales Manager
Central District
469-986-5071
j.pellegrini@quadiant.com

Service

Dan Hall
Service Director
Central District
800-934-2257
d.hall@quadiant.com

Local Office

Quadiant Dallas Office
3030 LBJ Freeway Suite 1250
Dallas, TX 75234
800-636-7878

Corporate Offices

Quadiant USA Headquarters
478 Wheelers Farms Rd
Milford, CT 06461
(203) 301-3400

Customer Interaction Center
2304 Tarpley Rd, Ste 134
Carrollton, TX 75006
(800) 636-7678



Discovery Summary



Key Findings

City of Alvorado has a Pitney Bowes DM 475 that is nearly 8 years old. They have asked for a quote from Quadient to replace their current equipment. The central city office processes water bills, notices and other official correspondence from the police and fire departments.

Relevant Opportunities

Your Pitney Bowes lease costs \$221 per month for just the meter. Quadient is proposing that for \$231 the City of Alvorado can lease an IX-5 and a DS40i folder/insertter for all of the water bills that the city produces.

The manual labor of folding and inserting your water bills is estimated to take about 16 hours per month. This equates to about \$320 per month or \$3840 in yearly labor costs.



Government Product Lease Agreement with Meter Rental Agreement

Section (A) Office Information

Office Number 2878	Office Name Noopam Control District	Phone # (873) 890-7916	Date 07/10/2020
-----------------------	--	---------------------------	--------------------

Section (B) Billing Information

Company Name	City of Alvarado
DBA	
Billing Address 184 W COLLEGE AVE	
City State Zip+4 ALVARADO TX 76089-4319	
Contact Name Dana Duncan	Phone (817) 790-3351
Contact Title City Clerk	Fax
Contact Address duncan@cityofalvarado.org	PO #

Section (C) Installation Information (if different from billing information)

Company Name	City of Alvarado
Installation Address 184 W COLLEGE AVE	
City State Zip+4 ALVARADO TX 76089-4319	
Contact Name Dana Duncan	Phone (817) 790-3351
Contact Title City Clerk	Fax
Email Address duncan@cityofalvarado.org	
Main Post Office	PO 5-Digit Zip Code

Section (D) Products

Qty	Model / Part Number	Description (Include Serial Number, if applicable)
1	IN805AF3H	Print Label Meter Only - (X Series 600 Base w/ Autoheader, Header & Cash Tray)
1	D5401	D5401 F roller Inserter
1	ICM501	Develop Solution - Power Combining Low Filter

Section (E) Lease Payment Information & Schedule

Tax Status
 Taxable
 Tax Exempt
 Certificate provided

Billing Frequency
 Monthly
 Quarterly
 Annually

Billing Method
 Standard
 A/R

Number of Months
 60

Monthly Payment (Plus applicable taxes)
 \$246.04

Contract Lease Number
 ACH (Customer to submit authorization form)

Section (F) Postage Meter & Postage Funding Information

Meter Model	IN805AF3H	Machine Model	IN805AF3H
Postage Funding Method		Postage Funding Account	
<input checked="" type="checkbox"/> Bill Me	<input type="checkbox"/> Prepay by Check	<input checked="" type="checkbox"/> POC	<input type="checkbox"/> TMS
<input type="checkbox"/> ADH (Must submit customer authorization form)	<input checked="" type="checkbox"/> New	<input type="checkbox"/> Existing	
<input type="checkbox"/> DMAS	<input type="checkbox"/> CPU (Must submit authorization form)	Escrow Account Number	
Agency Code	Sub Agency Code		

Services Products (Check all that apply)

- Online Postal Rates Meter™ App (SP1H)
- Online Postal Expense Manager Meter™ App (SP50/NoHeader)
- Online E-Service Meter™ App (SP3)
- NextStep PLUS (SP7/PLUS)
- NextStep Inset & User Guide (SP70/UG/EE)
- RealMyMail 3G/4G Call Service
- Maintenance - Standard
- Installation/Training
- Software Support for premium (non-stock) solutions

Section (G) Approval

Billing customer who currently fund the Postage account by ACH Debit will not be converted to the Postage Funding Account unless noted here _____

This document consists of a Government Product Lease Agreement with Quadent Leasing USA, Inc. and a Postage Meter Rental Agreement, Maintenance Agreement and an Online Services and Software Agreement with Quadent, Inc. and a Postage Funding Account Agreement with Quadent Finance USA, Inc. Your signature constitutes an offer to enter into such agreements, and acknowledges that you have received, read, and agree to all applicable terms and conditions (including Government Equipment Lease-Terms-USPS (Dec-11-2020), which are also available at www.quadent.com/Government-Equipment-Lease-Terms-USPS-01-1-2020), and that you are authorized to sign the agreements on behalf of the customer identified above. The applicable agreements will become binding on the customer identified above only after an authorized individual accepts your offer by signing below, or when the equipment is shipped to you.

***** SEE PURCHASE ORDER *****

Authorized Signatures _____ Print Name and Title _____ Date Accepted _____

Accepted by Quadent Inc. and its Affiliates _____ Date Accepted _____



Quadient at a Glance

We help companies build powerful connections with their customers. **Because connections matter.**



LOCAL PARTNER

200+ U.S. locations providing unmatched accessibility and responsiveness.



EXPERTISE

8 billion interactions facilitated annually.



PROVEN RESULTS

96% customer satisfaction rate. \$1.2B sales in 2018, 44% from North America.



BACKED BY THE EXPERTS

Gartner, Forrester, and Aspire.



EXPERIENCE

Market-leading technology for 95 years. 800,000 customers across 90 countries.



GLOBAL REACH

5,600 employees in 32 countries.

Portfolio



Customer Experience Management

Omnichannel software that delivers compliant and meaningful customer interactions.



Business Process Automation

Digital solutions that streamline document production processes and departmental workflows.



Mail-Related Solutions

Hardware and software that power accurate and efficient physical communications.



Parcel-Related Solutions

Advanced systems that automate inbound parcel management and optimize shipping.

Business Impact

Delivering measurable process improvements to advance your key business objectives, including:



Customer Engagement

Improve acquisition, satisfaction and retention



Revenue Growth

Increase sales, market share and profit



Risk Mitigation

Enhance security and regulation compliance



Expense Control

Maximize productivity and reduce costs



Product Overview



iX-5 AF MAILING SYSTEM

A compact and efficient automatic-feed mail processing solution

Key Capabilities

- Intuitive control panel with a color screen and shortcut keys for your most-used rates and imprints
- Quiet inkjet printing with convenient low-ink alerts sent automatically via email
- Meets the latest Intelligent Mail Indicia (IMI) and Dimensional Weighing (DIM) USPS® requirements
- Automatic feeding of postcards, letters or large envelopes up to 1/2" thick
- Dependable envelope sealing that secures the contents of your mail pieces
- Weigh platform auto-adjusts the postage amount for extra-thick envelopes or boxed packages
- Integrated postage label dispenser for easy processing of bulky letters and large envelopes
- Reach productivity levels as high as 110 metered letters per minute
- Safeguard your stored postage with PIN code access for each of your operators
- Track pieces processed and postage used for 100 or more accounts/departments
- LAN or wireless connection to refill postage instantly and update postal rates automatically
- Download artwork to print onto your mail pieces – use our free library or create your own
- Uploads postage usage data to your Myquadiant online account for quick and easy analysis
- Download postage anytime and pay for it later using Quadiant Postage Funding



Product Overview



DS-40i FOLDER-INSERTER

Entry-level mail assembly solution that allows any business to automate its mailings

Key Capabilities

- 5" color touchscreen control panel with graphical user guidance and wizard-based programming
- Ultra-compact, quiet and modern design that fits in any office environment
- 2 document feeders with 100-sheet capacity and 1 insert feeder that holds 100 reply envelopes
- Folds your documents, adds a BRE and inserts the package into a #10 or 6" x 9.5" envelope
- Tri-folds or single-folds letter-size documents and double-folds legal-size sheets
- Double document control ensures envelope contents are correct for every recipient
- Operational efficiency up to 1,350 filled envelopes per hour – about 10 times faster than by hand
- Store up to 15 user-programmed jobs and instantly recall any of them at the push of a button
- Using manual feed mode, just walk up and drop in a document set to get a ready-to-mail envelope
- For single-sheet jobs, document feeders can be linked for non-stop cascade feeding
- Tip-to-tip envelope sealing that can be turned on and off for any job
- Connects to your network via WIFI to enable remote diagnostics and assistance

**GOVERNMENT PRODUCT LEASE AGREEMENT**

In this Government Product Lease Agreement (the "Lease"), the words "You" and "Your" mean the lessee, which is the entity that is identified as the Customer on the Government Product Lease Agreement Order Form ("Order Form"). "We," "Us" and "Our" mean the lessor, Quadi⁷ent Leasing USA, Inc. "Supplier" refers to either Quadi⁷ent, Inc., or any other third party that has manufactured, or is providing services related to, the Products.

1. Lease of Products. THIS LEASE IS UNCONDITIONAL AND NON- CANCELABLE (except as provided in Section 24, below) during the Initial Term (as defined below). You agree to lease from Us the equipment, embedded software, Software, services and other products listed on the Order Form, together with all existing accessories, embedded software programs, attachments, replacements, updates, additions and repairs, (collectively the "Products") upon the terms stated herein. The term "Software" means any software that is subject to this Lease, other than software programs that are embedded in the hardware. Software is subject to the additional terms as may be provided by the Supplier.

2. Promise to Pay. You promise to pay to Us the lease payment shown on the Order Form ("Lease Payment") in accordance with the payment schedule set forth thereon, plus all other amounts stated in this Lease.

3. Initial Term; Renewal.

3.1 FMV Lease. The Initial Term of this Lease will begin on the date the Products are installed and will continue for the number of months shown on the applicable Order Form ("Initial Term"). Unless You have opted for an LTOP Lease as described in Section 23, You must notify Us in writing at least thirty (30) days before the end of the Initial Term that You intend to either: (i) return the Products at the end of the Initial Term; or (ii) purchase the Products pursuant to Section 22. If You have not opted for an LTOP lease and You fail to give us such notice, then this Lease will automatically renew for consecutive periods of one (1) month each (each a "Renewal Period"). The amount You pay for the Products will remain unchanged during each Renewal Period. We will not notify You that the Initial Term or any Renewal Period is ending. You may terminate this Lease at the conclusion of any Renewal Period by giving Us thirty (30) days prior written notice of Your intent to do so. If You notify Us in writing that You intend to terminate the Lease, as set forth above, You shall either return the Products pursuant to Section 12 of this Lease or purchase the products pursuant to Section 22.

3.2 LTOP Lease. If you have opted for an LTOP Lease as described in Section 23, then the term of this Lease will begin on the date the Products are installed and will continue for the number of months shown on the applicable Order Form ("Initial Term"). At the conclusion of the Initial Term of an LTOP Lease, we shall: (i) transfer title of all hardware Products to You as set forth in Section 23; and (ii) Your license to use any Software Products shall continue without the need to make any further license payments to Us.

4. Payments. Lease Payments, and other charges provided for herein, are payable in arrears periodically as stated on the Order Form.

You agree to make Lease Payments to Us at the address specified on Our invoices, or at any other place designated by Us within thirty (30) days of the date of Our invoice.

5. Delivery and Location of Products. The Products will be delivered to You at the installation address specified on

Government Equipment Lease Terms USPS Direct V01-2020

Commented [JD1]: From my reading of the Purchase Order, the City has not opted for the Lease to Purchase option. If the City is looking for the Lease to Purchase option, Purchase Order should be revised.

the Order Form ("Installation Address") or, if no such location is specified, to Your billing address. ⁷ Your acceptance of the Products occurs upon delivery of the Products. You shall not remove the Products from the Installation Address unless You first get Our written permission to do so.

6. Ownership, Use, and Maintenance of Products. We will own and have title to the Products during the Lease. You agree that the Products are and shall remain Our personal property. You authorize Us to record (and amend, if appropriate) a UCC financing statement to protect Our interests. You represent that the Products will be used solely for commercial purposes and not for personal, family or household purposes. At Your own cost, You agree to maintain the Products in accordance with the applicable operation manuals and to keep the Products in good working order, ordinary wear and tear excepted.

7. Assignment of Supplier's Warranties. We hereby assign to You any warranties relating to the Products that We may have received from the Supplier.

8. Relationship of the Parties. You agree that You, not We, selected the Products and the Supplier, and that We are a separate company from the Supplier and that the Supplier is not Our agent. IF YOU ARE A PARTY TO ANY MAINTENANCE, SERVICE, SOFTWARE LICENSE, SUPPLIES OR OTHER CONTRACT WITH ANY SUPPLIER, WE ARE NOT A PARTY THERETO, AND SUCH CONTRACT IS NOT PART OF THIS LEASE (EVEN THOUGH WE MAY, AS A CONVENIENCE TO YOU AND THE SUPPLIER, BILL AND COLLECT MONIES OWED BY YOU TO THEM).

9. Default. You will be in default under this Lease if You fail to pay any amount within ten (10) days of the due date or fail to perform or observe any other obligation in this Lease. If You default, We may, without notice to You, do any one or more of the following, at Our option, concurrently or separately: (A) cancel this Lease; (B) require You to return the Products pursuant to Section 12 below; (C) take possession of and/or render the Products unusable, and for such purposes You hereby authorize Us and Our designees to enter Your premises, with prior reasonable notice or other process of law; and (D) require You to pay to Us, on demand as liquidated damages and not as a penalty, an amount equal to the sum of: (i) all Lease Payments and other amounts then due and past due; (ii) all remaining Lease Payments for the then-current term, together with any taxes due or to become due during such term (which You agree is a reasonable estimate of Our damages); and (iii) in the event that You failed to promptly return the Products to Us, an amount equal to the remaining value of the Products at the end of the then-current term, as reasonably determined by Us. To the extent allowable by law, You shall also pay all Our costs in enforcing Our rights under this Lease, including reasonable attorneys' fees and expenses that We incur to take possession, store, repair, or dispose of the Products, as well as any other expenses that We may incur to collect amounts owed to Us. We are not required to re-lease or sell the Products if We repossess them. These remedies shall be cumulative and not exclusive, and shall be in addition to any and all other remedies available to Us.

10. Finance Lease. You agree that this Lease is a "finance lease" as defined in Article-Chapter 2A of the Uniform Commercial Code ("UCC") Texas Business and Commerce Code. To the extent permitted by law, You hereby waive any and all rights and remedies conferred upon You under ~~§UCC Sections 2A-303 and §2A-508 through §2A-522~~, or any similar laws.

11. Loss; Damage; Insurance. You shall: (i) bear the risk of loss and damage to the Product(s) during the Initial Term and any Renewal Period; and (ii) keep the Product(s) insured, at Your expense, against all risks of loss and damage in an amount at least equal to its full replacement cost.

12. Return of Products. Unless You take title to the tangible Products pursuant to Section 22 or Section 23, then You are required to return such Products under this Lease. In such a case, at the end of the Lease, You shall, after receiving an Equipment Return Authorization ("ERA") number from Us, promptly send the Products, at Your expense plus shipping and handling costs, to any location(s) that We designate in the contiguous United States. The Products must be properly packed for shipment with the ERA number clearly visible, freight prepaid and fully insured, and must be received in good condition, less normal wear and tear.

13. Assignment. YOU SHALL NOT SELL, TRANSFER, ASSIGN, SUBLEASE, PLEDGE OR OTHERWISE ENCUMBER



(COLLECTIVELY, "TRANSFER") THE PRODUCTS OR THIS LEASE IN WHOLE OR IN PART.

14. Disclaimer of Warranties. WE MAKE NO REPRESENTATIONS OR WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED, REGARDING ANY MATTER WHATSOEVER, INCLUDING, BUT NOT LIMITED TO, THE SUITABILITY OF THE PRODUCT(S), ITS CONDITION, ITS MERCHANTABILITY, ITS FITNESS FOR A PARTICULAR PURPOSE, ITS FREEDOM FROM INFRINGEMENT, OR OTHERWISE. WE PROVIDE THE PRODUCTS TO YOU "AS IS," "WHERE IS" AND "WITH ALL FAULTS."

15. Limitation of Liability. WE SHALL NOT BE LIABLE TO YOU AND YOU SHALL NOT MAKE A CLAIM AGAINST US FOR ANY LOSS, DAMAGE (INCLUDING INCIDENTAL, CONSEQUENTIAL OR PUNITIVE DAMAGES), OR EXPENSE OF ANY KIND ARISING DIRECTLY OR INDIRECTLY FROM THE DELIVERY, INSTALLATION, USE, RETURN, LOSS OF USE, DEFECT, MALFUNCTION, OR ANY OTHER MATTER RELATING TO THE PRODUCTS (COLLECTIVELY, "PRODUCT MATTERS"). NOTWITHSTANDING ANY OTHER PROVISION OF THIS LEASE, EXCEPT FOR DIRECT DAMAGES RESULTING FROM PERSONAL INJURY OR DAMAGE TO TANGIBLE PROPERTY CAUSED BY OUR GROSS NEGLIGENCE OR WILLFUL MISCONDUCT, THE MAXIMUM OUR LIABILITY TO YOU FOR DAMAGES HEREUNDER SHALL NOT EXCEED THE TOTAL OF THE AMOUNTS PAID TO US HEREUNDER BY YOU.

16. Notice. All notices, requests and other communications to Us shall be in writing and sent to: Quadient Leasing USA, Inc., 478

Whealers Farms Road, Milford, CT 06461 ("Notice Address"). Such notices shall be considered given when: (i) delivered personally, or (ii) sent by commercial overnight courier with written confirmation of delivery. In the event that We do not accept Your offer to enter this Lease, then You have the right to a written statement that specifies the reasons that Your offer was not accepted. You can request such a statement by writing to Us at the Notice Address.

17. Integration. The Lease represents the final and only agreement between You and Us. There are no unwritten oral agreements between You and Us. The Lease can be changed only by a written agreement between You and Us. Any additional terms and conditions referenced on any Purchase Order shall be void and have no effect on this Lease.

18. Severability. In the event any provision of this Lease shall be deemed to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby. The parties agree to replace any invalid provision with a valid provision, which most closely approximates the intent and economic effect of the invalid provision.

19. Waiver or Delay. A waiver of any default hereunder or of any term or condition of this Lease shall not be deemed to be a continuing waiver or a waiver of any other default or any other term or condition, but shall apply solely to the instance to which such waiver is directed. We may accept late payments, partial payments, checks, or money orders marked "payment in full," or with a similar notation, without compromising any rights under this Lease.

20. Survival of Obligations. Your obligations under this Lease shall survive any expiration or termination of any government procurement contract that may be related to it. Any obligations and duties which by their nature extend beyond the expiration or termination of this Lease shall survive the expiration or termination of this Lease.

21. Choice of Law; Venue; and Attorney's Fees. This Lease shall be governed under the laws of the State of ~~Connecticut~~Texas, without regard to conflicts of law, and jurisdiction shall lie exclusively in a court of competent jurisdiction in ~~New Haven~~Johnson County, ~~Connecticut~~Texas. In any litigation or other proceeding by which one party either seeks to enforce its rights under this Lease (whether in contract, tort, or both) or seeks a declaration of any rights or obligations under this Lease, to the extent allowable by law, the prevailing party shall be awarded its reasonable attorney fees, and costs and expenses incurred.

22. FMV Leases. If this Lease is a fair market value lease, as indicated by the lease rate that has been used by Us to calculate Your Lease Payment then, unless You are in default, You may elect to purchase the hardware Products at the end of this Lease on an "as is, where is" basis for their fair market value, as reasonably determined by Us. In the

Commented [JD2]: City should be aware of the waivers of warranties and limitation on liabilities. Both of these paragraphs curtail the City's remedies should something go wrong. Based on the subject matter of this contract and the total value, there is probably little risk associated with this contract, but the City should evaluate the risks prior to execution.

event that You elect to do so, You must give us sixty (60) days prior written notice of Your election to purchase such Products.

23. LTOP Leases. If this Lease is a lease to purchase, as indicated by the lease rate that has been used by Us to calculate Your Lease Payments then, at the end of the Initial Term and after You have made all of the Lease Payments, We shall transfer title to all hardware Products that are subject to this Lease to You on an "as is, where is" basis.

24. Termination.

24.1 Non-Appropriation.

a. You warrant and represent that You intend to enter into this Lease for at least the entire Initial Term and that You are doing so for an essential government purpose. You agree that, prior to the expiration of the Initial Term, you shall not terminate this Lease in order to obtain the same or similar Products from another vendor.

b. You may terminate this Lease at the end of Your current fiscal year, or at the end of any subsequent fiscal year, if appropriated funds are not available to You for the Lease Payments that will be due in the next fiscal year. In the event of such a non-appropriation, then You shall provide written notice to Us that states:

Sufficient funds have not been and will not be appropriated for the remaining payments due under the Lease. I confirm that we will not replace the Products with similar equipment from any other party in the succeeding fiscal year.

Failure to deliver such notice of non-appropriation to Lessor shall not extend the term of this Lease beyond the end of the then current fiscal year.

Formatted: Indent Left: 0"

24.2 Convenience. You may terminate this Lease at any time and for any reason or for no reason ("Termination for Convenience"); provided that You comply with the provisions of this paragraph. In the event of a Termination for Convenience, You shall pay Us a termination charge equal to the net present value of the periodic payments remaining in the Initial Term or, if applicable, the then-current Renewal Term, discounted to the present value at an interest rate equal to six percent (6%) per annum. Such amount must be received by Us within thirty (30) days of the effective date of the termination.

25. Additional Postage Meter Terms. If the Products require a postage meter, then You agree that Quadient's Postage Meter Rental Agreement shall govern your rental of such postage meter.

Commented [JD3]: Note the early termination fee.

POSTAGE METER RENTAL AGREEMENT

1. Incorporation of Certain Terms. Customer acknowledges that: (i) it has entered a Government Product Lease Agreement with Quadient Leasing USA, Inc. (the "Lease"); and (ii) if the Products that are subject to the Lease includes a mailing machine, then the terms of this Postage Meter Rental Agreement ("Rental Agreement") shall govern its rental of the Postage Meter (as defined below) for such machine. Any defined terms in the Lease shall have the same meanings in this Rental Agreement, except that "We," "Us," and "Our," refers to Quadient, Inc., and any reference to "Products" shall refer to the Postage Meter. Sections 11 through 21, 24 and 25 of the Lease are hereby incorporated into this Rental Agreement, except that any reference in those sections to the "Lease" refer to this Rental Agreement.

2. Provisions as to Use. You acknowledge that: (i) as required by United States Postal Service ("USPS") regulations, the postage meter(s) identified on the Order Form (the "Postage Meter") is being rented to You and that it is Our property; (ii) the Postage Meter will be surrendered by You upon demand by Us; (iii) You are responsible for the control and use of the Postage Meter; (iv) You will comply with all applicable laws regarding Your use or possession of the Postage Meter; (v) the use of the Postage Meter is subject to the conditions established from time to time by the United States Postal Service; and (vi) the Postage Meter is to be used only for generating an indicia to evidence the prepayment of postage and to account for postal funds. It is a violation of Federal law to misuse or tamper with the Postage Meter and, if You do so, We may terminate this Rental Agreement upon notice to You.

3. Rental Fee, Term, and Taxes. The rental fee for the Postage Meter rental during the Initial Term is included in the

Government Equipment Lease Terms USPS Direct V01-2020

Lease Payment. For each Renewal Term, You agree to pay Our then-current fee for the Postage Meter rental. The Postage Meter rental fee does not include the cost of consumable supplies. The term of the rental shall be equal to ~~the term of the Lease and is NON-CANCELABLE. You agree to pay all applicable taxes related to~~ Your acquisition, possession, and/or use of the Postage Meter including all property taxes on the Postage Meter. Furthermore, You agree to pay the applicable fee to cover Our expenses associated with the administration, billing and tracking of such charges and taxes. Notwithstanding the foregoing, in the event You are tax exempt, upon providing Us a certificate, You will not be required to pay any taxes covered by such certificate. You agree that you will return the Postage Meter at the end of the Lease term and that You will do so in the manner set forth in Section 12 of the Lease. Furthermore, You agree that if you fail to return a postage meter within thirty (30) days of receipt of the Equipment Return Authorization from Us, then You will pay a postage meter replacement fee of one thousand dollars (\$1,000).

4. Postage Meter Maintenance, Inspections, and Location. We will keep the Postage Meter in good working condition during the term of this Rental Agreement. The United States Postal Service regulations may require Us to periodically inspect the Postage Meter. You agree to cooperate with Us regarding such inspections. We may, from time to time, access and download information from Your Postage Meter to provide Us with information about Your postage usage and We may share that information with Our distributors and other third parties and You hereby authorize Us to do so. You agree to promptly update Us whenever there is any change in Your name, address, telephone number, the licensing post office, or the location of the Postage Meter.

5. Postage Advances. We do not sell postage. In the event You require an emergency advance for postage, We, at Our sole discretion, may advance You money to reset the Postage Meter. If We do provide such an advance, You agree to repay Us within five (5) days from the time of such advance: (i) the amount of the emergency advance; and (ii) the then-current advance fee.

6. Default. In the event You fail to perform in accordance with the terms set forth in this Rental Agreement, or any other Agreement with Us or any of Our affiliates, including, but not limited to, Quadient Leasing USA Inc., and Quadient Finance USA, Inc., then We may, without notice: (i) repossess the Postage Meter(s); (ii) disable the Postage Meter; (iii) immediately terminate this Rental Agreement; and (iv) pursue any remedies available to Us at law or in equity. Furthermore, upon the return of the Postage Meter, You hereby authorize Us to offset any amount of postage remaining in the Postage Meter, prior to any refund to You, against any amount due to Us or any of Our affiliates. To the extent allowable by law, You shall also pay all of Our costs in enforcing Our rights under this Rental Agreement, including reasonable attorneys' fees and expenses that We incur to take possession, store, or repair, the Postage Meter, as well as any other expenses that We may incur to collect amounts owed to Us. These remedies shall be cumulative and not exclusive, and shall be in addition to any and all other remedies available to Us.

7. Rate Updates.

- A. **Maintenance of Postal Rates.** It is Your sole responsibility to ensure that correct amounts are applied as payment for mailing and shipping services. We shall not be responsible for returns for delivery delays, refusals, or any other problems caused by applying the incorrect rate to mail or packages.
- B. **Rate Updates with Online Services.** If the Order Form indicates that You are enrolled in Our Online Services program, then We will make available periodic updates for Your covered Products and/or Postage Meter, including updates to maintain accurate USPS rates for the USPS services that are compatible with such Products or Postage Meter. **The rate updates that are offered with Our Online Services program are only available for products that are integrated (as defined below) into Your mailing machine.** For the purposes of this section, "Integrated" means that the covered hardware cannot properly operate on a stand-alone basis and it has been incorporated into the mail machine. Products that are not Integrated including, but not limited to, all Software and scales with "ST-77," or "SE" in the model number will not receive updated rates as part of Our Online Services program (collectively "Excluded Products").
- C. **Rate Updates with Rate Change Protection and Software Advantage.** If You have any of Our Excluded Products, You may have elected to purchase Rate Change Protection ("RCP") from Us for Your hardware products or Software Advantage for Your Software. If the Order Form indicates that You have selected RCP or Software Advantage, We will make available the following updates for Your covered Products or Software: (i) updates to maintain accurate rates for the services offered by the USPS and other couriers that are compatible with Your covered Products or Software; and (ii) updates for major zip or zone changes that

are compatible with Your covered Products or Software. If any reprogramming is required because You have moved the Products or Postage Meter to a new location, none of the services described in this Section cover the cost to do so. If You have not selected RCP or Software Advantage, You agree that We may send You periodic rate updates as needed and You agree to either: (i) promptly pay the then-current price for such update; or (ii) return the unused, update to Us within ten (10) business days of receiving it. Customers with an outstanding Accounts Receivable balance may not receive a rate update until the open balance is resolved.

8. United States Postal Service Acknowledgement of Deposit Requirement. By signing this Postage Meter Rental Agreement, You acknowledge and agree that You have read the United States Postal Service Acknowledgement of Deposit (the "Acknowledgement") and will comply with its terms and conditions, as it may be amended from time to time.

9. Additional United States Postal Service Terms.

- A. By signing this Postage Meter Rental Agreement, You acknowledge that You are also entering into an Agreement with the United States Postal Service ("USPS") in accordance with the Domestic Mail Manual ("DMM") 604.4, Postage Payment Methods, Postage Meters and PC Postage Products (collectively, "Postage Evidencing Systems" or "PES") and accept responsibility for control and use of the PES contained therein.
- B. You also acknowledge You have read the DMM 604.4, Postage Payment Methods, Postage Meters and PC Postage Products (Postage Evidencing Systems) and agree to abide by all rules and regulations governing its use.
- C. Failure to comply with the rules and regulations contained in the DMM or use of the PES in any fraudulent or unlawful scheme or enterprise may result in the revocation of this Rental Agreement.
- D. You further acknowledge that any use of this PES that fraudulently deprives the USPS of revenue can cause You to be subject to civil and criminal penalties applicable to fraud and/or false claims against the United States. The submission of a false, fictitious or fraudulent statement can result in imprisonment of up to five (5) years and fines of up to \$10,000 (18 U.S.C. 1001). In addition, a civil penalty of up to \$5,000 and an additional assessment of twice the amount falsely claimed may be imposed (3 U.S.C. 3802).
- E. You further understand that the rules and regulations regarding use of this PES as documented in the USPS Domestic Mail Manual may be updated from time to time by the USPS and it is Your obligation to comply with any current or future rules and regulations regarding its use.
- F. You are responsible for immediately reporting (within seventy-two hours or less) the theft or loss of the postage meter that is subject to this Rental Agreement. Failure to comply with this notification provision in a timely manner may result in the denial of refund of funds remaining on the postage meter at the time of the loss or theft.

POSTAGE FUNDING ACCOUNT AGREEMENT

1. Incorporation of Certain Terms. You acknowledge that You have entered a Government Product Lease Agreement with Quadient Leasing USA, Inc. (the "Lease") and a Postage Meter Rental Agreement with Quadient, Inc. (the "Rental Agreement"). If you have an eligible postage meter, then you will have access to a postage funding account and this Postage Funding Account Agreement ("Account Agreement") shall govern Your use of such account. Any defined terms in the Lease or Rental Agreement shall have the same meanings in this Account Agreement, except that "We," "Us," and "Our," refer to Quadient Finance USA, Inc. Sections 14 through 20 of the Lease are hereby incorporated into this Account Agreement except that any reference in those sections to the "Lease" refers to this Account Agreement.

2. Establishment and Activation of Account. You hereby authorize Us, to establish an account in Your name ("Account") for funding the purchase of postage from the United State Postal Service ("USPS") for use in the postage meter. Your Account may also be used to purchase supplies, pay for the Postage Meter rental, and obtain certain other products and services from Quadient, Inc. The establishment of Your Account shall be subject to Our approval of Your creditworthiness. Any use of the Account shall constitute Your acceptance of all the terms and conditions of this Account Agreement and all other documents executed or provided in connection with the Account. The



Account may not be used for personal, family, or household purposes.

3. Operation of Account. Each time an employee or agent of Yours with the express, implied, or apparent authority to do so (each an "Authorized User") uses the Account to receive a postage meter reset or obtain other products or services that Quadient, Inc. is authorized to provide, Quadient, Inc. will notify Us of the amount to be applied to Your Account balance. If the Account is used to obtain postage, then We will transfer the requested amount of postage to the USPS on Your behalf and Your Account will be charged for the amount of postage requested and any related fees, if applicable. You can continue to pre-pay the USPS for postage and understand that pre-paid postage funds will be used first to pay for my postage meter resets. You further understand that the Account will provide additional available postage funds when Your pre-paid account balance is zero (\$0). When You request a postage meter reset, if You have the funds on account with the USPS, those funds automatically will be withdrawn first to pay for postage, and any additional amounts due for postage and related fees will be billed through the Account under the terms and conditions of this Account Agreement. If the Account is used to acquire products or services from that Quadient, Inc. is authorized to provide, then We shall pay the applicable amount to Quadient, Inc. and add such amount to Your Account balance.

4. Payment Terms. You will receive a billing statement for each billing cycle in which You have any activity on Your Account. Payments are due on the due date shown on Your billing statement. You may pay the entire balance due or a portion of the balance, provided that You pay at least the minimum payment amount shown on Your statement. However, if You have exceeded the Account Limit, then You must pay the entire amount of any overage, as well as the minimum payment amount shown on Your statement. Whenever there is an unpaid balance outstanding on Your Account which is not paid in full by the due date shown on Your billing statement, We will charge You, and You agree to pay, interest on the unpaid balance of the Account for each day from the date the transaction is posted to Your Account until the date the unpaid balance is paid in full, at the Annual Percentage Rate (as defined below). The Account balance that is subject to a finance charge each day will include outstanding balances, minus any payments and credits received by Us on Your Account that day. The Annual Percentage Rate applicable to Your Account will be equal to the lesser of eighteen percent (18.00%) per annum or the maximum permitted by law. Each payment will be applied to reduce the outstanding balance of Your Account and replenish the amount available to You. We may refuse to extend further credit if the amount of a requested charge plus Your existing balance exceeds Your Account Limit.

5. Account Limit and Account Fees. You agree that We will establish a credit limit on Your Account (the "Account Limit"). The exact amount of the Account Limit will be indicated on Your invoice. We may, in Our sole discretion, allow Your balance to exceed the Account Limit. In the event We do so, You agree to pay Us an additional fee equal to one percent (1%) of the amount by which the Account Limit is exceeded for each transaction that You initiate after Your Account has reached the Account Limit. Such amount will be charged to Your Account on the date that the relevant transaction(s) occurs. Unless prohibited by applicable law, You agree to pay the amounts set forth in this Account Agreement, which may include, without limitation, the amounts specified above, a fee for a late payment, a fee for any checks that are returned as a result of insufficient funds, and a fee for any ACH direct debit transactions which are rejected, and an annual account fee. All such fees shall be added to Your Account balance.

6. Cancellation and Suspension. We may, ~~upon thirty (30 days written notice at any time~~ close or suspend Your Account or temporarily refuse to allow further charges to Your Account. You can cancel Your Account at any time by notifying Us in writing at the address provided on Your Account statement of Your desire to do so. No cancellation or suspension will affect Your obligation to pay any amounts You then owe under this Account Agreement. We will notify You of the Account balance in the event of any termination and all outstanding obligations will survive the termination of this Account Agreement by either party.

7. Default. We may declare You in default if You: (i) have made any misrepresentations to Us; (ii) at any time, have done or allowed anything that indicates to Us that You may be unable or unwilling to repay the balance of Your Account as required under this Account Agreement; or (iii) are in default under this Account Agreement or any lease, rental, or other agreement with Us, Quadient, Inc., or their affiliates. If You are in default, or upon any cancellation of Your Account, We shall not be obligated to continue to provide the Account service or extend further credit under this Account Agreement. ~~If We are required to take collection action or any other legal action under this Account Agreement, You shall pay upon demand by Us all court and collection costs, along with reasonable attorney's fees.~~ These remedies shall be cumulative and not exclusive, and shall be in addition to any and all other

remedies available to Us.



8. Remedies. If We have declared that You are in default under this Account Agreement, then We may: (i) declare ~~all agreements You have with Us in default and due and payable at once without notice or demand~~; (ii) refuse to make further advances on Your behalf to reset Your postage meter; and (iii) exercise any other rights that We may have. In addition, You agree that any default under this Account Agreement shall constitute a default under any agreement You may have with any of Our affiliates, including, but not limited to, Quadient, Inc., Quadient Leasing USA, Inc.

9. Amendments. We may amend this Account Agreement, or any of its provisions, including without limitation any fees and charges and/or the Annual Percentage Rate, at any time by at least thirty (30) days written notice to You, and such written notice may be included in Your billing statement. Any such amendment will become effective on the date stated in the notice and will apply to any transactions after such date, as well as to any outstanding balance on Your Account.

10. Notice: Any notice required to be given under this Account Agreement by either party hereto shall be given if to You, at the address shown on Your Order Form, and if to Us at 478 Wheelers Farms Road, Milford, CT 06461.

11. Miscellaneous. You understand that We may obtain credit reports in connection with Your Account now and in the future. This Account Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without reference to its conflict-of-laws rules, and any applicable federal laws. The sole jurisdiction and venue for actions related to the subject matter hereof shall be in a State or Federal Court within the State of Texas.

MAINTENANCE AGREEMENT

1. Incorporation of Certain Terms. You acknowledge that You have entered a Government Product Lease Agreement with Quadient USA, Inc. (the "Lease"). Any defined terms in the Lease shall have the same meanings in this Maintenance Agreement, except that "We," "Us," and "Our," refer to Quadient, Inc. Sections 13 through 24 of the Lease are hereby incorporated into this Maintenance Agreement, except that any reference in those sections to the "Lease" refers to this Maintenance Agreement.

2. Quadient's Terms and Conditions for Maintenance Services. If the Order Form indicates that You have purchased maintenance services, then Quadient, Inc., or one of its affiliates, will provide maintenance services for the Products in accordance with Quadient, Inc.'s then-current maintenance terms and pricing for the level of maintenance services that You have purchased. Those services will be provided for the entire term of the Lease and are NON-CANCELABLE. The current version of those terms and conditions are available at www.quadient.com/usa-maintenance-program-terms. You agree that You have access to such terms and that they are incorporated into this Maintenance Agreement by this reference, and that You shall be bound by such terms as if they were fully stated herein. **Notwithstanding the foregoing, maintenance services are not available on HD Office Printer Series products.**

ONLINE SERVICES AND SOFTWARE AGREEMENT

1. Incorporation of Certain Terms. You acknowledge that You have entered a Government Product Lease Agreement with Quadient Leasing USA, Inc. (the "Lease"). Any defined terms in the Lease shall have the same meanings in this Online Services and Software Agreement ("OSS Agreement"), except that "We," "Us," and "Our," refer to Quadient, Inc. Sections 13 through 24 of the Lease are hereby incorporated into this OSS Agreement, except that any reference in those sections to the "Lease" refer to this OSS Agreement.

2. License Grant and Additional Terms. In exchange for the license fees that are included in Your Lease Payment, We hereby grant to You a nonexclusive, nontransferable license to use the Software products, including related documentation, described on the Order Form solely for Your own use on or with the Products. You warrant and represent that You will not sell, transfer, disclose or otherwise make available such Software products or copies thereof to third parties; provided, however, that the Software products may be used by Your employees or independent contractors using the Products. No title or ownership of the Software products or any portion thereof

is transferred to You. You acknowledge and agree that there may be additional terms and conditions that apply to Your use of any Software provided by Us. Such terms may be provided with the Software, or made available at www.quadient.com/software-terms and may be supplemented by Us or third party licensors, from time to time, by notice to You. You acknowledge and agree that You have access to the appropriate version(s) of the applicable terms provided at the address above and corresponding to Software described on the Order Form at the time you enter this OSS Agreement. Such terms are incorporated herein by this reference and You agree to be bound by such terms as if they were fully stated herein.

3. Software Support. Unless otherwise specified in the applicable Software terms, if You have purchased support for the Software, We will provide the following for a period of one (1) year: (i) software updates and, if applicable, carrier rate updates that keep You current and compliant with supported carrier rates, fees, zone schedules, label, barcode and forms changes; (ii) updates to the Software; (iii) corrective bug fixes as released; and (iv) technical support for the Software (collectively "Software Maintenance"). At the conclusion of each year of Software Maintenance, the Software Maintenance will automatically renew for additional one-year periods at Our then-current fee for such services unless you give us at least sixty (60) days prior written notice that you wish to cancel the Software Maintenance. You acknowledge that the Software may fail to comply with applicable regulations if you do not have Software Maintenance and that We shall not have any liability in connection with any such failure. If You allow the Software Maintenance to lapse, You may reinstate such services; provided that you pay all fees that would have been due from the expiration of Your last Software Maintenance period through the reinstatement date, plus a 15% administrative surcharge.

4. Use of Websites. Quadient, Inc. and/or any of Our affiliates, suppliers, including, but not limited to, Quadient Leasing USA, Inc. may, from time to time, make certain websites available to You in order to provide You with certain services ("Websites"). If You access any such Websites, You acknowledge and agree that Your use of the Website is subject to the terms of use and/or license terms in effect at the time You use the Website. Such terms are available on the Websites for Your review. You acknowledge and agree that such terms may be supplemented and modified from time to time ("Supplemental Terms"). Your use of a Website after Supplemental Terms have been issued will signify Your acceptance of those terms. In the event of a conflict between the terms of this OSS Agreement and the Supplemental Terms, the Supplemental Terms shall control.

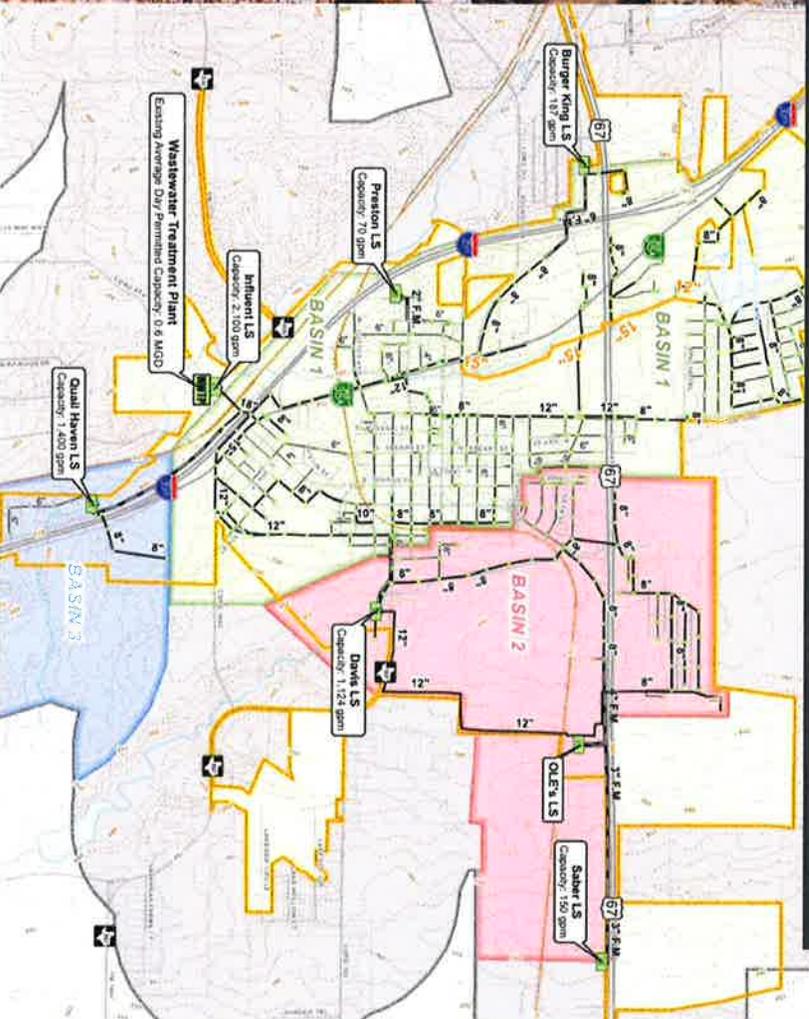
CITY OF ALVARADO MAPLE AVENUE WASTEWATER IMPROVEMENTS CITY COUNCIL PRESENTATION

JULY 20, 2020

ALVARADO CITY HALL



**FREESE
AND
MICHOOLS**

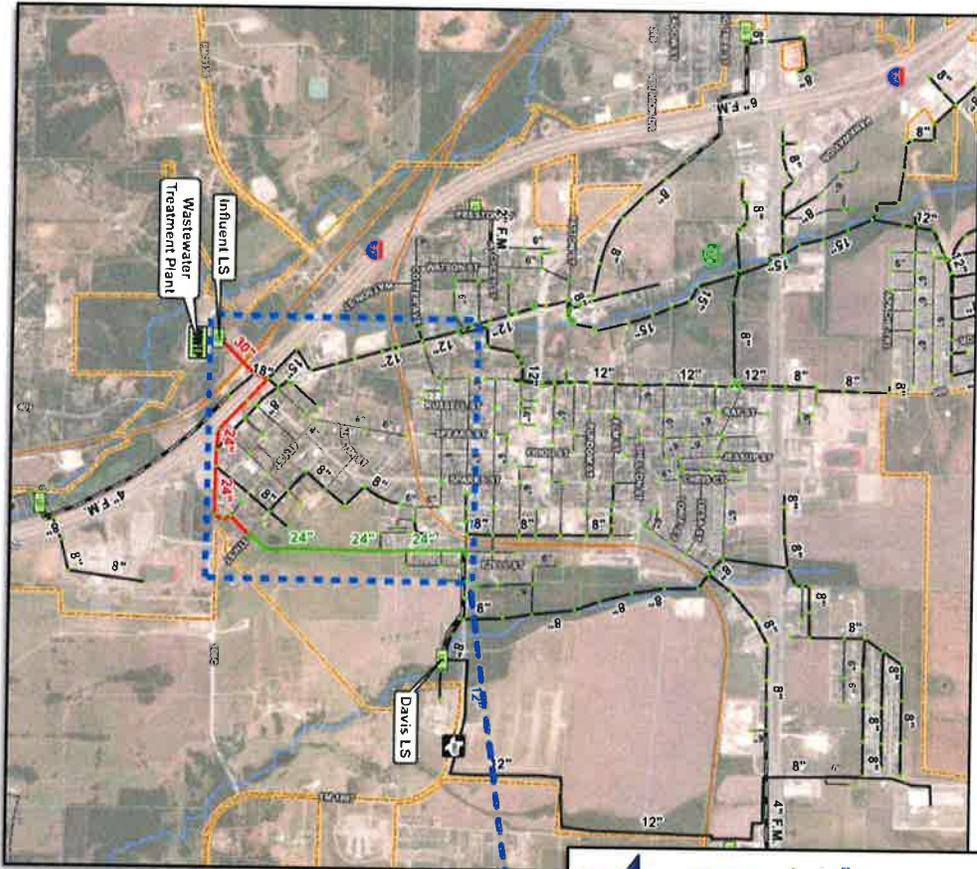


PROJECT DRIVERS: GROWTH AND CAPACITY



- 2020 Population = 4,600 (NCTCOG)
- Short-Term Growth = +2,300 (150% growth)
 - Eagle Glen
 - Moore Park
 - Others
- 10-Year Growth = 230% from 2020
- 20-Year Growth = 350% from 2020

PROJECT LOCATION

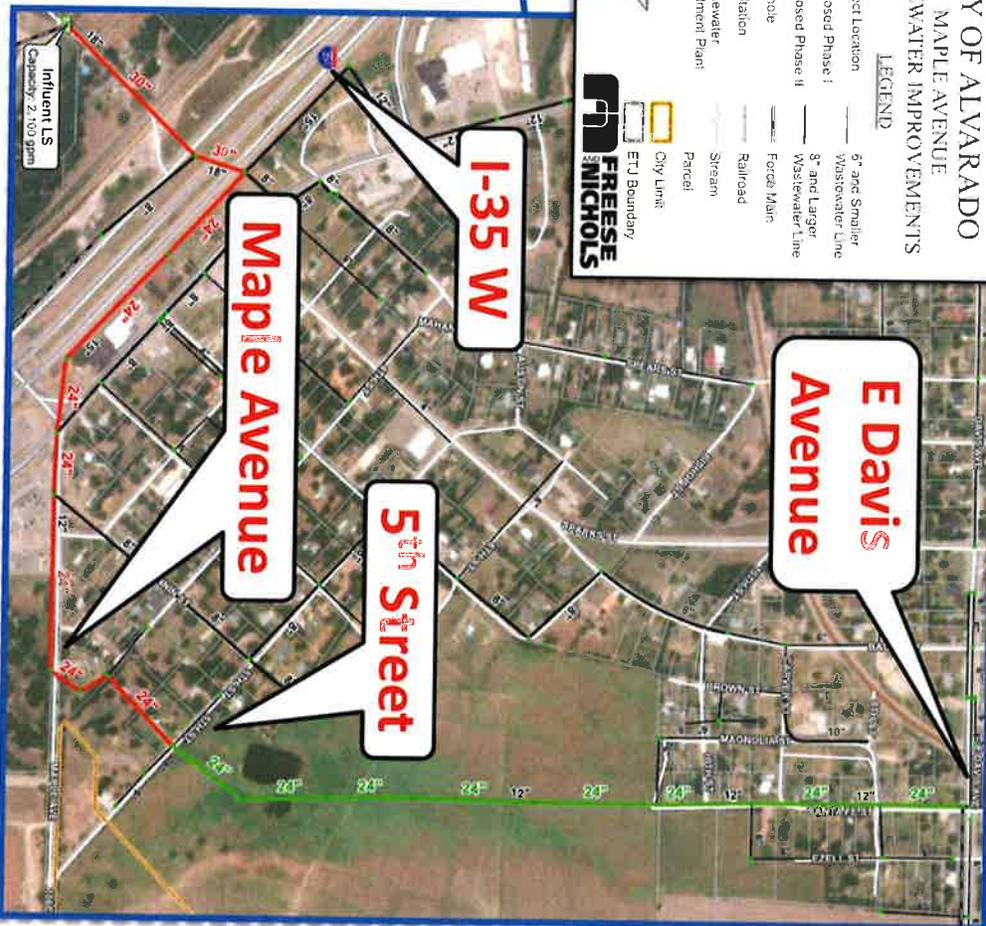


DRAFT
CITY OF ALVARADO
MAPLE AVENUE
WASTEWATER IMPROVEMENTS

LEGEND

	Project Location		6" and Smaller Wastewater Line
	Proposed Phase I		8" and Larger Wastewater Line
	Proposed Phase II		Force Main
	Manhole		Railroad
	Lift Station		Stream
	Wastewater Treatment Plant		Parcel
	City Limit		ETJ Boundary

FRESE MICHOIS



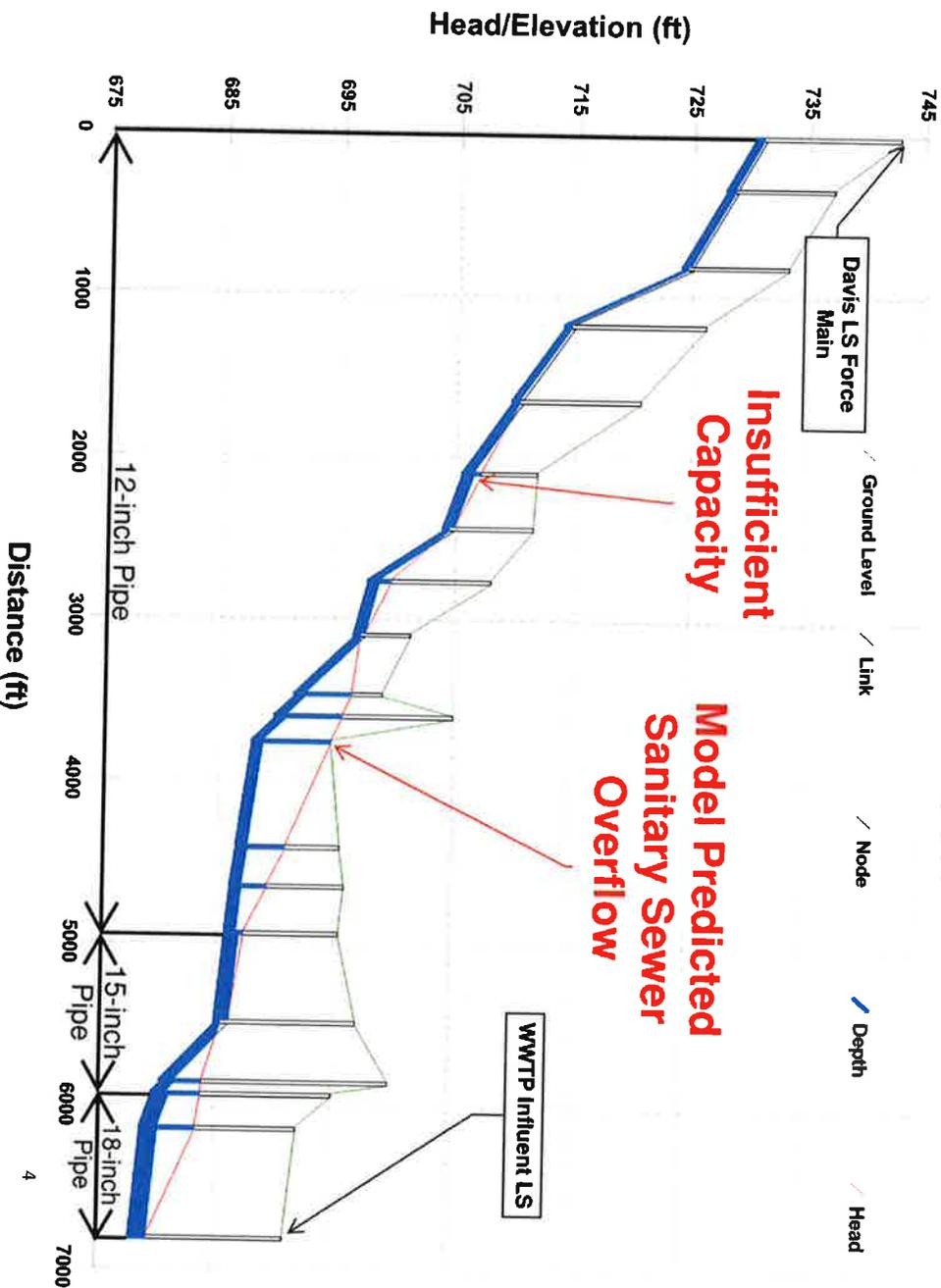
EXISTING WASTEWATER INFRASTRUCTURE DEFICIENCIES

Maple Avenue

Wastewater Interceptor

Hydraulic Profile

- Existing 12/15/18-inch Gravity Main
- Existing Peak Wet Weather Flows
- Includes Eagle Glen and Moore Park Developments



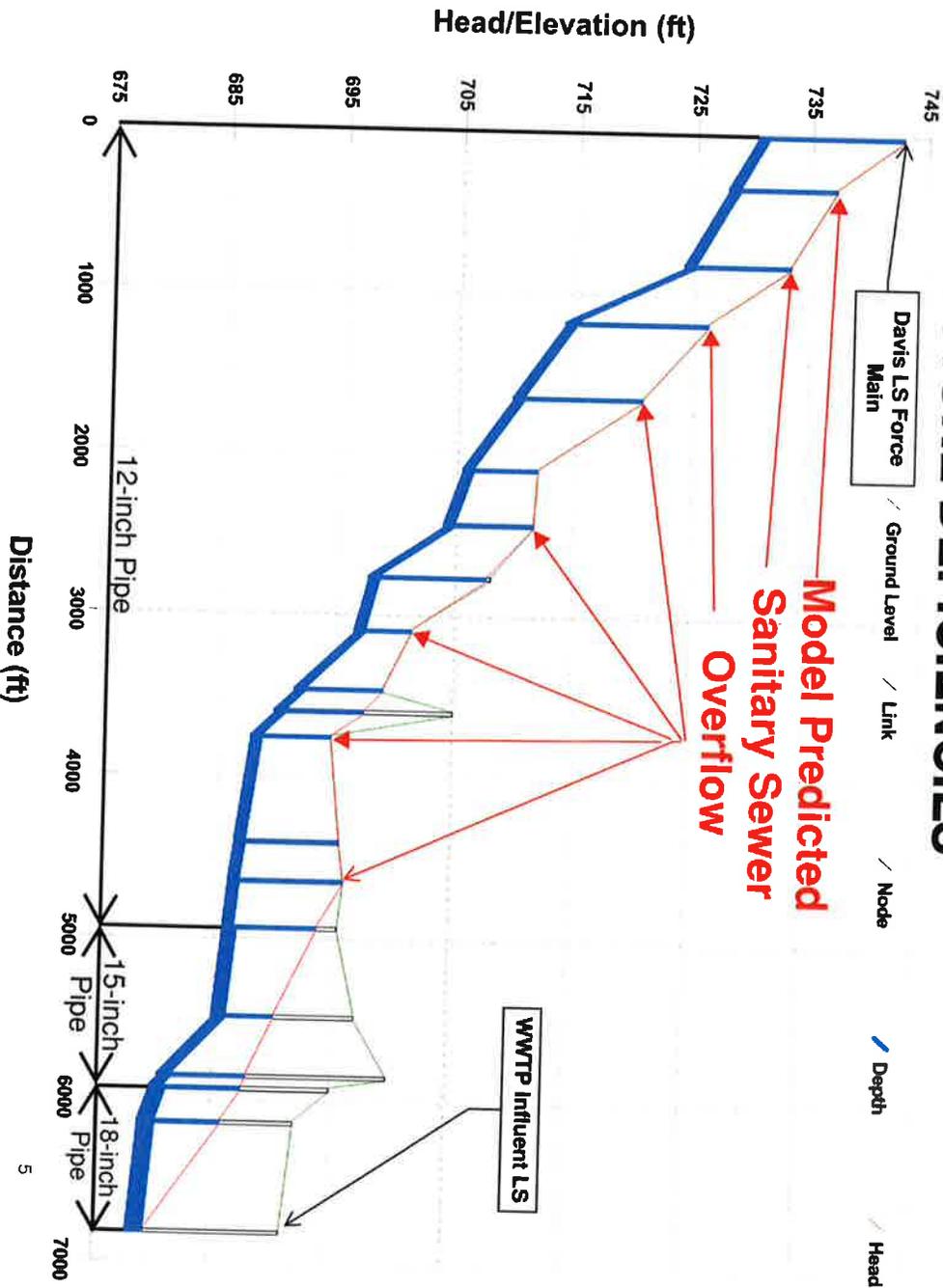
FUTURE WASTEWATER INFRASTRUCTURE DEFICIENCIES

Maple Avenue

Wastewater Interceptor

Hydraulic Profile

- Existing 12/15/18-inch Gravity Main
- Future 20-Year Projected Peak Wet Weather Flows

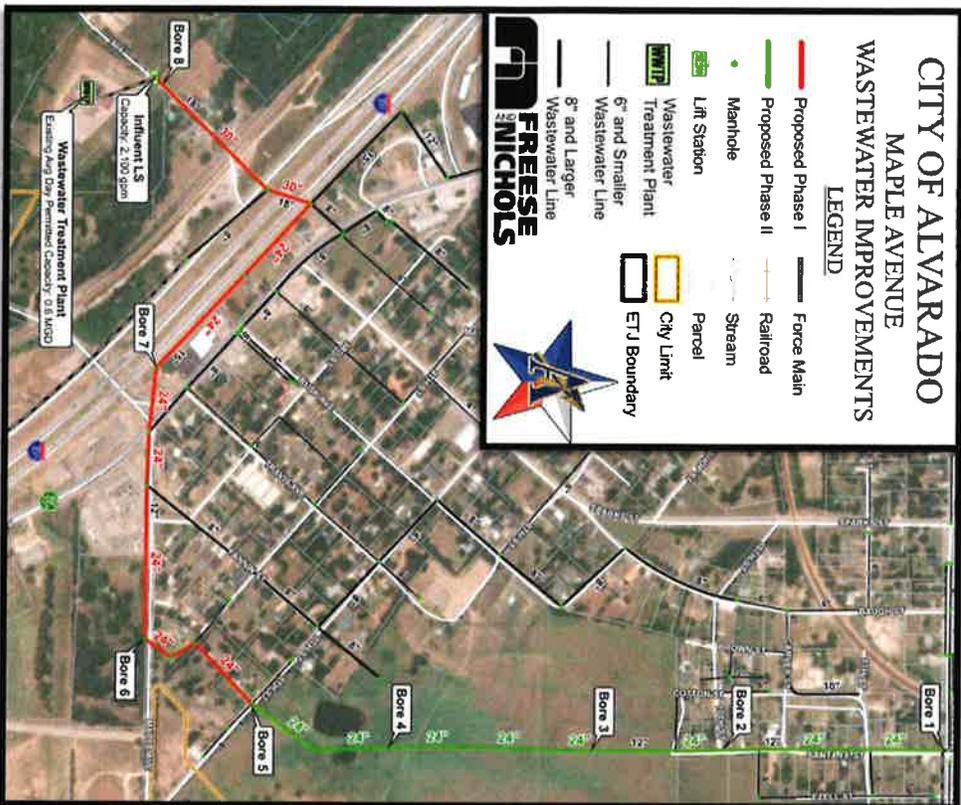


PROPOSED MAPLE AVENUE WASTEWATER IMPROVEMENTS

CITY OF ALVARADO MAPLE AVENUE WASTEWATER IMPROVEMENTS

LEGEND

- Proposed Phase I
- Proposed Phase II
- Manhole
- Lift Station
- Wastewater Treatment Plant
- 6" and Smaller Wastewater Line
- 8" and Larger Wastewater Line
- Wastewater Line
- Force Main
- Railroad
- Stream
- Parcel
- City Limit
- ETJ Boundary



Proposed 24-/30-inch gravity main from the
WTP Influent Lift Station to 5th Street

Phase I

Phase II

Proposed 24-inch gravity main
from 5th Street to Davis Avenue

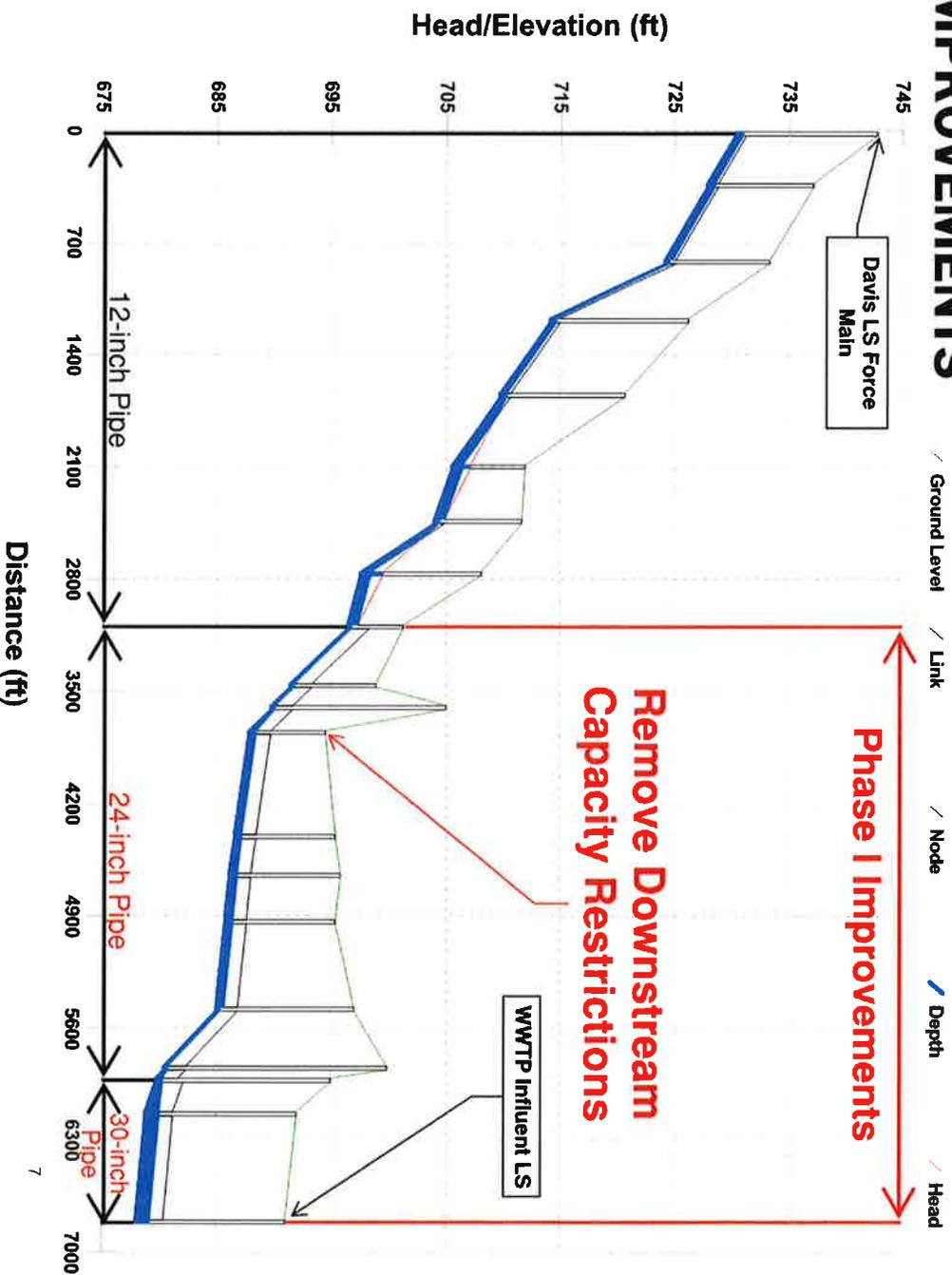
RESULTS OF PHASE I IMPROVEMENTS

Maple Avenue

Wastewater Interceptor

Hydraulic Profile

- Phase I - Proposed 24-/30-inch Gravity Main
- Existing 12-inch Gravity Main (future Phase II line)
- Existing Peak Wet Weather Flows
- Includes Eagle Glen and Moore Park Developments

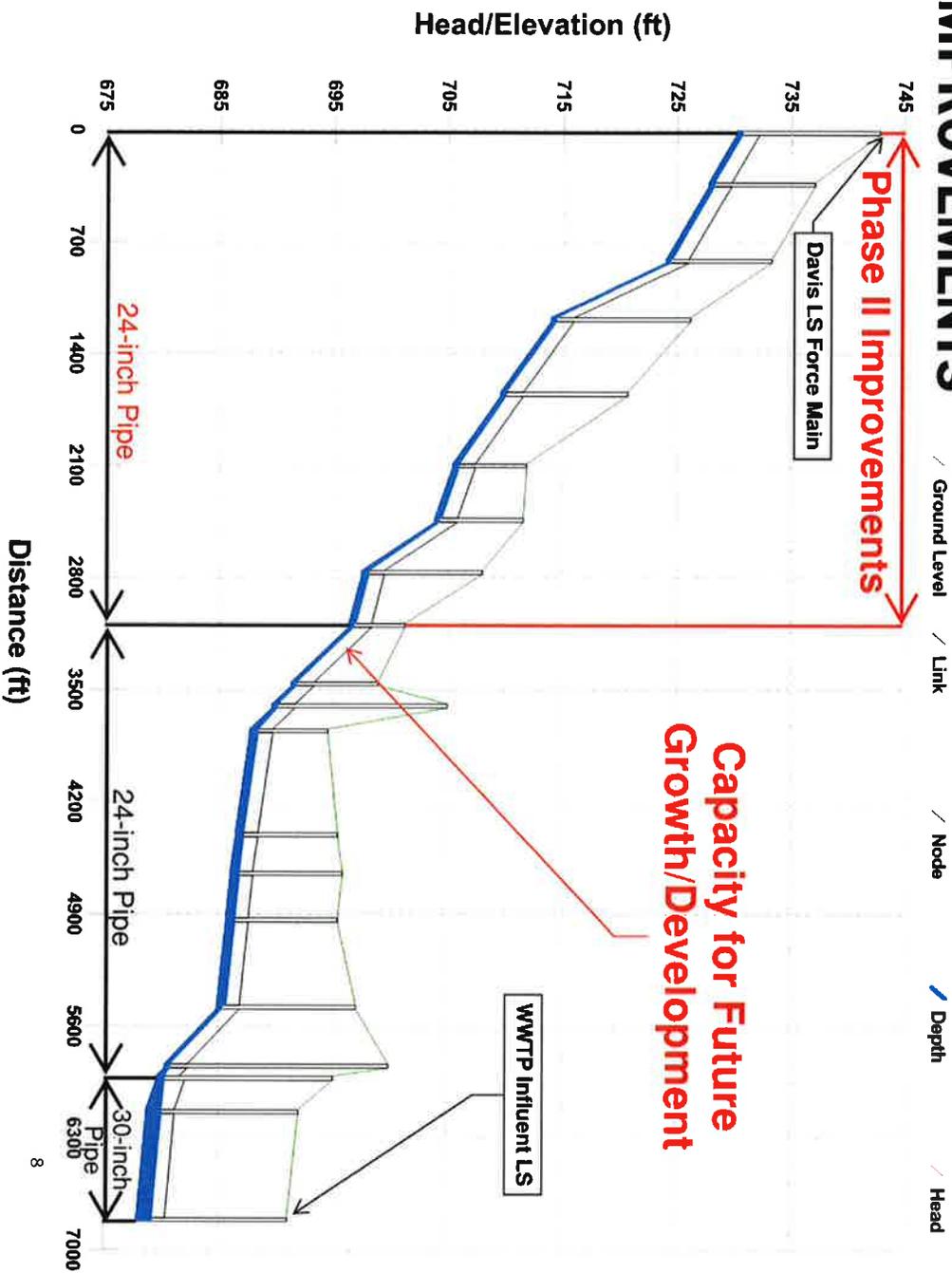


RESULTS OF PHASE II IMPROVEMENTS

Maple Avenue

Wastewater Interceptor Hydraulic Profile

- Phase II - Proposed 24-inch Gravity Main
- Phase I - Proposed 24-/30-inch Gravity Main
- Existing Peak Wet Weather Flows
- Includes Eagle Glen and Moore Park Developments



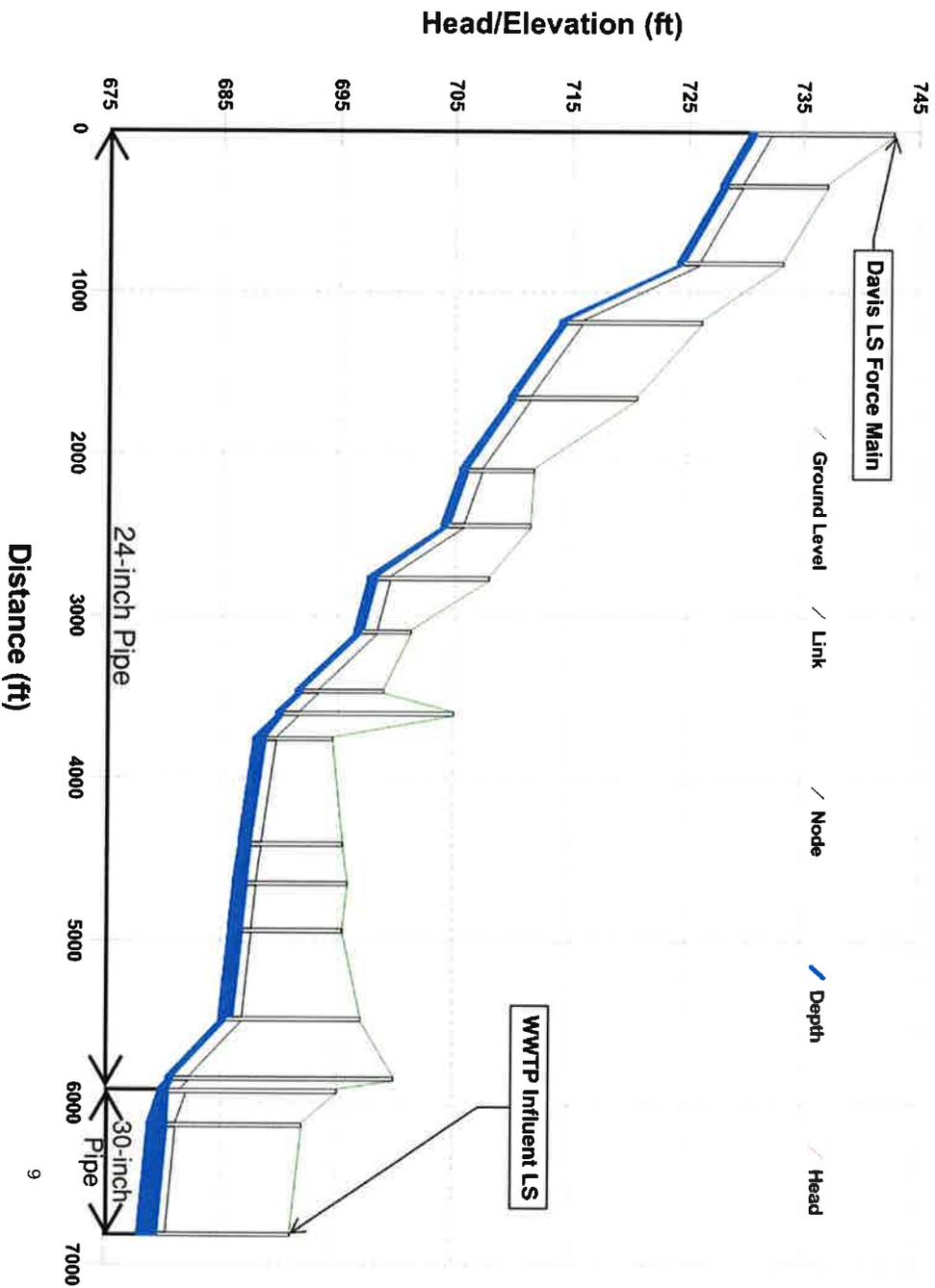
FUTURE WASTEWATER INFRASTRUCTURE CAPACITY

Maple Avenue

Wastewater Interceptor

Hydraulic Profile

- Phase II - Proposed 24-inch Gravity Main
- Phase I - Proposed 24-/30-inch Gravity Main
- Future 20-Year Projected Peak Wet Weather Flows

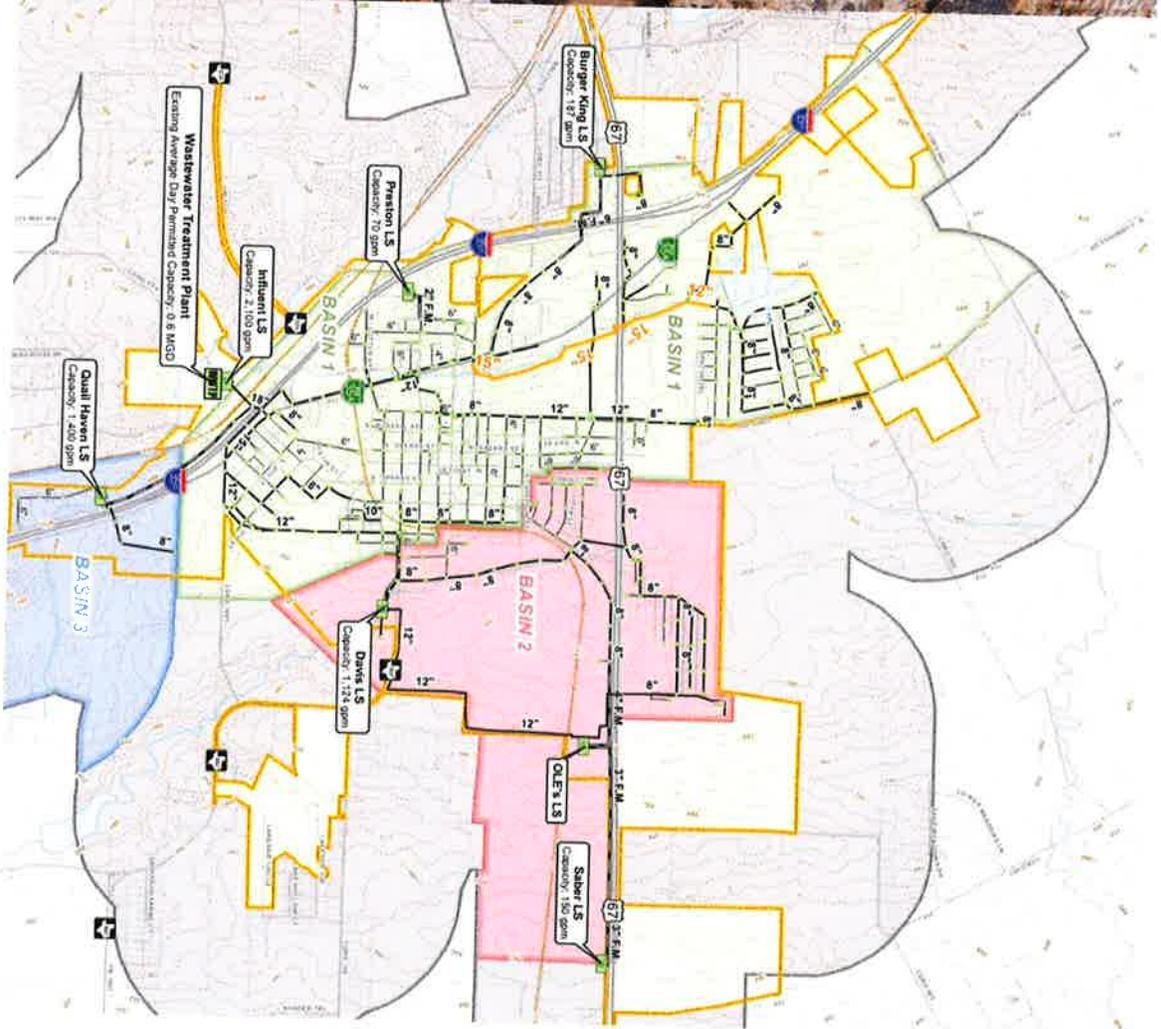


PROJECT TIMELINE AND ESTIMATED COSTS

Item	Estimated Time to Complete	Opinion of Probable Construction Cost (\$)
Design Phase I & II	15 Months	\$422,000
Construction Phase I	11 Months	\$2,405,000
Construction Phase II	11 Months	\$1,462,000
Total		\$4,289,000

QUESTIONS AND ANSWERS

ANDREW FRANKO, P.E.
817-735-7515
ASF@FREESE.COM



ORDINANCE NO. _____

**AN ORDINANCE OF THE CITY OF ALVARADO
DESIGNATING PERSON TO FULFILL DUTIES IMPOSED
BY TAX CODE CHAPTER 26**

WHEREAS, the 86th Texas Legislature in Regular Session, amended Tax Code § 26.04 which requires each governing body, as part of the tax rate adoption process to designate an officer or employee to do certain tasks, including the calculation of the relevant tax rates and the preparation of notices for publication; and

WHEREAS, the City of Alvarado has designated by contract the Tax Assessor-Collector of the County of Johnson as the unit's Tax Assessor-Collector pursuant to Chapter 6 of the Texas Tax Code; and

WHEREAS, said Tax Assessor/Collector, pursuant to state statute, is required to maintain coursework on all aspects of property taxation including tax rate calculation and adoption;

**NOW THEREFORE, BE IT ENACTED BY THE GOVERNING BODY OF THE
CITY OF ALVARADO** THAT: Scott Porter, as Tax Assessor-Collector is hereby and herewith designated by the City of Alvarado as the person to perform the required calculation of the relevant tax rates and the preparation of notices for publication.

THIS ORDINANCE will take effect immediately for tax year 2020 forward until modified or repealed.

Dated this 20th day of July, 2020.

Attested:

Tom Durlington, Mayor

Debbie Thomas, City Secretary